INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/190

ZAMBIA

June 2024

THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, MODIFICATIONS OF THE MONETARY POLICY CONSULTATION CLAUSE AND OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA

In the context of the Third Review Under the Arrangement Under the Extended Credit Facility, Requests for Augmentation of Access, Modifications of the Monetary Policy Consultation Clause and of Quantitative Performance Criteria, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2024, following discussions that ended on May 7, 2024, with the officials of Zambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 13, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Supplementary Information** updated on June 25, 2024.
- A **Statement by the Executive Director** for Zambia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 24/242

Zambia: IMF Executive Board Completes Third Review Under the Extended Credit Facility and Approves Augmentation of the Arrangement

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the third review under the 38-month Extended Credit Facility (ECF) Arrangement for Zambia and approved an augmentation of the arrangement, providing Zambia with immediate access to about US$569.6 million.*

- *Program performance has been satisfactory. All quantitative performance criteria for the third review were met, and all but one structural conditionalities were completed.*

- *The authorities remain committed to supporting macroeconomic stability, restoring fiscal and debt sustainability, clearing arrears, and addressing Zambia's drought-related humanitarian needs. They are also focused on advancing structural and governance reforms to promote inclusive growth.*

Washington, DC – **June 26, 2024:** The Executive Board of the International Monetary Fund (IMF) completed today the third review of Zambia's 38-month Extended Credit Facility (ECF) Arrangement and approved an augmentation of SDR 293.46 million (about US$385.7 million). Completion of the review allows for an immediate disbursement of SDR 433.34 million (about US$569.6 million), bringing Zambia's total disbursement so far under the ECF-supported program to SDR 852.98 million (about US$1.1 billion).

Zambia's ECF Arrangement was approved on August 31, 2022, for SDR 978.2 million (100 percent of quota, or about US$1.3 billion). The augmentation approved today increases access to SDR 1271.66 million (130 percent of quota, about US$1.7 billion,). The program supports Zambia's home-grown Eighth National Development Plan that seeks to entrench macroeconomic stability, attain debt and fiscal sustainability, enhance public governance, and foster inclusive growth to improve the livelihood of the Zambian people, especially the vulnerable.

Program performance has been satisfactory despite a challenging domestic and global environment. All quantitative performance criteria targets and all but one of the indicative targets for the end of 2023 were met. The authorities have also made progress in their structural reform agenda, with all continuous and end-December 2023 structural benchmarks, and all but one end-March 2024 structural benchmark being completed on time.

Zambia is grappling with a severe drought that has significantly impacted agriculture and electricity generation, affecting a substantial share of the population. Consequently, growth projections for 2024 have been revised down to 2.3 percent, from 4.7 percent, and the 2024 budget has been revised to accommodate the drought's impact. Despite these challenges, the authorities remain committed to supporting macroeconomic stability, restoring fiscal and debt sustainability, clearing arrears, and addressing Zambia's humanitarian needs. The authorities are also taking steps to improve governance and advance structural reforms to foster growth.

Zambia is working on implementing the October 2023 Memorandum of Understanding reflecting the debt restructuring agreement with the Official Creditor Committee (OCC) through bilateral agreements, marking a critical step in the restructuring process. Furthermore, Zambia reached a restructuring agreement with Eurobond holders on March 25, 2024, which is in line with IMF program parameters, and the OCC confirmed comparability of treatment among creditors. Following the consent solicitation launched on May 13, the bond exchange was settled on June 11, 2024. Zambia continues to engage in good faith negotiations with other commercial private creditors, aiming for an agreement by year-end.

Following the Executive Board discussion on Zambia, Ms. Antoinette Sayeh, Deputy Managing Director, and acting chair, issued the following statement:

"The authorities' satisfactory performance under the ECF-supported arrangement and continued focus on economic stabilization and reforms have resulted in stronger-than-envisaged fiscal and economic outcomes, and progress on structural reforms. Nonetheless, the drought has affected a substantial share of the population, and the authorities should continue their commendable efforts to address the humanitarian needs. Going ahead, coordinated macroeconomic policies, continued efforts to restore fiscal and debt sustainability, and consistent reform implementation would be key to addressing the impact of the drought, preserving macroeconomic stability, and bolstering growth.

"Adhering to the committed fiscal consolidation over the program period remains critical to ensure fiscal sustainability. Given the significant spending reprioritization in 2024, focus should be put on revenue mobilization, including enhancing tax administration and broadening the tax base. The envisaged public financial management reforms will enhance spending controls, budget execution, and fiscal accountability. Greater progress in budgetary arrears clearance will be important.

"The implementation of the Eurobond exchange, consistent with program parameters and comparability of treatment as set by the Official Creditor Committee (OCC), and steps toward implementing the memorandum of understanding with all OCC members are welcome. Reaching a timely agreement on a debt treatment with the remaining private creditors on comparable terms and in line with program parameters would make Zambia's debt sustainable on a forward-looking basis.

"A tight monetary stance until inflation declines toward the Bank of Zambia's target range would help anchor inflation expectations. Reserve accumulation and sustained exchange rate flexibility remain critical to address external shocks. Financial sector reforms are important to foster financial stability and inclusion.

“Governance and structural reforms remain key to promoting private sector activity and economic diversification. Implementing the Access-to-Information Act, reviewing the Anti-Corruption Act in a timely manner, and enhancing transparency and governance in the energy and mining sectors will help reduce policy uncertainty, improve the business climate, and attract greater investments. The drafting of the Climate Change Bill is welcome; continued efforts for climate adaptation, and the use of climate-resilient energy sources would help support sustainable growth. “

Zambia: Selected Economic Indicators, 2022–26

Population (millions, 2022):	20.0	Per capita GDP ($, 2022):	1,455
Quota (SDR millions):	978.2	Poverty rate (2022):	60
Main products and exports:	Copper		
Key export markets:	China		

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
Output						
Real GDP growth (%)	6.2	5.2	5.4	2.3	6.6	5.9
Prices						
Inflation annual average (%)	22.0	11.0	10.9	14.6	12.1	7.0
Inflation end-of-year (%)	16.4	9.9	13.1	15.0	7.9	7.0
Central government finances						
Revenue (% GDP)	22.4	20.4	21.5	21.4	21.8	21.8
Expenditure (% GDP)	30.5	28.2	27.9	27.5	24.6	25.1
Fiscal balance (cash basis, % GDP)	-8.1	-7.8	-6.5	-6.1	-2.8	-3.4
Fiscal balance (commitment basis, % GDP)	-13.9	-5.4	-5.6	-2.5	-1.6	-2.3
Public debt (% GDP)	112.1	110.9	133.4	107.5	88.5	79.2
Money and Credit						
Broad money (% change)	3.7	24.5	24.6	10.5	13.2	10.4
Credit to private sector (% change)	-7.8	34.2	41.3	23.6	29.0	15.6
3-month Treasury bill interest rate (%)	12.8	9.6	...	...	...	...
Balance of payments						
Current account (% GDP)	11.9	3.8	-1.9	-0.2	6.9	5.7
FDI (% GDP)	3.1	0.6	-0.1	3.8	3.8	4.5
Reserves (in months of imports)	3.3	3.4	3.6	4.3	5.0	5.2
Exchange rate						
REER (% change)	5.0	30.3	-7.3	...	...	...

Sources: Zambian authorities, and IMF Staff estimates and projections.

ZAMBIA

June 13, 2024

THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, MODIFICATIONS OF THE MONETARY POLICY CONSULTATION CLAUSE AND OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Zambia faces a severe drought that has significantly impacted agriculture and electricity generation and affected a substantial share of the population, leading the President to declare it a national disaster emergency and plan a revision of the 2024 Budget. Despite these challenges, the government remains focused on supporting macroeconomic stability, restoring fiscal and debt sustainability, and addressing humanitarian needs. The government continues to work with its external creditors to restructure its debt in line with program parameters. While mobilizing external financing, exchange rate flexibility will help manage balance-of-payment pressures. Enhancing regulatory frameworks and financial oversight is crucial for financial stability and inclusion, with efforts to improve governance and advance structural reforms continuing to enhance growth.

Augmentations of access under the ECF arrangement. The drought has created additional external and fiscal financing needs. It has impacted 9 million people—43 percent of the population—and led to humanitarian needs, additional imports of maize and electricity, and a decrease in non-mining exports. Hence, the authorities are requesting an augmentation of access under the ECF arrangement amounting to 30 percent of quota (SDR 293.46 million), to be disbursed upon completion of the third ECF review. Consistent with the program, half of the disbursement will be allocated for budget support. Concurrently, the authorities have secured additional multilateral and bilateral assistance to fully close the financing gap. Approval of the augmentation will bring total access to 130 percent of quota (SDR 1,271.66 million), with total IMF disbursements after the completion of this review amounting to 87.2 percent of quota (SDR 852.98 million, about $1,130.4 million). This program augmentation aligns with the DSA parameters.

Program status. Program performance remains satisfactory. All end-2023 quantitative performance criteria (QPC) and indicative targets (IT) were met, except for the IT on net clearance of VAT refund arrears. In early 2024, efforts were made to increase VAT refunds, but the stock grew due to high validated audits. For end-March 2024, ITs for the primary balance and non-mining fiscal revenue floor were met, but those for net international reserves, social spending (due to delayed disbursement already recovered

in the following months), and arrears clearance were missed. Structural reforms are progressing, with all but one structural benchmark met and with key milestones achieved, such as publishing the domestic fuel price structure, issuing bonds at par, and establishing a Large Taxpayer Office. The Quarterly Debt Statistics Bulletin was published and a roadmap for strengthening cash management was approved, both with some delay.

Requests. The authorities request augmentation of access under the ECF arrangement (30 percent of quota) to support efforts to address the drought. The authorities also request modifications to the end-June and end-December 2024 QPCs to the NIR target, the primary fiscal balance, and the monetary policy consultation clause. They seek an adjustor to the primary balance for a liability management operation to clear arrears and an adjustor to the NIR target to account for central government debt service payments. Additionally, they request adjusting the ceiling on contracted but undisbursed debt for end-2024 to align with lower-than-expected project disbursements.

Outlook and risks. The medium-term economic outlook is positive, supported by increasing mining production, restored debt sustainability, and effective reforms. The main downside risks include adverse commodity price shocks, subdued mining production, climate events, and rising social discontent, which could create fiscal pressures and slow reforms. Delays in debt restructuring could also dampen investment. Conversely, a swift debt restructuring, and higher copper prices could boost confidence and support growth.

Approved By
Costas Christou (African Department) and Jarkko Turunen (Strategy, Policy and Review Department)

An IMF team consisting of Mmes. Vera Martin (head) and Spahia and Messrs. Gurara, Lautier (Resident Representative), and Ree (all AFR), Ms. Balta (SPR), and Messrs. Roy (MCM) and Tumino (FAD) visited Lusaka April 24 to May 7, 2024. Discussions were led by Minister of Finance and National Planning Musokotwane, Governor Kalyalya, Secretary to the Treasury Nkulukusa, Deputy Governor Chipimo, and other senior officials. Ms. Motsumi (OED) participated in the discussions. Ms. Bravo and Mr. Guzman assisted in the preparation of the report.

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CONTEXT

1. **Zambia is facing a major drought.** The drought has reportedly destroyed 40 percent of the cultivated maize and impacted electricity generation, leading to power outages.[1] Estimates indicate that the drought has affected over 9 million people, or 43 percent of the population.[2] President Hichilema declared the drought a national disaster emergency in February and announced plans to revisit the 2024 Budget.

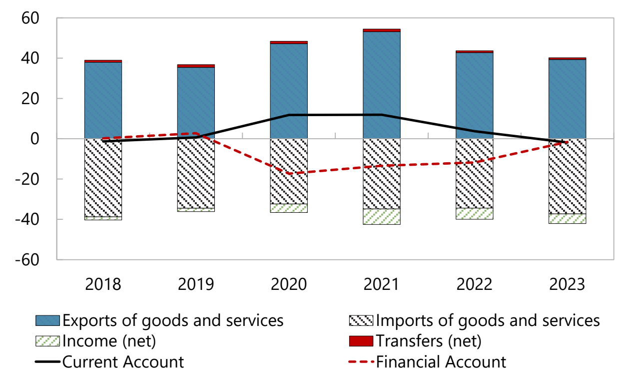
2. **Herein, the authorities have requested financial assistance from development partners and the IMF.** Additional imports of maize and electricity, along with a decrease in non-mining exports (electricity, maize, and manufactured goods), are projected to create additional external and fiscal financing needs. Since these needs would be only partially mitigated by a policy response and additional grants from development partners, the authorities are requesting an augmentation of access of 30 percent of quota (SDR 293.46 million) under the ECF arrangement.

RECENT ECONOMIC DEVELOPMENTS

3. **Economic performance in 2023 was stronger than projected at the second ECF review.** Real GDP growth reached 5.4 percent, surpassing projections by one percentage point, primarily driven by a larger-than-expected expansion in non-mining, non-agricultural sector (including ICT, education, and construction), and compensating for declining agricultural output (16 percent) and mining production (6 percent) (Figure 1).

4. **The 2023 current account deficit was broadly in line with program projections.** A decline in exports (by 8 percent) and robust import growth (8.4 percent) led to a current account deficit of 1.9 percent of GDP in 2023 (1.8 percent at the second review, Figure 2). Despite net FDI outflows, the financial account deficit narrowed to 1.6 percent of GDP, from 11.2 percent in 2022, as net portfolio inflows turned positive and banks repatriated assets. Gross international reserves (GIR) increased to $3.3 billion (3.7 months of imports), supported by multilateral disbursements and higher FX reserve requirements and despite

Text Figure 1: Current Account Balance
(In Percent of GDP)



Sources: Bank of Zambia and IMF staff calculations.

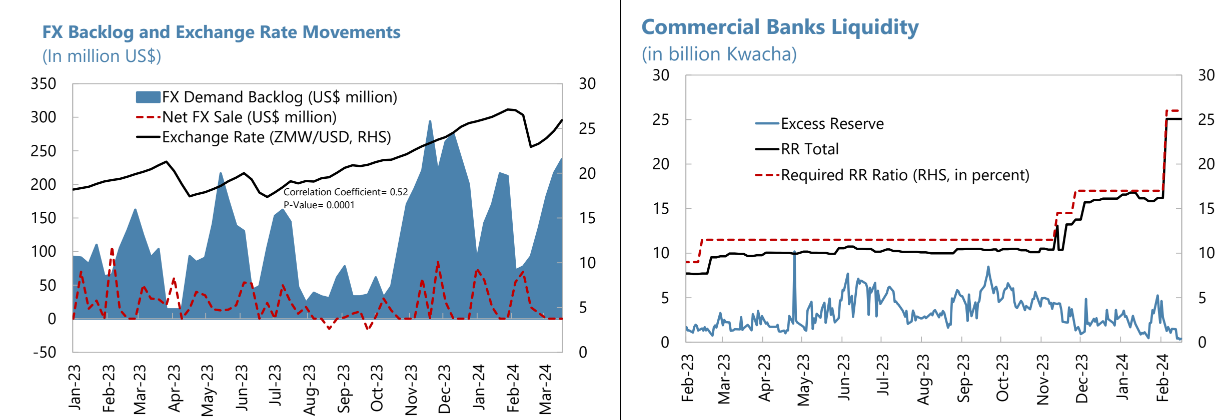
[1] The energy sector is reportedly facing a deficit of nearly MW500 this year due to the prolonged dry spell, as 90 percent of the generated electricity is sourced from hydropower.

[2] https://www.unocha.org/publications/report/zambia/zambia-drought-response-appeal-may-2024-december-2024-may-2024

Bank of Zambia's (BoZ) net FX sales of $1.0 billion, out of which $868 million came from FX mining receipts. In 2024Q1, the current account preliminarily registered a deficit of 0.3 percent of GDP.

5. Kwacha depreciation and rising inflation prompted monetary policy tightening. Lower exports and delays in the debt restructuring led to FX shortages, resulting in FX demand backlog (Text Figure 2). In 2023, the Kwacha depreciated by 25.9 percent and 23.6 percent in nominal and real effective terms, respectively, and by a further 10.1 percent in 2024Q1 vis-à-vis the U.S. dollar relative to its level in 2023Q4. Driven by exchange rate depreciation and higher food prices, CPI inflation reached 13.8 percent (y-o-y) in April 2024. On May 15, 2024, the Bank of Zambia (BoZ) raised its policy rate by 100 basis points (bps) to 13.5 percent, following an increase of 150 bps and a 9-percentage point increase in reserve requirements (RRs) in February. Tighter kwacha liquidity and foreign exchange (FX) intervention helped stem pressures on the exchange rate as FX demand accumulated (Text Figure 2). The authorities also instructed banks to transfer government deposits to BoZ's government account.[3] With banks facing tight kwacha liquidity, interbank interest rates shot up and banks started resorting in the overnight liquidity facility (OLF) as open market operations (OMOs) were suspended.[4, 5]

Text Figure 2. Exchange Rate and Bank Liquidity Developments, 2023–24



Sources: Bank of Zambia and IMF staff calculations.

Sources: Bank of Zambia, IMF staff estimates.

6. Fiscal performance in 2023 was stronger than envisaged (Figure 3). The primary fiscal balance (cash basis) improved to 0.6 percent of GDP, against a 0.2 percent target. Higher-than-budgeted grants (by 0.4 percent of GDP) and non-mining tax revenues (by 0.6 percent of GDP) more than compensated for lower mining receipts (0.5 percent of GDP). Primary spending was 0.1 percent of GDP higher than at the time of the second review due to intergovernmental transfers and clearing

[3] Deposit transfers reached about K 2 billion by April 2024.

[4] The increased RRs ramp up banks' reserve deposits by K 13 billion in February 2024—6.7 times the excess reserves (K 1.94 billion) in January 2024. Monetary data suggests that most of the gap was accommodated by drawing down other BoZ deposits (K3.7 billion), overnight lending from BoZ (K 3.6 billion), and reducing claims on government (K 3 billion) and on private sector (K 2.7 billion).

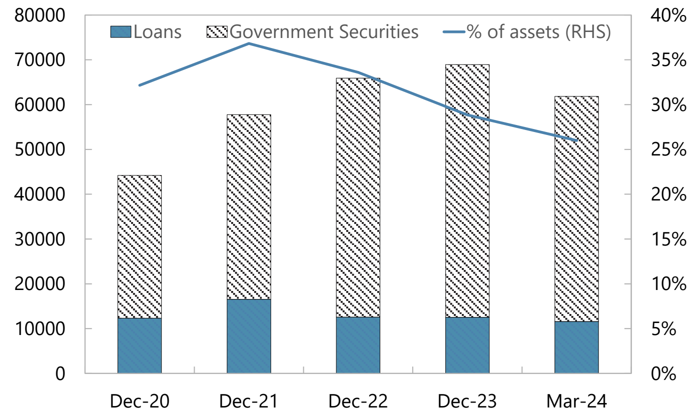
[5] The outstanding stock at OLF (at 29-percent interest rate) increased from 0.2 percent of bank assets at end-2023 to 1.9 percent at end-February 2024.

expenditure arrears at a higher rate than envisaged. Repayment of VAT refunds was also larger than projected. Hence, the primary balance (commitment basis) reached 1.5 percent of GDP (about 0.9 percent of GDP higher than projected). However, the end-2023 stock of arrears increased due to valuation effects and financial penalties. Lower domestic financing prevented deposit accumulation.

7. Demand for government securities in 2024 has decreased due to tight liquidity. Net financing from government securities turned negative (at 0.5 percent of GDP) in January-April 2024, with T-bills experiencing net outflows of 0.8 percent of GDP. Responding to the liquidity tightening, the average subscription rate for T-bills declined to 53 percent, compared to above 100 percent in 2023. Demand for bonds improved moderately amid stable yields. Banks' declining exposure to government securities was compensated by non-bank investors, mainly NAPSA.[6] Non-resident holders' (NRHs) net bond purchases in January-February 2024 was netted by sales during March-April 2024, and remains below its annual limit of 5 percent of gross issuance.[7]

Text Figure 3: Bank Exposure to Government

(In million of Kwacha)



Source: Bank of Zambia

8. The banking sector health remains broadly stable but vulnerable to structural risks and the drought (Table 5, Figures 4-5). In April 2024, the BoZ intervened a small state-owned bank. In the absence of a deposit insurance scheme, the government contributed K 1 billion to compensate deposits below K 500,000, with no spillover to other banks. The sector maintains strong capital adequacy, boosted by earnings from government securities and low nonperforming loan ratio.[8] Despite tighter funding conditions, the liquidity coverage ratio remains well-above prudential requirements. Credit to the private sector (at constant exchange rate) remains robust. However, the sector is exposed to elevated sovereign-bank nexus, loan concentration, and dollarization. Banks' exposure to government stood at 26 percent of its assets by end-March 2024.

[6] The share of banks holdings declined from 24 percent of stock of government securities at end-2023 to 19 percent by end-April 2024.

[7] This measure constitutes a residency-based capital inflow measure under the Fund's institutional view and should be removed as conditions allow.

[8] Regulatory capital stood at 24 percent of risk-weighted assets at end-March 2024; retained earnings contributed more than one-half of regulatory capital. Non-performing loans (NPLs) reached a historic low, at 3.7 percent of total loans. Two out of 17 commercial banks, representing 2 percent of total bank deposits, fell short of their prudential regulatory capital and loan quality ratios.

Moreover, the ongoing drought may worsen loan quality, particularly those to the agriculture sector and industries with high electricity needs such as hospitality, real estate, and construction.[9]

9. Zambia continues to engage in good faith discussions with private creditors. The authorities launched a consent solicitation for the Eurobonds exchange on May 13, and more than 90 percent of bondholders voted in favor of the restructuring.[10] The authorities envisage finalizing the bond exchange in June 2024. External arrears on the restructuring perimeter claims reached $5.7 billion by end-2023, of which $3.4 billion with private creditors. The authorities remain committed to agree with all private creditors on a debt treatment consistent with IMF program parameters and comparability of treatment (CoT) as defined by the OCC and have held meetings with other commercial lenders, aiming to reach an agreement by the end of this year.

PROGRAM PERFORMANCE

10. Despite challenging economic headwinds since the program's approval, program performance is broadly satisfactory (MEFP, Tables 1-2). The slower-than-anticipated recovery in copper production has adversely affected government revenues, necessitating expenditure-based fiscal consolidation, and reduced the capacity to accumulate reserves (Figure 6). Nevertheless, all end-2023 quantitative performance criteria (QPCs) and indicative targets (ITs) have been met, except for the IT for the net clearance of VAT refund arrears, which was missed as refunds were insufficient to avoid further buildup. In 2024Q1, the authorities raised VAT refunds to clear the stock in line with the agreed clearance pace, but the stock increased due to validated audits.[11] In terms of the end-March 2024 ITs, the authorities met the targets for the primary balance and non-mining fiscal revenue floor but missed those for NIR, social spending (disbursed in April), and arrears clearance (on spending). The end-March 2024 NIR IT was missed partly due to mining tax receipts being 22.7 percent lower than projected. The authorities are advancing with structural conditionality as planned, with all but one SBs met. They published the buildup structure for domestic fuel prices, started issuing bonds at par in early 2024, and established a Large Taxpayer Office (LTO) at Zambia's Revenue Agency (ZRA) to deal with large non-mining taxpayers (**end-March 2024 SBs).** The authorities also published the 2024Q1 Quarterly Debt Statistics Bulletin, which also includes information on the financing agreements for newly contracted external loans by the general government **(continuous SBs, quarterly).** A roadmap to strengthen cash management and the action plan for implementing the roadmap (**end-March 2024 SB**) were approved in April 2024. The authorities are advancing with other structural conditionality as planned.

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[9] The 2015-16 drought doubled NPLs to 12 percent by 2017, with the primary sector accounting for 33 percent of the increase, followed by wholesale and retail trade (17 percent), manufacturing (8 percent), and hospitality and constructions sectors (7 percent each).

[10] Staff assessed the terms of the AIP compatible with debt sustainability targets when considering the authorities' restructuring strategy for all other creditors, including fuel suppliers. The Official Creditor Committee (OCC) also confirmed that the AIP met their comparability of treatment requirements.

[11] The impact of the increase in the previous year's stock due to audits conducted in the current fiscal year is neutralized from the measurement of the IT. See TMU ¶44 (ii).

OUTLOOK AND RISKS

11. The 2024 outlook has deteriorated due to the drought. Agriculture is expected to contract by 19 percent (Annex I); electricity blackouts are anticipated to reduce productivity (Annex II); and copper production will recover more gradually than projected; thus, real GDP growth is now projected at 2.3 percent. Inflation, which is being more persistent than initially envisaged, is expected to remain elevated due to continued fuel and food inflation and exchange rate depreciation. Lower non-mining exports due to the drought, lower-than-expected copper exports, and drought-related imports of maize and electricity will worsen the trade balance, and the current account deficit is now projected at 0.2 percent of GDP. The financial account is projected to improve supported by FDI inflows. The deteriorated outlook is expected to weigh on the kwacha, inflation, and reserve accumulation in 2024, with limited impact over the medium term.

12. The medium-term economic outlook remains positive, underpinned by increasing mining production and restored debt sustainability (Text Table 1). The outlook is supported by waning shocks, prudent policies, dividends from reforms and the completion of debt restructuring. Growth is projected to rise to 6.2 percent in 2025-26, boosted by mining production and agricultural output, as the drought is not expected to persist beyond the 2023/24 agricultural season. Annual average inflation would remain elevated, converging to the inflation target band by end-2025. Zambia's external position is expected to strengthen as the debt restructuring is implemented and exports improve, partly supported by copper prices. Risk premium is projected to decline once debt sustainability is restored.

Text Table 1. Medium-Term Macroeconomic Framework, 2022–29

	2022	2023		2024		2025	2026	2027	2028	2029
		ECF 2nd Review*	Prel.	ECF 2nd Review*	Proj.	Projections				
Real GDP (percent change)	5.2	4.3	5.4	4.7	2.3	6.6	5.9	5.6	5.1	4.9
of which: extractive	-3.7	-4.4	-5.9	9.3	4.1	13.1	10.0	11.9	8.9	5.0
GDP deflator (percent change)	6.1	10.2	9.3	10.6	20.2	9.9	5.0	5.9	6.6	6.2
CPI inflation, average (percent)	11.0	11.0	10.9	11.4	14.6	12.1	7.0	7.0	7.0	7.0
CPI inflation, eop (percent)	9.9	13.0	13.1	8.6	15.0	7.9	7.0	7.0	7.0	7.0
Primary fiscal balance (% GDP), commitment basis	0.8	-6.4	1.5	3.2	2.9	3.3	3.0	2.6	2.1	1.8
Trade Balance (% of GDP)	11.6	7.1	4.9	12.0	9.7	15.9	14.4	14.0	13.8	13.6
Gross international reserves (months of prospective imports)	3.4	3.4	3.6	4.0	4.3	5.0	5.2	5.6	6.0	6.0

Sources: Zambian authorities and IMF staff estimates and projections.
* IMF CR No. 23/439

13. Downside risks to the outlook dominate (Annex III). Adverse commodity price shocks, along with an abrupt global slowdown or recession, could lead to external and fiscal imbalances and undermine investment. Intensifying regional conflicts could result in trade disruptions, increasing food and energy prices, deteriorating food insecurity. Internally, subdued mining production, climate events, and increasing social discontent could generate fiscal and external pressures, increase political pressures, and slow reform momentum, thereby threatening the recovery and exacerbating inequality. Delays in completing the debt restructuring could intensify financing pressures and dampen investment. On the upside, swift completion of the debt restructuring, a sustained increase in copper prices, and renewed mining investments could lead to positive confidence effects that support growth.

14. The authorities agreed on the outlook and risks (MEFP, ¶5). They highlighted recurrent adverse climate events as an economic threat, underscoring the crucial need to build resilience. They recognized the major risk posed by commodity price volatility, especially of copper, fuel, and food, which could intensify exchange rate pressures and inflation. Noting the cost-of-living deterioration, they cautioned that higher inflation could entrench inflation expectations and deepen inequality. They expressed their commitment to enhancing agricultural productivity to curb food inflation and insecurity, and to maximizing the use of the oil pipeline to reduce fuel costs. Despite these challenges, they remain optimistic about the resolution of the debt restructuring and the potential for mining investment.

POLICY DISCUSSIONS

Safeguarding macro-financial stability is essential to coping with recurrent shocks. Thus, a coordinated macroeconomic policy response—including exchange rate flexibility, fiscal consolidation, and monetary policy tightening—remains key to supporting economic stability, continuing to deliver on the program's objectives, and bolstering medium-term prospects. Structural reforms to improve governance and enhance financial policies and inclusion will facilitate private-sector-led growth.

A. Ensuring Fiscal and Debt Sustainability

15. The revised 2024 Budget will seek to reprioritize spending to accommodate needs from the drought and the repayment of fuel arrears, while considering tighter domestic financing conditions (MEFP, ¶9–10). The authorities will submit to Parliament a revised budget consistent with IMF program parameters (prior action) and targeting a primary fiscal deficit of K 4.7 billion (0.7 percent of GDP, prior action, Text Table 2). Specifically,

- The authorities will expand the social cash transfer to one million households and double the value of the transfer for existing beneficiaries, for 13 months starting in June 2024. The school feeding program will also be expanded in affected districts. Additional grant financing (0.7 percent of GDP) and frontloading of other disbursements—mainly from the World Bank—will cover most of the humanitarian relief to the drought (0.9 percent of GDP).

- The budget incorporates unexpected spending of 0.5 percent of GDP arising from the deposit compensation at Investrust Bank, the settlement of some legacy obligations on behalf of Mopani, and a cash advance to ZESCO for electricity imports.

- Net financing from government securities is being scaled down to 0.3 percent in 2024 compared to original budget's 2.5 percent of GDP to reflect current market conditions.

- Due to lower net domestic financing, the revised budget reprioritizes spending across all categories (except social spending) by 0.8 percent of GDP, including by delaying recruitment. The authorities will also mobilize part of the idle government balances transferred to the BoZ (0.3 percent of GDP).

- The repayment of fuel arrears (2.3 percent of GDP, embedded in the publication of the revised arrears clearance strategy as discussed under the IMF program parameters (prior action) **(MEFP, ¶18)** will be financed through a domestic loan in foreign currency (see Box 1). Repaying fuel arrears will arrest the buildup of financial charges. When adjusting for this operation, the underlying primary balance in 2024 would be 1.6 percent of GDP, indicating a much stronger expenditure-led fiscal consolidation in response to the drought and tighter domestic financial conditions. Staff urged the authorities to adequately structure the FX loan to avoid fiscal risks and to possibly benefit from any decline in FX borrowing rates at a future date through prepayments.

Text Table 2. 2024 Budget Revision

	2nd Review		Revised Draft Budget	
	Kwacha m	%GDP	Kwacha m	%GDP
Total Revenue	**139,601**	**21.2**	**149,647**	**21.4**
Revenue excluding grants	136,395	**20.7**	141,257	**20.2**
Grants	3,207	**0.5**	8,390	**1.2**
Expenditure	**179,999**	**27.1**	**192,315**	**27.5**
Primary Expenditure	**134,027**	**20.4**	**154,345**	**22.1**
of which				
Drought response	n/a	n/a	6,334	0.9
Fuel arrrears clearance (liability management operation)	1,032	0.2	16,202	2.3
Recapitalization & unexpected spending	935	0.1	3,298	0.5
Spending reprioritization	n/a	n.a	-5,903	-0.8
Overall Balance (cash basis)	**-40,397**	**-5.9**	**-42,668**	**-6.1**
Primary Balance	**5574**	**0.8**	**-4,698**	**-0.7**
Adjusted Primary Balance (without fuel operation)			**11,504**	**1.6**
Financing	**40,397**	**5.9**	**42,668**	**6.1**
Net acquisition of financial assets (+ use, - accumulation)	7,318	1.1	1,822	0.3
Net Domestic Financing	16,300	2.5	17,450	2.5
of which Fuel arrears loan (net of amortization)	0	0.0	15,392	2.2
Net External Financing (including exceptional financing)	16,779	2.3	23,396	3.3
Memo Items				
Nominal GDP (K billion)	658		700	
Average Exchange Rate (Kwacha/US$)	22		27	
Change in GDP deflator (percent)	10.6		20.0	
Copper production (metric tonnes)	796.994		727,000	

Source: Authorities and Staff estimates

16. Staff called for renewed efforts to mobilize revenues and additional government balances. Some tax measures approved with the 2024 budget have not yielded the projected revenue. The new mobile transaction levy mobilized little due to exemptions (it only applies to person-to-person transactions); the withholding tax has not been applied on discount bonds issued before 2024[12]; and there has been no exceptional profit transfer from Tazama due to delays in its open access. Moreover, mining taxes are projected 0.5 percent of GDP lower than in the 2024 Budget. While revenue shortfalls have been mitigated by higher BoZ's profit transfers and grants, spending compression has been driving fiscal consolidation. Staff proposed additional revenue measures (see below) and called for easing administrative hurdles to mobilize idle balances.

17. The authorities remain committed to medium-term fiscal consolidation (MEFP, ¶12-13). Despite the shocks and the slower fiscal consolidation in 2024, the cumulative improvement in the primary balance (commitment basis) during 2022-25 is expected to reach 9.1 percent of GDP (from 9.2 percent envisaged at the time of the program approval). They agreed on submitting to Parliament a 2025 draft budget consistent with the program parameters (**end-September 2024 SB**). Improving tax compliance, expanding the base beyond the mining sector and enhancing tax policy remain paramount for a revenue-based fiscal consolidation, to create fiscal space for responding to shocks without drastically scaling back spending, including investment. More specifically:

- **Tax compliance.** The new Large Taxpayer Office was established on January 1, 2024, with a specialized mining and non-mining unit to better tailor services. Emphasis is placed on taxpayer education and enhanced data analytics to improve compliance.
- **VAT functioning.** ZRA launched the e-invoice system in March, with plans to expand it to all VAT taxpayer transactions by July. With the e-invoice system, taxpayers will be eligible to claim refunds only based on invoices generated in the system, reducing delays in refunding legitimate claims. Repeatedly missing the IT on VAT refunds undermines ZRA's efforts to improve the business climate by withholding cash from private companies in a credit-constrained environment. Staff noted that (i) the ZRA needs to strengthen its VAT audit processes by relying on risk-based audits and enhancing corporate governance to avoid clearing fraudulent claims; and (ii) adjust the allocation for VAT refunds based on audited and validated claims (instead of the current practice that acts as a de-facto ceiling on refunds). The ZRA is considering transferring responsibility for clearing the legacy stock to the MoFNP under the revised arrears' clearing strategy and reducing arrears through offsets with other tax arrears.
- **Tax policy.** To protect its narrow tax base from erosion, the authorities need to introduce excise indexation, as excises have been eroded by both inflation and depreciation of the kwacha. The authorities also should unify the corporate income tax rate across all sectors and companies by 2025, as laid out in their Domestic Revenue Mobilization plan, and refrain from granting new tax incentives to attract investment—instead relying on better targeted cost incentives. Streamlining tax expenditures and considering property and rental income taxes could also provide much-needed support for the ongoing decentralization process.

[12] Bonds issued until end 2023 have a clause stating that discounts will not be subject to withholding tax.

While no revenue measures were undertaken in the revised budget, the authorities will consider them in the 2025 budget.

18. Public financial management (PFM) reforms will help improve the transparency and efficiency of public spending (MEFP, ¶18-21, ¶23, ¶24).

- **Expenditure and commitment control.** All 61 central government budgetary institutions are using the IFMIS system to record their spending and transactions. The system has been expanded to the provinces for the Ministry of Education, with the rollout to continue to the ministries of Agriculture and Fisheries and Livestock by 2024Q4. Budgetary institutions will input expenditure arrears in the IFMIS system by end-June 2024, and the Ministry of Finance and National Planning (MoFNP) will require them to record all multi-year commitments in the system by end-2024.
- **Expenditure arrears.** Despite the authorities' efforts to clear expenditure arrears, the stock continues to increase (Box 1). Fuel arrears are the costliest and continue to accumulate interest and penalties. To mitigate costs, the authorities are considering borrowing from domestic banks to pay fuel arrears (MEFP 18). Staff noted that the clearance operation should be transparent, publicly communicated, and limited to audited arrears. If this operation yields NPV savings, the authorities could consider clearing other arrears in 2025.
- **SOE governance.** A new performance monitoring framework for all SOEs will set clear key performance indicators and signing performance management contracts with SOEs, starting in 2025. Stakeholder consultations have started on a new policy for SOEs, to be adopted by Cabinet (**end-October 2024 SB**). The fiscal risks statement will also incorporate fiscal risks stemming from the largest SOEs. The Industrial Development Corporation (IDC), the holding company that manages a large portfolio of SOEs, will publish audited financial statements (**proposed end-October 2024 SB**).
- **Decentralization.** The Constituency Development Fund (CDF) receives four times the funding that goes to local authorities despite low absorption capacity.[13] The authorities are amending the legislation to expedite provincial decision-making and procurement processes. Staff called for restricting the automatic right to carry over of any unspent amounts, and instead of equal allocations across all constituencies, consider equalization elements and specific needs. The fragmented fund allocations (at constituencies' own bank accounts) prevent using effectively idle balances and developing cross-constituency projects. The MoFNP announced an audit on the CDF to ensure that PFM rules are adhered to.
- **Cash Management.** The action plan and roadmap, adopted in April, will strengthen the Treasury Single Account and expand its coverage, although further actions are needed

[13] The CDF is a hybrid fund that allocates central government funding equally across all constituencies, which are not necessarily aligned or overlap with local governments.

to rationalize banking arrangements for local authorities (**end-March 2024 SB**).[14] A survey of government bank accounts, aiming at mobilizing idle balances to the BOZ, will be finalized by June. The action plan, based on IMF recommendations, also details the timeline for establishing a Cash Management Unit and of a Cash Management Technical Committee (**proposed end-July 2024 SB**), necessary steps for the implementation of cash-flow forecasting (**proposed end-December 2024 SB**), and for better coordination with the debt management unit on the size and frequency of issuances.

- **PIM and PPP.** The authorities expect to finalize the bylaws for the new PPP law by end-2024. The PIM unit is working to resolve data gaps of project portfolio to clearly identify new and ongoing projects. The project data is collected separately, as the project module in the IFMIS system is not operational. The authorities intend to align the 2025 Public Investment Plan in the 2025 budget. Staff suggested to update the PIMA assessment, including a Climate PIMA, to incorporate climate adaptation efforts into PFM.

- **Fiscal Risks**. The first Fiscal Risk Statement (FRS) will cover a broad range of fiscal risks, including those associated with SOEs, NAPSA, PPPs and climate (**end-June 2024 SB**). Staff noted that the fiscal risk unit should be fully equipped and empowered with the authority to analyze data from other departments and agencies.

19. The authorities continue strengthening public debt management and its transparency (MEFP, ¶32 & 33). The regulatory framework for public debt management, based on the Public Debt Management Act (2022), is expected to be adopted by end-June 2024. This framework will govern and guide debt management operations, including SOEs' borrowing. Following the approval of the new organization for the Debt Management Office (DMO), the new DMO is expected to become fully operational by end-2024, for which the authorities will adopt and publish DMO's procedure manual (**end-December 2024 SB**). Based on best international practices, the DMO will be organized into front, middle and back offices. To build capacity, the DMO should start developing internal expertise on front office activities related to bond market issuances and transactions.

20. Efforts to update the issuance strategy will help rebalance investor preferences while continuing to develop the bond market (MEFP, ¶34). To improve liquidity, staff suggested that the authorities develop benchmark bonds by reopening existing bonds and a framework for market-making activities that supports price discovery in the secondary market.[15] Moreover, the authorities should prepare to deal with the spike in domestic debt redemptions in 2026 (4 percent of GDP). As they plan to reduce the sovereign-bank nexus over the medium term, developing the institutional investor base in government bonds will remain a priority. Since a sizable portion of investment by NRHs could be based on carry trades, the authorities would need to upgrade their monitoring tools to identify active NRHs and support external debt sustainability.

[14] The authorities need additional time to incorporate local governments into the action plan, for which they are seeking support from development partners.

[15] Reopening of bonds is a standard tool in debt management to add to the stock of an existing line of bond through future issuances.

Box 1. Zambia: Dismantling Costly Fuel Arrears through Liability Management

Stock of Budgetary Expenditure Arrears (In Millions of Kwacha)

	2021	2022	2023
Stock of arrears, excluding VAT refunds	**57,031**	**47,659**	**61,421**
in percent of GDP	***12.9***	***9.6***	***10.8***
Goods, services & compensation to employees	11,214	7,283	6,546
Fuel	9,954	13,044	23,062
External contractors	9,389	10,528	12,655
Personnel emoluments	9,211	4,788	4,014
Road contracts	8,982	9,643	9,396
Other public investments	3,237	1,804	3,595
Food Reserve Agency	2,060	267	147
Farmer Input Support Program	1,666	43	1,743
Pension system	1,318	258	264

Source: MoFNP

The stock of budgetary arrears reached 10.8 percent of GDP in 2023. Arrears have been a longstanding feature in Zambia, due to weak public finance management practices (unrealistic budgets, cash-flow mismatches, and lack of commitment controls). The deteriorating macroeconomic situation and the Covid-19 pandemic strained public finances further and arrears accumulated fast across most spending categories (i.e., personnel emoluments, pension contributions, utilities, and contractor arrears) and VAT refunds arrears.

The authorities designed and approved an arrears' dismantling strategy in 2022. The strategy foresaw clearing the stock of arrears over a period of three, five and 10 years, depending on the category (three years for utilities, five for pension, personnel and VAT refund arrears', and 10 years for fuel and external contractor arrears, two of the largest categories). The strategy assumed a proportional clearance with the annual amount gradually falling as a share of GDP—from 2.8 percent in 2022 to a projected 0.2 percent of GDP by 2033. However, despite the ongoing clearance process and no accumulation, the stock of arrears increased again in 2023, due to valuation effects for forex denominated arrears, late interest, and penalties. Fuel arrears, the most expensive category, increased by 50 percent over 2022-23 with penalties and interest now overtaking principal. At end-2023, the authorities report fuel arrears reached $897 million, of which $437 million is principal and the rest consisted of interest and penalties. These arrears amounted to $597 million in 2021.

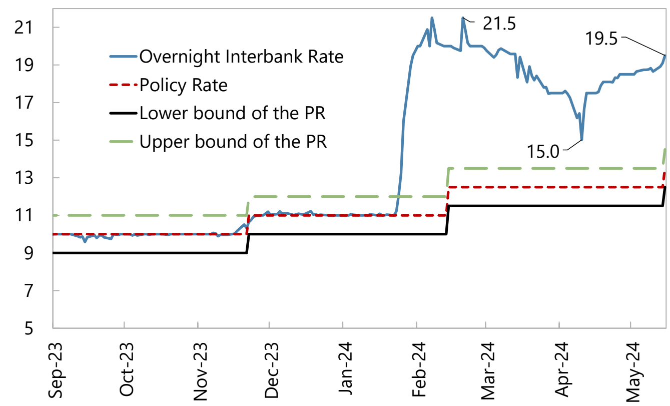
The authorities are considering a liability management operation aimed at seeking net present value (NPV) savings. The plan is to borrow from domestic banks to repay validated fuel arrears by using a reverse auction mechanism, seeking to get some NPV savings. Banks are expected to secure the funding from their assets held abroad to avoid squeezing the domestic market from scarce forex. The operation would create net present value savings, if fuel suppliers discount their overall liability in exchange for immediate payment versus the current practice of installment payments. It would also shift external debt liabilities to domestic FX liabilities for the government, mitigating the impact of the drought shock on external debt sustainability. The authorities may consider a similar operation to clear arrears to external contractors ($492 million at end-2023) in 2025. The authorities should also prepare contingency plans in case they do not secure a significant discount on these liabilities, including by prioritizing most expensive arrears within the current budget, as lower NPV savings would translate into additional pressures on net domestic financing going forward than currently assumed under the baseline.

Since Zambia uses cash basis accounting, arrears' payments are recorded above the line and hence impact the primary fiscal balance, a program target. The authorities are requesting an adjustor to the primary balance that considers the repayment of fuel arrears operation. Future debt amortization, a below the line operation, will not impact the primary balance. Overall, the authorities are expected to remain within the envelope for arrears clearance, hence they will not impact the medium-term financing needs. This operation, in tandem with the external debt restructuring, will help support debt sustainability.

B. Safeguarding Price and External Stability in the Context of an External Shock

21. The BoZ should stand ready to further tighten monetary policy in view of higher inflation (MEFP, ¶35). Despite negative real policy rates, the monetary stance (as reflected in interbank interest rates) remains tighter than implied by the policy rate as liquidity has declined significantly (Text Figure 4). The suspension of OMOs has resulted in a substantial spread between the policy and interbank rates, causing tighter monetary conditions, in the context of a limited policy rate transmission mechanism. With inflation still diverging from the target band, the BoZ stands ready to increase further the policy rate to anchor inflation expectations and limit second-round effects. Continuing to use the policy rate as the main monetary policy instrument and resuming OMOs as the accompanying liquidity tool as soon as conditions allow, will realign the policy and interbank rates.[16] Regarding liquidity, careful calibration would be needed in balancing the transfer of government deposits to the BoZ with government securities redemptions to allow for a phased RRs adjustment. FX selling interventions will also need to be sterilized.

Overnight Interbank and Policy Rate
(In Percent)



Source: Bank of Zambia.

22. Improving the monetary transmission will help develop interbank money markets (MEFP, ¶39). BoZ successfully renewed its monetary policy committee (first time, including external members) and launched the Monetary Policy Report (MPR). The current setup—with daily RR compliance and fixed-rate full allotment in OMOs—limits the time horizon for banks' liquidity management to just a day, causing excessive resort to OMOs (or OLF in its absence) in managing banks' liquidity and hindering the development of the interbank market. Staff highlighted the need to adopt a well-established interest rate corridor, implement reserve averaging, and establish an OMO framework that is closely aligned with these measures. Progress in establishing a functional repo market is a positive step towards these.

23. Coping with the drought impact and lower mining receipts requires sustained exchange rate flexibility and recalibrating reserve targets under the ECF arrangement (MEFP, ¶37). Given the limited FX availability, exchange rate flexibility should serve as the primary shock absorber. Kwacha depreciation, the grants mobilized from development partners in response to the

[16] Further policy rate increase along with resumption of a fixed-rate (at the policy rate) full-allotment OMOs, will make the interbank rates land at the new higher policy rate. However, this will also partially unwind the liquidity impact of the SRR hikes—unless the policy rate is raised all the way up to the levels of the current interbank rates.

drought, and the proposed program augmentation are expected to partially mitigate balance of payment (BoP) financing pressures, which are expected to remain despite lower FX intervention. The drought is estimated to generate an additional $420 million in drought-related import needs (electricity and maize), to be financed by the BoZ, which will directly impact BoZ's ability to build reserves. Furthermore, due to the subdued recovery in copper production, BoZ's mining tax receipts are projected to decline by 24.2 percent in 2024 compared to the projection in the second review. Hence, staff supports the authorities' request to lower reserve accumulation in 2024, with the end-June and end-2024 NIR targets at $1,400 million and $1,750 million, respectively. As conditions normalize in 2025, the BoZ proposes setting the end-June 2025 NIR target at $2,100 million. Going forward, strengthening FX management through an operational strategy to increase reserves would help increase monetary policy effectiveness and resilience to external shocks.

24. Zambia's external position in 2023 is assessed as moderately weaker than the level implied by fundamentals and desirable policies (Annex IV). The proposed reforms and policy adjustments of the program, along with debt restructuring, are expected to boost FX reserves to cover five months of prospective imports over the medium-term, thereby improving the external position.

25. While the renewed forex market guidelines could enhance the FX market, future reforms will help to revive the interbank FX market and promote price discovery (MEFP, ¶37). Effective May 24, 2024, the guidelines enhance transparency and traceability in all forex transactions by requiring the involvement of authorized dealers. Additionally, the guidelines intend to reduce exchange rate volatility by setting limits on the buying and selling of forex at authorized dealers' board rates. The FX market rules, currently under review, should map out a transition path to develop an inter-bank FX market and policies that reflect market forces and promote price discovery. As part of this reform, staff recommended setting a rules-based FX intervention policy to counter disorderly market conditions.

C. Strengthening Financial Policies

26. The BoZ continues to strengthen its macro-prudential framework to bolster banking sector resilience (MEFP, ¶40). An inter-agency Financial Stability Committee (FSC), established under the 2022 BoZ Act, held its first meeting in April 2024.[17] The BoZ will publish its maiden Financial Stability Report (FSR) in June 2024 (**end-June 2024 SB**). To broaden its *macro-prudential toolkit*, BoZ will issue regulations to deploy countercyclical capital and conservation buffers by end-June 2024. Also, BoZ will implement regulations on the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) using a "phased-in" approach by end-2024.[18] Structural risks associated

[17] External members of the FSC are expected to be appointed by end-June 2024.

[18] Given banking dollarization, the authorities should supplement this approach with separate regulations on LCR for foreign currency liquidity.

with dollarization, credit concentration and sovereign-bank nexus in the banking system call for devising appropriate macroprudential tools.[19]

27. The BoZ is reviewing the financial services framework (MEFP, ¶41). Changes to the Banking and Financial Services Act (2017) reportedly aim at making the framework more responsive to sectoral developments, addressing emerging regulatory gaps, and strengthening coordination and cooperation with other regulators. A draft bill aligned in line with IMF recommendations is expected to be submitted to Parliament (**end-December 2024 SB**). To this end, the Banking and Financial Services Act (BFSA) review should, inter alia, focus on ownership changes, auditing, prudential requirements, consolidated supervision, enforcement and early intervention, and resolution.

28. While progress has been made in strengthening BoZ's safeguards, it is important to advance on remaining issues. The BoZ continued to make progress with the implementation of the 2022 safeguards recommendations, including through strengthening the internal audit approach and reinforcing controls over program monetary data provision, but staff calls for additional efforts to obtain from the Office of the Attorney General the outstanding legal opinion to clarify the interpretation of the statutory limit on credit to government and roll-over of government securities and ascertain its compliance with the law. In addition, the BoZ will update the August 2022 Memorandum of Understanding signed with the Government to reflect the proposed augmentation of access as half of IMF financing is intended for budget support.

29. The BoZ continues to strengthen its crisis resolution framework. In 2022, it developed a problem bank framework as an internal document to guide banking intervention. Since the BFSA early intervention framework remains fragmented, staff suggested enhancing transparency on the guiding principles as the framework is used.[20] The authorities are now preparing the regulatory framework for an effective deposit insurance scheme as part of the overall review of BFSA, and the BoZ has established a dedicated unit to administer it (MEFP, ¶42). The BoZ will adopt the new deposit insurance framework consistent with the Core Principles for Effective Deposit Insurance Systems (**proposed end-April 2025 SB**). [21]

30. The authorities are undertaking a multi-pronged approach to deepen financial inclusion (MEFP, ¶43). The BoZ is working with the private sector on a pilot basis to establish a Credit Guarantee Fund (CGF) as a risk sharing mechanism, set to be implemented in June 2024. The authorities launched the second National Financial Inclusion Strategy 2024-28, with plans

[19] Large loan exposures (those exceeding 10 percent of a bank's regulatory capital) stood at 131 percent of regulatory capital at end-2023 while the top four sectors (manufacturing, personal loans, wholesale and retail trade, and agriculture and allied sectors) accounted for 58 percent of total credit. Foreign currency loans accounted for 40 percent of total loans while foreign currency liabilities amounted to 46 percent of total liabilities at end-2023.

[20] For example, as part of the enforcement toolkit, BoZ's power to suspend the exercise of voting rights remains insufficient and needs to be extended to cases where shareholders are no longer fit and proper, exert their control to the detriment of the bank, or do not comply with the BoZ's orders. Provisions on recovery and resolution plans, legal safeguards, and domestic and cross-border cooperation need to be considered.

[21] For details, see Core Principles for Effective Deposit Insurance Systems – Executive Summary (bis.org)

to increase financial inclusion to 85 percent of adult population. The BoZ is considering providing credit support to the private sector through the BoZ's Credit Guarantee Fund (K 5 billion, 0.7 percent of GDP). The governance arrangements and operational modalities will need to include measures to ultimately safeguard BoZ's autonomy, financial position, and credibility.

31. The BoZ implemented a dedicated AML/CFT/CPF supervision unit in 2023 (MEFP, ¶44).[22] Risk-based AML/CFT on-site examinations of regulated entities are being conducted to ensure non-compliant financial service providers are sanctioned and required to put in place remedial measures. The risk-based supervision includes enhanced due diligence measures for prominent influential persons. Full implementation of the electronic balance of payments and the Export Proceeds Tracking Framework will also help strengthen the AML/CFT regime.

D. Advancing Structural Reforms to Increase Economic Growth

32. Consistently advancing structural reforms is key to realizing Zambia's potential for higher and more inclusive growth (MEFP, ¶16, ¶26 & ¶45).

- **Agriculture.** The Comprehensive Agriculture Transformation Program (CATP), approved by Cabinet in March 2024, is expected to expand agricultural sector support—from the current FISP. Cabinet approved migrating 74 districts to the e-voucher with flexible inputs in the 2024/25 season (**end-September 2024 SB**), which is accompanied with efforts to promote commercial farming, including through farm blocks. The 2024-25 e-voucher roll out will be subject to an independent audit for the 74 districts (**proposed end-December 2024 SB**).

- **Energy.** Fuel price adjustments to allow for full cost recovery to Oil Marketing Companies (OMCs) have been inconsistent. [23] While the authorities have already published the fuel pricing formula and adjusted prices since January (**end-March 2024 SB**), the process of modification of the formula's parameters needs to be regulated through a statutory instrument to avoid subsidies (**proposed end-August 2024 SB**). Competitive tenders to implement open access to the Tazama pipeline have faced delays due to procedural disruptions. To ensure full cost recovery more consistently, the retail and wholesale price structures will continue to be published monthly (**proposed continuous SB**). Remedies to resolve Tazama pipeline tender disruptions are being crafted. The authorities will leverage the support of an independent consultant to revise the Tazama pipeline open access tender procedures (**proposed end-August 2024 SB**), also committing to the publication of the tender results (**proposed continuous SB**). Power outages due to the drought highlight the need to unlock new investment, particularly in renewable energy. Zesco's pipeline grid

[22] Anti-Money Laundering/Countering the Financing of Terrorism/Countering the Financing of Proliferation of weapons of mass destruction.

[23] During November 2023 to January 2024, increasing fuel costs were largely offset by reducing the estimated transportation costs in the formula, leading to prices at the pump below recovery costs. The resulting subsidy was then compensated by drawing down the strategic reserve fund. The adjustment in February brought the transportation cost back to a full cost recovery.

investments will progressively enable investment in energy generation, when accompanied by consistent implementation of the open grid framework.

33. Structural reforms need to keep focusing on improving the business climate and mobilizing investment (MEFP, ¶47 & ¶52). Authorities are committed to continuing close dialogue with the private sector, including through the Public-Private Dialogue Forum, to identify obstacles and policy actions to tackle them. In December 2023, they launched a mining cadaster portal (SSOMCS), enabling applicants to apply for mining licenses online. However, information about mining licenses and contracts is not public. Plans for the national aerial geographical survey are advancing.

34. Proactive climate policy is critical for building economic resilience (MEFP, ¶46). The current drought showcases Zambia's economic vulnerability to climate shocks. The government is drafting a Climate Change Bill to tackle climate-induced challenges, which contains provisions aimed at supporting climate adaptation projects, among others, to be integrated into the national budget. The bill is expected to be considered by Parliament by end-2024.

35. Progress in improving the governance framework remains paramount to promote private sector growth (MEFP, ¶49). In a step towards transparency, the statutory instrument for the implementation of the Access to Information Act will be issued by end-June 2024, complementing ongoing efforts to enhance governance. In addressing their response to the drought, the Food Reserve Agency (FRA) will publish summary information on all procurement contracts related to imports of maize as part of the 2024 drought response, including beneficiary ownership (**proposed continuous SB**). The Controller of Internal Audit at MoFNP will publish a report on the government's drought response, with the price and details of services rendered for all FRA and government activities, including procurement and logistics contracts, storage and distribution, and Disaster Management and Mitigation Unit (DMMU) contracts (**proposed end-September 2025 SB**). The authorities are working toward amending the Anti-Corruption Act, with plans to submit it to Parliament (**end-March 2025 SB**), developing an asset management framework, reforming asset declaration for public officials, and revising the Public Interest Disclosure Act. Further, the MoFNP will enact the Public Audit Act of 2016 and the State Audit Commission Act of 2016 (**proposed end-September 2024 SB**).

PROGRAM MODALITIES AND OTHER ISSUES

36. The authorities have requested an augmentation of access under the ECF arrangement to support their adjustment efforts in response to the drought. The drought has imposed economic, financial, and social costs on the country, which could disrupt economic recovery and impede Zambia's medium-term prospects. The requested augmentation (30 percent of quota, SDR 293.46 million) would be made available after completing the third ECF review. In line with the ECF arrangement, half of the augmentation will be used for budget support. The program augmentation is consistent with the DSA parameters.

37. The authorities request modifications to QPCs (MEFP, Table 1). Consistent with the updated macroeconomic outlook, they seek changes to the end-June 2024 and end-December 2024 QPC on NIR, to the QPC associated with the primary fiscal balance and an adjustor to the primary balance to conduct the liability management operation aimed at clearing fuel arrears, and to the MPCC. They also request a symmetric adjustor to the NIR target to account for deviations in central government debt service (TMU, ¶19). QPCs and ITs are proposed for end-June 2025. The authorities also request to adjust in line with projected project disbursements, which have been lower than expected in 2023, the ceiling on contracted but undisbursed debt (IT) for end-2024, while keeping the pace of debt accumulation on these projects unchanged over the program period.

38. Two prior actions and proposed new structural benchmarks support the objectives of the ECF-supported program (MEFP, Table 2). Ahead of this review, and critical to program implementation, the authorities will submit to Parliament a revised 2024 Budget that is consistent with the IMF program parameters and publish the revised domestic arrears strategy integrating the liability management operation as discussed under the IMF program parameters. New structural benchmarks include publishing externally audited financial statements of the Industrial Development Corporation (IDC); summary information on procurement contracts related to public sector interventions in response to the drought, and the Tazama pipeline tender results. The Energy Board will continue to publish detailed retail and wholesale price structures in the monthly fuel price announcements. Financial management will be improved by establishing a Cash Management Unit, tasked with producing a cash flow forecast, and a Cash Management Committee, tasked with reviewing cash flow forecasts and making informed decisions to ensure cash adequacy. A cash flow forecasting plan for the entire fiscal year will be implemented.

39. Adequate financing assurances are in place. Under the proposed augmentation, the program remains fully financed, with firm commitments in place for the next 12 months and good prospects of adequate financing for the remainder of the program (Text Table 3).

Text Table 3. Proposed Financing ($ million)

	2022	2023	2024	2025	**Total**
Financing Gap	**3,059**	**2,033**	**2,692**	**1,644**	**9,429**
Official financing	**737**	**538**	**1,382**	**849**	**3,506**
IMF ECF	187	373	760	370	1,690
World Bank [1/]	550	165	522	329	1,566
AfDB	-	-	100	150	250
Financing from external debt restructuring [2/]	**2,322**	**1,495**	**1,310**	**795**	**5,922**

Source: IMF staff estimates and projections.

1/ Includes new financing from the World Bank that will support budget implementation, including grants.

2/ In 2022 and 2023, the arrears accummulated on restructurable debt covered the financing gap. The baseline includes a working assumption that the debt arrears would be cleared over 5 years. This was not applied here to the arrears accumulated in 2022 and 2023 on restructurable debt to avoid double counting.

40. Staff assesses that the debt restructuring process will restore debt sustainability over the medium term. The MoU has been signed with all OCC members; and the agreed treatment with official creditors has been included in the baseline. Once the settlement of the Eurobond exchange is completed and restructuring agreements are reached on comparable terms with all other private creditors in the restructuring perimeter, Zambia's debt would be sustainable on a forward-looking basis (see DSA, Text Figure 3 and 4). Nevertheless, in the absence of such agreements with the private creditors, Zambia remains formally in debt distress as it continues to remain in arrears with private creditors.

41. In line with the Fund's lending into arrears policy, the authorities are making good-faith efforts toward a restructuring agreement with private creditors on comparable terms and consistent with program parameters. Arrears to other official bilateral creditors can be deemed away under the Lending into Official Arrears (LIOA) Policy.[24] The authorities initiated a consent solicitation for the Eurobonds exchange on May 13, with more than 90 percent of the bondholders approving the restructuring, after confirming with the OCC the CoT requirements in February and reaching an agreement in principle with the Steering Committee of the Ad Hoc Creditor Committee of the Eurobond holders. The bond exchange is expected to be completed by June 2024. The authorities are actively engaged with other commercial lenders in good faith, aiming to reach an agreement by the end of 2024. Staff supports the completion of the financing assurances review under the Lending-into-Arrears policy on the basis that adequate safeguards remain in place for the further use of the Fund's resources and that Zambia's adjustment efforts have not been undermined by developments in the relations between Zambia and its external private creditors.

42. Zambia's capacity to repay the Fund after the proposed augmentation remains adequate but subject to significant risks. Zambia's stock of debt to the Fund as a share of GDP, based on existing and prospective drawings, is projected to peak at 5.3 percent in 2025, remaining at elevated levels thereafter. This is above the 75th percentile of past PRGT arrangements (Figure 7) and ranks among the PRGT's top exposures in the last decade. Annual repayments to the Fund are expected to peak at 0.7 percent of GDP and 1.5 percent of exports in 2031 (Table 8). However, Zambia's debt to the Fund as a share of total Public and Publicly Guaranteed (PPG) external debt and debt service as a share of PPG external debt service are not elevated, with indicators of debt service to the Fund close to or below the median for the comparator group. Debt service to the Fund as a share of exports also falls below the 75th percentile. Zambia's capacity to repay the Fund is subject to significant downside risks, including delays in debt restructuring, commodity price and weather shocks, and policy slippages that could reduce the government's debt service capacity. However, these risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, significant fiscal consolidation, progress in debt restructuring with official and private creditors, and the catalytic role of the IMF program.

43. Enterprise risks are assessed as moderate. Financial risks to the Fund reflect the stressed debt situation and the downside risks associated with the macro-financial risks, though these are mitigated by program design and credible prospects for debt relief. As the program helps catalyze

[24] Please see paragraph 32 at Zambia IMF Second Review under the ECF Arrangement.

donor and creditor support and provides a policy anchor for policy adjustment and reforms, not completing the review would raise reputational and member engagement risks for the IMF.

44. The PRGT enhanced safeguard requirement on debt composition is met. While the share of multilaterals and other IFIs in Zambia's FX-denominated external debt is expected to increase to about 28 percent over the program period (from 21½ percent at end-2023, see Text Table 1, DSA), it remains well below the mean and median for PRGT programs, indicating a significant buffer of restructurable debt. FX-denominated external debt with some form of security or escrow arrangement that could be considered as collateralized debt stood at about 11 percent of GDP at end-2023 and is expected to decline under program as it is included in the authorities' restructuring request.

45. The use of the 2021 general SDR allocation for budget support did not entail withdrawing SDR holdings. The modality of financing entailed the central government selling SDRs to the BoZ in exchange for kwacha (91.5 percent) and U.S. dollars (8.5 percent). While these transactions shifted the ownership of SDRs within Zambia, they did not cause any changes in Zambia's SDR position against IMF's SDR Department. The SDRs at the BoZ became part of GIR. The government sold 64 percent of its SDR allocation for budget financing in 2022 and 36 percent in 2023. [25]

STAFF APPRAISAL

46. Zambia continues with its reform efforts despite the drought. The authorities continue to focus on ensuring macroeconomic stability and restoring fiscal and debt sustainability, while addressing the humanitarian relief required by the drought.

47. Economic performance has been resilient despite recurrent shocks, delays in the debt restructuring, and tight policies. Growth in 2023 reached 5.4 percent, exceeding projections by one percentage point, driven by a robust performance in the non-mining, non-agricultural sector. Although the ongoing drought is expected to suppress growth to 2.3 percent in 2024 (compared to 4.7 percent during the second review), the economy is anticipated to rebound in 2025 followed by a positive medium-term outlook. Despite the monetary tightening, inflation is projected to remain above the BoZ's target range until end-2025, driven by exchange rate passthrough affecting food and fuel prices. The current account balance is projected to turn into a surplus as copper production ramps up.

[25] The government and BoZ signed an MoU in August 2022, which recognizes 2021 SDR general allocation as a long-term liability to the IMF in the government's balance sheet. It also stipulates that any net financial charges will be passed on to the government. The operation represents a wealth transfer from the central bank to the government, which is benefiting from the monetization of the SDR allocation, while the central bank is incurring a opportunity costs through: (i) unearned interest income on the SDR holdings (as asset) and (ii) the increase in interest expenses associated with liquidity management (absorption) operations.

48. Program performance has remained broadly satisfactory. All end-2023 quantitative performance criteria (QPCs) and indicative targets (ITs) have been met, except for the IT for the net clearance of VAT refund arrears, which was missed because the refunds were insufficient to prevent further buildup. The authorities have committed to taking corrective measures against this missed IT. The structural reform agenda is progressing well.

49. Coordinated macroeconomic policies remain essential to address the impact of the drought. Fiscal policy remains focused on restoring fiscal and debt sustainability while providing the needed support to vulnerable households through spending reprioritization and mobilization of additional external financing. Exchange rate flexibility should serve as the first line of defense to alleviate balance of payment pressures. Zambia's external position in 2023 is assessed as moderately weaker than the level implied by fundamentals and desirable policies. On the monetary side, the BoZ should maintain a tightening bias until inflation settles back into the target range of 6 to 8 percent.

50. Given significant spending compression, further fiscal consolidation should rely on revenue measures. Focusing on revenue mobilizing strategies to build buffers for future shocks and continuing public finance management reforms to enhance transparency and efficiency remain vital. In the absence of permanent revenue measures, expanding social programs temporarily while minimizing other long-term interventions is crucial for fiscal sustainability. Addressing unforeseen expenditures requires containing non-essential spending and mobilizing idle balances from government institutions. To manage mounting fuel arrears, implementing a liability management strategy is necessary, aiming for net present value savings.

51. Enhancing regulatory framework and financial oversight will bolster banking sector resilience, ensure compliance, and expand financial inclusion. Enhancing the regulatory framework and broadening the macro-prudential toolkit will help ensure financial stability and compliance with evolving global standards. Comprehensive reviews of the financial framework, particularly revising the Banking and Financial Services Act, will strengthen coordination among regulators, enhance risk identification, and improve disclosure requirements. Applying the Problem Bank Framework effectively will manage risks from struggling institutions, thereby minimizing financial contagion, and containing fiscal risks. Concurrent efforts to deepen financial inclusion should focus on increasing access to credit for MSMEs and expanding participation in digital payment systems.

52. Sustained efforts are needed in strengthening governance and safeguarding structural reforms. The timely amendment and implementation of the Anti-Corruption Act and various regulatory frameworks will help fight corruption, enhance regulatory standards, and improve transparency. Concurrently, safeguarding structural reforms, including the progress made in fuel subsidy reforms and the Farmer Input Support Program (FISP), is important to reduce policy uncertainty and create a business-friendly environment.

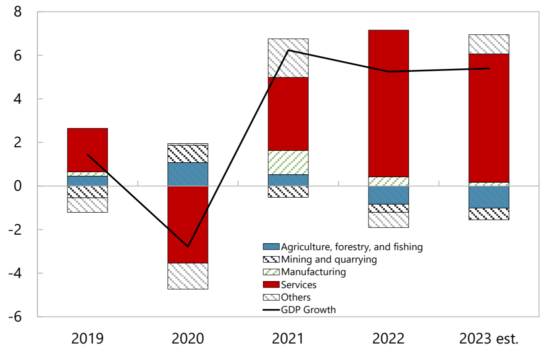
53. Staff supports the authorities' requests for the completion of the third review, modifications of QPCs and of the monetary policy consultation clause, and the augmentation of access under the ECF arrangement. Notably, the augmentation will help Zambia cope with the drought while sustaining macroeconomic stability. Staff also supports the completion of the financing assurances review. Continued commitments to fiscal and debt sustainability, sound macro policies, and structural reforms, as presented in the LOI and MEFP, will support the authorities in meeting program objectives.

Figure 1. Zambia: Real Sector Developments

(In Percent, unless otherwise specified)

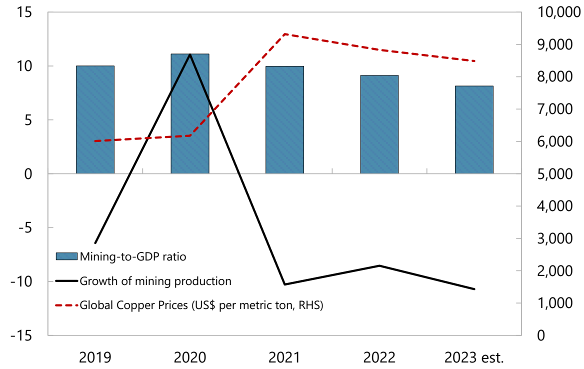
Growth in 2023 stabilized…

Contributions to GDP Growth



…with continued challenges in mining production.

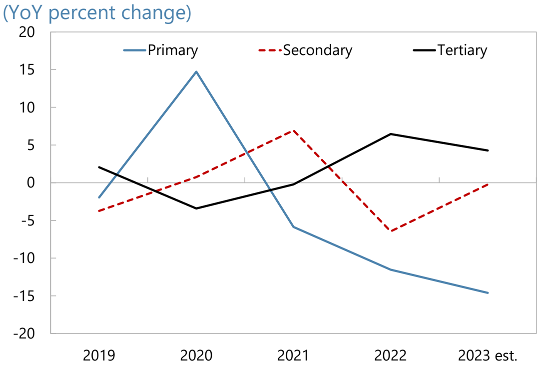
Mining



However, services sector expansion remains robust….

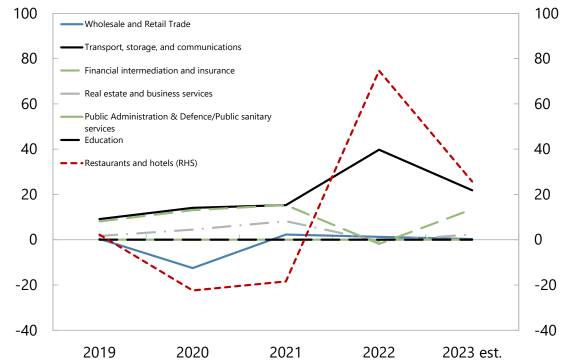
Primary, Secondary, and Tertiary Sectors

(YoY percent change)



…and broad-based…

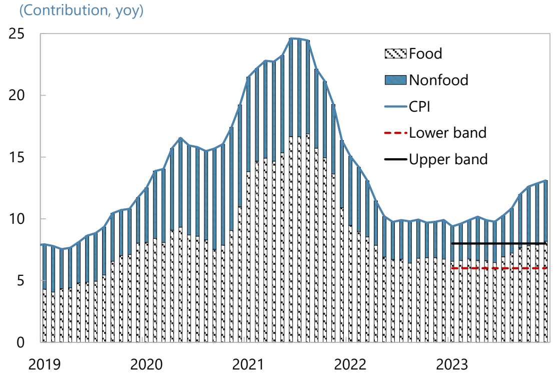
Components of Services Growth



Inflation has kept drifting away from the target band…

CPI Inflation

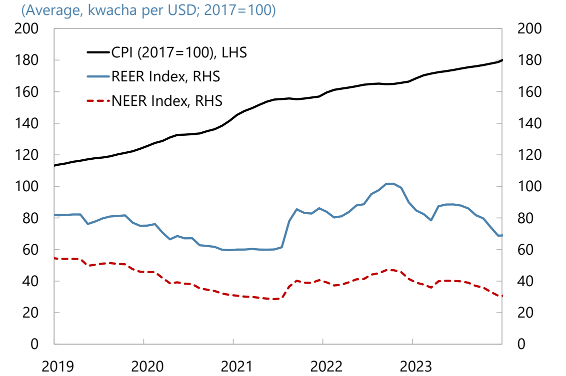
(Contribution, yoy)



…driven by exchange rate depreciation and food prices

Consumer Price Index and Exchange Rate

(Average, kwacha per USD; 2017=100)

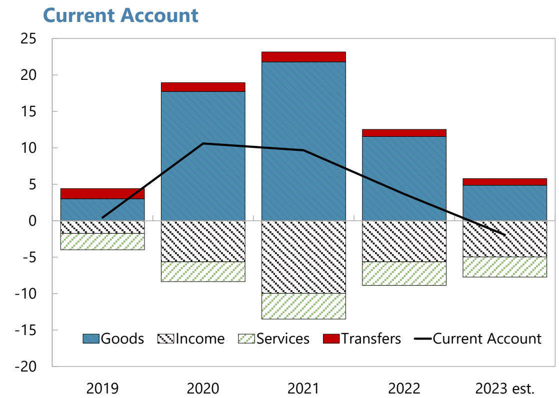


Sources: Bank of Zambia, ZamStat and IMF staff estimates.

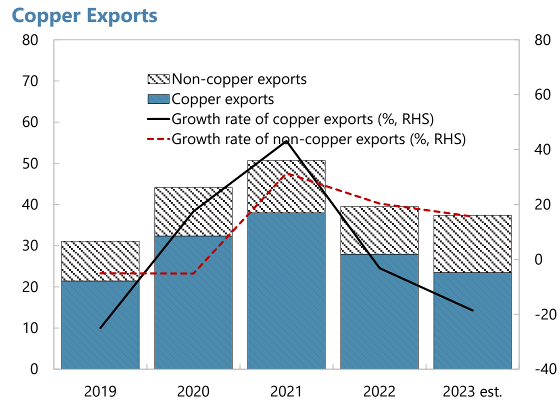
Figure 2. Zambia: External Sector Developments, 2018–23

(In Percent of GDP, unless otherwise specified)

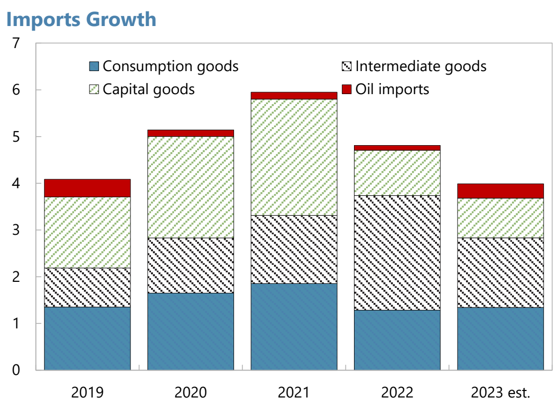
Current account turned into a deficit in 2023…



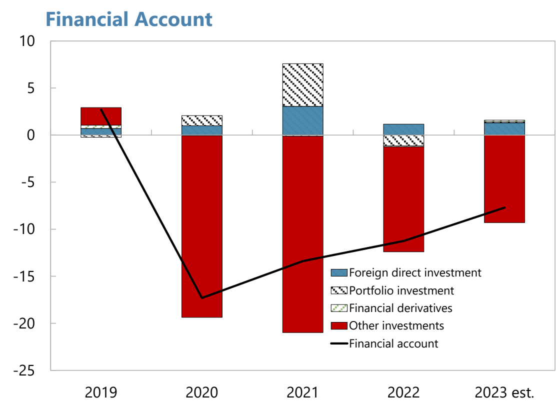
Led by a decline in copper export…



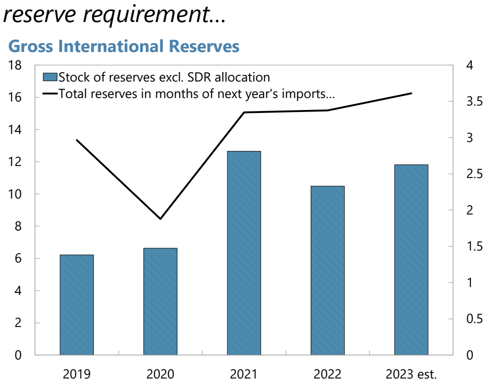
…while imports remained robust…



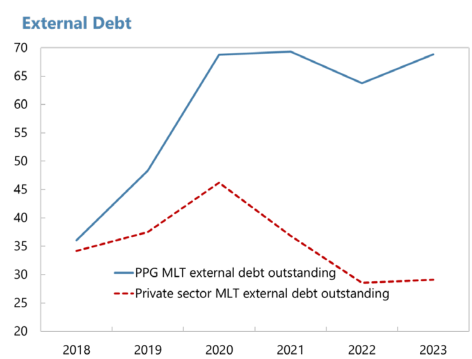
However, financial account deficits declined with positive portfolio and commercial banks flows…



Reserves increased supported by higher FX statutory reserve requirement…



External debt remained at elevated levels…



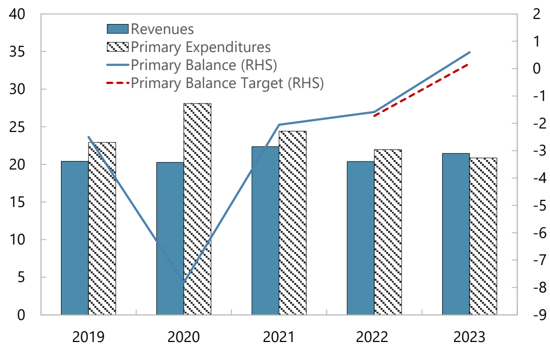
Sources: Bank of Zambia, ZamStat and IMF staff estimates.

Figure 3. Zambia: Fiscal Developments, 2019–23

(In Percent of GDP, unless otherwise specified)

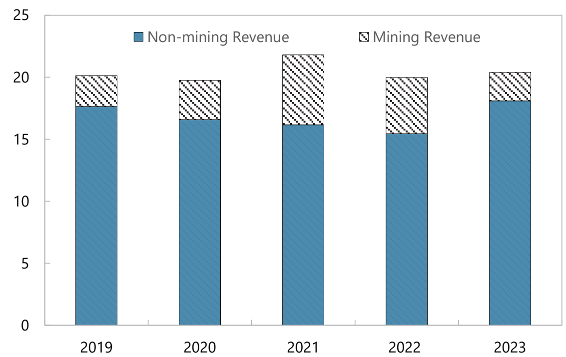
The 2023 primary balance exceeded the program target…

Primary Balance Target vs Outturn



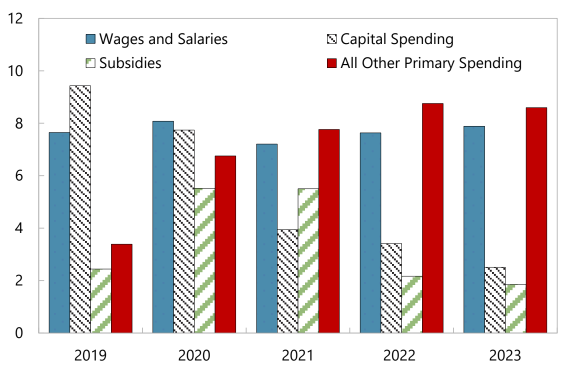
…as the sharp decline in mining revenue was compensated by other taxes…

Mining vs Non-Mining Revenue



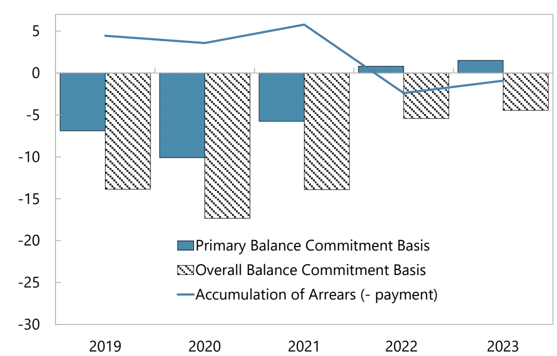
…as well as lower capital and other primary spending…

Primary Spending



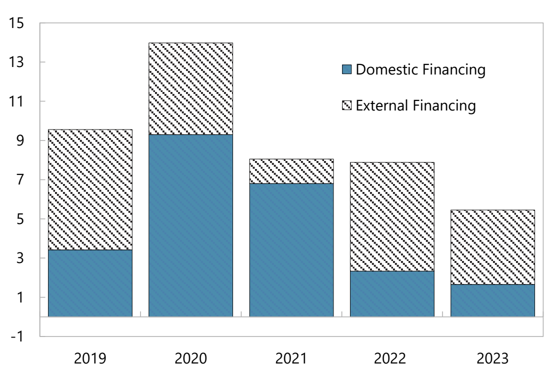
…the overall and primary commitment balances improved as arrear clearance continues

Primary and Overall Balance



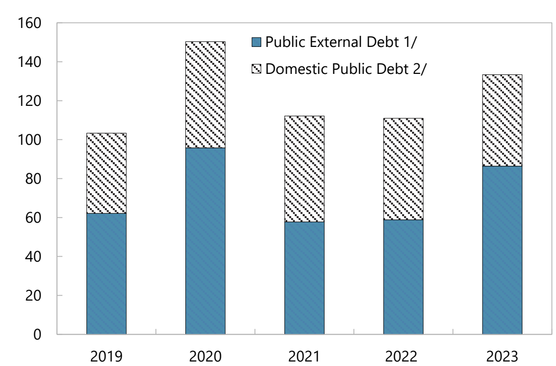
…deficit financing came mostly from external sources…

Deficit Financing Sources



…Kwacha depreciation led to an increase of external debt

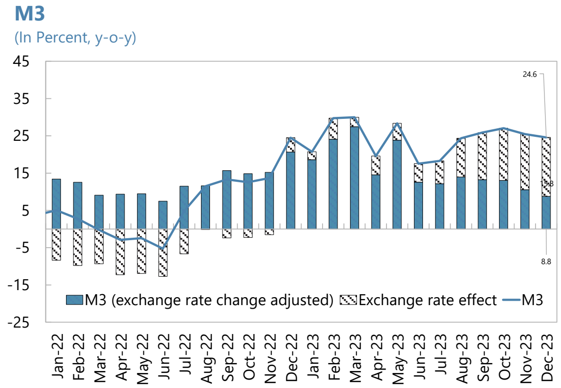
Public Debt



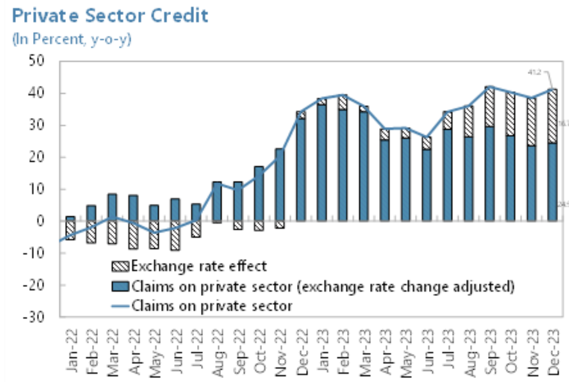
Sources: Zambia: Ministry of Finance and National Planning and IMF staff estimates.
1/ Pre-restructuring stocks
2/ Domestic Debt includes Non-Resident Holdings and Budgetary Arrears

Figure 4. Zambia: Monetary & Financial Developments

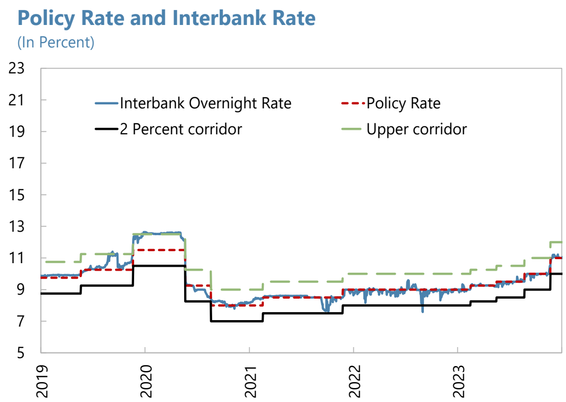
Exchange rate adjusted M3 growth rate has declined significantly since June 2023…



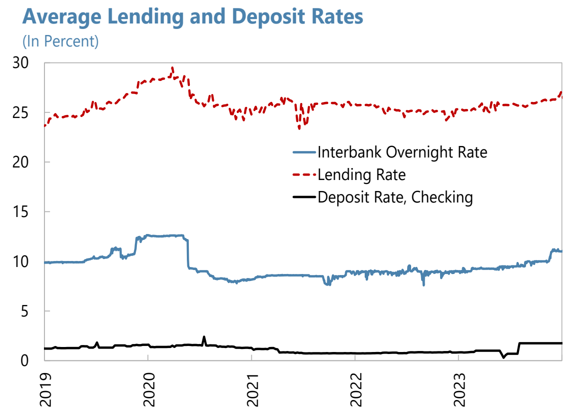
Although credit growth remains elevated…



Tight liquidity conditions caused a step increase in interbank rate…



Although deposit and lending rates remain steady…

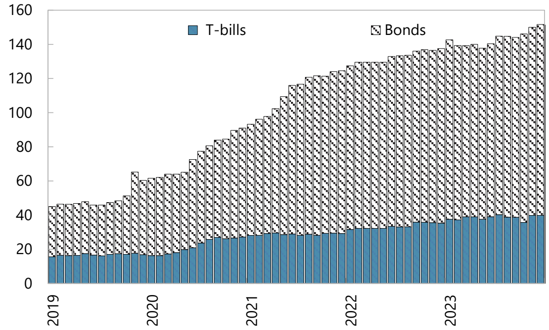


Sources: Bank of Zambia, ZamStat and IMF staff estimates.

Figure 5. Zambia: Financial Sector Developments, 2019–24

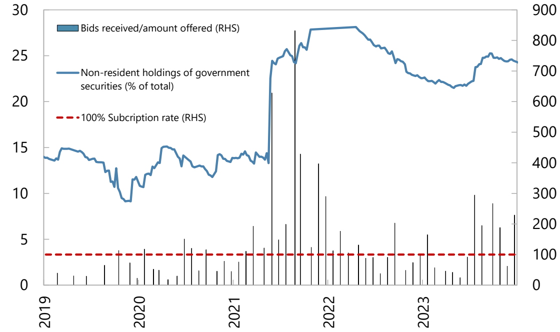
Reliance on bond financing in 2023 resulted in Outstanding bonds to swell relatively more than T-bills…

Outstanding Government Securities
(T-bills and Bonds, billions of kwacha, face value)



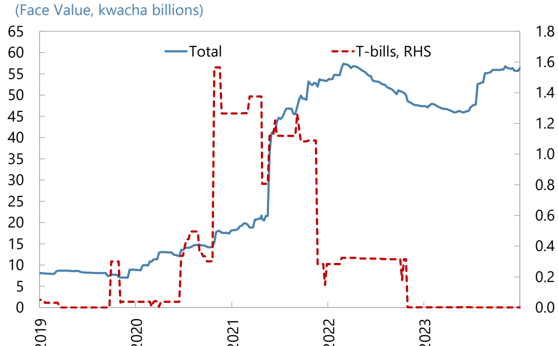
A return by non-resident investors supported rising demand for bonds but this source waned in early 2024…

Non-Resident Holdings of Government Bonds
(In Percent)



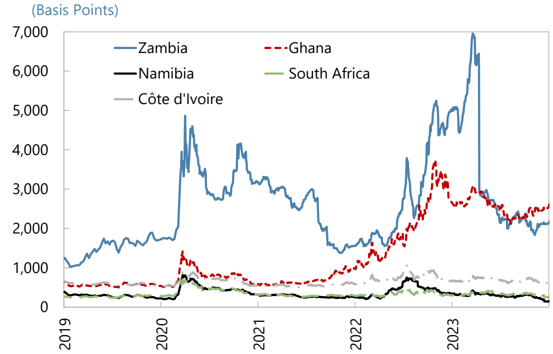
Driven by high yield differential between bonds and T- bills, NRHs continue to remain invested in bond….

Foreign Holdings of Government Securities
(Face Value, kwacha billions)



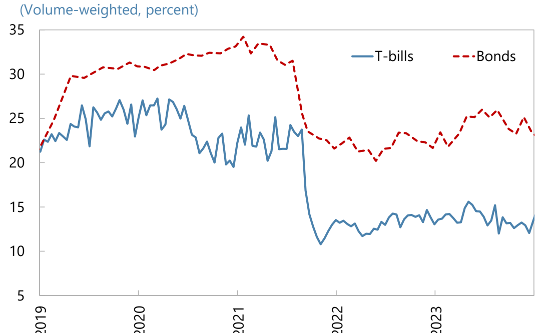
Spreads on Zambian Eurobonds recovered significantly but remain elevated compared to other SSA issuers…

Weighted Average Spread
(Basis Points)



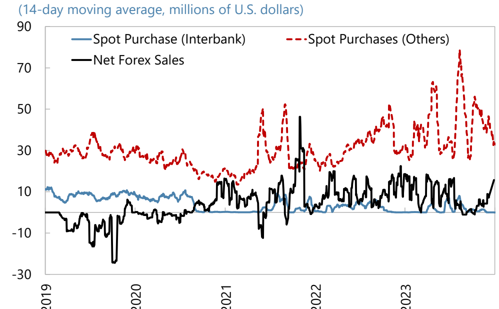
Rising bond yields resulted in higher spreads with T-bills in 2023, but narrowed significantly by early 2024..

Government T-Bills and Bonds Yields
(Volume-weighted, percent)



Banks remained net purchasers of FX with the shortage in FX in the system and recent tightening of FX liquidity…

Commercial Banks' Forex Purchase
(14-day moving average, millions of U.S. dollars)

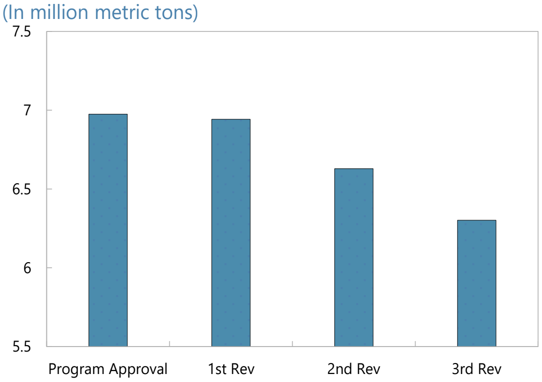


Sources: Bank of Zambia, ZamStat and IMF staff estimates.

Figure 6. Zambia: Economic Performance Under the ECF Program

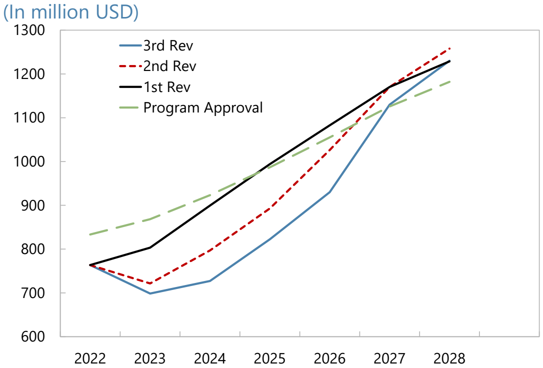
Copper production has been lower than expected...

Copper Production: Total 2022-2028
(In million metric tons)



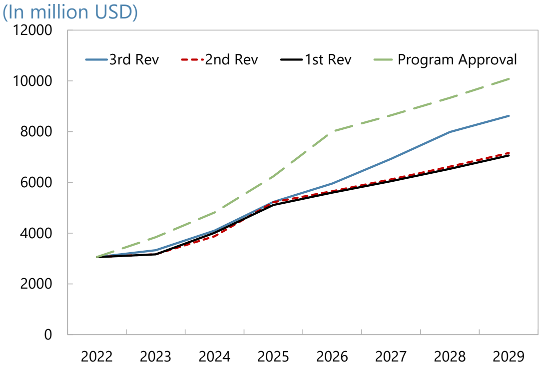
...leading to lower-than-anticipated export earnings...

Copper Export
(In million USD)



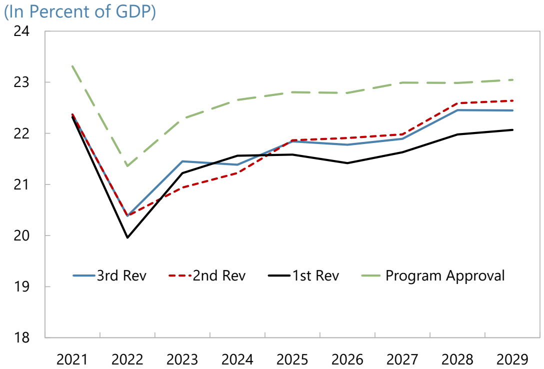
...making reserve accumulation challenging...

Gross International Reserves
(In million USD)



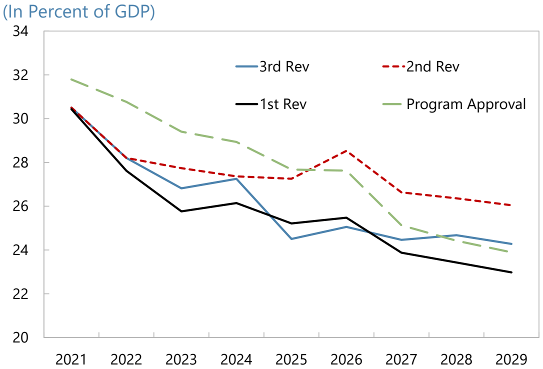
...while contributing to lower-than-expected revenues...

Total Revenue
(In Percent of GDP)



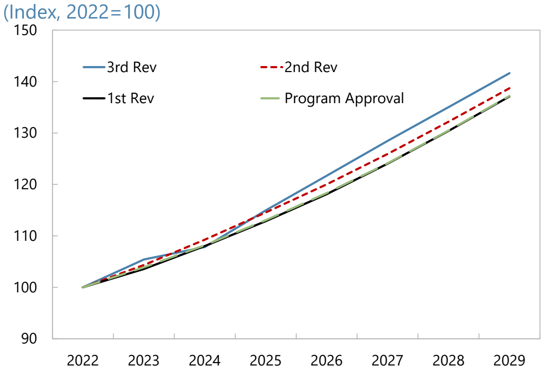
...and necessitating expenditure-based consolidation

Total Expenditure
(In Percent of GDP)



However, the non-mining, non-agricultural sector has performed better than expected...

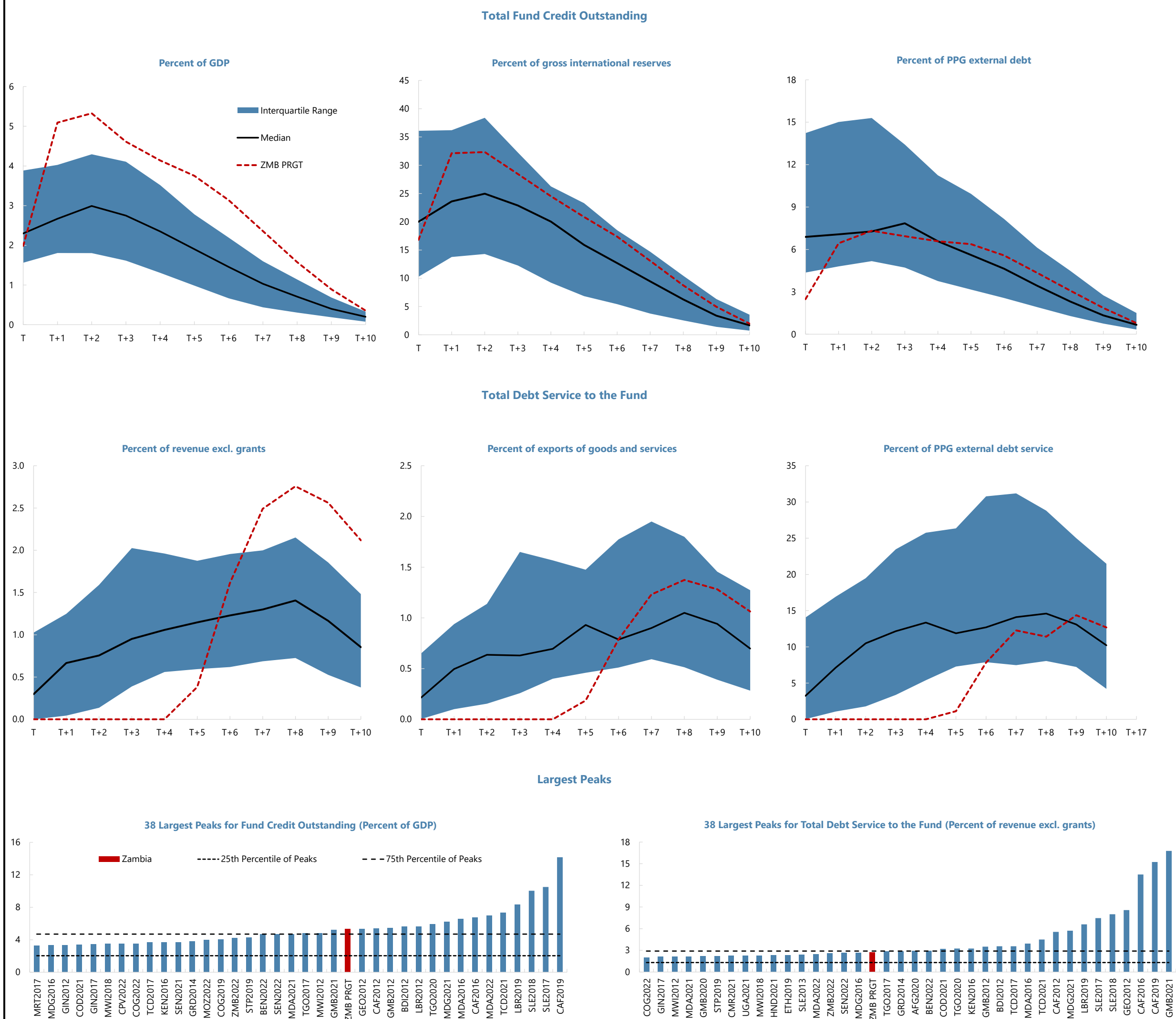
Real GDP
(Index, 2022=100)



Sources: Zambian authorities and IMF staff estimates.

Figure 7. Zambia: Capacity to Repay Indicators Compared to PRGT Countries

(Units as indicated)



Notes:
1)T=date of arrangement approval. PPG=public and publicly guaranteed.
2)Red lines/bars indicate the CtR indicafor for the arrangement of interest.
3)The median, interquantile range, and comparator for bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4)PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5)Comparator series is for PRGT arrangements only and runs up to T+10.
6)Debt Service obligations to the Fund reflect prospective payments, including for the current year.
7)In the case of blenders, the red lines/bars refer to PRGT +GRA. In The case of RST, the red lines/bars refer to PRGT+GRA+RST.

Table 1. Zambia: Selected Economic Indicators, 2020–29
(In Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
				ECF 2nd Review*	Est.	ECF 2nd Review*	Staff proj.			Projections		
National Accounts and Prices												
GDP growth at constant prices (in percent)	-2.8	6.2	5.2	4.3	5.4	4.7	2.3	6.6	5.9	5.6	5.1	4.9
Agriculture (in percent)	17.2	6.9	-11.0	-7.4	-15.9	5.8	-19.4	27.4	13.3	4.6	4.0	4.0
Mining (in percent)	8.0	-4.7	-3.7	-4.4	-5.9	9.3	4.1	13.1	10.0	11.9	8.9	5.0
Non-mining, non-agricultural (in percent)	-5.6	7.7	7.8	6.2	8.2	4.2	3.4	5.1	5.0	5.0	4.7	4.9
GDP deflator (in percent)	13.9	25.1	6.1	10.2	9.3	10.6	20.2	9.9	5.0	5.9	6.6	6.2
GDP at market prices (billions of kwacha)	332.7	442.3	494.0	567.8	569.2	657.8	699.8	819.6	911.1	1,018.7	1,140.9	1,270.6
Consumer prices												
Consumer prices (average)	15.7	22.0	11.0	11.0	10.9	11.4	14.6	12.1	7.0	7.0	7.0	7.0
Consumer prices (end of period)	19.2	16.4	9.9	13.0	13.1	8.6	15.0	7.9	7.0	7.0	7.0	7.0
External Sector												
Current account balance	11.8	11.9	3.8	-1.8	-1.9	3.7	-0.2	6.9	5.7	6.3	6.2	6.2
Average exchange rate (kwacha per U.S. dollar)	18.3	20.0	17.0	20.0	20.2	…	…	…	…	…	…	…
(percentage change; depreciation +)	42.3	9.1	-15.3	17.9	19.2	…	…	…	…	…	…	…
End-of-period exchange rate (kwacha per U.S. dollar)	21.2	16.7	18.1	21.5	25.7	…	…	…	…	…	…	…
Terms of trade (deterioration -)	14.0	22.5	-5.8	0.2	-13.6	-5.1	10.7	4.1	-0.7	-1.6	-2.0	-1.6
Financial Account balance	-17.3	-13.4	-11.8	-7.8	-1.6	-13.4	-9.5	-10.4	-7.7	-7.4	-5.6	-5.0
Gross international reserves (months of prospective imports)	1.9	3.3	3.4	3.4	3.6	4.0	4.3	5.0	5.2	5.6	6.0	6.0
Money and Credit												
Reserve money (end of period)	57.0	8.5	12.0	18.4	24.6	15.6	10.5	13.2	10.4	13.7	13.9	13.2
Money supply (M3, percentage change)	46.4	3.7	24.5	18.4	24.6	15.6	10.5	13.2	10.4	13.7	13.9	13.2
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	11.7	12.5	12.8	12.6	13.9	14.5	14.6	14.7	14.6
Credit to the private sector growth	8.5	-7.8	34.2	31.4	41.3	26.8	23.6	29.0	15.6	13.1	12.7	10.2
Credit to the private sector growth (constant exchange rate)[1]	14.2	-3.3	34.8	…	23.8	…	16.6	38.5	18.3	10.4	9.9	7.3
National Accounts												
Gross investment	32.2	31.4	27.0	31.2	31.1	31.5	32.3	31.7	31.8	31.9	32.5	32.7
Public	7.7	3.9	3.4	2.7	2.5	3.0	3.2	3.3	3.4	3.5	4.1	4.3
Private	24.5	27.4	23.6	28.5	28.6	28.5	29.1	28.4	28.4	28.4	28.4	28.4
National savings	44.0	43.3	30.7	29.4	29.1	35.3	32.0	38.5	37.5	38.2	38.7	38.9
Central Government Budget												
Revenues	20.3	22.4	20.4	20.9	21.5	21.2	21.4	21.8	21.8	21.9	22.5	22.4
Taxes	15.7	16.1	16.1	16.6	16.2	16.8	15.7	16.5	16.8	16.9	17.4	17.6
Grants	0.5	0.6	0.4	0.7	1.1	0.5	1.2	0.8	0.4	0.4	0.4	0.3
Other revenues	4.1	5.7	3.9	3.7	4.2	3.9	4.5	4.5	4.5	4.6	4.6	4.5
Expenditures	34.0	30.5	28.2	27.7	27.9	27.4	27.5	24.6	25.1	24.5	24.7	24.3
Expenses	26.3	26.6	24.8	25.1	25.4	24.3	24.3	21.3	21.7	21.0	20.6	20.0
Net acquisition of nonfinancial assets	7.7	3.9	3.4	2.7	2.5	3.0	3.2	3.3	3.4	3.5	4.1	4.3
Net lending/borrowing (cash basis)	-13.8	-8.1	-7.8	-6.8	-6.5	-6.1	-6.1	-2.8	-3.4	-2.6	-2.2	-1.8
Net lending/borrowing (commitment basis)[2]	-17.3	-13.9	-5.4	-6.4	-5.6	-3.8	-2.5	-1.6	-2.3	-1.7	-1.8	-1.6
Primary balance (cash basis, program target)	-7.8	-2.1	-1.6	0.2	0.6	0.8	-0.7	2.1	1.9	1.7	1.6	1.6
Non-mining primary balance	-11.0	-7.7	-6.1	-2.6	-1.7	-2.3	-3.3	-1.3	-1.8	-2.1	-2.2	-2.1
Public Debt												
Total public debt (gross, end-of-period)[3,4]	150.3	112.1	110.9	119.4	133.4	109.3	107.5	88.5	79.2	74.3	69.8	66.0
External	95.8	57.8	58.8	72.9	86.4	69.2	68.5	56.9	50.0	46.9	43.5	41.8
Domestic	54.5	54.4	52.1	46.5	46.9	40.1	38.9	31.6	29.2	27.4	26.3	24.2

Sources: Zambian authorities; and IMF staff estimates and projections.

* IMF CR No. 23/439

[1] Average exchange rate during 2023Q4 applied.

[2] Adjusted for the accumulation/clearance of VAT refund claims and expenditure arrears.

[3] Nonresident holdings of local currency debt are included under domestic debt here, unlike in the DSA, which is conducted on a residency basis.

[4] Including arrears.

Table 2a. Zambia: Balance of Payments, 2020–29
(Millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
				ECF 2nd Review*	Est.	ECF 2nd Review*	Proj.			Projections		
Current Account	2,139	2,630	1,093	-506	-546	1,119	-56	2,188	2,105	2,592	2,760	2,969
Trade balance	3,216	4,816	3,368	2,004	1,373	3,597	2,514	5,068	5,307	5,757	6,123	6,483
Exports, f.o.b.	8,003	11,202	11,505	11,123	10,521	12,834	11,851	14,644	15,874	17,280	18,574	19,875
Of which: Copper	5,868	8,396	8,129	7,321	6,617	7,881	8,181	9,772	10,648	11,681	12,629	13,578
Imports, f.o.b	-4,787	-6,386	-8,137	-9,119	-9,148	-9,237	-9,337	-9,576	-10,567	-11,522	-12,451	-13,392
Services (net)	-524	-779	-946	-792	-778	-828	-725	-716	-715	-754	-813	-877
Income (net)	-775	-1,709	-1,614	-1,999	-1,398	-1,945	-2,145	-2,382	-2,721	-2,658	-2,848	-2,951
Of which: Interest on public debt	-635	-736	-906	-721	-1,032	-933	-723	-612	-779	-523	-540	-470
Current transfers (net)	221	301	285	281	257	295	300	219	233	246	298	314
Other official grants				68	128	98	131	35	37	37	72	71
Private transfers	221	301	285	212	129	197	169	184	196	209	226	243
Capital and Financial Account	-3,058	-2,882	-3,349	-2,156	-369	-3,951	-2,397	-3,230	-2,743	-2,983	-2,408	-2,323
Capital account	80	77	76	67	78	63	64	71	74	74	72	70
Project grants	80	77	76	67	78	63	64	71	74	74	72	70
External debt cancellation	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	-3,138	-2,959	-3,425	-2,222	-446	-4,015	-2,461	-3,301	-2,817	-3,057	-2,481	-2,392
Foreign direct investment (net)	181	674	188	370	-26	601	974	1,197	1,641	1,775	1,919	2,063
Portfolio investment (net)	194	1,002	-332	30	155	-93	7	5	184	180	197	168
Financial derivatives (net)	-10	-26	-31	52	-4	104	47	157	182	203	220	236
Other investments (net)	-3,503	-4,609	-3,249	-2,674	-572	-4,627	-3,489	-4,659	-4,823	-5,215	-4,816	-4,859
Public sector (net)	-2	-1,346	-1,021	-1,650	-898	-2,784	-2,081	-825	-1,235	-1,035	-988	157
Disbursements	1,424	571	914	530	333	372	464	640	298	255	197	732
Amortization due	-1,426	-1,917	-1,935	-2,180	-1,232	-3,155	-2,545	-1,465	-1,532	-1,290	-1,186	-576
Monetary Authority (SDR Allocation)	0	1,328	0	0	0	0	0	0	0	0	0	0
Commercial banks (net)	-413	-205	-411	67	625	-183	469	-92	-64	-45	-31	-22
Other sectors	-3,088	-4,387	-1,817	-1,091	-298	-1,660	-1,877	-3,743	-3,524	-4,135	-3,797	-4,994
Errors and Omissions	-635	-370	5	0	-680	0	0	0	0	0	0	0
Overall Balance	-1,555	-623	-2,251	-2,661	-1,594	-2,832	-2,453	-1,042	-638	-391	351	646
Financing	1,555	623	2,251	2,661	1,594	2,832	2,453	1,042	638	391	-351	-646
Central bank net reserves (- increase)	233	-1,607	-71	261	100	-333	-10	-763	-723	-975	-1,113	-766
Of which: Change in gross reserves	248	-1,604	-258	-114	-274	-709	-769	-1,133	-723	-975	-1,057	-636
Of which: Use of Fund resources	-15	-3	187	376	373	376	760	370	0	0	-56	-131
New MDB financing				236		427	622	479	358	393	141	92
WB loans				111		230	302	102	45	30	29	0
WB grants				125		47	220	227	112	112	112	92
AfDB loans				0		150	100	150	200	250	0	0
Exceptional financing (accumulation of arrears)	1,322	2,230	2,322	2,164	1,495	2,738	1,841	1,326	1,004	973	621	28
Financing Gap	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum Items:												
Current account (percent of GDP)	11.8	11.9	3.8	-1.8	-1.9	3.7	-0.2	6.9	5.7	6.3	6.2	6.2
Total official grants (percent of GDP)	0.4	0.3	0.3	0.5	0.7	0.5	0.8	0.3	0.3	0.3	0.3	0.3
Exports of goods and services	8,558	11,728	12,444	12,119	11,454	13,902	12,851	15,776	17,183	18,743	20,155	21,576
Change in copper export volume (percent)	14.4	-5.2	2.2	-6.5	-15.3	10.5	7.3	13.1	10.0	11.9	8.9	5.0
Copper export price (US dollars per tonne)	6,175	9,317	8,829	8,503	8,491	8,287	9,780	10,329	10,228	10,029	9,805	9,657
Crude oil price (US dollars per barrel)	41.8	69.2	96.4	80.5	80.6	79.9	81.3	76.4	72.9	70.4	68.6	67
Gross international reserves	1,203	2,796	3,054	3,168	3,328	3,877	4,097	5,230	5,954	6,928	7,985	8,621
In months of prospective imports	1.9	3.3	3.4	3.4	3.6	4.0	4.3	5.0	5.2	5.6	6.0	6.0
GDP (billions of U.S. dollars)	18.1	22.1	29.1	28.4	28.2	29.9	25.9	31.8	36.8	41.1	44.5	47.8

Sources: Zambian authorities; and IMF staff estimates and projections.
* IMF CR No. 23/439

Table 2b. Zambia: Balance of Payments, 2020–29
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
				ECF 2nd	Est.	ECF 2nd Review*	Proj.	Projections				
Current Account	11.8	11.9	3.8	-1.8	-1.9	3.7	-0.2	6.9	5.7	6.3	6.2	6.2
Trade balance	17.7	21.8	11.6	7.1	4.9	12.0	9.7	15.9	14.4	14.0	13.8	13.6
Exports, f.o.b.	44.1	50.7	39.5	39.2	37.4	43.0	45.7	46.0	43.1	42.0	41.8	41.6
Of which: Copper	32.4	38.0	27.9	25.8	23.5	26.4	31.6	30.7	28.9	28.4	28.4	28.4
Imports, f.o.b	-26.4	-28.9	-27.9	-32.1	-32.5	-30.9	-36.0	-30.1	-28.7	-28.0	-28.0	-28.0
Services (net)	-2.9	-3.5	-3.2	-2.8	-2.8	-2.8	-2.8	-2.2	-1.9	-1.8	-1.8	-1.8
Income (net)	-4.3	-7.7	-5.5	-7.0	-5.0	-6.5	-8.3	-7.5	-7.4	-6.5	-6.4	-6.2
Of which: Interest on public debt	-3.5	-3.3	-3.1	-2.5	-3.7	-3.1	-2.8	-1.9	-2.1	-1.3	-1.2	-1.0
Current transfers (net)	1.2	1.4	1.0	1.0	0.9	1.0	1.2	0.7	0.6	0.6	0.7	0.7
Private transfers	1.2	1.4	1.0	0.7	0.5	0.7	0.7	0.6	0.5	0.5	0.5	0.5
Capital and Financial Account	-16.9	-13.0	-11.5	-7.6	-1.3	-13.2	-9.3	-10.1	-7.5	-7.3	-5.4	-4.9
Capital account	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Project grants	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Financial account	-17.3	-13.4	-11.8	-7.8	-1.6	-13.4	-9.5	-10.4	-7.7	-7.4	-5.6	-5.0
Foreign direct investment (net)	1.0	3.1	0.6	1.3	-0.1	2.0	3.8	3.8	4.5	4.3	4.3	4.3
Portfolio investment (net)	1.1	4.5	-1.1	0.1	0.6	-0.3	0.0	0.0	0.5	0.4	0.4	0.4
Financial derivatives (net)	-0.1	-0.1	-0.1	0.2	0.0	0.3	0.2	0.5	0.5	0.5	0.5	0.5
Other investments (net)	-19.3	-20.9	-11.2	-9.4	-2.0	-15.5	-13.5	-14.6	-13.1	-12.7	-10.8	-10.2
Public sector (net)	0.0	-6.1	-3.5	-5.8	-3.2	-9.3	-8.0	-2.6	-3.4	-2.5	-2.2	0.3
Disbursements	7.9	2.6	3.1	1.9	1.2	1.2	1.8	2.0	0.8	0.6	0.4	1.5
Amortization due	-7.9	-8.7	-6.6	-7.7	-4.4	-10.6	-9.8	-4.6	-4.2	-3.1	-2.7	-1.2
Monetary Authority (SDR Allocation)	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	-2.3	-0.9	-1.4	0.2	2.2	-0.6	1.8	-0.3	-0.2	-0.1	-0.1	0.0
Other sectors	-17.0	-19.9	-6.2	-3.8	-1.1	-5.6	-7.2	-11.8	-9.6	-10.1	-8.5	-10.4
Errors and Omissions	-3.5	-1.7	0.0	0.0	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-8.6	-2.8	-7.7	-9.4	-5.7	-9.5	-9.5	-3.3	-1.7	-0.9	0.8	1.4
Financing	8.6	2.8	7.7	9.4	5.7	9.5	9.5	3.3	1.7	0.9	-0.8	-1.4
Central bank net reserves (- increase)	1.3	-7.3	-0.2	0.9	0.4	-1.1	0.0	-2.4	-2.0	-2.4	-2.5	-1.6
Of which: Change in gross reserves	1.4	-7.3	-0.9	-0.4	-1.0	-2.4	-3.0	-3.6	-2.0	-2.4	-2.4	-1.3
Of which: Use of Fund resources	-0.1	0.0	0.6	1.3	1.3	1.3	2.9	1.2	0.0	0.0	-0.1	-0.3
New MDB financing	0.0	0.0	0.0	0.8	0.0	1.4	2.4	1.5	1.0	1.0	0.3	0.2
Exceptional financing (accumulation of arrears)	7.3	10.1	8.0	7.6	5.3	9.2	7.1	4.2	2.7	2.4	1.4	0.1
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Current account (percent of GDP)	11.8	11.9	3.8	-1.8	-1.9	3.7	-0.2	6.9	5.7	6.3	6.2	6.2
Financial Account (percent of GDP w/o FDI)	-18.3	-16.4	-12.4	-9.1	-1.5	-15.5	-13.3	-14.1	-12.1	-11.7	-9.9	-9.3
Total official grants (percent of GDP)	0.4	0.3	0.3	0.5	0.7	0.5	0.8	0.3	0.3	0.3	0.3	0.3
Exports of goods and services (millions of US dollars)	8,558	11,728	12,444	12,119	11,454	13,902	12,851	15,776	17,183	18,743	20,155	21,576
Change in copper export volume (percent)	14.4	-5.2	2.2	-6.5	-15.3	10.5	7.3	13.1	10.0	11.9	8.9	5.0
Copper export price (US dollars per tonne)	6,174.6	9,317.4	8,828.9	8,502.9	8,490.8	…	…	…	…	…	…	…
Crude oil price (US dollars per barrel)	41.8	69.2	96.4	80.5	80.6	…	…	…	…	…	…	…
Gross international reserves	1,203.4	2,795.5	3,054.0	3,168.4	3,327.7	3,877.0	4,097.1	5,230.4	5,953.5	6,928.1	7,985.0	8,621
In months of prospective imports	1.9	3.3	3.4	3.4	3.6	4.0	4.3	5.0	5.2	5.6	6.0	6.0
GDP (billions of U.S. dollars)	18.1	22.1	29.1	28.4	28.2	29.9	25.9	31.8	36.8	41.1	44.5	47.8

Sources: Zambian authorities; and IMF staff estimates and projections.
* IMF CR No. 23/439

Table 3a. Zambia: Fiscal Operations of the Central Government, 2020–29
(Millions of Kwacha)

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
				ECF 2nd Review*	Est.	ECF 2nd Review*	Proj.			Projections		
Revenues	67,437	98,945	100,684	118,902	122,104	139,601	149,647	179,037	198,412	223,041	256,183	285,228
Revenues excluding grants	65,722	96,463	98,702	115,036	116,055	136,395	141,257	172,276	194,721	219,343	251,464	280,903
Revenues excluding grants adjusted by the backlog of VAT refunds[1]	64,163	94,547	96,861	109,527	111,830	140,824	145,365	176,385	198,830	223,452	251,464	280,903
Tax	52,182	71,151	79,492	94,009	92,381	110,707	109,884	135,142	153,402	172,116	198,927	223,340
Income tax	19,831	22,815	26,890	29,362	30,232	34,530	36,429	42,670	47,433	53,035	59,394	66,147
Profit tax	9,513	19,242	21,020	18,346	14,913	22,983	18,902	26,738	31,835	35,471	41,329	45,102
Mining	5,300	12,702	11,958	7,928	5,353	10,916	7,486	13,080	16,652	18,274	22,070	23,654
Non-mining	4,213	6,540	9,062	10,417	9,560	12,067	11,416	13,658	15,183	17,196	19,258	21,448
Value-added tax	14,639	19,516	20,816	31,955	33,209	36,199	38,271	46,650	52,876	60,524	71,218	82,247
Excise taxes	4,661	4,327	5,190	7,029	7,548	8,614	8,514	10,114	11,390	12,259	14,794	16,650
Taxes on international trade	3,538	5,250	5,577	7,318	6,480	8,382	7,767	8,971	9,869	10,828	12,191	13,195
Other revenues[2]	13,540	25,312	19,210	21,027	23,674	25,687	31,373	37,134	41,320	47,227	52,537	57,563
Of which: Mining royalties	5,241	12,268	10,445	8,054	7,709	9,551	10,800	15,401	17,161	20,215	22,287	23,873
Grants	1,715	2,481	1,981	3,866	6,049	3,207	8,390	6,761	3,690	3,697	4,719	4,325
Expenditure	113,227	134,929	139,315	157,518	159,004	179,999	192,315	201,886	228,955	249,702	281,850	308,498
Expense	87,478	117,477	122,446	142,450	144,703	159,999	169,954	174,830	197,970	213,948	235,076	253,888
Compensation of employees	26,881	31,881	37,699	45,580	44,898	51,945	50,871	60,904	67,915	76,655	86,122	96,758
Use of goods and services	10,330	15,094	13,084	15,318	12,981	16,151	13,153	20,438	24,495	28,388	33,229	37,334
Interest	19,762	26,910	30,797	39,752	40,306	45,971	37,970	40,451	48,095	43,687	44,426	44,207
Domestic	14,525	24,929	30,057	30,236	31,782	35,080	28,641	33,720	42,192	38,480	39,003	39,070
Foreign	5,237	1,980	739	9,517	8,524	10,891	9,329	6,731	5,903	5,207	5,423	5,137
Subsidies	18,368	24,345	10,715	12,064	10,565	11,666	27,222	11,337	12,406	14,412	15,041	16,996
Of which: Agricultural (FISP and FRA)	11,748	11,845	8,526	10,702	8,788	10,241	10,241	10,265	11,215	13,081	13,549	15,335
Of which: Energy (fuel and electricity)[3]	5,099	10,610	1,840	1,000	969	1,032	16,202	0	0	0	0	0
Intergovernmental transfers	7,487	8,799	15,382	15,312	17,144	17,925	16,676	19,309	21,771	25,422	28,434	31,493
Social protection	2,468	5,538	7,424	7,673	7,660	9,597	15,932	13,638	14,252	15,929	17,833	19,801
Other	2,183	4,911	7,346	6,750	11,149	6,744	8,130	8,753	9,036	9,454	9,992	7,299
Net acquisition of nonfinancial assets	25,749	17,451	16,870	15,068	14,301	20,000	22,361	27,056	30,985	35,754	46,774	54,609
Of which: Domestically-financed	4,901	9,296	10,828	9,656	10,144	9,791	9,700	7,820	21,708	27,523	39,745	34,214
Of which: Foreign-financed	20,848	8,155	6,041	5,412	4,157	10,209	12,661	19,236	9,277	8,231	7,029	20,395
Primary Balance (Cash Basis)	-26,027	-9,074	-7,835	1,136	3,405	5,574	-4,698	17,602	17,551	17,026	18,759	20,938
Net Lending/Borrowing (Overall Balance, Cash Basis)	-45,789	-35,984	-38,632	-38,616	-36,900	-40,397	-42,668	-22,849	-30,543	-26,661	-25,667	-23,269
Expenditure arrears (- payments)	6,008	14,525	-13,642	-7,650	-9,404	-10,874	-21,034	-5,575	-5,504	-5,504	-5,568	-2,372
Backlog of VAT refunds (flow)	1,558	1,916	1,841	5,510	4,225	-4,430	-4,109	-4,109	-4,109	-4,109	0	0
Arrears on external interest (flow)	4,327	9,120	0	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	-45,789	-35,984	-38,632	-38,616	-36,900	-40,397	-42,668	-22,849	-30,543	-26,661	-25,667	-23,269
Overall balance (commitment basis)[4]	-57,682	-61,546	-26,831	-36,476	-31,721	-25,094	-17,525	-13,166	-20,931	-17,048	-20,099	-20,897
Primary balance (commitment basis)[4]	-33,594	-25,516	3,966	3,276	8,585	20,877	20,445	27,286	27,164	26,639	24,327	23,310
Financing	45,789	35,984	38,632	38,616	36,900	40,397	42,668	22,849	30,543	26,661	25,667	23,269
Net acquisition of financial assets (+ drawdown, - accumulation)	-816	-2,674	-4,874	-7,372	491	7,318	1,822	0	0	0	0	0
Net incurrence of liabilities	47,323	38,292	6,580	2,730	-6,816	-27,202	20,425	5,437	6,044	2,337	8,780	21,600
Domestic	31,754	32,774	12,968	12,503	8,950	16,300	17,450	982	27,648	31,384	29,404	14,487
Foreign	15,568	5,518	-6,388	-9,774	-15,766	-43,502	2,975	4,455	-9,871	-17,310	-15,743	7,176
Exceptional financing	0	0	37,233	43,259	43,740	60,281	20,421	17,413	12,767	12,588	12,006	1,606
Statistical discrepancy (overfinancing -/underfinancing +)	-717	366	-307	0	-515	0	0	0	0	0	0	0
Memorandum items:												
Primary expenditure (cash basis)	93,464	108,019	108,519	117,766	118,698	134,027	154,345	161,435	180,860	206,015	237,424	264,291
Primary expenditure (commitment basis)	99,472	122,544	94,876	110,116	109,294	123,154	133,310	155,860	175,357	200,510	231,856	261,918
Net domestic financing	32,571	35,447	17,842	19,876	8,459	8,982	15,629	982	27,648	31,384	29,404	14,487
Net external financing	1,555	623	2,251	319	1,594	-17	392	-511	-478	-694	-1,084	-766
Mining revenues (in millions of US$)	575	1,247	1,321	800	646	930	677	1,106	1,366	1,554	1,729	1,789
Non-mining primary balance (cash basis)	-36,568	-34,045	-30,239	-14,847	-9,656	-14,893	-22,984	-10,879	-16,262	-21,464	-25,598	-26,590
Stock of VAT refunds	8,451	10,368	12,209	17,719	16,434	13,289	12,326	8,217	4,109	0	0	0
Stock of expenditure arrears	42,506	57,031	47,659	48,579	61,421	39,348	34,999	27,965	22,004	16,906	11,694	9,623

Sources: Zambian authorities; and IMF staff estimates and projections.

* IMF CR No. 23/439

[1] Backlog of VAT refund data for 2022 are as of December 29th

[2] The large increase in 2021 is partly due to a dividend paid by the Bank of Zambia to the budget.

[3] From 2022 onwards this represents clearance of arrears for fuel. There are no direct transfers to electricity sector

[4] Adjusted for the accumulation/clearance of arrears on VAT refund claims and expenditure arrears.

Table 3b. Zambia: Fiscal Operations of the Central Government, 2020–29
(Percent of GDP)

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
				ECF 2nd Review*	Proj.	ECF 2nd Review*	Proj.			Projections		
Revenues	20.3	22.4	20.4	20.9	21.5	21.2	21.4	21.8	21.8	21.9	22.5	22.4
Revenues excluding grants	19.8	21.8	20.0	20.3	20.4	20.7	20.2	21.0	21.4	21.5	22.0	22.1
Revenues excluding grants adjusted by the backlog of VAT refunds[1]	19.3	21.4	19.6	19.3	19.6	21.4	20.8	21.5	21.8	21.9	22.0	22.1
Tax	15.7	16.1	16.1	16.6	16.2	16.8	15.7	16.5	16.8	16.9	17.4	17.6
Income Tax	6.0	5.2	5.4	5.2	5.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Profit Tax	2.9	4.4	4.3	3.2	2.6	3.5	2.7	3.3	3.5	3.5	3.6	3.5
Mining	1.6	2.9	2.4	1.4	0.9	1.7	1.1	1.6	1.8	1.8	1.9	1.9
Non-mining	1.3	1.5	1.8	1.8	1.7	1.8	1.6	1.7	1.7	1.7	1.7	1.7
Value-added tax	4.4	4.4	4.2	5.6	5.8	5.5	5.5	5.7	5.8	5.9	6.2	6.5
Excise taxes	1.4	1.0	1.1	1.2	1.3	1.3	1.2	1.2	1.3	1.2	1.3	1.3
Taxes on international trade	1.1	1.2	1.1	1.3	1.1	1.3	1.1	1.1	1.1	1.1	1.1	1.0
Other revenues[2]	4.1	5.7	3.9	3.7	4.2	3.9	4.5	4.5	4.5	4.6	4.6	4.5
Of which: Mineral royalties	1.6	2.8	2.1	1.4	1.4	1.5	1.5	1.9	1.9	2.0	2.0	1.9
Grants	0.5	0.6	0.4	0.7	1.1	0.5	1.2	0.8	0.4	0.4	0.4	0.3
Expenditures	34.0	30.5	28.2	27.7	27.9	27.4	27.5	24.6	25.1	24.5	24.7	24.3
Expenses	26.3	26.6	24.8	25.1	25.4	24.3	24.3	21.3	21.7	21.0	20.6	20.0
Compensation of employees	8.1	7.2	7.6	8.0	7.9	7.9	7.3	7.4	7.5	7.5	7.5	7.6
Use of goods and services	3.1	3.4	2.6	2.7	2.3	2.5	1.9	2.5	2.7	2.8	2.9	2.9
Interest	5.9	6.1	6.2	7.0	7.1	7.0	5.4	4.9	5.3	4.3	3.9	3.5
Domestic	4.4	5.6	6.1	5.3	5.6	5.3	4.1	4.1	4.6	3.8	3.4	3.1
Foreign	1.6	0.4	0.1	1.7	1.5	1.7	1.3	0.8	0.6	0.5	0.5	0.4
Subsidies	5.5	5.5	2.2	2.1	1.9	1.8	3.9	1.4	1.4	1.4	1.3	1.3
Of which: Agricultural (FISP and FRA)	3.5	2.7	1.7	1.9	1.5	1.6	1.5	1.3	1.2	1.3	1.2	1.2
Of which: Energy (fuel and electricity)[3]	1.5	2.4	0.4	0.2	0.2	0.2	2.3	0.0	0.0	0.0	0.0	0.0
Intergovernmental transfers	2.3	2.0	3.1	2.7	3.0	2.7	2.4	2.4	2.4	2.5	2.5	2.5
Social protection	0.7	1.3	1.5	1.4	1.3	1.5	2.3	1.7	1.6	1.6	1.6	1.6
Other	0.7	1.1	1.5	1.2	2.0	1.0	1.2	1.1	1.0	0.9	0.9	0.6
Net acquisition of nonfinancial assets	7.7	3.9	3.4	2.7	2.5	3.0	3.2	3.3	3.4	3.5	4.1	4.3
Of which: Domestically-financed	1.5	2.1	2.2	1.7	1.8	1.5	1.4	1.0	2.4	2.7	3.5	2.7
Of which: Foreign-financed	6.3	1.8	1.2	1.0	0.7	1.6	1.8	2.3	1.0	0.8	0.6	1.6
Primary Balance (Cash Basis)	-7.8	-2.1	-1.6	0.2	0.6	0.8	-0.7	2.1	1.9	1.7	1.6	1.6
Net Lending/Borrowing (Overall Balance, Cash Basis)	-13.8	-8.1	-7.8	-6.8	-6.5	-6.1	-6.1	-2.8	-3.4	-2.6	-2.2	-1.8
Expenditure arrears (- payments)	1.8	3.3	-2.8	-1.3	-1.7	-1.7	-3.0	-0.7	-0.6	-0.5	-0.5	-0.2
Backlog of VAT refunds (flow)	0.5	0.4	0.4	1.0	0.7	-0.7	-0.6	-0.5	-0.5	-0.4	0.0	0.0
Arrears on external interest (flow)	1.3	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-13.8	-8.1	-7.8	-6.8	-6.5	-6.1	-6.1	-2.8	-3.4	-2.6	-2.2	-1.8
Overall balance (commitment basis)[4]	-17.3	-13.9	-5.4	-6.4	-5.6	-3.8	-2.5	-1.6	-2.3	-1.7	-1.8	-1.6
Primary balance (commitment basis)[4]	-10.1	-5.8	0.8	0.6	1.5	3.2	2.9	3.3	3.0	2.6	2.1	1.8
Financing	13.8	8.1	7.8	6.8	6.5	6.1	6.1	2.8	3.4	2.6	2.2	1.8
Net acquisition of financial assets (+ drawdown, - accumulation)	-0.2	-0.6	-1.0	-1.3	0.1	1.1	0.3	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	14.2	8.7	1.3	0.5	-1.2	-4.1	2.9	0.7	0.7	0.2	0.8	1.7
Domestic	9.5	7.4	2.6	2.2	1.6	2.5	2.5	0.1	3.0	3.1	2.6	1.1
Foreign	4.7	1.2	-1.3	-1.7	-2.8	-6.6	0.4	0.5	-1.1	-1.7	-1.4	0.6
Exceptional financing	0.0	0.0	7.5	7.6	7.7	9.2	2.9	2.1	1.4	1.2	1.1	0.1
Statistical discrepancy (overfinancing -/underfinancing +)	-0.2	0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Primary expenditure (cash basis)	28.1	24.4	22.0	20.7	20.9	20.4	22.1	19.7	19.9	20.2	20.8	20.8
Primary expenditure (commitment basis)	29.9	27.7	19.2	19.4	19.2	18.7	19.1	19.0	19.2	19.7	20.3	20.6
Net domestic financing	9.8	8.0	3.6	3.5	1.5	1.4	2.2	0.1	3.0	3.1	2.6	1.1
Net external financing	0.5	0.1	0.5	0.1	0.3	0.0	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Mining revenues	3.2	5.6	4.5	2.8	2.3	3.1	2.6	3.5	3.7	3.8	3.9	3.7
Non-mining primary balance (cash basis)	-11.0	-7.7	-6.1	-2.6	-1.7	-2.3	-3.3	-1.3	-1.8	-2.1	-2.2	-2.1
Backlog of VAT refunds (stock)	2.5	2.3	2.5	3.1	2.9	2.0	1.8	1.0	0.5	0.0	0.0	0.0
Stock of expenditure arrears	12.8	12.9	9.6	8.6	10.8	6.0	5.0	3.4	2.4	1.7	1.0	0.8
Nominal GDP (billions of kwacha)	332.7	442.3	494.0	567.8	569.2	657.8	699.8	819.6	911.1	1,018.7	1,140.9	1,270.6

Sources: Zambian authorities; and IMF staff estimates and projections.

* IMF CR No. 23/439

[1] Backlog of VAT refund data for 2022 are as of December 29th

[2] The large increase in 2021 is partly due to a dividend paid by the Bank of Zambia to the budget.

[3] From 2022 onwards this represents clearance of arrears for fuel. There are no direct transfers to electricity sector

[4] Adjusted for the accumulation/clearance of arrears on VAT refund claims and expenditure arrears.

Table 4. Zambia: Monetary Survey, 2020–29
(Millions of Kwacha, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
				ECF 2nd Review*	Est.	ECF 2nd Review*	Proj.	Projections				
Depository corporations survey:												
Net Foreign Assets	38,980	37,624	50,562	51,919	56,457	57,588	54,360	52,619	56,608	80,808	110,472	135,873
Net Domestic Assets	64,848	70,002	83,437	106,742	110,478	125,866	130,145	156,193	174,019	181,372	188,069	202,196
Domestic claims	102,655	103,414	99,282	125,060	140,474	140,094	154,346	180,395	200,748	221,527	243,634	262,908
Net claims on central government	60,446	64,641	46,798	59,246	63,232	60,348	62,227	62,654	65,221	68,679	71,828	73,962
Claims on other sectors	42,209	38,773	52,484	65,815	77,242	79,746	92,119	117,740	135,527	152,849	171,806	188,946
Claims on other financial corporations	168	189	521	626	1,080	833	608	608	608	608	608	608
Claims on state and local government	51	41	41	48	15	65	44	48	52	56	61	66
Claims on public non-financial corporations	1,148	871	1,358	3,165	4,726	3,165	3,165	3,165	3,165	3,165	3,165	3,165
Claims on private sector	40,842	37,672	50,563	66,460	71,421	84,258	88,303	113,920	131,703	149,020	167,973	185,108
Other items net	-37,806	-33,412	-15,845	-22,801	-29,996	-22,801	-24,201	-24,201	-26,729	-40,155	-55,565	-60,712
Broad Money (M3)	103,829	107,626	133,998	158,662	166,935	183,455	184,505	208,813	230,626	262,180	298,541	338,068
Bank of Zambia:												
Net Foreign Assets	10,921	12,127	15,472	13,783	20,611	16,750	16,028	29,920	50,245	74,217	103,645	128,801
Asset	26,230	47,101	55,945	61,621	83,170	76,213	105,003	121,232	138,471	165,603	198,304	226,850
Liabilities	-15,309	-34,974	-40,472	-47,838	-62,559	-59,463	-88,975	-91,312	-88,226	-91,386	-94,659	-98,049
Net Domestic Assets	15,856	16,939	17,094	24,777	19,960	27,837	28,813	20,829	5,806	-10,497	-31,088	-46,638
Net domestic claims	33,862	28,710	8,217	15,901	29,144	18,960	37,997	30,012	15,265	-565	-20,858	-35,794
Net claims on other depository corporations	5,383	6,984	2,441	-1,183	12,040	1,828	12,040	12,040	12,040	12,040	12,040	12,040
Net claims on central government	28,389	21,631	5,667	16,978	16,998	16,978	16,998	16,998	16,998	17,398	17,798	18,198
Claims on other sectors	90	95	110	106	106	155	106	106	106	106	106	106
Other items (net)	-18,007	-11,771	8,877	8,877	-9,184	8,877	-9,184	-9,184	-9,459	-9,932	-10,230	-10,844
Reserve Money	26,777	29,066	32,567	38,561	40,571	44,586	44,841	50,749	56,051	63,719	72,556	82,163
Currency outside banks and cash in vaults	12,389	13,550	14,740	14,907	10,097	17,557	11,494	11,896	16,029	21,386	22,821	24,109
Other depository corporation reserves	14,304	15,426	17,732	28,006	30,555	35,452	36,972	45,465	53,195	63,735	77,562	93,479
Liabilities to other sectors	84	90	95	131	143	151	158	178	193	216	246	278
Memorandum Items:												
Reserve money (end-of-period, percentage change)	57.0	8.5	12.0	18.4	24.6	15.6	10.5	13.2	10.4	13.7	13.9	13.2
Broad Money (M3) (percentage change)	46.4	3.7	24.5	18.4	24.6	15.6	10.5	13.2	10.4	13.7	13.9	13.2
Credit to the private sector (percentage change)	8.5	-7.8	34.2	31.4	41.3	26.8	23.6	29.0	15.6	13.1	12.7	10.2
Velocity (nominal GDP/M3)	3.2	4.1	3.7	3.6	3.4	3.6	3.8	3.9	4.0	3.9	3.8	3.8
Money multiplier (M3/reserve money)	3.9	3.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	11.7	12.5	12.8	12.6	13.9	14.5	14.6	14.7	14.6
Nominal GDP (billion kwacha)	332.7	442.3	494.0	567.8	569.2	657.8	699.8	819.6	911.1	1,018.7	1,140.9	1,270.6

Sources: Zambian authorities; and IMF staff estimates and projections.
* IMF CR No. 23/439

Table 5. Zambia: Financial Soundness Indicators, 2015–24
(In Percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Mar
Capital adequacy										
Regulatory capital to risk-weighted assets	21.0	26.2	26.5	22.1	22.2	20.1	24.7	22.8	23.5	24.4
Tier 1 regulatory capital to risk-weighted assets	19.2	23.4	24.5	20.1	20.1	17.8	23.3	21.9	22.8	22.9
Asset quality										
Past due advances (NPL) to total advances	7.3	9.7	12.0	11.0	8.9	11.6	5.8	5.0	4.2	3.7
Loan loss provisions to nonperforming loans	70.5	71.5	69.2	86.4	91.6	75.9	102.8	93.4	92.2	103.9
Bad debt provisions to advances	4.6	5.6	8.0	9.5	8.2	8.8	6.0	4.4	3.6	3.5
Earnings and profitability										
Return on average assets	2.8	2.5	3.1	3.0	3.3	2.1	5.2	5.0	5.8	5.8
Return on equity	13.1	12.3	15.4	14.7	16.2	12.9	35.1	29.9	33.8	32.9
Liquidity										
Liquid assets to total assets	34.8	39.1	45.5	47.0	42.2	48.6	46.6	50.7	48.5	49.5
Liquid assets to total deposits	47.9	54.2	56.5	57.0	51.5	57.4	56.3	67.6	64.9	67.5
Advances to deposits ratio	56.4	50.0	45.2	47.3	51.5	41.0	39.4	35.7	39.8	40.1
Exposure to foreign currency										
Foreign currency loans to total gross loans	36.9	35.7	41.6	44.5	50.3	47.1	33.7	40.9	42.8	40.2
Foreign currency liabilities to total liabilities	48.9	45.0	44.0	46.6	47.4	52.2	41.9	41.7	44.9	46.1
Net open position in foreign exchange to capital	4.7	0.8	1.4	1.7	1.3	1.1	0.2	5.6	0.2	0.3

Source: Bank of Zambia.

Table 6a. External Financing Needs and Sources, 2020–29

(Millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023 ECF 2nd Review*	2023	2024 ECF 2nd Review*	2024	2025	2026	2027	2028	2029
I. Total Requirement	**2,594**	**5,619**	**3,149**	**3,719**	**2,100**	**4,393**	**4,873**	**4,090**	**3,407**	**3,463**	**2,969**	**3,798**
Current Account Deficit, excluding Official Transfers	-2,139	-2,630	-1,093	574	674	-982	408	-1,926	-1,955	-2,443	-2,576	-2,806
Public Sector Debt Amortization	1,426	1,917	1,935	2,180	1,232	3,155	2,545	1,465	1,532	1,290	1,186	576
Gross Reserves Accumulation, incl SDR allocation	-248	1,604	258	114	274	709	769	1,133	723	975	1,057	636
Repayments to the Fund	15	3	0	0	0	0	0	0	0	0	56	131
Other Capital Flows[1]	3,538	4,725	2,048	850	-79	1,511	1,150	3,418	3,107	3,642	3,246	5,262
II. Total Sources	**1,272**	**3,389**	**90**	**943**	**67**	**852**	**1,650**	**1,916**	**2,045**	**2,098**	**2,207**	**3,678**
Official Transfers (Current and Capital)	80	77	76	135	78	200	416	333	223	223	256	233
BoZ Liabilities, incl. SDR allocation	0	1,328	0	0	0	0	0	0	0	0	0	0
Foreign Direct Investment, net	181	674	188	370	-26	601	974	1,197	1,641	1,775	1,919	2,063
Private Sector Loans, net	-608	-263	-206	-122	-435	-228	-211	-259	-300	-335	-362	482
Loan Disbursements to Public Sector	1,424	571	364	530	296	372	464	640	298	255	197	732
Portfolio Investment, net	194	1,002	-332	30	155	-93	7	5	184	180	197	168
III. Financing Gap (I-II)	**1,322**	**2,230**	**3,059**	**2,776**	**2,033**	**3,541**	**3,223**	**2,175**	**1,362**	**1,365**	**762**	**120**
IV. Expected Sources of Financing	**1,322**	**2,230**	**3,059**	**2,776**	**2,033**	**3,541**	**3,223**	**2,175**	**1,362**	**1,365**	**762**	**120**
New AfDB/WB financing	0	0	550	165	165	427	622	479	358	393	141	92
WB	0	0	550	236	165	277	522	329	158	143	141	0
WB loans	0	0	550	111	37	230	302	102	45	30	29	0
WB grants	0	0	0	125	128	47	220	227	112	112	112	92
AfDB	0	0	0	0	0	150	100	150	200	250	0	0
Exceptional Financing (Accumulation of arrears)	1,322	2,230	2,322	2,164	1,495	2,738	1,841	1,326	1,004	973	621	28
IMF ECF Arrangement	0	0	187	376	373	376	760	370	0	0	0	0
Memorandum Items												
Gross International Reserves (GIR), total	**1,203**	**2,796**	**3,054**	**3,168**	**3,328**	**3,877**	**4,097**	**5,230**	**5,954**	**6,928**	**7,985**	**8,621**
Reserve Assets (Includes reserve position in the Fund), total[2]	812	2,328	2,672	2,666	2,504	3,350	3,117	4,250	4,924	5,847	6,850	7,429
Imports of Goods and Services (million USD)[2]	5,866	7,691	10,022	10,907	10,859	11,133	11,062	11,424	12,591	13,739	14,846	15,970
Remittances (million USD)[2]	71	152	132	129	129	169	169	184	196	209	226	243
GIR in months of prospective imports	1.9	3.3	3.4	3.4	3.6	4.0	4.3	5.0	5.2	5.6	6.0	6.0
o/w total reserve assets in months of prospective imports	1.3	2.8	3.0	3.1	2.7	3.6	3.3	4.1	4.3	4.7	5.1	5.2

[1]Includes financial derivatives (net), errors and omissions, and other sectors from Table 2a.

[2]Balance of Payments (BPM6) statistics that updated with each WEO forecast in April and October and used in the computation of the Composite Indicator (CI) score. Total reserves assets are defined as unencumbered reserves, including the position in the Fund.

* IMF CR No. 23/439

Table 6b. External Financing Needs and Sources, 2020–29
(Percent of GDP)

	2020	2021	2022	2023 ECF 2nd Review*	2023	2024 ECF 2nd Review*	2024	2025	2026	2027	2028	2029
I. Total Requirement	**14.3**	**25.4**	**10.8**	**13.1**	**7.5**	**14.7**	**18.8**	**12.9**	**9.3**	**8.4**	**6.7**	**7.9**
Current Account Deficit, excluding Official Transfers	-11.8	-11.9	-3.8	2.0	2.4	-3.3	1.6	-6.0	-5.3	-5.9	-5.8	-5.9
of which interest due on public debt	3.5	3.3	3.1	1.4	2.5	2.8	2.3	1.7	2.0	1.2	1.3	1.1
Public Sector Debt Amortization	7.9	8.7	6.6	7.7	4.4	10.6	9.8	4.6	4.2	3.1	2.7	1.2
of which public debt	7.9	8.7	6.6	1.2	4.4	1.7	3.2	0.7	1.5	0.8	1.2	1.1
of which private debt	2.7	1.8	1.1	1.8	1.9	2.2	2.2	2.2	2.2	2.2	2.2	0.4
Gross Reserves Accumulation, incl SDR allocation	-1.4	7.3	0.9	0.4	1.0	2.4	3.0	3.6	2.0	2.4	2.4	1.3
of which reserve accumulation	-1.4	1.3	0.9	0.4	1.0	2.4	3.0	3.6	2.0	2.4	2.4	1.3
of which SDR allocation (+) / use (-)	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments to the Fund	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3
Other Capital Flows[1]	19.5	21.4	7.0	3.0	-0.3	-5.1	4.4	10.7	8.4	8.9	7.3	11.0
II. Total Sources	**7.0**	**15.3**	**0.3**	**3.3**	**0.2**	**2.9**	**6.4**	**6.0**	**5.6**	**5.1**	**5.0**	**7.7**
Official Transfers (Current and Capital)	0.4	0.3	0.3	0.5	0.3	0.7	1.6	1.0	0.6	0.5	0.6	0.5
BoZ Liabilities, incl. SDR allocation	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Direct Investment, net	1.0	3.1	0.6	1.3	-0.1	2.0	3.8	3.8	4.5	4.3	4.3	4.3
Private Sector Loans, net	-3.4	-1.2	-0.7	-0.4	-1.5	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	1.0
Loan Disbursements to Public Sector	7.9	2.6	1.3	1.9	1.1	1.2	1.8	2.0	0.8	0.6	0.4	1.5
Portfolio Investment, net	1.1	4.5	-1.1	0.1	0.6	-0.3	0.0	0.0	0.5	0.4	0.4	0.4
III. Financing Gap (I-II)	**7.3**	**10.1**	**10.5**	**9.8**	**7.2**	**11.9**	**12.4**	**6.8**	**3.7**	**3.3**	**1.7**	**0.3**
IV. Expected Sources of Financing	**7.3**	**10.1**	**9.9**	**9.8**	**7.2**	**11.9**	**12.4**	**6.8**	**3.7**	**3.3**	**1.7**	**0.3**
New AfDB/WB financing	0.0	0.0	1.9	0.6	0.6	1.6	2.4	1.5	1.0	1.0	0.3	0.2
WB	0.0	0.0	1.9	0.8	0.6	0.9	2.0	1.0	0.4	0.3	0.3	0.0
WB loans	0.0	0.0	1.9	0.4	0.1	0.8	1.2	0.3	0.1	0.1	0.1	0.0
WB grants	0.0	0.0	0.0	0.4	0.5	0.2	0.9	0.7	0.3	0.3	0.3	0.2
AfDB	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.5	0.5	0.6	0.0	0.0
Exceptional Financing (Accumulation of arrears)	7.3	10.1	8.0	7.6	5.3	9.2	7.1	4.2	2.7	2.4	1.4	0.1
IMF ECF Arrangement	0.0	0.0	0.6	1.3	1.3	1.3	2.9	1.2	0.0	0.0	0.0	0.0
Memorandum Items												
Gross International Reserves (GIR), total	**6.6**	**12.7**	**10.5**	**11.2**	**11.8**	**13.0**	**15.8**	**16.4**	**16.2**	**16.8**	**18.0**	**18.0**
Reserve Assets (Includes reserve position in the Fund), total[2]	4.5	10.5	9.2	9.4	8.9	11.2	12.0	13.4	13.4	14.2	15.4	15.5
Imports of Goods and Services[2]	32.3	34.8	34.4	38.4	38.6	37.3	42.7	35.9	34.2	33.4	33.4	33.4
Remittances[2]	0.4	0.7	0.5	0.5	0.5	0.6	0.7	0.6	0.5	0.5	0.5	0.5
GIR in months of prospective imports	1.9	3.3	3.4	3.4	3.6	4.0	4.3	5.0	5.2	5.6	6.0	6.0
o/w total reserve assets in monhts of prospective	1.3	2.8	3.0	3.1	2.7	3.6	3.3	4.1	4.3	4.7	5.1	5.2

[1]Includes financial derivatives (net), errors and omissions, and other sectors from Table 2a.

[2]Balance of Payments (BPM6) statistics that updated with each WEO forecast in April and October and used in the computation of the Composite Indicator (CI) score. Total reserves assets are defined as unencumbered reserves, including the position in the Fund.

* IMF CR No. 23/439

Table 7. Zambia: Proposed Schedule of Reviews and Disbursements[1]

	Existing		Proposed		
Availability Date	Millions of SDR	In Percent of Quota	Millions of SDR	In Percent of Quota	Conditions
August 31, 2022	139.88	14.3	139.88	14.3	Board approval of arrangement
April 1, 2023	139.88	14.3	139.88	14.3	Observance of end-December 2022 and continuous performance criteria and completion of first review
October 1, 2023	139.88	14.3	139.88	14.3	Observance of end-June 2023 and continuous performance criteria and completion of second review
April 1, 2024	139.88	14.3	433.34	44.3	Observance of end-December 2023 and continuous performance criteria and completion of third review
October 1, 2024	139.88	14.3	139.88	14.3	Observance of end-June 2024 and continuous performance criteria and completion of fourth review
April 1, 2025	139.88	14.3	139.88	14.3	Observance of end-December 2024 and continuous performance criteria and completion of fifth review
October 1, 2025	138.92	14.2	138.92	14.2	Observance of end-June 2025 and continuous performance criteria and completion of sixth review
Total	**978.20**	**100.0**	**1,271.66**	**130.0**	

[1] Zambia's IMF quota is SDR 978.2 million.

Table 8. Zambia: Indicators of Capacity to Repay the Fund, 2023–38

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Fund Obligations Based on Existing Credit (millions of SDRs)																
Principal	0.0	0.0	0.0	0.0	0.0	28.0	83.9	83.9	83.9	83.9	56.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)																
Principal	0.0	0.0	0.0	0.0	0.0	28.0	127.3	212.6	254.3	254.3	226.4	127.1	41.8	0.0	0.0	0.0
Charges and interest	0.0	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total Obligations Based on Existing and Prospective Credit																
Millions of SDRs	0.0	0.0	0.0	0.0	0.0	28.0	127.3	212.6	254.3	254.3	226.4	127.1	41.8	0.0	0.0	0.0
Millions of U.S. dollars	0.0	0.0	0.0	0.0	0.0	37.4	170.5	284.8	340.7	340.7	303.3	170.2	56.0	0.0	0.0	0.0
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.2	0.8	1.2	1.4	1.3	1.1	0.6	0.2	0.0	0.0	0.0
Percent of debt service	0.0	0.0	0.0	0.0	0.0	1.8	11.7	17.5	14.2	18.8	16.4	11.1	3.9	0.0	0.0	0.0
Percent of quota	0.0	0.0	0.0	0.0	0.0	2.9	13.0	21.7	26.0	26.0	23.1	13.0	4.3	0.0	0.0	0.0
Percent of gross international reserves	0.0	0.0	0.0	0.0	0.0	0.5	2.0	3.1	3.4	3.2	2.7	1.4	0.4	0.0	0.0	0.0
percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.6	0.6	0.6	0.5	0.2	0.1	0.0	0.0	0.0
Outstanding Fund Credit Based on Existing and Prospective Credit																
Millions of SDRs	419.6	992.8	1271.6	1271.6	1271.6	1243.7	1116.4	903.8	649.5	395.2	168.8	41.8	0.0	0.0	0.0	0.0
Millions of U.S. dollars	559.8	1315.8	1691.0	1693.6	1698.3	1664.3	1497.0	1212.0	871.0	529.9	226.4	56.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	4.9	10.2	10.7	9.9	9.1	8.3	6.9	5.2	3.5	2.0	0.8	0.2	0.0	0.0	0.0	0.0
Percent of debt service	18.5	35.1	69.0	58.8	69.8	79.0	102.4	74.7	36.3	29.3	12.2	3.7	0.0	0.0	0.0	0.0
Percent of quota	42.9	101.5	130.0	130.0	130.0	127.1	114.1	92.4	66.4	40.4	17.3	4.3	0.0	0.0	0.0	0.0
Percent of gross international reserves	16.8	32.1	32.3	28.5	24.5	20.9	17.4	13.1	8.7	5.0	2.0	0.5	0.0	0.0	0.0	0.0
percent of GDP	2.0	5.1	5.3	4.6	4.1	3.8	3.1	2.4	1.6	0.9	0.4	0.1	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	279.8	573.2	278.8	0.0	0.0	-28.0	-127.3	-212.6	-254.3	-254.3	-226.4	-127.1	-41.8	0.0	0.0	0.0
Memorandum Items:																
Exports of goods and services (millions of U.S. dollars)	11,454	12,851	15,776	17,183	18,750	20,163	21,584	23,136	24,803	26,574	28,509	30,599	32,857	35,380	35,380	35,380
External Debt service (millions of U.S. dollars)[1]	3,024	3,754	2,452	2,882	2,431	2,107	1,462	1,623	2,397	1,808	1,849	1,532	1,433	1,716	2,236	2,369
Gross international reserves (millions of U.S. dollars)	3,328	4,097	5,230	5,952	6,926	7,982	8,617	9,268	9,954	10,669	11,434	12,257	13,143	13,143	13,143	13,143
Quota (millions of SDRs)	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	979.2	980.2	981.2	982.2
Nominal GDP (millions of U.S. dollars)	28,163	25,846	31,749	36,713	41,032	44,363	47,697	51,345	55,277	59,457	63,988	68,900	74,226	80,003	86,270	93,069

Sources: IMF staff estimates and projections.

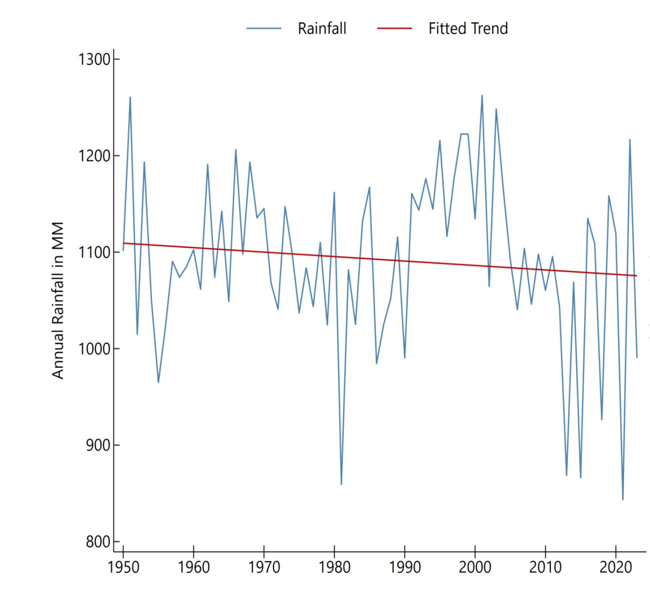
[1]Total debt service includes IMF repayments.

Annex I. Rainfall Variability and Agricultural Output in Zambia

Zambia's agriculture is mostly rain-fed and vulnerable to weather extremes, and the current drought across key farming regions are expected to significantly diminish crop output. Crop-level panel data analysis reveals the negative impact of climatic variability on crop yields.
With approximately 35 percent of land currently drought-stressed, agricultural output is projected to decline by about 30 percent, underscoring the critical need for adaptive strategies in response to environmental challenges. The sector's growth reliance on land expansion, coupled with limited technological advances, exacerbates this vulnerability.

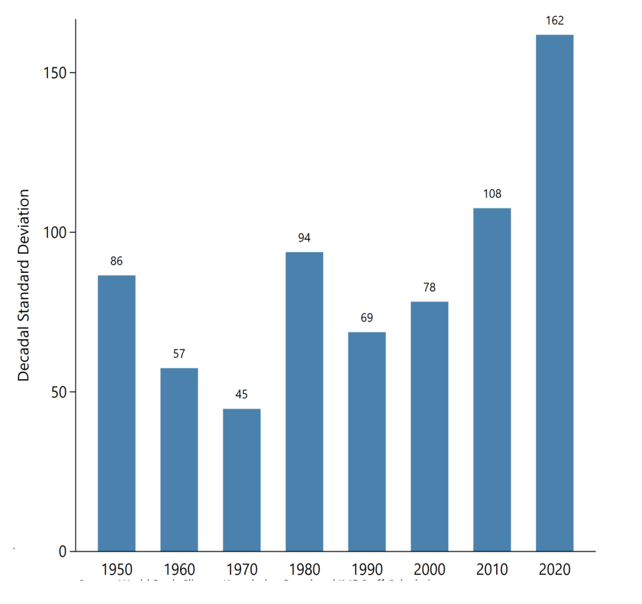
1. **Zambia's agriculture is mostly rain-fed and highly exposed to rainfall variabilities.** Zambia is prone to periodic droughts, irregular rainfall distribution, and increasing rainfall variability (Figures 1–2). Despite several large rivers, including the Zambezi, Zambia confronts challenges related to water availability due to uneven temporal and spatial rainfall distribution, which affects the predominantly rain-fed agricultural sector. The ND-Gain Index positions Zambia at the middle of the pack, noting its moderate standing in terms of vulnerability and adaptability to climate challenges.

Figure 1. Rainfall 1950–2023



Sources: World Bank Climate Knowledge Portal and IMF Staff Calculations.

Figure 2. Rainfall Standard Deviation



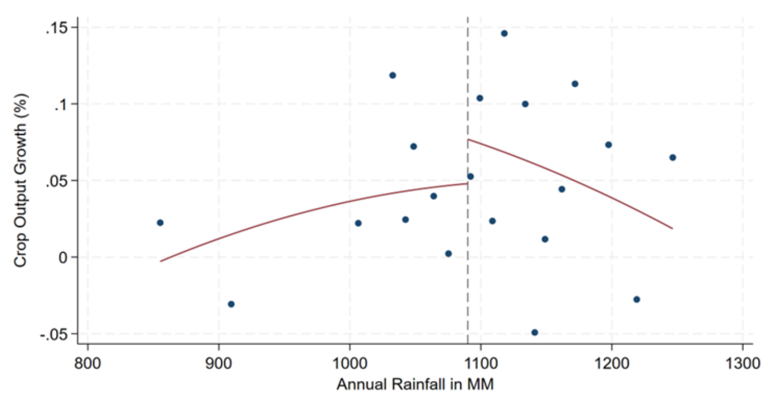
Sources: World Bank Climate Knowledge Portal and IMF Staff Calculations.

2. **Agricultural output in Zambia is shaped by rainfall patterns (Figure 3).** Time series on crop output from the period 1961-2022 show that the Zambian agricultural sector has been

negatively affected by both dry spells and excessive rainfall.[1] The fluctuating patterns of dry spells, contrasted with periods of excessive rainfall, have continuously disrupted crop production, suggesting a vulnerability to changing weather patterns. These environmental stressors not only impair immediate yield potential but also hint at deeper systemic issues affecting long-term agricultural sustainability. Empirical evidence indicates that weather shocks can deplete productive assets beyond critical levels needed for maintaining agricultural activities, thereby entrapping households in cycles of poverty.[2]

3. **Zambia is currently experiencing a drought, affecting its major agricultural producing regions in the Central, Eastern, and Southern provinces**. [3] These provinces account, on average, for 60 percent of the total cultivated land. These regions, known for more fertile soils and favorable rainfall patterns, support both small-scale and commercial farming. For instance, the Central province includes a significant portion of the country's commercial farms, while the Eastern province is pivotal for maize production (33 percent of total). The Southern province is also a key agricultural area due to its conducive farming conditions, accounting for about 16.5 percent and 55 percent of the country’s total maize and sorghum output, respectively, in 2021/22. As of mid-March 2024, 50, 65, and 52 percent of the cropped land in the three regions, respectively, is under drought stress (Figure 4). [4]

Figure 3. Rainfall and Crop Output Growth: Binscatter*



*Note: Controlling for crop type. Broken vertical line is average rainfall during 1981-2020.

Source: FAO Database, World Bank Climate Knowledge Portal, and IMF Staff Calculations.

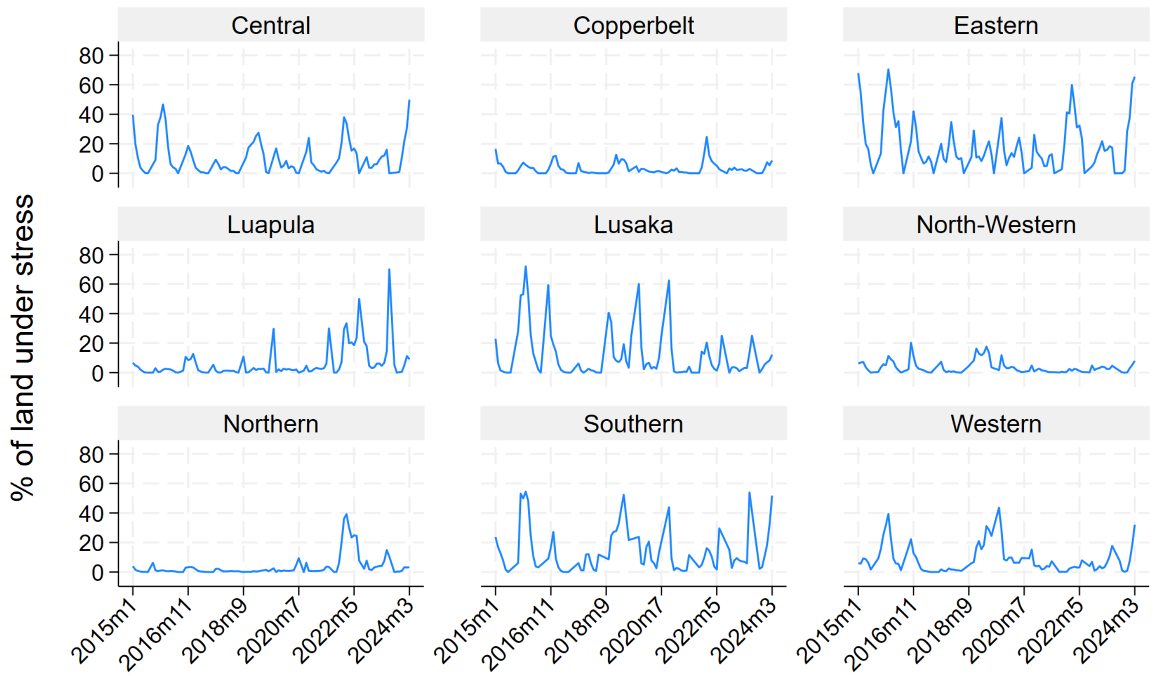
[1] Drought stress is measured by FAO’s agricultural stress index, using the Vegetation Health Index (VHI) to evaluate temporal and spatial aspects. It averages VHI over the crop cycle, factoring in crop sensitivity to water stress, and then assesses drought's spatial reach by the percentage of VHI-below-35 percent pixels.

[2] See Carter, M. et al. “Poverty Traps and Natural Disasters in Ethiopia and Honduras.” World Development 35, no. 5 (May 1, 2007): 835–56. https://doi.org/10.1016/j.worlddev.2006.09.010.

[3] These provinces cover more than 62 percent of total cropped land in 2021/22 agricultural season.

[4] Drought stress is measured by FAO’s agricultural stress index, using the Vegetation Health Index (VHI) to evaluate temporal and spatial aspects. It averages VHI over the crop cycle, factoring in crop sensitivity to water stress, and then assesses drought's spatial reach by the percentage of VHI-below-35 percent pixels.

Figure 4. Agricultural Stress Index



Source: FAO and IMF Staff Calculations.

4. **The drought is expected to negatively impact crop output by about 30 percent**. Estimates from a crop-level panel fixed-effect model indicate that land utilization, along with rainfall and temperature variability, significantly influences crop output growth (Table 1). The findings reveal that agricultural output has been primarily driven by land area expansion, with minimal advancements in technology. The prevailing drought conditions are expected to reduce effective land use, hindering agricultural production. Depending on the model specification, the elasticity of crop output growth to land expansion is estimated to be between 0.85 and 0.89. Considering the land affected in the three provinces—approximately 34.9 percent[5]—the projected output decline is estimated to be around 30 percent.

[5] The Central, Eastern, and Southern provinces contribute 16.5 percent, 21.4 percent, and 24.3 percent, respectively, to the total cultivated land. Considering the current estimates of drought-stressed cropland—50 percent in the Central, 65.4 percent in the Eastern, and 52 percent in the Southern province—the weighted average of affected land at the national level is estimated at 34.9 percent.

Table 1. Zambia: Crop-Level Panel Fixed Effect Estimate of Crop Output Growth

	(1)	(2)	(3)	(4)	(5)
	Baseline	**Level**	**Quadratic**	**Quadratic**	**Deviation**
VARIABLES			**Dependent: Crop Output Growth**		
Time	-0.0000	-0.0000	-0.0000*	-0.0002***	-0.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Time Squared	0.0000*	0.0000**	0.0000	0.0000***	0.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Output Growth (lagged)	-0.1740***	-0.1734***	-0.1766***	-0.1739***	-0.0905
	(0.0336)	(0.0338)	(0.0343)	(0.0336)	(0.1058)
Land Area Growth	**0.8615*** **	**0.8612*** **	**0.8554*** **	**0.8589*** **	**0.8931*** **
	(0.0792)	(0.0820)	(0.0796)	(0.0792)	(0.0462)
Rainfall (in meters)		0.0065	0.2509**	0.0039	
		(0.0115)	(0.1026)	(0.0112)	
Lagged Rainfall		-0.0011			
		(0.0076)			
Temprate		0.0402*	0.0524**	2.6017***	
		(0.0208)	(0.0232)	(0.8120)	
Lagged Temprature		-0.0478			
		(0.0402)			
Rainfall Squared			-0.0114**		
			(0.0046)		
Temprature Squared				-0.0577***	
				(0.0182)	
Rainfall Deviation from Long Term Average					-0.0099*
					(0.0055)
Temprature Deviation from Long Term Average					-0.0255
					(0.0310)
Constant	0.0215**	0.1291	-2.4897**	-29.2672***	0.0250
	(0.0081)	(1.0661)	(0.9862)	(8.9907)	(0.0288)
Observations	807	807	807	807	807
R-squared	0.5636	0.5670	0.5668	0.5678	0.4995
FE	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Note: Data cover 32 crops over the period from 1961 to 2022.

Source: IMF staff estimate based on data from FAO database and World Bank Climate Knowledge Portal

Annex II. Electricity Blackouts and Firm Productivity in Zambia

Power outages have been on the rise in Zambia, with the corresponding increases in economic losses. Firm-level data reveals a significant and negative impact of electricity disruptions on total factor productivity. The effect is particularly higher on high-productivity firms with energy intensive operations. The increasing incidence of power outages will have broader economic implications, including deterred investments and compromised growth in critical sectors. This underscores the need for diversified, climate-resilient energy sources to enhance long-term economic stability and growth.

1. **The incidence of power outages reported by firms in Zambia has progressively increased (Text Table 1).** In 2007, 68.4 percent of firms experienced power outages, which escalated to 80.8 percent by 2013 and further to 82.5 percent by 2019. Simultaneously, the economic impact of these outages has escalated, with firms' losses as a percentage of annual sales growing substantially within the same period. To counteract the growing instability of power supply, firms have relied increasingly on generators, reflecting a pivot towards autonomous power generation to sustain operations.

Text Table 1. Firms' Experience of Power Outage, Losses, and Coping Mechanism

	2007	2013	2019
Experience power outages (% of firms)	68.4	80.8	82.5
Losses due to power outages (% of Annual Sales)	6.0	17.0	23.4
Generator shared or owned (% of firms)	9.0	27.0	56.0

Source: World Bank Enterprise Surveys; IMF staff calculations.

2. **Electricity disruptions significantly inhibit firms' productivity**.[1] The most direct impact is operational downtime. When power outages occur, production lines can halt, leading to immediate output losses. This downtime can be especially damaging for industries reliant on continuous production processes, such as manufacturing and food processing. Firms face increased operational costs from using less efficient backup generators, crowding out other investment opportunities.[2] In addition, disruptions lead to production schedule delays, affecting not only the firm but its supply chain, thereby inducing wider economic disruptions. In the modern economy, firms depend on digital infrastructure for key operations. Power disruptions can cause data loss, disrupt communications, and halt online activities, impacting productivity and profitability.

3. **Power outages have significant productivity implication for Zambian enterprises.** We combined firm-level data from the World Bank's Enterprise Surveys with firm-level productivity

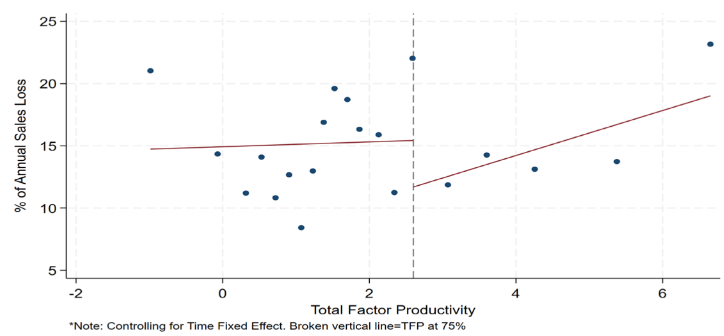
[1] See Gurara, D., & Tessema, D. (2018). Losing to Blackouts: Evidence from Firm Level Data. IMF Working Paper, WP/18/159. International Monetary Fund.

[2] Reinikka, R., & Svensson, J. (2002). Coping with Poor Public Capital. Journal of Development Economics, 69(1), 51-69.

estimates from Francis et al's (2020) to explore the impact of electricity disruption on productivity.[3] Our results show that electricity disruptions reduce total factor productivity by between 67 and 85 percent (Text Table 2). While some enterprises might be able to partially offset the disruptions caused by power outages, using generators or other coping mechanisms is not a viable long-term strategy for all, especially for smaller firms with limited capital.[4] Our results show a positive, albeit insignificant, effect of generator use in counteracting the adverse effects of power outages.

4. **Firms with higher total factor productivity are disproportionately affected by electricity disruption** (Text Figure 1). Losses due to power disruptions increase as we move from lower to higher TFP levels. This could indicate that firms with higher productivity levels, potentially due to more complex and energy-intensive operations, face greater financial losses when power disruptions occur.

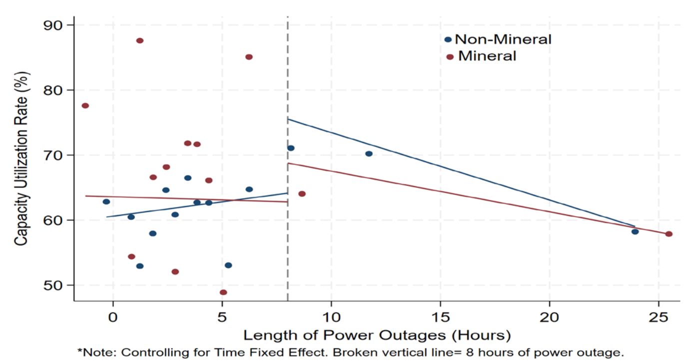
Text Figure 1. Loss Due to Power Outage: Binscatter*



Source: World Bank Enterprise Surveys and IMF Staff Calculations.

5. **Firms experiencing extended power outages typically exhibit diminished capacity utilization** (Text Figure 2)**.** Extended periods of power outages, especially those exceeding eight hours, appear to have a pronounced negative impact on capacity utilization**.** These disruptions directly affect capacity utilization by interrupting production and, indirectly, by making operations planning more complicated due to the unpredictability of power supply. Persistent operational challenges of this nature may inhibit firms from investing in capacity enhancement or new technologies, adversely affecting their long-term growth and competitive edge.

Text Figure 2. Capacity Utilization and Length of Power Outages: Binscatter*



Source: World Bank Enterprise Surveys and IMF Staff Calculations.

6. **More broadly, the adverse effects of power outages extend beyond immediate productivity losses**. They can also lead to longer-term economic consequences by deterring

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[3]Francis, D.C., Karalashvili, N., Maemir, H. and Rodriguez Meza, J., 2020. "Measuring Total Factor Productivity Using the Enterprise Surveys. A Methodological Note," Policy Research Working Paper Series 9491, The World Bank.

[4] Rentschler, J., & Kornejew, M. (2017). Energy price variation and competitiveness: Firm level evidence from Indonesia. Energy Economics, 67, 242-254. DOI: 10.1016/j.eneco.2017.08.015.

investment in sectors where constant power supply is essential for continuous operation. This could potentially stunt the growth of high-productivity sectors and thereby affect the overall economic trajectory of the country.[5] Hence, diversifying energy sources to counteract power outages—particularly those resulting from increasingly volatile climatic conditions—is essential. A shift towards a more varied and climate-resilient energy mix would not only mitigate the immediate challenges posed by power outages but also bolster long-term economic stability and growth.

Text Table 2. Impact of Electricity Blackout on Productivity: Fixed Effect Estimates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Balanced Panel: 2007-2019					Unbalanced
VARIABLES ǂǂ			Dependent: Total Factor Productivity (TFP) ǂ					
Power Outage (Dummy)	-0.6673*	-0.8525**	-0.8131**	-0.7780**	-0.7791**	-0.7862**	-0.7759**	-0.7759**
	(0.3746)	(0.3351)	(0.3416)	(0.3348)	(0.3343)	(0.3413)	(0.3424)	(0.3133)
Generator Use (Dummy)		-1.0502	-0.8631	-0.7679	-0.7686	-0.8206	-0.8223	-0.8223
		(0.8142)	(0.5736)	(0.5876)	(0.5895)	(0.6061)	(0.6055)	(0.5541)
Power Outage*Generator		0.7709	1.0860	1.1056	1.1066	1.1643	1.1642	1.1642*
		(0.8705)	(0.7397)	(0.7363)	(0.7381)	(0.7469)	(0.7432)	(0.6801)
Firm Age			-0.0328	-0.0329	-0.0329	-0.0333	-0.0326	-0.0326*
			(0.0208)	(0.0210)	(0.0213)	(0.0208)	(0.0216)	(0.0198)
Female Ownership			0.7762	0.6893	0.6880	0.6543	0.6620	0.6620
			(0.5811)	(0.6019)	(0.5922)	(0.6112)	(0.6044)	(0.5531)
Employee Size at Establishment			-0.0120***	-0.0119***	-0.0119***	-0.0120***	-0.0120***	-0.0120***
			(0.0036)	(0.0036)	(0.0036)	(0.0036)	(0.0036)	(0.0033)
Manager's Experience			0.0099	0.0088	0.0088	0.0086	0.0082	0.0082
			(0.0169)	(0.0170)	(0.0174)	(0.0171)	(0.0177)	(0.0162)
Exporting 50% and more (Dummy)				-1.1812**	-1.1819**	-1.2113**	-1.2089**	-1.2089**
				(0.5162)	(0.5117)	(0.5137)	(0.5138)	(0.4702)
Foreign Owned 50% and more (Dummy)					-0.0101		0.1074	0.1074
					(0.4370)		(0.5649)	(0.5169)
Multinational (Dummy)						-0.2571	-0.3019	-0.3019
						(0.6262)	(0.7318)	(0.6697)
Constant	2.5499***	2.8070***	3.1202***	3.1320***	3.1353***	3.1920***	3.1675***	3.0993***
	(0.3087)	(0.2870)	(0.5457)	(0.5428)	(0.5233)	(0.5602)	(0.5319)	(0.4647)
Observations	125	125	109	109	109	109	109	482
R-squared	0.8390	0.8442	0.8409	0.8438	0.8438	0.8445	0.8447	0.9677
FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Fixed Effects: Firm, industry, region, legal status, and year fixed effects are included in all of the regressions.

ǂ Revenue-based TFP provided by Francis, D.C., Karalashvili, N., Maemir, H. and Rodriguez Meza, J., 2020. "Measuring Total Factor Productivity Using the Enterprise Surveys. A Methodological Note," Policy Research Working Paper Series 9491, The World Bank.

ǂǂ Data: World Bank Enterprise Surveys Zambia: 2007-2019

[5] For detailed discussions, see Blimpo, Moussa P.; Cosgrove-Davies, Malcolm. 2019. "Electricity Access in Sub-Saharan Africa: Uptake, Reliability, and Complementary Factors for Economic Impact." Africa Development Forum. Washington, DC: World Bank. http://hdl.handle.net/10986/31333.

Annex III. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Further delays in debt restructuring negotiations.	L	**L.** Exchange rate pressures could intensify while domestic yields may increase, partly due to exiting non-resident domestic debt holders. Additional external arrears could increase uncertainty in restoring debt sustainability, dampening the growth outlook.	Zambia needs the debt restructuring to restore debt sustainability. Further expedite fiscal adjustment and identify extra financing sources. Further expedite PIM (Public Investment Management) reform and growth-enhancing structural reforms to boost confidence and promote FDI. Further strengthen financial sector surveillance along with contingency planning.
Recurrent drought and extreme climate events, affecting agricultural output, damaging key infrastructure, causing loss of human lives and livelihoods, leading to water and food shortages, and amplifying supply chain disruptions.	M	**H.** Higher food prices and reduced agricultural production would require increased social spending, lead to higher inflation and reduced medium-term growth. Additionally, a negative impact on hydropower generation and open-pit mining could exert downward pressures on growth.	Provide effective support to vulnerable households. Diversify food crops to varieties better aligned to extreme weather. Consider medium-term strategies to help regulate water flows. Maintain exchange rate flexibility to adjust to the external sector pressure resulting from the climate shock.
Social discontent. Supply shocks, high inflation (including due to drought and electricity tariff increases), and spillovers from crises in other countries worsen inequality and trigger social unrest.	L	**M.** Social unrest could weaken political impetus for economic adjustment and reform, dent investor confidence, and lead to rising financing pressures and capital flight, growth slowdown, and higher inflation.	Adopt measures to improve governance and curb corruption. Implement fiscal adjustment, notably by increasing domestic revenue and reducing capital expenditures. Create fiscal space to boost spending on social assistance. Maintain exchange rate flexibility to cushion balance-of-payments pressures while keeping monetary policy focused on price stability.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
External Risks			
Abrupt global slowdown or recession. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs**.**	**H**	**H.** Reduced global demand for commodities would adversely impact the mining sector, hinder growth, and exacerbate Zambia's external and fiscal imbalances.	Expedite further fiscal adjustment while identifying additional financing sources. Continue to use the exchange rate adjustment to cushion balance-of-payments shocks. Accelerate reforms to enhance export competitiveness and diversify the economy to build resilience against external shocks.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**H**	**H.** Volatility in copper prices, along with higher international oil and food prices, would lead to a growth slowdown. This would further widen its balance of payment and fiscal deficits, while also exerting additional pressure on inflation.	Accelerate fiscal adjustment and maintain exchange rate flexibility to cushion external shocks, while continuing to focus monetary policy on price stability. Additionally, expedite structural reforms to diversify the economy and reduce its vulnerability to external shocks.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**H**	**M.** Spillover through supply chains or commodity price could negatively affect growth, inflation, the balance of payment, and the vulnerability of the financial system.	Maintain exchange rate flexibility to cushion balance-of-payments stress while continuing to focus monetary policy on price stability. Closely monitor the buildup of vulnerabilities in financial sector balance sheets and implement swift and decisive prudential corrective actions if required. Accelerate reforms to enhance export competitiveness. Diversify the economy to build resilience against external shocks. Enhance regional integration, including through existing SADC and AfCFTA protocols.
Deepening geo-economic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**H**	**M.** A disruption in global supply chains may weaken global demand for Zambia's upstream exports and increase the costs of imports of intermediate goods.	Enhance export competitiveness and diversification through structural reforms. Diversify import supply chains. Enhance regional integration, including through existing SADC and AfCFTA protocols.

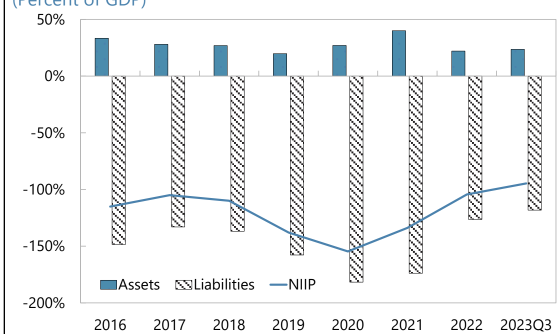
Annex IV. External Sector Assessment

Overall Assessment: *The external position of Zambia in 2023 was moderately weaker than the level implied by fundamentals and desirable policies. The weaker external position is driven by the current account deficit, stemming from a decline in copper prices and production. Considering the large negative net international investment position (NIIP) and that the level of reserves is less than adequate, Zambia's current account norm should remain positive.*

Potential Policy Responses: *The authorities should continue to implement policies in line with the ECF-supported program. Improving the fiscal balance, attracting FDI, and diversifying exports would alleviate the pressure on the external balance. Broader structural reforms to enhance governance and boost growth are essential to build resilience to external shocks. The authorities should continue accumulating foreign reserves in line with the ECF-program target, and monitor the risks associated with portfolio flows.*

Foreign Assets and Liabilities: Position and Trajectory

Figure 1. Zambia: International Assets and Liabilities
(Percent of GDP)



Sources: Bank of Zambia, IMF Staff calculations.

Background. Zambia's net international investment position (NIIP) stood at -95 percent of GDP by Q3 2023, an improvement from -104 percent of GDP at the end of 2022. Assets accounted for 24 percent of GDP, primarily composed of overseas deposits by resident mining companies and the reserve assets of the Bank of Zambia. Conversely, foreign liabilities constituted 118 percent of GDP, with government debt and foreign direct investment (FDI) being the significant components, at 53 percent and 42.4 percent of GDP, respectively. This improvement contrasts with the downward trajectory since 2015, a trend that coincided with the end of the commodity boom, which deteriorated the current account balance. Beginning in 2021, the NIIP has shown modest improvements, moving in tandem with positive shifts in the current account balance.

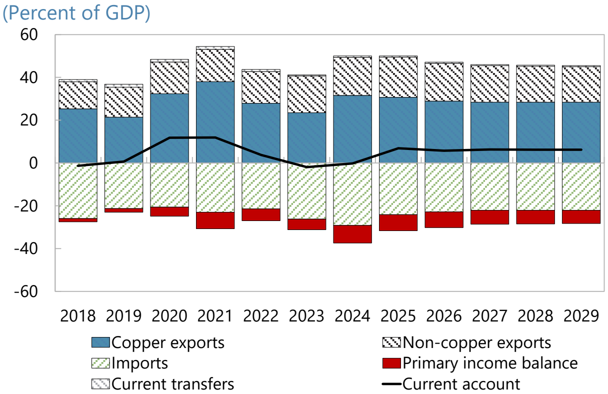
Assessment. Despite the improvement in 2023, Zambia’s NIIP still poses a significant risk to external sustainability and highlights the need for substantial adjustments. The fiscal efforts envisioned under the ECF program, along with debt relief secured under the G20 Common Framework, are expected to sharply reduce foreign liabilities, increase foreign reserves, and stabilize the NIIP at a considerably lower level of -55 to -60 percent of GDP over the medium term. This target is in line with the median value among low-income countries as of 2022.

2023Q3 (% GDP)	NIIP: -95	Gross Assets: 24	Debt Assets: 2	Gross Liab.: 118	Debt Liab.: 80

Current Account

Background. The current account balance deteriorated to a deficit of 1.9 percent of GDP in 2023, markedly below the 2018-2022 average surplus of 4.6 percent of GDP, due to declining copper exports amid strong imports. Challenges at major copper mines—KCM and Mopani—lower copper grades, floods, and falling global prices drove this shift. Over the medium term, exports are expected to recover significantly as the challenges in copper production are being addressed, additional investments are flowing in, and international copper prices are recovering. This, coupled with lower post-debt restructuring public interest payments, is expected to improve the current account balance.

Zambia: Components of Current Account
(Percent of GDP)



Sources: Bank of Zambia and IMF staff calculations

Assessment. The EBA-lite methodology estimates a current account norm for Zambia at -6.6 percent of GDP (Table 1). After adjusting the current account deficit to reflect the temporary decline in copper production due to flooding and operational challenges (2.2 percent of GDP), the current account gap is estimated at 6 percent of GDP—i.e., substantially stronger than the level implied by fundamentals.[1] Considering the stark contrast between this assessment and Zambia's large negative NIIP, as discussed in the First Review Staff Report, staff adjusted the norm upward to a current account balance level consistent with achieving an NIIP target of -58 percent of GDP (close to the 2022 median level for low-income countries) over the next three years. Following this adjustment, the current account gap is re-estimated at -1.8 percent of GDP. Consequently, the external position is assessed as moderately weaker than what fundamentals and desirable policies would imply.

Table 1. Zambia: EBA-lite Model Results, 2023
(Percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-1.9**	
Cyclical contributions (from model) (-)	0.9	
Additional temporary/statistical factors (-) 2/	-2.2	
Adjusted CA	**-0.6**	
CA Norm (from model) 3/	**-6.6**	
Adjustments to the norm (+)	7.8	
Adjusted CA Norm	**1.1**	
CA Gap	**-1.8**	**11.8**
o/w Relative policy gap	2.5	
Elasticity	-0.3	
REER Gap (in percent)	**6.3**	**-42.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of shock to copper production due to flood and operational challenges
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Zambia's average Real Effective Exchange Rate (REER) depreciated by 9.4 percent in 2023, partly reversing the 30 percent appreciation recorded in 2022. The REER had been depreciating from 2018 through 2020, but it reversed in mid-2021 due to confidence effects from the election outcome, SDR allocation, and a staff-level agreement on an IMF-supported program, alongside improved FX supply from higher copper receipts and portfolio inflows. However, the REER began to depreciate again in the second half of 2022, following a nominal depreciation as foreign financial flows decreased due to declining copper prices and exit of non-resident bondholders from the domestic debt market. With the continued decline in copper prices and production, coupled with modest portfolio inflows, FX pressure persisted through 2023, leading to an average nominal exchange rate depreciation of 19.2 percent in 2023. The real exchange rate ended 2023 with a 24.4 percent depreciation relative to the 2022 average.

Assessment. The EBA-lite REER model estimates suggest a REER gap of -42.6 percent with a corresponding current account gap of 11.8 percent. This indicates an external position that is stronger than the level implied by fundamentals. Yet, this contrasts with Zambia's large negative NIIP and the less than adequate level of foreign reserves. In line with the 2023 First Review Staff Report, staff continues to place greater emphasis on stock indicators in the overall assessment.

Capital and Financial Accounts: Flows and Policy Measures

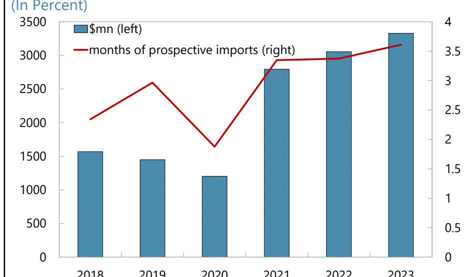
Background. Zambia's capital and financial account experienced significant outflows from 2020 to 2023, averaging -10.9 percent of GDP, with -2.9 percent in 2023. These outflows were mainly from the non-financial sector, notably mining, and scheduled public sector loan repayments.[2] They were partially offset by new public debt disbursements, portfolio inflows, and net FDI inflows—except in 2023—and an SDR allocation in 2021. Portfolio inflows reversed in 2022 due to uncertainties from unresolved debt restructuring but resumed in 2023 after clarifications from the debt restructuring agreement with the Official Creditors Committee that domestic debt would not be included in the restructuring perimeter.

Assessment. Given that Zambia remains excluded from the international capital markets due to the debt default and ongoing restructuring, the return of portfolio investment flows is a positive development. However, authorities should closely monitor these portfolio inflows (which are classified as external debt for the purpose of external debt sustainability analysis) throughout the program period to safeguard external debt sustainability.

FX Intervention and Reserve Level

Background. The Bank of Zambia's gross reserves rose to \$3.3 billion in 2023 (3.6 months of imports), up from \$3.05 billion in 2022, supported by multilateral disbursements and increased FX statutory reserve requirements. This growth was observed amidst depressed forex flows, due to lower copper prices and production, subdued portfolio inflows, and significant FX interventions totaling \$1 billion. The Bank of Zambia continues to maintain a managed float policy.

Zambia: Gross Reserves
(In Percent)



Sources: BoZ, IMF Staff calculations

FX Intervention and Reserve Level
Assessment. At 3.6 months of imports, the level of reserves is assessed to be below the adequate level compared to the optimal level of 5 to 5.5 months of prospective imports implied by a cost-benefit analysis of holding reserves (based on the framework for credit-constrained economies).[3] To reach the target reserve level, authorities should continue with their fiscal adjustment strategy, further supported by debt restructuring and disbursements from IFIs.
[1] The adjustor is calculated by taking the difference between copper export to GDP ratio projected in the 2023 Article IV Staff Report (29.6 percent) and the realized copper export—using the same price as in the 2023 AIV projection—to GDP ratio (25.2 percent). About half of the decline in copper production is explained by temporary factors, with the other half attributable to lower grades of copper, as highlighted in the Second Review staff report. Taking this into account, the adjustor is set at 2.2 percent of GDP, i.e., 50 percent of the 4.4 percent difference. [2] Since the Zambian government defaulted on most of its external obligations in 2020, amortization due on external debt for the period of 2020-2023 is recorded above the line in the BoP statistics and is partially offset by exceptional financing (in the form of accumulation of arrears) below the line. [3] For details, refer to the IMF "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations"

Appendix I. Letter of Intent

June 11, 2024
Lusaka, Zambia

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Madam Managing Director,

1. We remain committed to implementing the policies and reforms under the Extended Credit Facility arrangement. Building on the Eighth National Development Plan (8NDP), we will continue to implement the needed policies to safeguard macroeconomic stability, restore and maintain debt sustainability, tackle Zambia's economic and social challenges, and foster better governance.

2. Faced with a more difficult global environment, that has been compounded by the severe drought that has hit Zambia, the growth outlook in 2024 has deteriorated. The drought, declared by His Excellency President Hichilema as a National Disaster and Emergency on February 29th, has reportedly destroyed 40 percent of the cultivated maize and impacted electricity generation, leading to severe power outages. Preliminary estimates indicate that the drought has affected about 9.8 million people, or 48 percent of the population. The agricultural sector is projected to decline by 19 percent. Frequent electricity blackouts will curb SME productivity. With copper production recovery being slower than initially envisaged, real GDP growth has been revised down to 2.3 percent from an earlier forecast of 4.7 percent. An increase in food and energy imports will worsen the trade balance, pushing the current account balance to a deficit of 0.2 percent of GDP, compared to the projection of surplus of 3.7 percent. The financial account is expected to strengthen, fueled by progress in debt restructuring and incoming investments. We have prioritized addressing the humanitarian impact of the drought this year. To address the financing pressures largely caused by the humanitarian impact of the drought, we appreciate the support from different development partners including from the IMF.

3. We remain committed with our efforts towards a debt treatment plan that meets the program parameters and achieve comparability of treatment as defined by the official creditors. We reached an agreement in principle with the Steering Committee of the Bondholders that met comparability of treatment as defined by the Official Creditor Committee and consistent with the IMF program parameters. The Consent Solicitation was initiated on May 13, 2024, and by May 28, 2024, it has received overwhelming participation. Subsequently, bondholders approved the restructuring of Zambia's Eurobonds at their meeting held on June 4, 2024. In parallel, we have proactively engaged with other private creditors in good faith so that the debt restructuring can fully be implemented in line with program parameters by end-2024.

4. The numerous challenges notwithstanding, our commitment to meeting the quantitative performance criteria (QPCs), indicative targets (ITs), and structural benchmarks (SBs) under this IMF-supported program remains steadfast. For end-March 2024, we were unable to observe the IT on the net international reserves due to lower mining tax receipts and pressures in the FX market mostly relating to fuel imports, effects of protracted debt restructuring and tightened global financial conditions that favored a strong U.S. dollar. In addition, all, but two, structural benchmarks for the third review were met, with the others having been completed with minor delays. We have tightened policies to rein in inflation and restore fiscal sustainability, while continuing to implement reforms to strengthen public financial management, the monetary policy framework, financial supervision, transparency, and anti-corruption fight.

5. We request the completion of the third review under the ECF-supported arrangement and of the financing assurances review, and request for augmentation of access and modifications of the quantitative performance criteria to partially accommodate the impact of the drought on QPCs. The completion of this review would allow for a disbursement of SDR 433.34 million; half would be used for budget support. Our program will continue to be based on QPCs and ITs with end-June and end-December test dates and continuous performance criteria, and on structural benchmarks consistent with our reform agenda. The requested changes to QPCs and ITs are detailed in Tables 1-2 of the Memorandum of Economic and Financial Policies (MEFP) and in the Technical Memorandum of Understanding (TMU).

6. The attached Memorandum of Economic and Financial Policies (MEFP) sets out our objectives and commitments under the ECF arrangement. We will assess progress in continued consultation with the IMF Staff and stand ready to take appropriate action to achieve program objectives. We reiterate our commitment to consult with the IMF Staff prior to adopting any revisions to the policies set forth in this Letter of Intent (LOI) and the MEFP, in accordance with the Fund's policies on such consultation. In accordance with the TMU, we will provide all data and information required to assess the policies and measures implemented. Furthermore, we reaffirm our commitment to upholding the obligations of Article VIII of the Fund's Articles of Agreement. Underscoring our commitment to transparency, we consent to the publication of this LOI, the MEFP, the TMU, and the staff report on the Third review, upon approval by the IMF Executive Board.

Yours sincerely,

/s/
Situmbeko Musokotwane, MP
Minister of Finance and National Planning
Republic of Zambia

/s/
Denny H. Kalyalya
Governor, Bank of Zambia
Republic of Zambia

Attachments:

I. Memorandum of Economic and Financial Policies (MEFP)

II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

I. CONTEXT

1. Since the approval of the Second Review under the Extended Credit Facility (ECF) arrangement in December 2023, the global environment has become increasingly challenging, and Zambia is suffering from the worst drought in the last 40 years. This memorandum updates the MEFP attached to the second review of the program supported by the ECF arrangement approved by the IMF's Executive Board on December 20, 2023.

2. Within the complex environment, we have made significant progress in our efforts to transform the economy and remain committed to the reform agenda underpinned by the ECF-supported arrangement. Critical steps have been taken to restore fiscal discipline, mainly through expenditure prioritization, enhance social spending, restore debt sustainability, contain inflationary pressures, and facilitate higher and more inclusive growth. We will continue to undertake prudent macroeconomic policies and structural reforms to promote more sustainable and inclusive growth.

II. RECENT ECONOMIC DEVELOPMENTS

3. Despite headwinds, economic activity in 2023 was stronger than projected at the time of the Second Review:

- **Real GDP growth reached 5.4 percent in 2023, driven by the non-mining non-agricultural sectors**. Growth in these sectors offset a contraction in agriculture (due to high input costs and climate events) and mining (due to low grade ores, persisting difficulties in two large mines, and flooding).

- **Inflationary pressures continue**. Inflation reached 13.1 percent at end-2023, driven by food and fuel prices and exchange rate passthrough. The Kwacha depreciated by 25.9 percent and 23.6 percent in nominal and real effective terms in 2023, respectively. The upward trend in inflation has continued in 2024, reaching 13.8 percent in April. Inflation dynamics prompted the BoZ to tighten monetary policy by hiking the policy rate by 150 bps to 12.5 percent and increasing the statutory reserve requirements (SRR) by 9 percentage points to 26 percent in February. The increased SRR prompted a Kwacha liquidity shortfall of approximately K 8.9 billion, leading interbank market interest rates to rise to 17 – 20 percent. As inflationary pressures persisted in mid-May, the BoZ further raised policy rates by 100 bps, to 13.5 percent.

- **The current account balance deteriorated in 2023.** A deficit of 1.9 percent of GDP was recorded in 2023 due to weaker-than-envisaged exports and robust imports. The financial account was supported by positive portfolio inflows and banks' foreign assets repatriation, which helped reduce the deficit to 1.6 percent of GDP in 2023 from 11.2 percent in 2022. Gross reserves reached US$3.3 billion, equivalent to 3.7 months of import cover, supported by multilateral disbursements and higher FX reserve requirements.

- **Public debt at end-2023.** The stock of public and publicly guaranteed (PPG) external debt increased to US$21.6 billion by end-2023. The stock of expenditure arrears (fuel, road and contractors) due to non-resident suppliers, including ZESCO's arrears to external IPPs, have been adjusted downward by US$33 million after audit verification of fuel arrears and stand at US$1.42 billion at end-December 2023. However, the stock of non-resident holdings of domestic-currency debt declined in dollar terms to US$2.2 billion by end-2023 due to the exchange rate depreciation. In parallel, ZESCO's non-guaranteed external debt was fully amortized in 2023 as the company generated sufficient revenues in 2023 to continue servicing it. The outstanding stock of domestic government securities stood at K232 billion (41 percent of GDP) at end-2023, up from K210 billion a year ago (42.5 percent of GDP). With domestic budget arrears (in U.S. dollar terms) and ZESCO domestic IPP arrears declining, total PPG debt ended at US$31.3 billion (141 percent of GDP) in 2023.

- **Public debt arrears increased only on claims within the debt restructuring perimeter.** Public and publicly guaranteed external debt arrears (principal and interest) on external PPG debt amounted to US$6 billion as of March 2024 on external PPG debt, increasing by US$0.3 billion relative to end-2023. There has been no accumulation of external supplier and contractor arrears, nor arrears on ZESCO other external payables (IPPs), relative to end-2023. Expenditure arrears have marginally increased to K97.8 billion in 2023 from K77.6 billion in 2022. Notable increases in arrears were recorded for VAT and other Recurrent Departmental Charges (RDC) due to stock revaluations following the ongoing audit process and late penalties and interest. Significant reductions were, however, recorded in Personnel Emoluments, fuel, electricity, FISP, FRA, pensions, and capital projects.

- **Financing conditions remain tight despite progress in the debt restructuring.** On March 25, we announced an agreement in principle with the Steering Committee of the Eurobond holders in line with the IMF program parameters taking into account the OCC confirmation of comparable treatment. Spreads on our sovereign bonds have decreased by 14 percent y-o-y in May and by about 6 percent from mid-February this year. On the domestic market, tight liquidity conditions have weakened private domestic investors' appetite in 2024.

- **The banking sector remained stable in 2023**. Capital adequacy ratio reached 23.5 percent at end-December 2023 from 22.8 percent at end-December 2022. Asset quality was satisfactory with non-performing loans ratio marginally decreasing to 4.2 percent at end-2023 from 5.0 percent at end-December 2022. Credit to the private sector (at constant exchange rate) grew by 24.5 percent in 2023 as banks' sovereign exposure decreased. However, at 11.4 percent of GDP, private credit remains below the pre COVID-19 average

(12 percent of GDP). Tighter liquidity conditions since February 2024, following the increase in the SRR, resulted in some banks accessing the overnight liquidity facility at 29 percent.

- **Resolution of Investrust Bank.** Pursuant to the Banking and Financial Services Act, the BoZ took possession of Investrust Bank Plc on April 2, 2024, due to insolvency and unwillingness by the major shareholder to recapitalize the bank on account of change in the company's strategic focus. Supervisory action was taken to forestall further deterioration of the value of the bank's assets, protect depositors, and minimize contagion risk. With fiscal support (K 1 billion), the BoZ facilitated the first payments, which are expected to cover over 90 percent of depositors with balances of up to K500,000. Since taking possession, the BoZ has also commenced preparing the Statement of Affairs.

4. The drought has significantly deteriorated maize output and threatens food security in 2024. The drought has reportedly destroyed 40 percent of the cultivated maize and impacted electricity generation, leading to power outages. Preliminary estimates indicate that the drought has affected 9.8 million people, (48 percent of Zambia's population), requiring significant maize and electricity imports. In February 2024, the President of the Republic of Zambia declared the drought a national disaster and emergency and announced plans to revisit the 2024 Budget. To support the response to the shock the government has requested support from the international community.

III. OUTLOOK AND RISKS

5. The 2024 outlook has deteriorated. We have revised growth to 2.3 percent considering a slower-than-envisaged rebound in mining production and the impact of the drought. Performance in the mining sector is expected to modestly surpass the 2023 production. Yet growth will be affected by power shortages, notably in the manufacturing sector. Inflation is projected to remain elevated, at an average of 14 percent due to exchange rate passthrough and increasing food and fuel prices. The current account deficit is expected at 0.2 percent of GDP by relatively higher imports amid a decline in exports. Additional imports to address the humanitarian impact of the drought will be compensated by lower imports in other categories. However, additional external financing needs are expected to increase by US$579 million, for which we have requested support from cooperating partners.

6. Medium-term growth prospects, however, remain positive. The outlook is supported by waning shocks, prudent policies, and dividends from reforms. Growth is projected to rise to 6.2 percent in 2025-26, as mining production expands, and agricultural output fully recovers. Inflation is projected to peak in 2024 due to food and energy shortages and current pressures on the kwacha, before slowing down to 7.9 percent by end-2025. The current account surplus is projected at 6.9 percent of GDP in 2025, supported by higher copper prices and the recovery in copper production, and relatively lower imports while the financial account will deteriorate slightly due to increased debt amortization. As a result, international gross reserves are set to reach 5.0 months of prospective imports at end-2025, supported by increased multilateral financing and significant foreign investment in the mining sector.

7. The above notwithstanding, the medium-term outlook is subject to significant downside risks. Commodity price volatility, along with an abrupt global slowdown or recession, could lead to external and fiscal imbalances and undermine investment. Intensifying regional conflicts could result in trade disruptions, increasing food and energy prices, deteriorating food security. Internally, subdued mining production, climate events and increasing social discontent could increase political pressures and slow reform momentum while threatening the recovery and exacerbate inequality. Delays in completing the debt restructuring could intensify financing pressures and dampen investment. The impact of the drought could, in the absence of mitigating measures, result in a deterioration in the loan quality of the banking sector. On the upside, swift completion of the debt restructuring, and renewed mining investments could lead to positive confidence effects that support growth.

IV. MACROECONOMIC POLICIES FOR 2024 AND THE MEDIUM TERM

A. Fiscal Policy

8. We met the target on the primary fiscal balance (cash basis) at end-December 2023, with some margins despite the underperformance in mining revenues. The December 2023 primary fiscal balance reached K3,405 million against a floor of K 1,058 million (quantitative performance criterion, QPC). Lower mining revenues (of about K 8,774 million) were more than compensated by higher-than-budgeted grants and non-mining tax. We continued to mobilize additional non-mining revenues, which reached K98,769 billion at end-December 2023, above the indictive target (IT) of K 90,188 billion.[1] Despite the need to contract spending, we scaled up social spending to K 45,084 million, surpassing the end-2023 IT (K 39,670 million). We exceeded our original target for clearing expenditure arrears, achieving a primary balance (commitment basis) of 1.5 percent of GDP—0.9 percent higher than projected. Despite this, the stock of arrears at the end of 2023 grew due to exchange rate valuation effects along with accrued interest and financial penalties. As planned, we refrained from contracting new external borrowing (IT) and met the ceiling on disbursements on external contracted debt (IT). However, external disbursements fell short of expectations (US$18.8 million versus US$200 million) and, considering financing pressures, we drew the remaining 50-percent of the SDR allocation amounting to K9,317 million in 2023.

9. We will revise the 2024 Budget to address the humanitarian response to the drought. The drought is expected to increase spending by K 6.3 billion in 2024, of which K 5.2 billion will be due to higher social transfers (see below). To this end, we plan on reprioritizing spending to create fiscal space to increase social transfers temporarily, while sustaining as much as possible our projected domestically financed net acquisition of nonfinancial assets. We will submit to Parliament the revised 2024 Budget in line with program parameters (**new prior action**).

10. The revised Budget 2024 envisages a primary fiscal deficit of K 4.7 billion (end-December 2024 QPC, 0.7 percent of GDP). The target is based on non-mining domestic

[1]The IT on non-grant non-mining revenue is adjusted by the backlog of VAT refunds.

revenues of K 57.2 billion at end-June 2024 (IT) and K 118.9 billion end-2024 (IT), against a spending envelope of K 192.3 billion. Consistent with the end-2024 commitments, we propose to revise the end-June primary fiscal balance target to K 0.6 billion (end-June 2024 QPC) and to K -4.7 billion (end-December 2024 QPC). Supported by structural fiscal reforms (see below), the following fiscal commitments will help achieve these objectives:

- **Revenues (IT).** The expected yield of the tax policy measures adopted in the 2024 Budget has been revised to 0.2 percent of GDP, from 0.4 percent of GDP. To compensate for the shortfall and address additional spending pressures arising from the drought, we continue our efforts to improve tax administration to reduce the compliance gap and improve service delivery (see para 11).

- **Spending**: We will protect social spending (IT) and instead contain spending in other non-priority arears, while being committed to avoid generating new arrears. We will prioritize the humanitarian response to the drought by enhancing the Social Cash Transfer (SCT), both in terms of the transfer value and coverage for 13 months starting in June to support households' food security. Until June 2025, eligible households will receive an additional K 200 per month on top of the current K 200 per month. Following the results of an enumeration exercise concluded in May 2024, we intend to cover an additional 1.2 million households with the emergency cash transfers for drought response. We will also upscale the school feeding program to include additional 37 districts affected by the drought, increase spending on water resources development and management and spending on surveillance and mitigation of livestock diseases. The combined drought response is estimated at an additional spending of K 6.3 billion in 2024 (0.9 percent of GDP), which will be largely financed by the World Bank.

We have reprioritized spending to accommodate most of the impact of the drought as follows:

- **Capital expenditure** is projected to be maintained at 3 percent of GDP in 2024, mostly financed externally and with domestic resources focused on priority infrastructure (roads, health, education and water and sanitation).

- **Primary spending**. In response to tighter financing conditions in the domestic market, we will reduce other domestically financed primary expenditure by containing personnel spending (delaying new hirings), reducing intragovernmental transfers and other operational spending for a combined K 5.9 billion (0.8 percent of GDP).

- **Arrears repayment.** For fuel arrears, to prevent an increasing stock due to late interest payments and penalty fees, we will undertake a liability management operation financed domestically in 2024. We request an adjustor for the primary fiscal balance to account for this operation since our budget reporting is on a cash-basis. To this end, we will publish the revised arrears clearance strategy integrating the repayment of the fuel arrears as discussed under the IMF program parameters in the MoFNP website (**prior action**) and continue publishing the summary quarterly survey of budgetary expenditure arrears in the Economic

Report and Debt Statistical Bulletins on [the Ministry of Finance and National Planning (MoFNP) website](). We will continue to clear expenditure and VAT refund arrears, while preventing the generation of new arrears. We commit to clear the legacy stock of VAT refund arrears as laid out in our Arrears Clearance Strategy, and refund on a timely manner all new validated VAT refund claims.

- **Subsidies**. While we remain committed to refrain from fuel subsidies, explicitly or implicitly, lower-than-recovery transportation costs generated have been partially absorbed by the energy fund in April 2024 and fuel suppliers in May 2024. Going forward, we shall review the current model with a view to establish clear rules for full-cost recovery in fuel prices (**continuous QPC**) We will also refrain from generating new external arrears (**continuous QPC**).

- **Financing:** The revised 2024 Budget will incorporate additional external financing from cooperating partners to support the authorities in responding to the drought while updating on domestic financing conditions. To the former, the authorities have mobilized US$230 million in budget support in new financing, while frontloading planned disbursements from the World Bank by about US$140 million in 2024. We have also lowered financing from Government securities from K 16 billion to K 5.1 billion to reflect recent market trends and added domestic financing for the fuel arrears liability management operation. We propose to channel half of the ECF program augmentation for budget support, given tight financing conditions. We will continue to abstain from central bank net credit to the government (QPC) while respecting the ceiling on (i) the contracting or guaranteeing of new non-concessional external debt (QPC), and (ii) the ceilings on disbursements of contracted but undisbursed external debt and on the present value of new external borrowing (ITs).

11. To support food security, we plan to import maize through the Food Reserve Agency (FRA)/Disaster Management and Mitigation Unit (DMMU), with no impact on the budget. The FRA/DMMU has pledged to import up to MT650,000 of maize subject to review when the food balance sheet has been finalized. FRA/DMMU imports will be gradual and limited to only address shortfall not addressed by the private sector with the logistical support to be complemented by the World Food Program. We intend to mobilize the maize with government-to-government agreements that will be made known to the public after signature. We will not provide additional budgetary support to the FRA/DMMU, which will conduct all its interventions at least at cost recovery and without generating a food subsidy. To this end, all procurement contracts for importation of cereal as well as contracts for logistics shall be published with summary information, including beneficiary ownership, on the websites of FRA and DMMU as contracts are allocated (**proposed continuous SB**). In addition, the UN relief program will provide relief food packages that will be distributed with the support of the DMMU in those areas where markets are not available. To support transparency and accountability, we are committed to publish an audit report by the controller of internal audit that provides details about the government response to the drought prepared detailing price and details of service rendered for all FRA and Government activities (procurement and logistics contracts, storage and distribution), and DMMU procurement contracts (**proposed end-September 2025 SB**). We will publish FRA 2024 audited financial statements by end-September 2025.

12. The Government remains committed to a multi-year fiscal consolidation path. The overriding objective is to improve the primary balance on a cash basis to 2.2 percent of GDP in 2025 from a deficit of 1.6 percent of GDP in 2022. To this end, we are committed to an end-June 2025 primary balance (cash basis) of K 7,636 million. On a commitment basis, the target is to improve the primary balance to a surplus of 3.3 percent of GDP by 2025 from a surplus of 0.8 percent of GDP in 2022. The primary balance (commitment basis) is projected to reach 2.9 percent of GDP in 2024, same as at the time of the First Review, as we plan to maintain the agreed pace of arrears clearance for expenditure and tax arrears (both ITs, see TMU). In 2024, we commit to submit the draft 2025 Budget to Parliament that is consistent with program parameters (**end-September 2024 SB**). We stand ready to adopt contingency measures, if needed, and consult with IMF staff on any changes to our fiscal commitments. We are also committed to use any additional revenues, in consultation with the IMF, for arrears repayment in a rule-based and transparent manner while considering our capacity.

B. Fiscal Structural Reforms

MOBILIZING REVENUES

13. We will increase domestic revenue mobilization to about 21.2 percent of GDP by 2025 from 20 percent of GDP in 2022 to sustain our spending for development. This objective will be achieved by strengthening tax policies and leveraging technology to enhance tax administration and improve tax compliance.

- **Tax Policy**.
  - We increased excises for cigarettes, some alcoholic and non-alcoholic beverages and introduced a levy for mobile transactions in 2024. We were not able to implement the tax on discount of government securities, but we have applied a 15-percent withholding tax to interest income. To alleviate the impact of inflation on households, we have we increased the income exempt threshold for pay as you earn (PAYE). Further, several tax incentives were introduced to promote investment and boost economic activity. In 2025, we will continue mobilizing revenues. In accordance with the Action Plan on Domestic Revenue Mobilization for 2022-25, we plan to harmonize corporate income tax rates across sectors to improve fairness while also reviewing the effectiveness of fiscal incentives offered to companies operating in special economic zones. We will refrain from granting any new tax exemptions, except for custom duty related to maize imports this year, and will publish a report with a detailed description and costing of all tax expenditures on corporate income tax, personal income tax, customs duty, export duty and excise duty of the previous fiscal year (**proposed end December 2024 SB),** with a view to expand the tax base.

- **Tax Administration.** To enhance domestic resource mobilization and reduce the compliance gap, the Zambia Revenue Authority (ZRA) is modernizing its internal organization and expanding data analytics. ZRA commenced transitioning to the new operating model by end-2024Q1.
  - The Large Taxpayer Office (non-mining) and the Specialized Taxpayer Office (Mining) were created and operationalized in January 2024 (**end-March 2024 SB**);
  - To address tax loopholes in the VAT system and other transaction taxes, all VAT registered taxpayers will be required to issue electronic invoices using the Smart Invoice system effective July 1st, 2024, to better monitor taxpayers' supply chains and reduce false VAT refund claims. This will enable us to accelerate the pace of validated VAT refunds.
  - The Cross-Border Electronic Services Taxation Project was implemented in April 2024, levying VAT on digital commerce-related services provided by non-resident companies in Zambia. It is complementing other initiatives aimed at effectively taxing the digital economy.
  - To improve the accuracy and reduce fraud in tax assessments, we have interfaced government systems such as IFMIS and the Ministry of Lands database Zambia Integrated Land Administration System (ZILAS).
  - We have launched a digital Tax Clearance Certificate (eTCC), which enables third parties to verify taxpayer compliance and required to operate with government authorities. Previously, the TCC showed a validity period and have since become non-compliant.
  - ZRA has rolled out the dedicated small and medium size mines units to provinces with substantial mining activity. Further, we will also step-up efforts to collect tax debt which stood at K 73.14 million in March 2024.

ENHANCING EXPENDITURE EFFICIENCY

14. We will carefully calibrate spending to the available fiscal space while enhancing economic growth and development, by strengthening public finance management and protecting social spending. Public expenditure will remain transparent and accountable, to improve efficiency and channel resources to programs and projects that have a direct impact on the lives of the Zambian people. Total expenditure is projected to come down, largely on account of the reduction of expenses related to inefficient subsidies, while preventing the accumulation of expenditure arrears.

15. We will continue to target social spending. The Government has scaled up social protection programs with improved targeting and selection mechanisms, providing regular and predictable cash transfers to vulnerable households. We spent K 45.1 billion in social spending in 2023, above K 39.7 billion (**end-December 2023 indicative target**).

- In response to the drought, we have expanded the SCT and the school feeding program (see above). In addition, humanitarian in kind support will be coordinated by Disaster Management and Mitigation Unit (DMMU) to address market failures in remote areas where the private sector is absent. Government-to-Government maize contracts will be limited to only address import shortfall not addressed by the private sector and will be published.

We commit to tender all procurement contracts through the E-Government Procurement platform (E-GP) including logistics, and maize purchase contracts.

- The enumeration exercise, instrumental to expanding the SCT, will form the basis for a social registry, expected by 2025, that will allow to effectively scale up social programs during crisis episodes.
- To support free education policy, we have hired 39,250 more teachers since 2021, of which more than 7,000 were in 2024. Enrolment has increased by 31 percent over this period to 6.2 million students. We have broadened the school feeding program to cover 2.9 million students in 2024 across 70 districts, up from 2.0 million in 2023. In response to the drought, the school feeding program will be temporarily expanded to additional 37 districts for 14 months.
- We are evaluating options to reform the public pension schemes to make them financially sustainable and provide social security to retirees. We are evaluating the recommendations summarized in an IMF technical report on the Pension System Assessment (2023) to ensure that the Public Pension Funds are governed by rules that will result in financial sustainability, benefits adequacy and equity.

16. The Farmer Input Support Program (FISP) continues to migrate to the e-Voucher system. We remain committed to make the FISP program more effective, with spending declining to 0.9 percent of GDP in 2025 from 1.4 percent of GDP in 2023. The migration path is envisaged as follows:

- For the 2024/2025 farming season, Cabinet approved migrating 74 districts to the e-voucher with flexible inputs and 42 districts on direct input supply (**end-September 2024 SB)**.
  The Ministry of Agriculture has commenced preparatory work to ensure the DIS procurement tender reflects the optimally selected revised list of districts. We will not restrict the number of suppliers and retailers and allow for full flexibility of inputs for farmers in the 74 districts using the e-voucher to support competition. To enhance transparency, selection criteria for input manufacturers, distributors and retailer/agro-dealers will be conducted through an online portal and will be restricted to essential documents such as certificate of incorporation, tax payer identification number, VAT number and tax clearance certificate. This portal will be used to upload and verify documents and will automatically publish lists of selected suppliers and retailers, as well as rejected applications with justifications.
  The Government will continue to publish summary information on all procurement contracts related to FISP, including beneficial ownership in its website (**continuous SB**). To this end, the contracts for both seeds and fertilizers were published on the Ministry of Agriculture website in March 2024 for contracts signed in January and February, contracts awarded in March and April 2024 will be published by end-May 2024. An audit of the program, concluded in April 2024, will help improve controls and ensure value for money. All FISP beneficiaries currently enrolled will be verified and the security of the ZIAMIS system will be improved to support proper audit trail. The 2024 E-voucher roll out will be subject to an

independent audit by December 2024 for all the 74 districts (**proposed end-December 2024 SB).**

17. We will reconfigure funding through the Constituency Development Fund to support our response to the drought. The 2024 revised budget has reduced the CDF allocation by K 2.4 billion. This is in line with the average utilization rates, at 57 percent rate at the end of 2024Q1. To improve effective absorption, as use of funds are highly uneven across constituencies, the Government has decentralized the approval process for community projects and contract approval to provinces. Further, the procurement process and awarding of contracts is in line with the Public Procurement Act No. 17 of 2023.

IMPROVING PUBLIC FINANCIAL MANAGEMENT

18. Despite efforts to dismantle expenditure arrears, the stock has marginally increased. To expedite the clearance of arrears and reduce financial penalties, we have updated our domestic arrears repayment strategy with a view to ensure a cost-effective liability management operation to clear fuel arrears, while adhering to a rule-based and transparent clearance process given limited fiscal space. This operation will be financed domestically and seek some NPV savings. We will publish the updated domestic arrears strategy integrating the repayment of the fuel arrears as discussed under the IMF program parameters on the MoFNP website, including the details of the financing strategy.

19. Commitment control system. In early December 2023, the Government produced a report verifying the use of IFMIS by government agencies (originally due in August 2023). All 61 MPAs are now using the IFMIS system, and we extended its use for the Ministry of Education to the provincial level (in 2023Q3). We plan on extending it to the Ministry of Agriculture and the Ministry of Livestock and Fisheries by end-2024. Budgetary institutions will record the stock of 2023 arrears in the IFMIS system by the end of July 2024. We will also record multi-year commitments in the IFMIS system by end-2024. Navision has been adopted as the Public Finance Management System for all Local Authorities and we plan a full roll out by end 2025. Navision will not be a standalone system but will be integrated into IFMIS through ZamConnet. ZamConnet is the Government Service Bus for data exchange among government institutions. So far, we have integrated 31 departments and agencies, including ZRA, PACRA, and Lands. The integration activities of Navision and IFMIS via the GSb have also commenced with the Ministry of Health.

20. The Government is stepping up its efforts to strengthen the public investment management (PIM) and the public-private partnerships (PPPs) frameworks. The 2024 Public Investment Policy, published on the MoFNP website, aligned with the National Budget. In April 2024, the Treasury issued a circular to guide MPAs on avoidance of contingent liabilities with regards to PPPs. We will not sign any new PPPs until the regulatory framework which governs them is adopted by end-October 2024. We requested an updated IMF Public Investment Management Assessment (PIMA), which incorporates the climate module, and we will develop the Road Sector Investment Programme III (ROADSIP III) through the Road Development Agency (RDA) by December 2024.

21. Improved Cash Management. The new action plan, approved by the Secretary to the Treasury in April, will improve cash management and forecasting functions and substantially reduce idle cash balances and the number of accounts held by central government institutions and lower-level government entities in commercial banks. We will further explore possibilities to rationalize banking arrangements of local authorities (**end-March 2024 SB)**. We will finalize a survey of government accounts in commercial banks by end-June 2024, monitor daily the compliance with sweeping arrangements with the BoZ and commercial banks, and implement procedures to reduce government bank accounts by end- 2024. To improve cash management, we also plan on strengthening the institutional arrangements for cash forecasting by establishing a Cash Management Unit, tasked with producing cash flow forecasts, and a Cash Management Committee, tasked with reviewing cash flow forecasts and making informed decisions on needed actions to ensure cash adequacy (**proposed end-July 2024 SB)**. We are committed to implement a cash flow forecasting plan for 2025 (**proposed end-December 2024 SB)**.

ENHANCING FISCAL TRANSPARENCY AND REPORTING FISCAL RISKS

22. Budget Execution and Financial Reports. The Government will continue publishing quarterly economic reviews, reporting on budget performance. The financial report will continue to be published on an annual basis. The Budget Execution Report will be produced, and its scope expanded to include performance on broad revenue and expenditure categories including social spending. The Government was initially planning to migrate to the International Public Sector Accounting Standards (IPSAS) Accrual Accounting Basis in 2027 based on the approved roadmap however additional support will be needed to review the 2023 Financial report which could culminate in revision of the roadmap and delay the migration.

23. Fiscal risks. We are developing a fiscal risk management framework (FRMF) aimed at identifying and quantifying fiscal risks from expenditure pressures and revenue shocks and other contingent liabilities as well as strategies to mitigate those risks. The FRMF will be completed by July 2024, and presented in the 2025 Budget. The Ministry, in close consultation with MEFMI, is currently reviewing the Expanded Fiscal Risk Report to establish methodologies of assessing risks from climatic change. By end-June 2024, the Fiscal Risk Report will be expanded to include key risks stemming from SOEs, local authorities, public pension schemes, PPPs and other obligations and the potential consequences of climate change (**end-June 2024 SB)**. The report will become part of the 2025 budget documentation that is submitted to Parliament. Standard methodologies will be applied to quantifying risks in a forward-looking manner, with support from IMF TA.

24. State-Owned Enterprises (SOEs). To enhance transparency, the Industrial Development Corporation will publish audited financial statements for 2019-22 by end-October **(proposed end-October 2024 SB)**. To strengthen governance and management, the Government adopted the Supervisory and Performance Monitoring Framework for SOEs in January 2024. The MoFNP will sign performance contracts with SOEs by end-2024, to become effective in 2025. In addition, the Government is preparing the State-Owned Enterprises policy, to be adopted by Cabinet by end-September 2024, that will define the roles that line Ministries, the Industrial Development

Corporation and the MoFNP have in the governance of SOEs and the policy will be published by end-October **(end-October 2024 SB)** and lead to a prospective SOE Act. In addition, to manage fiscal risk from SOEs, the MoFNP will continue to conduct credit risk assessment on all public bodies that intend to borrow through the supervisory and monitoring framework.

ENERGY REFORMS

25. Fuel arrears accumulation remains a challenge. An independent audit on the suppliers' claims to confirm their validity (initially planned to be completed by end-June 2023), was finalized in April 2024. Fuel arrears at end-2023 after audit verification amounted to US$864.47 million from a verified stock of US$532 million at end-2022. As at end March 2024 fuel arrears stood at US$877.2 million. The increase is attributable to late payment penalties on legacy debt.

26. We face delays toward implementing open access to the TAZAMA pipeline. The TAZAMA pipeline is expected to reduce diesel transportation costs by 73 percent. The open access auctions on the use of the Tazama pipeline by third parties originally planned by end-2024Q1 has experienced delays, caused by misalignment of some provisions in the guidelines to the Public Procurement Act. This halted the process by the Zambia Public Procurement Authority. Additionally, the requirement for additional security clearance resulted in a delayed turnaround time. We plan on requesting assistance from an independent international consultant to issue an SI that will review the e open access framework to align with international best practices and guarantee transparent and fact-based shortlisting of OMCs by August 1st, 2024 (**proposed End August 2024 SB**). In particular,

- We will provide clarity on (i) foreign exchange exposure and credit risks to all OMCs before starting the bidding process, and (ii) on the role of Tazama on securing berthing slots in Dar Es Salaam to supply the pipeline.
- We will also reassess the review process of tender offers to shorten award time and improve transparency including by removing multiple vetting security clearance process and letting Energy Regulatory Board (ERB) preselect OMCs for a period of 12 months by July 1, 2024, and start implementing them for the July auction for supply and delivery starting August 1, 2024
- We will publish the Tazama open access tender results on the Ministry of Energy website within one month of the contract award, including winning bidder with price, type and quantities of inputs, total contract amounts and their beneficial owners as well all unsuccessful bids with price, type and quantities of inputs (**proposed continuous SB**). Single-sourcing procurement for strategic reasons under direct bidding will remain an exception and the nominated OMC will undergo the standard procurement vetting process applied to all OMCs in open tenders. Contracts under the direct bidding methods will be published within a month on MOE website, including volume, price and beneficial ownership information.

- The Ministry of Energy will conduct a cost-benefit analysis to assess the feasibility of adding an anti-dragging agent to the pipeline to increase flow speed by end July 2024.

27. We will strengthen the monthly updates on domestic fuel prices to ensure full cost recovery. We have yet to implement the cost equalization mechanism originally planned to start in October 2023 to reimburse OMCs for their effective transportation costs.

- To enhance transparency in the pricing, the Energy Regulatory Board (ERB) has been publishing the price build-ups for wholesale and retail since February 2024 (**end-March 2024 SB**), as part of the monthly fuel price. The ERB commits to keep publishing the retail and wholesale price structures simultaneously with the fuel price adjustments (**proposed continuous SB**).

- The Government has reviewed the transport cost line to better reflect actual costs incurred by OMCs to supply fuel to Zambia and limit risks of shortages. The transport cost line for diesel will now be set as a weighted average of real cost estimates between road and pipeline to better reflect actual logistical costs incurred by OMCs and limit risks of fuel shortages. TAZAMA will be collecting the extra compensation from selling wholesale diesel products through the pipeline which will be deposited at the Energy Fund by August 1st 2024 to compensate OMCs using roads to import Diesel. On May 2024, we started a slate mechanism in the fuel price formula to compensate for exchange rate fluctuations, incorporating a compensation factor for the difference between the current and previous month's exchange rates. Going forward, we will maintain a transparent adjustment of the compensation factor as indicated by the agreed slate mechanism formula.

- All components of the fuel price formula are expected to be finalized for the July 2024 ERB price review. We commit to reintroduce the BPS premium for all fuels (road and pipeline) in July, which is a competitive and published cost estimate calculated as a simple average of the lowest bids for delivery in Dar es salaam for a given month. We will enhance transparency by publishing guidelines on the fuel price formula establishing clear guidance for the fuel price formulation. A statutory instrument will be issued by August 1st, 2024, that will detail the legal and approval procedures for revising each element in the fuel price formula preventing and discretionary changes while detailing specific clauses that would allow for deviations in exceptional circumstances. **(proposed end-August 2024 SB).** Going forward the exchange rate and Platt price being the only elements expected to vary on a monthly basis.

28. ZESCO continues to implement its 10-year turnaround strategy to improve its debt position, enhance revenue and reduce CAPEX and OPEX.

- ZESCO will continue to increase tariffs as planned. After an average 37-percent increase in 2023, ZESCO will increase the average retail tariff by 9 percent in 2024, and 15 percent in 2025. In 2026-27, the tariff is expected to increase by 10 percent and 14 percent, respectively. The proposed tariff adjustment, together with cost efficiency measures, is projected to provide ZESCO a net profit margin of 5.2 percent in 2023, 4.3 percent in 2024, 7.3 percent in 2025, 8 percent in 2026 and 13.1 percent in 2027.

- ZESCO's total outstanding debt amounted to US$2.6 billion in March 2024, from US$2.1 billion at end-2022. On-lent loans from the Central Government amounted to US$384 million, US$207 million to commercial lenders and US$1.9 billion as Government guaranteed loans.
- To improve its balance sheet, ZESCO continues to confirm and negotiate the remaining disputed IPP debt; mobilizing long-term domestic financing to repay IPP obligations; and is advancing in converting on-lent public loans to equity in close consultation with the MoFNP. ZESCO has continued to service its non-guaranteed external debt in 2023.

RESTORING DEBT SUSTAINABILITY AND IMPROVING DEBT MANAGEMENT AND TRANSPARENCY

29. The Government is advancing in restoring debt sustainability and reaching the objective of a return to "moderate" risk of debt distress over the medium term. We remain committed to refrain from contracting non-concessional debt (continuous performance criterion) and limit new external borrowing and disbursements of contracted but undisbursed external debt to the central government and ZESCO (ITs). To bring Zambia's risk of debt distress to "moderate" over the medium term, we are advancing in seeking debt relief from our external creditors to bring the debt service-to-revenue ratio to 14 percent by 2025 and maintain it at this level (on average) during 2026-31, while bringing the PV of external PPG debt-to-exports ratio to 84 percent by 2027, a level consistent with our weak debt-carrying capacity and with providing "substantial space" to absorb shocks. Reforms to achieve higher economic growth will improve Zambia's revenue mobilization and debt carrying capacity.

30. We have reached an agreement in principle on a debt restructuring operation in line with program parameters with most of our creditors. We are advancing with the bilateral agreements with the respective creditors under the OCC MoU. Complementarily, the Government reached an agreement in principle with the Steering Committee of the bondholders on March 25, 2024, and the consent solicitation was initiated on May 13, 2024. The Government is committed to continue to negotiate a debt treatment with other commercial creditors in good faith, and consistent with program parameters and CoT as defined by the OCC.

31. We continue enhancing debt management and transparency. The Government has updated the annual borrowing plan consistent with the 2024 Revised Budget, and will continue to publish, on a quarterly basis, the Debt Statistical Bulletin to cover external and domestic debt developments including loans contracted, new disbursements, information on guaranteed loans, non-guaranteed external State-Owned Enterprises (SOEs) debt, domestic and external arrears, and debt and any liabilities arising out of public private partnerships (**continuous end-quarter SB**). The 2024Q1 debt bulletin was published on the MoFNP website end May 2024. The Government of Zambia will continue to refrain from any payments on any external debt under the restructuring negotiation before a debt treatment agreement is reached on terms that are comparable with those provided by our official creditors.

32. We are strengthening the institutional framework for debt management. In the context of the new PDM,[2] the Government will approve the regulatory framework for the sinking fund, clarifying the nature and scope of guarantees and indemnities, establishing the general provisions of the debt management office, defining the credit risk assessment framework, and setting the supervising framework for monitoring and operational supervision of SOEs by end-June 2024.

33. We are advancing on establishing a Debt Management Office (DMO). The Cabinet Office approved the new organization structure for the DMO that aligns its mandate and structure with best practices, and consistent the PDMA (**end-December 2023 SB)**. The new DMO is expected to become fully operational by end-2024. To this end, the debt department at the MoFNP will be reorganized to become the DMO with front, middle and back offices, effectively following the IMF/World Bank guidelines for public debt management.[3] We will also adopt and publish the procedure manual of the DMO (**end-December 2024 SB**).

34. The Government will continue to rely on issuing securities for domestic financing and aim at diversifying its domestic investor base. We will continue to issue the quarterly issuance calendar based on domestic financing conditions and cash management needs. Given challenging domestic financing conditions in the first part of the year, we have revised down the net domestic financing from the securities market this year, to K 5.1 billion, which considers the fact that non-resident holdings have almost reached the nominal limit for 2024. As the non-resident holdings of domestic debt could put pressure on external debt sustainability, we will continue to limit the issuances of securities to non-residents in the primary market to 5 percent of the cumulative government bonds, with a nominal upper bound of K1.56 billion in 2024. To align with international best practices, effective January 2024, we started issuing all government securities at par (**end-March 2024 SB**). We will start re-opening issuances to develop benchmark bonds for key tenors to build liquidity. To provide stable financing to the government and support financial market development, we will further consolidate our efforts at developing the domestic bond market, with technical assistance support from the IMF.

C. Enhancing Monetary and Exchange Rate Policies

35. The Bank of Zambia (BoZ) remains committed to the inflation targeting (IT) framework to maintain price stability. Inflation has been increasing due to elevated food and fuel prices, higher electricity tariffs and exchange rate depreciation. Although inflation is largely caused by external shocks, we have taken steps to tighten monetary policy to address inflationary pressures through hikes both in the policy rate and the statutory reserve requirements. We expect inflation to

[2] The 2022 Public Debt Management Act.

[3] IMF/WB Guidelines for Public Debt Management.

converge to the inflation band by end-2025, as supply shocks are expected to drive inflation in the coming months in the context of limited demand pressures. The Monetary Policy Committee will continue to rely on the forward-looking monetary policy framework anchored on the policy rate as a key signal for the monetary policy stance and stands ready to use, when appropriate, all instruments at its disposal in pursuit of the set inflation objective. Decisions on the policy rate will continue to be guided by inflation outcomes, forecasts, and identified risks, to bringing inflation back to the 6-8 percent target range by 2025.

36. We will continue to abide by the Monetary Policy Consultation Clause (MPCC) under the program. Should actual inflation be higher or lower than the inner consultation band of ±2 percent (Table 1), the BoZ will consult with IMF staff on the reasons for the deviation and the policies to return to target. Should actual inflation be higher or lower than the outer consultation band of ±3 percent (Table 1), a consultation with the IMF Board will be triggered.

37. We will maintain a flexible exchange rate regime whilst mitigating excessive volatility. Our commitment to maintaining exchange rate flexibility will be consistent with our aim of increasing international reserves. In this regard, mining companies will continue to pay all tax obligations in U.S. dollars directly to the BoZ, and BoZ will continue to support the FX market through instruments such as FX swaps and FX intervention. Further, the review of the FX market rules and policies, initially expected by end-2023, is ongoing considering the broader remit provided in the 2022 Bank of Zambia Act to regulate the FX market and the need to promote price discovery, improve transparency, and develop a well-functioning market. IFEM rules are under preparation and FX market guidelines have been issued. We will seek feedback on the rules from market participants and IMF staff in 2024Q2.

38. The drought will temporarily derail our efforts to build reserves. We met the adjusted end-December 2023 NIR QPC of US$1,894 million, but we missed the end-March 2024 IT due to high FX demand and limited FX availability. In 2024, the drought will require additional FX for priority imports. Hence, our initial NIR targets to reach US$2,150 million by end-June 2024 (QPC) and US$2,235 million by end-December 2024 (QPC) do not seem reachable, despite allowing for kwacha depreciation, and may lead to significant food and energy shortages; hence, we propose revising down the NIR targets to US$1,400 million and US$1,750 million for end-June and end-December 2024 (QPCs), respectively. Higher multilateral disbursements would help sustain our objective of gross international reserves reaching 4.3 months of import coverage by end-2024. The central government will continue to transfer all FX-related budget support disbursements (loans and grants) to the BoZ to support reserve accumulation. If the opportunity arises, we will seize it to build additional reserves. We will renew our efforts to build reserves and propose an end-June 2025 NIR QPC of US$2,250 million, with GIR projected at 5.0 months of imports.

39. We are taking steps to modernize the monetary policy framework.

- The inaugural Monetary Policy Report (MPR) was published in February 2024. The MPR will be published on the Bank of Zambia website soon after each Monetary Policy Committee meeting, as it constitutes an instrument to substantially strengthen monetary policy communication.

- When necessary, we have deployed longer-dated open market operations instruments to manage excess liquidity. We have also revised the communication contents of our decisions to clarify what our intentions are in deploying these instruments.

- The BoZ has updated the Master Repurchase Agreement to align it with the 2011 Global Master Repurchase Agreement. The process of engaging banks to adopt the revised Master Repurchase Agreement and ISDA documentation is expected to be finalized by end-December 2024. So far, seven banks have signed the ISDA with BoZ.

- With a multi-year technical assistance program from the IMF, we continue implementing the Forecasting and Policy Analysis System (FPAS) to strengthen monetary policy decision-making. In 2024, the Bank intends to recalibrate parameters of the Quarterly Projection Model (QPM) to enhance forecasting and policy analysis.

D. Strengthening Financial Policies to Safeguard Financial Stability

40. The BoZ continues to strengthen its banking regulatory and supervisory framework.

- To enhance cyber resilience, the BoZ conducted four on-site examinations during the period under review.

- *On the macro-prudential framework,* an inter-agency Financial Stability Committee (FSC) established under the 2022 BoZ Act to enhance financial system surveillance held its first meeting in April 2024 attended by all members except for those to be appointed by the Board. These members are expected to be appointed by end-June 2024. The Committee held its second meeting in May 2024 and approved the maiden Financial Stability Report (FSR) prepared by the Bank, which will be published in June 2024 (**end-June 2024 SB**). The FSR will be published at least once a year and will assess emerging risks and vulnerabilities that pose systemic risk to the financial system. The report will also capture results from the macro stress testing exercises to determine financial sector resilience to shocks. To strengthen the identification, analysis, and mitigation of risks to financial stability in Zambia, we would undertake a Financial Sector Stability Review (FSSR) in 2025 through technical assistance from the IMF.

- On expanding the *macro-prudential toolkit*, capital regulations that provide guidelines on how to deploy countercyclical capital and conservation buffers will be issued by end-June 2024. To enhance liquidity risk management based on Basel III liquidity standards, regulations on the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) have been developed with IMF TA support and are currently undergoing internal consultations. In the interim, the BoZ has continued to conduct quarterly quantitative impact analysis to assess banks' preparedness. It is expected that the regulations on the LCR and NSFR will be implemented though a "phased-in" approach by end-2024 after SPC and Board approval. Other macro-prudential tools will be implemented in a gradual manner. The conduct of macro stress tests to ascertain the resilience of the system will continue. In addition to the stress test conducted by banks under the internal capital adequacy assessment process (ICAAP), micro-stress testing will continue to be conducted.

41. **The BoZ has started preparing the review of the legal and regulatory framework of the financial sector.** The BoZ completed the scoping review of the 2017 Banking and Financial Services Act (BFSA) in September 2023. The recommendations related to financial sector oversight from the IMF's Governance Diagnostic Assessment 2022 and IMF comments on FSAP have been scoped in the review of the BFSA. To this end, the review of the BFSA would include, amongst others, a focus on issues relating to ownership changes, auditing, prudential requirements, and consolidated supervision. The Bank will hold consultations with various stakeholders including the IMF. The draft bill is expected to be submitted to Parliament by end-2024 **(end-December 2024 SB).**

42. **The BoZ has taken steps to enhance deposit insurance framework.** The Deposit Protection Fund (DPF) Unit within the BoZ has been put in place and is now drafting the regulatory framework for an effective deposit insurance based on best international standards. The details of the deposit protection scheme under the 2017 BFSA Section 132 (5) (including its coverage, form of depositor preference and funding) will be finalized after consultation with external stakeholders including IMF staff. The BoZ will adopt the deposit insurance framework consistent with the Core Principles for Effective Deposit Insurance Systems and Basel Supervision Principles (**proposed end-April 2025 SB**).

43. **We remain committed to facilitating access to affordable credit to micro, small and medium enterprises (MSMEs).** For this purpose, the Government has allocated K 386 million to the Zambia Credit Guarantee Scheme in the 2024 Budget. In addition, the Bank is continuing work, on a pilot basis, to establish a Credit Guarantee Fund (CGF) to be implemented in June 2024. Consultants proposed options to design the structure of the CGF to Management in December 2023. A workshop is now planned for May 2024 before the final report is tendered to Management for consideration and implementation. This will augment the efforts being made to address the impact of the drought by building resilience in sectors such as agriculture and energy.

44. **The BoZ implemented a dedicated AML/CFT/CPF[4] supervision unit end-2023, to address the deficiencies identified in the 2019 ESAAMLG Mutual Evaluation, 2022 Enhanced Follow-Up Report, and Zambia's 2016 National Risk Assessment.[5]** In the interim, we will continue risk-based AML/CFT focused on-site examinations of regulated entities to ensure non-compliant financial service providers are sanctioned and required to put in place remedial measures. The AML/CFT/CPF unit will therefore support the BoZ's risk-based approach to AML/CFT/CPF

[4] Anti-Money Laundering/Countering the Financing of Terrorism/Countering the Financing of Proliferation of weapons of mass destruction.

[5] Eastern and Southern Africa Anti-Money Laundering Group.

supervision and the effective application of sanctions, for failure to comply with ML/TF/PF preventative measures, including enhanced due diligence measures for politically exposed persons.

E. Scaling Up Structural Reforms to Promote Higher and More Inclusive Growth

45. The Government will continue to promote growth through selective industrial strategies. The Investment, Trade and Business Development (Amendment) Act no. 3 of 2024 was assented in April 2024. The amendment of the Act provides investors eligibility for incentives if they invest in a new project or expansion project in a special economic zone, priority sector, rural area or farm block. More specifically,

- **Increasing productivity in agriculture.** The Cabinet approved the Comprehensive Agriculture Transformation Support Program (CATSP), initially earmarked for 2023Q2, in March 2024. The program covers extending service support, access to finance, irrigation development, and support to increase value-added, storage and logistics. Investments in farm blocks, including FDI, will be mobilized to increase arable area and production. The resources will also be used for, among others, road and energy infrastructure in Nansanga, Luena, Luswishi and Shikabeta farm blocks. To enhance production and productivity in a diverse range of agricultural products, the Government has developed the National Crop Diversification Strategy, to be launched in 2024, to promote agro-business and ease food security in Zambia.

- **Supporting Tourism.** Government has secured US$100 million from cooperating partners to develop Kasaba Bay, Liuwa National Park and the source of the Zambezi River. The Project Implementing Unit at the Ministry of Tourism to spearhead the process is now in place, and project initiation activities have commenced. Plans to diversify tourism products to offer Eco-Tourism Centers across the country and seek to increase the length of stay of tourists are still under development. The continued promotion of hosting of Meetings, International Conferences and Exhibitions (MICE) will also continue to boost tourism receipts.

- **To enhance growth in the energy sector, the Government will work to increase the electricity generation capacity.** In line with the long-term Integrated Resource Plan, the Government will continue promoting investments in additional power generation infrastructure such as phase II of the MW300 Maamba Thermal Powered Plant, and the use of alternative green and renewable energy sources to make the energy sector more resilient to climate shocks.

- **The Government will continue working undertaking measures to increase copper production.** This is in view of the resolution of Mopani and Konkola Copper Mines and the coming on board of new mines, such as Mumbulu, which began production in 2023, and developments at Luanshya Mine Shaft 28, which will boost medium-term production. The Government is currently procuring a firm to undertake the countrywide geophysical survey, which will be done in Copperbelt, Lusaka, Northwestern, Southern, and Western Provinces as well as parts of Central Province in 2024. Further, to enhance the regulatory oversight in the mining sector, Government presented a Bill to Parliament during the last sitting and its undergoing parliamentary approval process to operationalize the work of the Minerals Regulation Commission through the project approach. The Commission will address, among others, issues pertaining to production reporting, mineral content analysis, illegal mining, and illicit trade of minerals.

46. The government is drafting a Climate Change Bill to tackle climate-induced challenges. The Bill contains provisions to establish the Climate Change Fund which will support national climate change mitigation, adaptation programs and projects, research, and other climate change-related developments. Provisions are included to ensure that funds are integrated into the national budget and that project selection will conform to the established Public Investment Management guidelines. Public comments on the Climate Change Bill draft have been received and work to explore funding options for effective implementation is ongoing. The Bill is undergoing final internal consultations prior to submission to Cabinet and then Parliament by end-2024.

47. Girls and Women Empowerment. The Government, with the support from cooperating partners, continued to implement the Girls' Education and Women's Empowerment and Livelihoods Project. The project provides livelihood support for women and access to secondary education for girls in extremely poor households. As at end-March 2024, there were 139,351 beneficiaries against the target of 129,400 beneficiaries by April 2024. The midterm results from Support for Women's Livelihood impact evaluation results show that the beneficiaries had increased household income and savings, food security and asset ownership such as livestock.

48. Financial inclusion. The Second National Financial Inclusion Strategy (2024-28), launched in March 2024, aims to create an inclusive and robust financial ecosystem that provides sustainable financial products and services to the population. The target is to increase financial inclusion to 85 percent by 2028 from 69.4 percent achieved during the first strategy (2017-22). The strategy will be implemented by institutions such as MoFNP, BoZ, Securities and Exchange Commission, Pensions and Insurance Authority, Bankers Association of Zambia, among others.

49. The Government is taking steps to improve governance, in line with the recommendations contained in the IMF Diagnostic Report and Governance and Corruption. [6]

- The Access to Information (ATI) Act no. 24 of 2023 was assented to in December 2023 aimed at providing for the right to access information. The Statutory Instrument to commence the ATI Act will be issued by end-June 2024.
- Work is also ongoing to amend the Anti-Corruption Act with a view to strengthen provisions such as applicable penalties and sentences. The Act will be submitted to Parliament by March 31, 2025 (**end-March 2025 SB**). The Anti-Corruption Act will (i) clarify institutional

[6] Zambia: Technical Assistance Report-Diagnostic Report on Governance and Corruption.

arrangement and mandates of anti-corruption institutions to formulate, coordinate, monitor and evaluate anti-corruption policies and strategies; (ii) strengthen institutional and operational autonomy of the Anti-Corruption Commission by introducing necessary measures to ensure transparent, merit-based, and participatory appointment process of top anti-corruption officials, a clear and specific term of office, adequate remuneration and resourcing, and ultimate accountability to the legislature; (iii) bring the definition of "public official" in line with Zambia's international obligation under UNCAC.

- We have transitioned from manual to online application of mining licenses under the Mining Cadaster System to properly scrutinize license and transfer applications, and monitor the associated commitments on safety and environment, work programs, and production.
- The Government has made using the e-GP system mandatory, while Government will amend the Companies Act with respect to the beneficial ownership (BO) requirement aimed at ensuring BO forms are simplified and accurately capture BO related information.
- We will bring the 2016 Public Audit Act and the 2016 State Audit Commission Act into force by issuing the statutory instrument by the MoFNP (**proposed end-January 2025 SB**). Bringing the State Audit Commission Act into force will create a Board to provide oversight of the Auditor General's office.
- The Government will continue to regularly prepare and externally publish tax expenditure reports on measures expected to result in significant foregone revenues. Implementation of the recommendation is already underway as the Government prepares and publishes regular updates on revenue and expenditure performance as well as explanations for deviations.
- To operationalize PACRA's beneficial ownership register, including ensuring the availability of accurate, complete, and up-to-date beneficial ownership information and imposing effective sanctions on entities for non-compliance, we will finalize the preparation and implementation of the necessary legal and regulatory amendments by end-March 2025.
- We rolled out the E-Government Procurement by end-September 2023.

50. In line with the second review MEFP, the Ministry of Justice, PACRA and Anti-Corruption Commission and National Prosecution Authority have been receiving technical assistance from the International Monetary Fund as they undertake implementation of the recommendations in the Zambia Diagnostic Report on Governance and Corruption. The Cabinet Office has continued to provide oversight on implementation of the recommendations.

V. IMPROVING STATISTICS

51. Government will continue strengthening data collection and estimation of key national economic statistics such as GDP and employment. The focus will be on, developing cost effective instruments and methods for the collection of data such as enhancement of online data collection. This is in line with the Second-Generation Strategy for the Development of Statistics

(NSDS2). The strategy is sector inclusive and is one of the tools for the development of statistical systems in all sectors of the economy. Over the long term, all Ministries, Provinces and Agencies (MPAs) will be required to establish functional Statistics Units as well as Management Information Systems, with the view to strengthen sector capacities to produce statistics from administrative records.

52. **The Zambia Statistics Agency will rebase the national accounts to 2022**, from the current estimates which use 2010 as the base year, by end-2025. In 2024, the key activity will be updating the Business Register.

53. **The BoZ has implemented the electronic Balance of Payments (e-BoP) monitoring system by extending its coverage to all BoP transactions and enhancing collaboration with other Government regulatory agencies.** The BoZ, in collaboration with Zambia Revenue Authority, launched on January 1, 2024, the Export Proceeds Tracking Framework (Framework) that requires all export proceeds to be captured in the e-BoP System. Following the implementation of the Framework, exporters are receiving export proceeds through local banks. As a result, total receipts on the e-BoP monitoring system have risen. The Framework is generating more detailed information on exports, which is expected to improve the accuracy of balance of payments statistics. This information will be critical in informing policy. Compliance reconciliation has commenced, albeit with some challenges, mostly technical.

54. **Gaps related to unidentified other flows were identified in the compilation of balance of payments statistics.** These are largely attributed to the accumulation of foreign assets by the private sector as well as underreported imports. Initial flow-of-funds accounts for selected mining companies were completed with assistance from the IMF TA mission. The BoZ revised the balance of payments statistics for 2020-22, following the recommendation from the IMF TA mission on balance of payments statistics to address identified gaps related to other flows and the accumulation of foreign assets by the private sector. In 2024, the BoZ is undertaking additional work on the flow of funds accounts for the manufacturing sector with preliminary results expected by end-December.

VI. PROGRAM MONITORING

55. **We will continue to strengthen our institutional capacities, with the support of our partners.** Building capacity will help strengthen internal monitoring mechanisms and support program implementation. The provision of technical assistance has already contributed to in-depth diagnostics essential in implementing our reform plans, including on enhancing cash management. We look forward to receiving more technical assistance as we continue the reform agenda in carbon taxation, administration of local excise (especially alcoholic and other taxable beverages), incorporating the TADAT framework and other IMF tools in corporate strategy, the VAT control model and enhancing the operation of the national pension scheme in areas such as investments and risk management.

56. **Progress in the implementation of the policies under this program will be monitored through semi-annual reviews of the quantitative performance criteria, indicative targets,**

and structural benchmarks in the attached Tables 1 and 2. These are defined in the attached Technical Memorandum of Understanding (TMU), which also sets out the reporting requirements under the ECF arrangement. The third review is based on end-December 2023 test dates and was conducted over the period April 24 to May 7, 2024. The fourth review will be based on end-June 2024 test dates and should be completed on or after October 1, 2024. The fifth review will be based on end-December 2024 test dates and should be completed on or after April 1, 2025. The sixth review will be based on end-June 2025 test dates and should be completed on or after October 1, 2025.

57. We intend to use half of the IMF financing as budget support and the other half as a buffer to boost Zambia's international reserve position. In line with IMF safeguards policies, we will update (to reflect the augmentation of access) the Memorandum of Understanding signed in August 2022 between the Government and the BoZ clarifying our respective roles and responsibilities for servicing the associated financial obligations to the Fund.

Table 1. Zambia: Quantitative Performance Criteria and Indicative Targets, 2023–2025[1]

(Millions of Kwacha; cumulative from the beginning of each year; except where otherwise indicated)

	December 2023				March 2024			June 2024		September 2024			December 2024		March 2025	June 2025
	ECF 2nd Review*	Adjusted Target	Act.	Status	ECF 2nd Review*	Act.	Status	ECF 2nd Review*	Proposed ct.	ECF 2nd Review*	Proposed	Act	ECF 2nd Review*	Proposed	Proposed	Proposed
I. Quantitative Performance Criteria[2]																
1. Floor on the central government's primary balance (cash basis)	1,058	1,058	3,405	Met	682	4,953	Met	2,163	663	3,251	-1,579		5,574	-4,698	1,829	7,604
2. Ceiling on new central bank credit to the central government[3]	0	0	0	Met	0	0	Met	0	0	0	0		0	0	0	0
3. Floor on the net official international reserves of the Bank of Zambia (millions of US dollars)	1,952	1,894	1,894	Met	2,000	1,824	Not Met	2,150	1,400	2,200	1,700		2,235	1,750	2,100	2,250
II. Continuous Performance Criteria																
4. Ceiling on new external debt arrears by central government, the Bank of Zambia, and ZESCO (millions of US dollars)[4]	0	0		Met	0	0	Met	0	0	0	0		0	0	0	0
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by central government, the Bank of Zambia, and ZESCO (millions of US dollars)	0	0		Met	0	0	Met	0	0	0	0		0	0	0	0
III. Monetary Policy Consultation																
6. Average CPI inflation																
Upper outer band	15.1	15.1			15.1			14.9	17.7	13.6	18.2		11.5	17.8	17.6	16.9
Upper inner band	14.1	14.1			14.1			13.9	16.7	12.6	17.2		10.5	16.8	16.6	15.9
Mid-point	13.1	13.1	12.9	Met	13.1	13.5	Met	12.4	14.7	11.1	15.2		9.0	14.8	14.6	13.9
Lower inner band	9.5	9.5			9.5			9.1	12.7	8.1	13.2		7.0	12.8	12.6	11.9
Lower outer band	8.5	8.5			8.5			8.1	11.7	7.1	12.2		5.5	11.8	11.6	10.9
IV. Indicative Targets																
7. Floor on the fiscal revenue of central government excluding grants and mining revenue[7]	90,188	90,188	102,994	Met	24,494	27,932	Met	54,786	57,259	83,440	87,289		113,428	118,954	32,220	71,579
8. Ceiling on the present value of new external borrowing (millions of US dollars)[5]	0.0	0.0	0.0	Met	75	0	Met	75	75	75	75		75	75	0	0
9. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars)[6]	181	181	64	Met	100	0	Met	100	100	100	145		100	145	100	100
10. Floor on social spending by the central government	39,670	39,670	45,084	Met	11,984	10,768	Not met	25,227	25,227	39,058	42,468		46,070	50,000	13,618	27,291
11. Floor on the net clearance of arrears on expenditure and tax refunds																
11a. Floor on the net clearance of expenditure arrears[8] (+clearance/-accumulation)	8,039	8,039	12,118	Met	1,800	883	Not met	3,800	1,500	6,655	3,000		6,800	4,800	1471	3242
12. Floor on the net clearance of arrears of tax refunds[8] (+clearance/-accumulation)	2,442	2,442	-4,225	Not met	1,107	4,024	Met	1,215	1,215	3,122	3,122		4,430	4,430	1027	2054
V. Memorandum Items																
13. Expected budget grant disbursements (millions of US dollars)	125	125	125		29	0		57		86			114		n.a	n.a
14. Expected public sector loan disbursements into the Treasury Single Account at the Bank of Zambia (millions of US dollars)	58	0	0		80	43		160		240			320		87	174
15. Expected public sector disbursements, including budget support grants and loans, expected to be channeled into the Treasury Single Account at the Bank of Zambia (millions of U.S. dollars) *NIR Adjustor*						43		217	217	326	390		434	564	87	174
16. Government Debt Service (millions of U.S. dollars) *NIR Adjustor*						32			452		551			844	37	347
17. Expected liability management operation to clear fuel arrears (millions of US dollars). If the size of this operation is higher (lower), the primary balance will be adjusted downwards (upwards) by the difference expressed in the equivalent kwacha amount. *Primary Balance Adjustor*											600			600		

Sources: Zambian authorities; and Fund staff estimates and projections.

* IMF CR No. 23/439

[1] All definitions and adjustors are available in the Technical Memorandum of Understanding (TMU).

[2] Indicative targets for March and September.

[3] Without prejudice to the relevant provisions in the BoZ Act.

[4] Cumulative from the date of program approval.

[5] Excludes borrowing from the IMF, IDA, and the AfDB.

[6] Excludes disbursements from IDA and AfDB.

[7] From June 2023, the indicative target on the floor of revenue will drop the adjustment for VAT backlog, since this is a separate IT.

[8] From June 2023, the indicative targets on the clearance of arrears are split into separate ITs on expenditure arrears and tax refund arrears to better capture progress in each category.

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement			
	Rationale	**Date**	**Status**
Second ECF Review			
Continuous Structural Benchmarks			
FISP. Migration to e-voucher system - Implement migration from Direct Input Supply to e-voucher system in at least 33 districts in line with the migration criteria and principles outlined in the published Action Plan (including private sector participation in inputs distribution and the farmers' choice to select inputs).	Ensure sustainability of the fiscal consolidation	End-September 2023	Not Met
FISP contracts - Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor.	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Ongoing - within 3 months of contract award	Met
Debt Management - Publish a quarterly debt statistics bulletin.	Improve debt management and transparency.	Quarterly (ongoing)	Met
Debt Management - Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts.		Quarterly (ongoing)	Met
Other Structural Benchmarks			
PFM – Ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the IFMIS.	Strengthen fiscal governance, reduce corruption risks, and prevent the accumulation of arrears.	End-August 2023	Not met. Completed in November 2023
PFM – In consultation with Fund staff, submit to Parliament an amended PPP Act.	Strengthen the management of fiscal risks related to PPPs.	End-July 2023	Met
Governance and anti-corruption – Submit draft Access to Information Bill to Parliament.	Strengthen oversight on the use of public resources / Reduce corruption	End-October 2023	Not Met Submitted on November 7, 2023

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (continued)

Third ECF Review			
	Rationale	**Date**	**Status**
Prior Actions			
Submit to Parliament the revised 2024 Budget in line with program parameters. (MEFP ¶9)	Address the humanitarian response to the drought		
Publish the revised arrears clearance strategy integrating the repayment of the fuel arrears as discussed under the IMF program parameters in the MoFNP website. (MEFP ¶10)	Ensure NPV savings and prevent buildup of penalties		
Continuous Structural Benchmarks			
FISP contracts – publish summary information on all procurement contracts related to Farmer Input Support Program (FISP), or its successor, including beneficial ownership. (MEFP ¶16)	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Ongoing – within 3 months of contract award	Met
Publish a quarterly debt statistics bulletin. (MEFP ¶31)	Improve debt management and transparency	Quarterly – within 3 months	Met
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts. (MEFP ¶31)		Quarterly (on an ongoing basis)	Met
Other Structural Benchmarks			
Debt Management - Approve a new organizational structure for the debt management office. (MEFP ¶33)	Strengthen debt management	End-December 2023	Met
PFM – Cash management – Prepare an action plan to rationalize banking arrangements of local authorities, province- and district-level government entities, to discuss options for eventual inclusion in TSA, and to reduce account balances at commercial banks. (MEFP ¶21)	Reduce financing costs and improve the efficiency and oversight of the use of public resources	End-March 2024	Not Met Action plan approved in April 2024
Revenue Mobilization – Establish a unified Large Taxpayer Office (LTO) that will deal with all large taxpayers. (MEFP ¶13)	Having a dedicated LTO is in line with tax administration best practices and will help improve taxpayer services and boost revenues.	End March-2024	Met

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (continued)			
Third ECF Review			
	Rationale	**Date**	**Status**
Other Structural Benchmarks			
Fuel prices transparency--Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Regulatory Board. (MEFP ¶27)		End-March 2024	Met
Complete the transition to issue government bonds at par in the domestic securities market (MEFP ¶34)	Provide greater flexibility to debt management	End March 2024	Met
Fourth ECF Review			
Continuous Structural Benchmarks			
FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor, including beneficial ownership. (MEFP ¶16)	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Ongoing – within 3 months of contract award	Summary information published on Ministry of Agriculture website.
Publish a quarterly debt statistics bulletin. (MEFP ¶31)	Improve debt management and transparency.	Quarterly – within 3 months	Report is published online.
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts. (MEFP ¶31)		Quarterly (on an ongoing basis)	Report is published online.
FRA/DMMU - Publish summary information on all procurement contracts, related to imports of maize as part of 2024 drought response, including beneficiary ownership, on the FRA and DMMU websites as contracts are allocated. (MEFP ¶11)	Enhance transparency and accountability in FRA and DMMU procurement processes.	Ongoing – within one month of the contract award	All FRA and DMMU procurements contracts will use the E-GP procurement platform and be available on FRA and DMMU websites
Publish the Tazama open access tender results on the Ministry of Energy website within one month of the contract award, including winning bidder and all unsuccessful bids with price, type and quantities of inputs, total contract amounts and their beneficial owners. (MEFP ¶26)	Increase transparency in fuel tendering process.	Ongoing – within one months of contract award	Full results including unsuccessful tenders are published on a Quarterly basis on MoE website.

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (continued)			
	Rationale	**Date**	**Status**
Fourth ECF Review			
Continuous Structural Benchmarks			
Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Regulatory Board (MEFP ¶27)	Increase transparency in fuel pricing	Monthly (Ongoing)	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.
Other Structural Benchmarks			
Financial Stability – Produce and publish the inaugural annual financial stability report (MEFP ¶40)	Support financial stability	End-June 2024	Report is published online.
Fiscal Risks - Expand the scope of the Fiscal Risk Report to include key risks stemming from SOEs, local authoriteis, public pension schemes, PPPs and other obligations as well as the potential consequences of climate change. Establish standard methodologies and assumptions applied to quatifying risks. Assess risks in a forward-looking manner. (MEFP ¶23)	Quantify and mitigate fiscal risks related contingent liabilities.	End-June 2024	Prepare and submit to IMF staff an expanded FRR by end-June 2024 (prior to publishing it no later than end-September 2024).
Cash Management - Establish and staff a Cash management Unit to produce cash flow forecasts and a cash Management Committee to review forecasts and inform government financing plans. (MEFP ¶21)	Improve cash flow management and government financial management	End-July 2024	Cash management Unit established and staffed to provide a cash flow forecasting plan for 2025
Publish at the Ministry of Energy (MoE) revised pipeline open access tender procedures as per international best practices to guarantee transparent and fact-based shortlisting of OMCs and shorten award processing by removing multiple vetting clearances. (MEFP ¶26)	Improve efficiency and transparency in pipeline tender procedures	End-August 2024	Tender procedures have been revised as per international best practices and award time has been shortened to ensure winning bidder are announced at least two months before contract start date.
Adopt and publish a statutory instrument to define elements of the fuel price formula (both wholesale and retail) and institutionalize the review process for each element as per best practices, with deviations foreseen only under preestablished exceptional circumstances. (MEFP ¶27)	Establish a clear rule based and transparent monthly fuel pricing mechanism.	End-August 2024	The statutory instrument, detailing a rule-based fuel price adjustment mechanism, is published in the MoE website.

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (continued)			
	Rationale	**Date**	**Status**
Fourth ECF Review			
Other Structural Benchmarks			
Submit to Parliament a 2025 draft budget consistent with the parameters of the program. (MEFP ¶12)	Enhance budget credibility	End-September 2024	Draft 2025 Budget submitted to parliament is in line with ECF program parameters
FISP—Migration to full e-voucher system in at least 73 districts in line with the migration criteria and principles outlined in the published Action Plan. (MEFP ¶16)	Enhance competition	End-September 2024	Publish the list of at least 73 districts migrated to full e-voucher system in the 2024-25 farming season on the Ministry of Agriculture website by September 2024.
The Industrial Development Corporation will publish full audited financial statements for 2019-22. (MEFP ¶24)	Enhance transparency and accountability of SOEs.	End-October 2024	Audited financial statements published on the IDC website, including auditors' comments.
Publish a State-Owned Enterprises Policy defining the different roles of line Ministries, the Industrial Development Corporation and the MoFNP. (MEFP ¶24)	Improve governance	End-October 2024	The policy paper on State-Owned Enterprises that is published on the MFNP website is submitted for Cabinet approval.
Fifth ECF Review			
Continuous Structural Benchmarks			
FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor, including beneficial ownership. (MEFP ¶16)	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Ongoing – within 3 months of contract award	Summary information published on Ministry of Agriculture website.

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (continued)

Fifth ECF Review			
	Rationale	**Date**	**Status**
Continuous Structural Benchmarks			
Publish a quarterly debt statistics bulletin. (MEFP ¶31)	Improve debt management and transparency	Quarterly – within 3 months	Report is published online.
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts. (MEFP ¶31)		Quarterly (on an ongoing basis)	Report is published online.
FRA/DMMU - Publish summary information on all procurement contracts, related to imports of maize as part of 2024 drought response, including beneficiary ownership, on the FRA and DMMU websites as contracts are allocated (MEFP ¶11)	Enhance transparency and accountability in FRA and DMMU procurement processes.	Ongoing – within one month of the contract award	All FRA and DMMU procurements contracts will use the E-GP procurement platform and be available on FRA and DMMU websites
Publish the Tazama open access tender results on the Ministry of Energy website within one month of the contract award, including winning bidder with price, type and quantities of inputs, total contract amounts and their beneficial owners as well all unsuccessful bids with price, type and quantities of inputs. (MEFP ¶26)	Increase transparency in fuel tendering process.	Ongoing – within one months of contract award	Full results including unsuccessful tenders are published on a Quarterly basis on MoE website
Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Regulatory Board. (MEFP ¶27)	Increase transparency in fuel pricing	Monthly (Ongoing)	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.
Other Structural Benchmarks			
Adopt the procedures manual for the Debt Management Office (MEFP ¶33)	Improve debt management	End December 2024	The procedures manual is published on the website of the MoFNP.
Submit to Parliament the comprehensive review of the Banking and Financial Services Act (MEFP ¶41)	Strengthen financial regulation, supervision and resolution	End-December 2024	A draft bill on Banking and Financial Services Act is approved by the Cabinet and submitted to Parliament.

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (continued)

	Rationale	Date	Status
Fifth ECF Review			
Other Structural Benchmarks			
Publish a report with a detailed description and costing of tax expenditures on corporate income tax, personal income tax, customs duty, export duty and excise duty of the previous fiscal year. (MEFP ¶13)	Improve fiscal transparency and revenue mobilization	End-December 2024	Full Report published on the MoF website,
Conduct an independent audit of the 2024-25 E-voucher rollout in all 74 districts, verifying the identity of all FISP beneficiaries, reporting and investigating potential implementation issues, and ensuring transparent and minimal selection criteria for input manufacturers, distributors and agrodealers/retailers vetting. (MEFP ¶16)	Improve the integrity and transparency of the FISP program.	End-December 2024	Audit conducted by an independent auditing firm and full report published on the MoF website,
Implement a cash flow forecasting plan for 2025. (MEFP ¶21)	Improve cash flow management	End-December 2024	The cash flow forecasting plan is in line with government borrowing plans in 2025
Bring the 2016 Public Audit Act and the 2016 State Audit Commission Act into force by issuing the statutory instrument by the MoFNP. (MEFP ¶49)	Enhance institutional framework for public audits.	End-January 2025	Statutory instrument is issued
Submit to Parliament a revised Anti-Corruption Bill in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption. (MEFP ¶49)	Improve governance	End-March 2025	Anti-Corruption Bill is submitted to parliament and published on the website of the National Assembly.
Sixth ECF Review			
Continuous Structural Benchmarks			
FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor, including beneficial ownership. (MEFP ¶16)	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Ongoing – within 3 months of contract award	Summary information published on Ministry of Agriculture website.
Publish a quarterly debt statistics bulletin. (MEFP ¶31)	Improve debt management and transparency direct procurement of some inputs	Quarterly – within 3 months	Report is published online.
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts. (MEFP ¶31)		Quarterly (on an ongoing basis)	Report is published online.

Table 2. Zambia: Structural Benchmark Under the ECF Arrangement (concluded)

Sixth ECF Review	Rationale	Date	Status
Other Structural Benchmarks			
FRA/DMMU - Publish summary information on all procurement contracts, related to imports of maize as part of 2024 drought response, including beneficiary ownership, on the FRA and DMMU websites as contracts are allocated. (MEFP ¶11)	Enhance transparency and accountability in FRA and DMMU procurement processes.	Ongoing – within one month of the contract award	All FRA and DMMU procurements contracts will use the E-GP procurement platform and be available on FRA and DMMU websites
Publish the Tazama open access tender results on the Ministry of Energy website, including winning bidder and all unsuccessful bids with price, type and quantities of inputs, total contract amounts and their beneficial owners. (MEFP ¶26)	Increase transparency in fuel tendering process.	Ongoing – within one months of contract award	Full results including unsuccessful tenders are published on a Quarterly basis on MoE website
Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Regulatory Board (MEFP ¶27)	Increase transparency in fuel pricing	Monthly (Ongoing)	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.
Other Structural Benchmarks			
Adopt the deposit insurance framework consistent with the Core Principles for Effective Deposit Insurance Systems and Basel Supervision Principles (MEFP ¶42)	Strengthen financial supervision and stability and protect depositors.	End-April 2025	The BoZ adopts a deposit insurance scheme and published it in the BoZ website.
Publish the audit report by the controller of Internal Audit on the government's drought response, detailing price and details of service rendered for all FRA and Government activities (procurement and logistics contracts, storage and distribution), and DMMU procurement contracts. (MEFP ¶11)	Ensure accountability and efficiency in the government's drought response in affected districts.	End-September 2025	The final audit report published on the MoF website.

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program and reflects the understandings between the Zambian authorities and the IMF.** The TMU also defines the associated reporting requirements.

2. **The exchange rates for the purposes of the program are specified in Table 1 below.**

Table 1. Zambia: Program Exchange Rates (Rates as of May 31, 2022)

Currency	Zambian Kwacha per currency unit	Currency units per US Dollar
US Dollar	17.28	1.00
GB Pound	21.71	0.80
Euro	18.46	0.94
Rand	1.10	15.67
SDR	23.32	0.74
Renminbi	2.58	6.67

Source: Bank of Zambia.

3. **For the purposes of the program, the central government of Zambia corresponds to the budgetary central government encompassing the activities of the national executive, legislative, and judiciary branches covered by the national budget.** Specifically, it includes Parliament, the Office of the President, the national judiciary, all ministries, departments, agencies, constitutional commissions, and independent offices. See Annex Table 1.

4. **The fiscal year starts on January 1 and ends on December 31.**

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the Central Government's Primary Balance (Cash Basis)

DEFINITION

5. **The floor on the primary balance of the central government will be measured from the revenue and expenditure side ("above the line") at current exchange rates and on a cash basis.** Data on net domestic financing (NDF) will be reconciled between the Ministry of Finance and National Planning (MoFNP) and the Bank of Zambia (BoZ). The primary fiscal balance is calculated as the difference between government primary revenue and primary expenditure. Government primary revenue includes all tax and non-tax receipts, including external grants but excluding all interest revenue. Primary expenditure consists of current plus capital expenditure, excluding all interest payments.

REPORTING

6. **Data will be provided to the Fund, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates.** For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

ADJUSTORS

7. **If the amount of general budget support grants expected to be disbursed within the fiscal year falls short of the programmed amount, the floor on the primary balance will be adjusted downward by the amount of the shortfall.** The kwacha value will be calculated at the current exchange rate. General budget support grants exclude grants linked to externally financed capital projects or those earmarked to fund specific activities and programs.

8. **If the amount of fuel arrears repaid as a result of the liability management operation is lower (higher) than the one envisaged in the baseline, the primary fiscal balance (on a cash basis) will be adjusted upwards (downwards) by the difference.** The kwacha value will be calculated at the current exchange rate at the time of the loan disbursement.

B. Ceiling on New Central Bank Credit to the Central Government

DEFINITION

9. **New central bank credit to the central government is defined as the change in the total stock of outstanding loans and advances by the BoZ to the central government.** It excludes:

- Purchases by the BoZ of debt securities issued by the Government in the open market for purposes of implementing monetary and financial stability policies;
- on-lending of IMF credit; and
- interest accrued on the stock of outstanding loans and advances by the BoZ to the Government, its institutions, agencies, statutory bodies, and local authorities.

REPORTING

10. **The data for new central bank credit to the central government will be reconciled with the monthly monetary survey and submitted within 25 business days of the end of the month.**

11. **Data submissions should include a breakdown of outstanding loans and advances, as well as outstanding amounts of other central bank claims on the government, including debt securities and on-lending of IMF credit.**

C. Floor on the Net Official International Reserves of the Bank of Zambia

12. The net official international reserves (NIR) of the BoZ will be calculated as the difference between its gross international reserves and official reserve liabilities.

13. Gross international reserves consist of:

- Monetary gold;
- foreign currency;
- unencumbered foreign-currency deposits at non-resident banks;
- foreign securities and deposits; and
- SDR holdings and Zambia's reserve position with the IMF.

14. Gross international reserves exclude:

- Non-convertible currencies, except for operational balances in Rand with the South African Reserve Bank;
- any encumbered reserve assets including but not limited to reserve assets pledged, swapped, or used as collateral or guarantee for third-party external liabilities;
- reserve requirements on other depository corporations' foreign currency deposits;
- any foreign assets not readily available to or not controlled by the BoZ; and
- any foreign currency claims on Zambian residents.

15. Official reserve liabilities are defined as short-term (one year or less in original maturity) liabilities of the BoZ to non-residents, plus any outstanding use of IMF credit, and swap arrangements (maturing in less than one year) with residents and non-residents. Short-term liabilities exclude liabilities with an asset counterpart that is encumbered (excluded from the asset side as well).

16. All values not in U.S. dollars are to be converted to U.S. dollars using the program exchange rates defined in paragraph 2 above.

REPORTING

17. Daily data on net international reserves, including their components, will be reported by the BoZ on a weekly basis, within 15 business days from the end of each week.

ADJUSTOR

18. If the amount of public sector disbursements expected to be channeled through the Treasury Single Account (TSA) at the BoZ falls short of the programmed amount (e.g., due to disbursement delays or delays in the transfer of the associated funds from GRZ accounts to BoZ gross international reserves), the NIR target will be adjusted downward by the amount of the shortfall. Starting in 2024, if the amount of public sector disbursements expected to be channeled through the Treasury Single Account (TSA) at the BoZ is lower(higher) of the programmed amount, the NIR target will be adjusted downward (upward) by the amount of the shortfall (excess).

19. If the amount of **central government external debt service payment** falls short of the agreed projections, the NIR target will be adjusted upward by the amount of the shortfall. Conversely, if the actual debt service payments exceed the agreed projections, the NIR target will be adjusted downward by an equivalent amount.

II. CONTINUOUS PERFORMANCE CRITERIA

20. External debt is defined on a residency basis. The term "debt" has the meaning set forth in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).

(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current (i.e., not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time. These payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

D. Ceiling on New External Debt Arrears by Central Government, the Bank of Zambia, and ZESCO

DEFINITION

21. The performance criterion on the non-accumulation of new external debt arrears is defined as a cumulative flow in gross terms starting from the date of program approval (August 31, 2022) and applies on a continuous basis. External debt arrears are defined here as debt service (principal and interest) that is overdue (considering any contractually agreed grace periods) on external debt contracted or guaranteed by the central government, the BoZ, and ZESCO with non-residents. This performance criterion does not cover arrears on debt subject to renegotiation or restructuring.

REPORTING

22. Arrears will be monitored continuously by the MoFNP, including for ZESCO, and the BoZ. The MoFNP will immediately report to the IMF staff any new accumulation of external arrears; otherwise, data will be compiled jointly by the two institutions, and will be reported by the MoFNP on a quarterly basis, within 30 days from the end of each quarter.

E. Ceiling on the Contracting or Guaranteeing of New Non-Concessional External Debt by Central Government, the Bank of Zambia, and ZESCO

DEFINITION

23. The newly contracted or guaranteed external debt by the central government, the BoZ and ZESCO with non-residents is concessional if it includes a grant element of no less than 35 percent. The grant element is the difference between the net present value (NPV) of debt and its nominal value and is expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due. The discount rate used for this purpose is 5 percent. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such that both components constitute an integrated financing package with a combined grant element equal to at least 35 percent. External debt is defined as in paragraph 18 above.

24. For debt carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the three-month U.S. Secured Overnight Financing Rate (SOFR) is 2.38 percent and will remain fixed for the duration of the program. The spread of three-month Euro EURIBOR over three-month USD SOFR is -150 basis points. The spread of three-month JPY Tokyo Interbank Offered Rate (TIBOR} over three-month USD SOFR is -250 basis points. The spread of three-month U.K. Sterling Overnight Index Average (SONIA) over three-month USD SOFR is -50 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over three-month USD SOFR is -50 basis points. [1] Where the variable rate is linked to a benchmark interest rate other than the three-month U.S. SOFR, a spread reflecting the difference between the benchmark rate and the three-month U.S. SOFR (rounded to the nearest 50 basis points) will be added. Given the ongoing transition away from LIBOR, once operationally feasible, this TMU can be updated to reflect the benchmark replacement for JPY LIBOR, the Tokyo Overnight Average Rate (TONAR).

25. This minimum grant element applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

26. New non-concessional external debt is defined as any form of new debt other than concessional debt as defined in paragraph 20 above, contracted or guaranteed by the central government, BoZ, and ZESCO with non-residents.

27. For the purpose of this performance criteria, the ceiling on contracting or guaranteeing of new non-concessional external debt by the central government, BoZ, and ZESCO excludes: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents; (iii) debt contracted from IMF, World Bank and AfDB; iv) short-term trade credits for imports, incurred since the beginning of the calendar year; and v) central bank debt issuance for the purposes of monetary policy or reserves management and FX swaps for the purposes of monetary policy or reserves management.

28. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met in accordance with the terms of the contract and as provided in the national legislation. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

[1]The program reference rate and spreads are based on the "average projected rate" for the three-month U.S. SOFR over the following 10 years from the most recent April 2022 World Economic Outlook (WEO).

REPORTING

29. The MoFNP will immediately report to the IMF staff details of any new external loans contracted or guarantees issued. Detailed data on all new external debt (concessional and non-concessional) contracted or guaranteed by the central government, BoZ, and ZESCO will also be provided by the MoFNP on a monthly basis, within 30 days from the end of each month. The information will include (i) amounts contracted or guaranteed; (ii) currencies; and (iii) terms and conditions, including interest rates, maturities, grace periods, payments per year, commissions and fees, and collaterals.

F. Other Continuous Quantitative Performance Criteria

30. As for any Fund arrangement, continuous QPCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

III. MONETARY POLICY CONSULTATION CLAUSE

31. The consultation bands apply to the average rate of inflation in consumer prices as measured by the overall consumer price index (CPI) published by ZamStats. If the observed quarterly average rate of CPI inflation (calculated as the average of the 3 monthly year-on-year inflation rates within a quarter) falls outside the outer bands for June and December test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. If the observed quarterly average rate of CPI inflation falls outside the inner bands for each test date, the authorities will conduct discussions with Fund staff.

IV. INDICATIVE TARGETS

G. Floor on the Fiscal Revenues of the Central Government Excluding Grants and Mining Revenues

DEFINITION

32. The fiscal revenues of the central government include all tax and non-tax receipts but exclude external grants as well as revenues from corporate income tax on the mining sector and the mineral royalty tax.

REPORTING

33. **Data on fiscal revenues (cash basis) will be provided to the IMF staff, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates.** For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

H. Ceiling on the Present Value of New External Borrowing

DEFINITION

34. **This indicative target is a ceiling to the present value of all new external debt contracted or guaranteed by the central government, the BoZ and ZESCO, including commitments contracted or guaranteed for which no value has been received.** External debt is defined as in paragraph 18 above. The present value (PV) of new external debt is calculated by discounting the future stream of payments of debt service (principal and interest) due on this debt on the basis of a discount rate of 5 percent and taking account of all aspects of the debt agreement including the maturity, grace period, payment schedule, upfront commissions, and management fees. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the nominal value of the debt.

35. **For the purpose of this indicative target, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or kind).**

36. **For the purposes of this indicative target, the ceiling excludes**: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents; (iii) debt contracted from IMF, World Bank and AfDB; (iv) short-term trade credits for imports, incurred since the beginning of the calendar year.; and (v) central bank debt issuance and FX swaps for the purposes of monetary policy or reserves management.

REPORTING

37. **The authorities will inform the IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government and will consult with staff on any potential debt management operations.**

I. Ceiling on the Disbursement of Contracted but Undisbursed External Debt to Central Government And ZESCO

DEFINITION

38. **This ceiling applies to the disbursement of contracted but undisbursed external debt to the central government and ZESCO, and of contracted but undisbursed government-**

guaranteed external debt to ZESCO. The ceiling is set based on data shared by the authorities with staff on projected disbursements of contracted but undisbursed external debt between 2022 and 2025, after considering the authorities' estimates for the cancelation and rescoping of contracted but undisbursed external loans and applies to this list. External debt is defined as in paragraph 18 above. Disbursements from IDA and AfDB will be excluded from this ceiling.

REPORTING

39. Detailed data on disbursements of contracted but undisbursed external loans of the central government and contracted but undisbursed external loans of ZESCO (government-guaranteed or not) will be provided on a quarterly basis, within 30 days from the end of each quarter, including amounts, currencies, creditors, and project names.

J. Floor on Social Spending by the Central Government

DEFINITION

40. Social spending is defined as central government expenditure on the Social Cash Transfer, Food Security Pack, Empowerment Fund (Women and Youth), the Public Welfare Assistance Scheme, Water and Sanitation, budget transfers to the Public Service Pensions Fund, the Health Sector, and the Education Sector. It is computed on a cash basis.

REPORTING

41. Data will be provided to the IMF staff, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

K. Floor on the Net Clearance of Expenditure Arrears and Floor on Net Clearance of Tax Refund Arrears by Central Government

DEFINITION

42. Arrears on (i) expenditure and (ii) tax refunds are defined as:

(i) Expenditure Arrears

- **For wages, salaries, and pension contributions:** any payments outstanding after the agreed date for payment of staff and for payroll deductions to third parties.
- **For goods & services and capital spending (including contractor payments):** an arrear arises when the bill has been received and delivery verified, but payment has not been made within the normal period per standard GRZ policy (30 days), or as stated in the supplier's contract.

- **For utilities:** if unpaid after the due date.

- **For subscriptions and leases:** amounts outstanding after the due date.

For the purposes of assessing the indicative target, changes in the stock of expenditure arrears due to ongoing audits, accumulation of penalties or interest, and exchange rate valuation effects will not affect the assessment. The target will be considered as met, when agreed stock at the end of the previous fiscal year is reduced in an amount equal or larger than the agreed pace of rundown of arrears.

(ii) Tax (VAT) Refund Arrears

- **For VAT refunds:** overdue if unpaid one month after the claims were validated and approved for payment.

For the purposes of assessing the indicative target, the impact of newly validated claims for the previous year will be neutralized. This means that the target will be assessed as met if the gross clearance of VAT refunds is equal to (or more than) the sum of new claims submitted for the current year plus the agreed pace of rundown of the previous year's arrears.[2]

REPORTING

43. Information regarding central government arrears on expenditure and tax refunds will be compiled through quarterly audits of the accounts of the ZRA and spending ministries and agencies, conducted by the Internal Audit Department of the MoFNP. The audits will be completed, and data submitted within 90 days from the end of each quarter. For expenditure arrears, arrears denominated in foreign currency will be reported in the original currency of denomination.

44. For the clearance of VAT refund arrears, the MoFNP will report separately clearance of the stock of audited VAT refunds accumulated up to the end of the previous fiscal year, as well as accumulation of claims and clearance of newly approved VAT refund in the current fiscal year.

V. MONITORING AND REPORTING REQUIREMENTS

45. To facilitate the monitoring of the program, the information listed in Annex Table 2 below will be reported to the IMF staff within the timeframe indicated. These data will be provided electronically by email to AFRZMB@IMF.ORG.

Table 1. Zambia: Administrative Units Comprising the Budgetary Central Government

Office of the President – State House
Office of the Vice President
National Assembly
Electoral Commission of Zambia
Civil Service Commission
Office of the Auditor General
Cabinet Office – Office of the President
Teaching Service Commission – Office of the President
Zambia Police Service Commission
Zambia Police Service
Office of the Public Protector
Ministry of Mines and Mineral Development
Ministry of Home Affairs and Internal Security
Drug Enforcement Commission
Ministry of Foreign Affairs and International Cooperation
Judiciary
Disaster Management and Mitigation Unit
Local Government Service Commission
Ministry of Information and Media
Public Service Management Division
Ministry of Local Government and Rural Development
Zambia Correctional Services
Ministry of Justice
Ministry of Commerce, Trade and Industry
Human Rights Commission
Ministry of Small and Medium Enterprise Development
Zambia Correctional Service Commission
Ministry of Finance and National Planning
Smart Zambia Institute
Ministry of Labor and Social Security
Ministry of Water Development and Sanitation
Ministry of Green Economy and Environment
Ministry of Infrastructure, Housing and Urban Development
Ministry of Energy
Ministry of Technology and Science
Ministry of Tourism
Ministry of Youth, Sport and Arts
Ministry of Defense
Zambia Security Intelligence Services – Office of the President
Ministry of Education
Ministry of Lands and Natural Resources
Ministry of Fisheries and Livestock
Anti-Corruption Commission
Muchinga Province
Ministry of Agriculture
Lusaka Province
Copperbelt Province
Central Province
Northern Province
Western Province
Eastern Province
Luapula Province
North-Western Province
Southern Province

Table 2. Zambia: Reporting Requirements

Data Description	Data Freq.	Agency	Reporting Freq.	Date
Monetary and Financial Sector				
1. Reserve money and its components (NDA and NFA) at current and program exchange rates	D	BoZ	W	T15
2. Excess reserves	D	BoZ	M	T15
3. Overnight interbank rates	D	BoZ	W	T15
4. Treasury bill and BoZ bill auction results	W	BoZ	W	T15
5. Interest rates	M	BoZ	M	T15
6. Holdings of government and BoZ securities by maturity and	M	BoZ	M	T15
type of investors (local commercial banks, non-banks, and foreigners)	M	BoZ	M	T15
7. Monetary survey (incl. the BoZ and ODC surveys)	M	BoZ	M	T15
8. Financial soundness indicators by bank				
External Sector	D	BoZ	W	T15
9. Exchange rates	D	BoZ	W	T15
10. Gross international reserves and foreign exchange purchases and sales	M	BoZ	M	T15
11. BoZ FX cash flow	W	BoZ	M	T15
12. FX backlog				
Fiscal	D	BoZ	W	T7
13. Net domestic financing	M	MoFNP	M	T30
14. Fiscal table including revenue, expenditure, and financing	Q	MoFNP	Q	T30
15. Social spending	Q	MoFNP	Q	T90
16. Stocks of arrears on expenditure, tax refunds, and domestic debt service	Q	MoFNP	Q	T90
17. Stock of VAT arrears divided by stock of arrears as of end-year plus new approved VAT refund claims and payments in the current fiscal year.				
Real Sector	M	ZamStats	M	T15T90
17. Consumer price index and monthly statistical bulletin	Q	ZamStats	BA	
18. National accounts				T30
External Debt	Q	MoFNP	Q	
19. New external loans contracted or guaranteed by the central government, BoZ, and ZESCO, or any other agency on their behalf, with detailed information on the amounts, currencies,				T30
terms, conditions, and purposes.	M	MoFNP	Q	
20. Disbursements of contracted but undisbursed external loans to the central government and contracted but undisbursed external loans to ZESCO (government-guaranteed or not)				T90
Program Monitoring	Q	MoFNP	Q	
21. Report on program performance				

D = Daily, W = Weekly, M = Monthly, Q = Quarterly, BA = Bi-annual, A = Annual; TX = X days after the date of the last observation

ZAMBIA

June 13, 2024

THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, MODIFICATIONS OF THE MONETARY POLICY CONSULTATION CLAUSE AND OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Costas Christou (African Department) and Jarkko Turunen (Strategy, Policy and Review Department) and Manuela Francisco and Hassan Zaman (International Development Association)

The Debt Sustainability Analysis (DSA) was prepared jointly by the staff of the International Monetary Fund and the International Development Association, in consultation with the authorities.

Zambia: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgment	*No*

Zambia remains in debt distress. The stock of external arrears (principal and interest) reached 26 percent of GDP by end-year 2023. Despite significant fiscal adjustment, in the absence of the settlement on the Eurobonds exchange and debt restructuring agreements with the non-bonded commercial creditors, Zambia is in overall and external debt distress and public debt remains unsustainable. Under the baseline, all four external debt burden indicators would breach their indicative thresholds by large margins through the medium term.[1] The authorities have signed the Memorandum of Understanding with official bilateral creditors on a debt treatment under the G20 Common Framework and have a credible strategy in place to treat commercial creditors on comparable terms. An agreement in principle (AIP) consistent with program parameters and the OCC Comparability of Treatment (CoT) requirements was reached with the Steering Committee of the Ad-Hoc Creditor Committee of Zambia's Eurobonds holders on March 25, 2024. Under an alternative scenario, where the agreed treatments are applied to the baseline, while other non-bonded commercial claims are treated on comparable terms, debt would be assessed to be sustainable on a forward-looking basis.

[1] Zambia's debt-carrying capacity is rated as weak based on the composite indicator (CI). The composite indicator is calculated using data from the April 2024 WEO and the 2022 CPIA, the latest available.

PUBLIC DEBT COVERAGE

1. The coverage of Zambia's public and publicly guaranteed (PPG) debt for the purpose of the DSA includes as in the previous DSA the following: i) central government domestic and external debt, including US$1.6 billion of arrears to external suppliers (fuel and contractors) and central government guaranteed external debt; ii) the nonguaranteed external debt of Zambia Electricity Supply Company (ZESCO), the fiscally important state-owned utility;[2] and iii) the domestic and external arrears of the same enterprise. Central bank external debt (including outstanding Fund credit), together with the debt of social security funds guaranteed by the central government,[3] are also included in the coverage.

2. The DSA incorporates non-guaranteed SOE debt in the baseline. In accordance with the LIC-DSF Guidance Note, given the significant fiscal risks posed by ZESCO, its non-guaranteed external debt[4] and outstanding payables to domestic (US$1.2 billion at end-2023) and external (US$100 million at end-2023) independent power producers (IPPs), are included in the DSA perimeter. The authorities are taking steps to restore ZESCOs' financial viability over the medium term. As progress is made, the inclusion of its non-guaranteed debt in the DSA debt perimeter will be reassessed. Local governments in Zambia currently cannot borrow externally without the central government's guarantee. The authorities confirmed that no extrabudgetary funds with outstanding external debt currently exist.

3. The 2021 General SDR allocation has been incorporated into the DSA in line with the staff guidance note.[5] The Treasury, who owned the SDR allocation,[6] used 50 percent of the allocation in 2022 and 2023, respectively, for budget support. However, the authorities did not draw on the SDR holdings at the IMF SDR Department but transferred the SDR holdings to the BoZ in exchange for kwacha. Consequently, SDR holdings are now part of BoZ's unencumbered reserves. As the SDR holdings of Zambia remain at least as high as the SDR allocation in the Fund, the Treasury does not owe net SDR interest payments to the IMF.

4. The DSA is conducted on a residency basis. In line with the LIC-DSF Guidance Note, nonresident holdings of domestic-currency debt (as recorded by the authorities) are treated

[2] The government guaranteed debt of ZESCO and other SOEs has always been included in the DSA and is now also part of the authorities' officially published debt metric. ZESCO's contingent risks to the sovereign relate to its persistent and large cash deficits. See *Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries*, 2018, https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf

[3] As of end-December 2022, this debt consists solely of an outstanding government guaranteed external loan to the Public Service Pension Fund of US$52.7 million.

[4] ZESCO generated sufficient revenues in 2023 to continue servicing its nonguaranteed external debt, which has been completely amortized by end-December 2023.

[5] See Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations, August 2021, https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319.

[6] Equivalent to about US$1.3 billion.

as external debt for the purpose of this DSA, while recognizing the underlying measurement challenges. End-December 2023 data indicates the stock held by non-resident increased during 2023H2 to reach K 56.4billion by end-2023, (US$2.2 billion or 24 percent of the outstanding domestic-currency government securities). This compares with a stock of K 47.4 billion (about US$2.6 billion, 22.5 percent of outstanding domestic-currency government securities) at end-2022. Due to the projected depreciation of the exchange rate by end of the year, the dollar amounts of the stock held by non-resident is decreasing. The authorities are restricting participation of non-residents in the primary market given the debt sustainability risks. In 2024–25, a limit of 5 percent of the face value of gross domestic bonds issuance will be applied in line with the agreement on the restructuring perimeter reached with the OCC in June 2023. By the end of the first quarter in 2024, the 5 percent limit on non-residents participation in the bonds primary market has already been reached.

Text Table 1. Zambia: Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	12.0	ZCCM-IH purchase of Mopani from Glencore.
4	PPP	35	percent of PPP stock	1.4	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			18.4	

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the coutnry's public debt definition (1). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assess to be neglibible, a country team may reduce this to 0 percent.

BACKGROUND ON DEBT

5. **The December 2023 DSA, assessed Zambia's debt risk as in debt distress.**[7] This followed Zambia's default on its sovereign Eurobonds in 2020 and the accumulation of arrears to both official bilateral and other commercial external creditors. Note that the accumulation of external arrears in 2023 only relates to claims in the debt restructuring perimeter. To help address their debt sustainability challenge, the authorities requested a debt treatment under the G20 Common Framework (CF) in January 2021.

[7] Zambia: Second Review Under the Arrangement Under the Extended Credit Facility, Requests for a Waiver of Nonobservance of a Quantitative Performance Criterion, Modifications of the Monetary Policy Consultation Clause and of Quantitative Performance Criteria, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Zambia. The LIC DSF Guidance Note (footnote 2) calls for an assessment of 'in debt distress' when restructuring with the majority of commercial creditors has not been completed.

6. The Official Creditor Committee (OCC) under the CF, formed in June 2022, reached agreement on a memorandum of understanding (MoU) on terms of the debt restructuring in October 2023. The MoU reflects the agreed debt treatment consistent with program parameters announced in June 2023, and has been signed by all OCC members. In parallel, the authorities engaged in good faith negotiations with its Eurobond holders, facilitated by the bondholder committee that was established in July 2020, and other external private creditors. An agreement in principle for restructuring Zambia's Eurobonds, consistent with program parameters and Comparability of Treatment (CoT) requirements as set by the OCC, was announced on 25 March 2024 and the consent solicitation was launched on May 13, 2024.

7. Zambia's external PPG debt increased to US$21.6 billion by end-2023. This reflected close to US$710 million in new foreign-currency denominated external debt disbursements to the central government—principally by the IMF and World Bank—and an increase in interest arrears on central government foreign currency-denominated external debt of about US$439 million in 2023. The stock of expenditure arrears (fuel and contractors) due to non-resident suppliers, together with the stock of ZESCO's arrears to external IPPs was broadly unchanged at US$1.75 billion at end-December 2023. However, the stock of non-resident holdings of domestic-currency debt declined in dollar terms to US$2.2 billion by end-2023 due to the exchange rate depreciation. In parallel, while further interest arrears (of US$90 million) also accumulated on government guaranteed external debt, ZESCO's non-guaranteed external debt was fully amortized in 2023 as it generated sufficient revenues in 2023 to continue servicing it.[8] As a result, external PPG debt ended the year about US$639 million higher (see text Table 2). In parallel, the outstanding stock of domestically-issued government securities stood at K 232 billion at end-2023 (or 41 percent of GDP), up from K 210 billion a year ago. With domestic budget arrears (in dollar terms) and ZESCO domestic IPP arrears declining, total PPG debt ended 2023 at about US$31.2 billion (or 141 percent of GDP).

8. The creditor composition of external debt (see text Table 2) reflects the representation of the official creditors in the OCC. Official representatives of some countries with eligible claims represented in the OCC have made requests to classify their claims backed by an official export-credit agency as commercial claims, in particular China has requested to classify all Sinosure-backed commercial claims as private claims.[9] These claims are included as part of commercial creditors' claims, and the arrears related to these claims are considered as arrears to the private sector for the purpose of the application of Fund's policies. Given this classification, commercial creditors share in total external debt has reached 32 ½ percent in this DSA update.

[8] A payment of US$1.5 million was made by ZESCO also on government guaranteed debt in January 2024, which was communicated by the authorities to the OCC Secretariat.

[9] Under the Debt Service Suspension Initiative (DSSI), China requested to classify its national development bank, the China Development Bank, as a commercial creditor. This is consistent with the classification requested under the Common Framework.

Text Table 2. Zambia: Public and Publicly Guaranteed Debt Stock—Creditor Composition and Contracted Debt Service[1] (as of end-2023)

	Debt stock (end of period) [2]			Debt service [3]			
	2023			2024	2025	2024	2025
	(In US$)	*(Percent total debt)*	*(Percent GDP)* [10]	*(In US$)*		*(Percent GDP)*	
Total	31,244	100.0	141.1	3,289	5,463	11.7	19.4
External Foreign-Currency Debt	19,390	62.1	87.6	331	2,581	1.2	9.2
Multilateral creditors[4]	4,151	13.3	18.7	156	155	0.6	0.6
IMF	563	1.8	2.5				
World Bank	2,252	7.2	10.2				
ADB/AfDB/IADB	917	2.9	4.1				
Other Multilaterals	419	1.3	1.9				
o/w EIB	207	0.7	0.9				
o/w IFAD	132	0.4	0.6				
Bilateral creditors[5]	6,456	20.7	29.2	130	120	0.5	0.4
Paris Club	1,524	4.9	6.9	45	14	0.2	0.0
o/w: Israel	488	1.6	2.2				
o/w: UK	249	0.8	1.1				
Non-Paris Club	4,932	15.8	22.3	85	106	0.3	0.4
o/w: China	4,174	13.4	18.9				
o/w: India	345	1.1	1.6				
Eurobonds	3,715	11.9	16.8	-	1,448	-	5.1
Commercial creditors	3,313	10.6	15.0	45	858	0.2	3.0
Fuel arrears	897	2.9	4.1	n/a	n/a	n/a	n/a
Arrears to external contractors	757	2.4	3.4	n/a	n/a	n/a	n/a
ZESCO external IPP arrears	101	0.3	0.5	n/a	n/a	n/a	n/a
Domestic-Currency Debt	11,854	37.9	53.5	2,958	2,882	10.5	10.2
Held by residents, total	6,855	21.9	31.0	2,517	3,347	8.9	11.9
Held by non-residents, total	2,192	7.0	9.9	441	314	1.6	1.1
T-Bills	1,747	5.6	7.9	1,978	2,000	7.0	7.1
Bonds	7,301	23.4	33.0	980	882	3.5	3.1
Loans	-	-	-				
Domestic budget arrears and ZESCO domestic IPP arrears	2,806	9.0	12.7				
Memorandum Items:							
Collateralized debt[6]	2,428	7.8	11.0				
o/w: Related							
o/w: Unrelated							
Contingent liabilities	n/a	n/a	n/a				
o/w: Public guarantees							
o/w: Other explicit contingent liabilities[7]							
SOE guaranteed external debt[8]	1,560	5.0	7.0				
SOE non-guaranteed external debt (ZESCO)[8]	-	0.0	-				
Total external PPG debt[9]	21,583	69.1	97.5				
Nominal GDP	28,163						

1/ Based on end-December 2022 data from the authorities (before the application of the debt treatment) and IMF staff estimates. It includes arrears on principal and interest. It does not include any penalty fees or interest on the arrears.
2/ Includes direct debt to central government, SOE guaranteed debt and non-guaranteed debt of ZESCO
3/ Contracted debt service; creditor classification according to the OCC representation.
4/ "Multilateral creditors" are simply institutions with more than one sovereign as a shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
5/ Includes loans to central government and loans backed by guarantee from an official export-credit agencies, except Sinosure backed commercial claims.
6/ Based on latest available data, as of end-December 2022, there was around $2.5 billion of disbursed external foreign-currency debt (inlcuding non-guaranteed debt of ZESCO) with some form of security or escrow arrangement that could be considered as collateralized debt, including debt with a government guarantee or third-party (exporter) guarantee as security. Almost all this debt is in arrears and, where the security or escrow provides for a claim on funds in a specific account, the authorities have reported zero balances in those accounts. The exception is the non-guaranteed external debt of ZESCO which is collateralized with receivables and which is being serviced. Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key
7/ Based on information received, there are no such contingent liabilities. Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).
8/ Reflected in external foreign-currency public debt in this table.
9/ Total PPG external debt comprises total external foreign-currency debt, domestic-currency debt held by non-residents, fuel arrears, arrears to external contractors, and ZESCO non-guaranteed external debt and arrears.
10/ The debt-to-GDP ratios are calculated from the value in national currency by converting outstanding debt in US dollars at eop exchange rate, and nominal GDP at average period exchange rate.

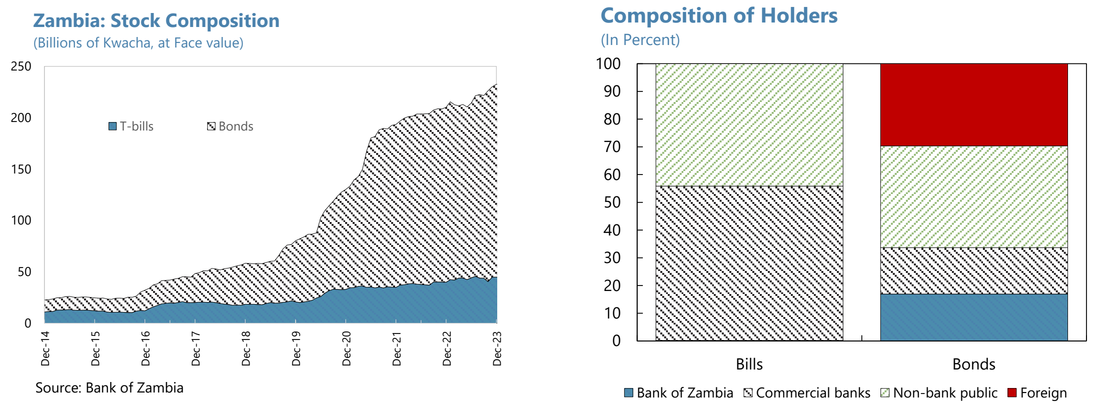
Sources: Zambian authorities and IMF staff calculations.

9. **Zambia remains without access to international capital markets.** After peaking at 6,954 basis points on March 20, 2023, weighted average spreads on Eurobonds narrowed to 1,359 bps by May 22, 2024. Reflecting a decrease in uncertainty around the debt restructuring process, non-resident investors came back to the domestic debt market in 2023, notably in the bonds market, reaching 30 percent of total bonds issued by end-December 2023. As a consequence,

the share of non-resident holders of domestic debt increased to 24 percent at end-2023, up from about 22.5 percent at end-2022, but still lower than a peak of around 29 percent earlier in 2022 (see Text Figure 1). The return of non-residents led to an increase in demand at bond auctions and domestic yields began to come down in the second half of 2023. Financing risks remain elevated consistent with the DSF market-financing module, although the signal of this module is currently less relevant given Zambia is currently shut-out from international markets (Figure 5).

Text Figure 1. Zambia: Profile of Central Government Domestically Issued Securities

(end-December 2023)



Sources: Zambia authorities and IMF staff estimates

MACROECONOMIC ASSUMPTIONS

The macroeconomic framework underpinning this DSA is consistent with the baseline of the Third Review of the ECF program. Key changes from the previous DSA include a downward revision to real GDP growth and less fiscal adjustment in 2024, a broadly unchanged current account balance over the medium term, and a much weaker exchange rate.

10. Recent developments. Real GDP is estimated at 5.4 percent in 2023, an upward revision from the previous update mainly driven by a larger-than-expected expansion in the non-mining and non-agricultural sectors, more than compensating a declining output in the latter. The 2024 outlook deteriorated sharply due to the drought shock with GDP growth projected at only 2.3 percent. In 2023, the primary fiscal surplus (on a commitment basis) reached 1.5 percent (0.9 ppts higher than projected at the previous DSA update) on the back of higher non-mining tax revenues (by 0.6 percent of GDP) and grants (0.4 percent of GDP). In parallel, the primary balance on a cash basis improved by 2.2 percentage points of GDP, to a surplus of 0.6 percent of GDP in 2023, including on the back of accumulation of expenditure arrears.

11. Growth. Medium-term growth assumptions for 2024-33 are broadly unchanged on average from the previous DSA, despite the more deteriorated outlook in the near term caused by the one-time shock of the drought at the beginning of 2024. The authorities selected a new strategic partner for Mopani Copper Mines on December 1, 2023, and have found an investor to resolve the situation with Konkola Copper Mines, both of which would boost copper and cobalt production significantly. Growth is expected to average around 5 percent over 2024-33. Structural, fiscal, and institutional reforms are projected to build the foundation for sustained growth over the long run that is driven by a competitive private sector. For example, the improved mining fiscal regime should contribute to meeting the authorities' target of tripling copper production by 2030, while measures to implement the WTO Investment Facilitation Agreement and the AfCFTA Investment Protocol should attract increased FDI more generally, implementation of ZESCO's turnaround plan and the introduction of a five-year electricity tariff schedule should bring financial sustainability to the power sector and attract investments in new generation in line with the Ministry of Energy's Integrated Resource Plan that was approved in November 2023. Implementation of the Comprehensive Agricultural Transformation Support Programme should increase agricultural productivity and the sector's resilience to climate change. Reorienting expenditure away from inefficient subsidies and toward investments in education, health, and social protection will help build human capital. Decentralization of public services to the communities is anticipated to increase the efficiency of spending and aid reforms to increase budget credibility and fight corruption.

12. Inflation. Near-term Inflation projections have been revised upwards relative to the previous DSA. Delays in signing the Memorandum of Understanding with the OCC and reaching an agreement with the Eurobonds holders have adversely affected confidence, with kwacha depreciating and inflation reaching 13.1 percent by end-2023.[10] The Bank of Zambia tightened monetary conditions—increasing both the monetary policy rate and statutory reserve requirements on deposits—in response to emerging inflationary pressures. In 2024, inflation is expected to peak at 15 percent by the end of the year, before stabilizing around the mid-point of the Bank of Zambia target band by end-2025, broadly unchanged from the previous DSA.

13. External. The medium-term outlook for the external position remains broadly unchanged from the previous DSA. The current account deteriorated by US$1.6 billion in 2023 on account of a significant decline in the trade balance, turning into a deficit of about US$545 million, and it is projected to remain broadly on balance in 2024, at -0.2 percent of GDP. Export growth was lower than projected in the ECF-request on account of weaker copper production and lower non-mining exports due to the drought. Economic recovery, fiscal expansion, high fuel and energy prices did lead to an increase in imports by about US$0.8 billion in 2023. Drought-related imports of maize and electricity and lower exports will worsen the trade balance in 2024 relative to previous update. In 2023, the fall in mining export revenues led to a sharp decline in assets held abroad by resident and a decline in the financial account, despite the return of non-residents to the domestic market, on the back of negative net FDI flows. The Bank of Zambia increased the level of gross reserves to the level estimated at the time of the second review and met the end-December 2023 NIR target. The external position is projected to improve following the debt restructuring and the continued implementation of policies under the program that will reduce the deficit, improve business

[10] The inflation figures in the text refer to end of period projections, while Text Table 3 shows the average over the period assumptions.

confidence, and attract further foreign direct investment. The (non-interest) current account balance is expected to register an average of 10½ percent of GDP surplus for the period 2024-2033, a slight increase from the previous DSA. The global green energy transition should boost long-term demand for Zambia's copper, cobalt, and other mineral resources. The improved current and financial accounts are expected to support the build-up of FX reserves to the targeted five months of prospective imports by the end of the program.

Text Table 3. Zambia: Macro and Debt Assumptions

	2021	2022	2023	2024	2025	2026	2027	2028
				(Annual percentage change)				
Real GDP Growth								
December DSA	6.2	5.2	4.3	4.7	4.8	4.8	4.9	5.0
Current DSA	6.2	5.2	5.4	2.3	6.6	5.9	5.6	5.1
Inflation								
December DSA	20.5	11.0	11.0	11.4	7.8	7.0	7.0	7.0
Current DSA	20.5	11.0	10.9	14.6	12.1	7.0	7.0	7.0
GDP Deflator								
December DSA	25.1	6.1	10.2	10.6	7.6	6.6	6.7	6.6
Current DSA	25.1	6.1	9.3	20.2	9.9	5.0	5.9	6.6
				(Percent of GDP)				
Primary Deficit (on Commitment Basis)								
December DSA	5.8	-0.8	-0.6	-2.9	-3.7	-2.7	-2.6	-2.6
Current DSA	5.8	-0.8	-1.5	-2.9	-3.3	-3.0	-2.6	-2.1
Primary Deficit (on Cash Basis)								
December DSA	-2.1	-1.6	1.3	1.1	1.7	1.0	1.7	1.9
Current DSA	-2.1	-1.6	0.6	-0.7	2.1	1.9	1.7	1.6
Non-Interest Current Account Balance								
December DSA	19.1	7.2	0.6	6.7	8.1	9.6	11.6	11.3
Current DSA	19.1	8.7	1.4	2.5	9.1	7.7	8.1	7.9
Net FDI Inflows								
December DSA	3.1	1.2	1.3	2.0	2.9	3.8	2.7	2.7
Current DSA	3.1	0.6	-0.1	3.8	3.8	4.5	4.3	4.3
				(Percent)				
Avg. Nominal Interest Rate on External Debt								
December DSA	5.2	4.3	2.9	4.0	4.2	4.1	4.2	4.4
Current DSA	5.2	6.4	4.2	3.2	3.5	3.4	3.4	3.6
				(Millions of dollars)				
Project Loan Disbursements (Incl. Guarantees)								
December DSA	571	438	583	436	447	297	204	706
Current DSA	571	438	296	464	640	298	255	197

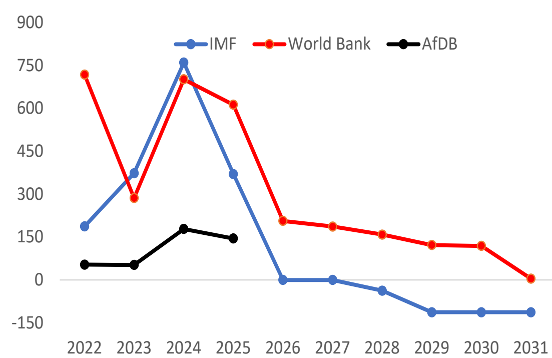
Source: IMF staff projections.

14. Fiscal. Fiscal performance is expected to continue improving under the program, despite the shocks related with the 2024 drought. Most of the drought-related spending are being met by additional grants and expenditure reprioritization. Even though the primary balance in 2024 (on cash basis) is expected to turn negative to 0.7 percent of GDP, this includes the liability management operation to clear fuel arrears (of 2.3 percent of GDP) with the primary balance on commitment basis at 2.9 percent of GDP. Building on the success in delivering a sharp consolidation in 2022 and

2023, and to continue helping place public debt on a declining path, the primary balance (commitment basis) is targeted to further improve to a surplus of 3.3 percent of GDP by 2025 (an additional 1.4 percentage point adjustment in 2024, and respectively, 0.4 percentage point in 2025). Revenues (adjusted for arrears on VAT refunds) are projected to increase to 21.6 percent of GDP by 2025, compared to their 2019 (pre-COVID) level of 19.3 percent of GDP, underpinned by the authorities' medium-term revenue mobilization plan, which includes eliminating tax expenditures (implicit subsidies) on fuel worth about 1.2 percent of GDP, together with other measures to broaden the tax base and strengthen compliance. The authorities are making further efforts to improve spending efficiency by strengthening cash management and commitment controls and through new systems for screening and approving new public investment projects. Implementation of a new Public-Private Partnership Law should enable the authorities to close Zambia's infrastructure gaps by mobilizing private capital to finance the public investment program. Overall, these efforts are projected to translate into a further adjustment of 1.6 percentage points in the primary balance (cash basis) In 2025 relative to 2023.

15. Financing. Financing assumptions are guided by the debt conditionality under the program. Domestic borrowing will remain a key source of financing for Zambia, though concessional borrowing—primarily from the IMF, World Bank and African Development Bank—will comprise an important part of the financing mix (Text Figure 2). External financing during 2022-25 will come from the disbursements of US$1.8 billion on contracted but undisbursed priority project loans, about US$1.6 billion expected new financing from the World Bank (including grants), US$1.7bn financing from the IMF, and US$250 million from the African Development Bank.[11] Under the program, Zambia will not undertake any non-concessional borrowing unless an exception is granted in line with the IMF's Debt Limit Policy or World Bank Sustainable Development Finance Policy. Access to international markets is assumed to be lost through the medium term, and non-residents participation in the domestic debt market is expected to remain limited, including due to the authorities' efforts to limit their participation in new issuances over the program period in order to safeguard external debt sustainability.

Text Figure 2. Zambia: Net Financing from IFIs, 2022–31
(US$ million)



Sources: IMF and World Bank staff estimates. World Bank financing includes disbursements on grant terms from new operations approved in FY24-FY26

[11] Beyond the IDA20 replenishment cycle (July 2022 through June 2025), IDA financing figures are based on assumptions. Actual financing will depend on IDA replenishment volumes, country performance, and other operational factors. Delivery of DPFs will be dependent on an agreement with the government on a strong program of policy and institutional reforms, and adequacy of the macroeconomic policy framework.

16. Relative to the previous DSA update, the agreement with the official creditors under the weak debt carrying capacity is included in the baseline. Official creditors represented by the G20 Common Framework OCC have reached an agreement on a debt treatment for Zambia that is in line with the financing assurances provided in June 2022, agreement that has been embedded in a Memorandum of Understanding that was signed by all parties. This agreement entails a fully quantified two-stage approach that includes a state contingent treatment with a trigger linked to Zambia's debt carrying capacity (DCC). In the base case that is consistent with Zambia remaining assessed as having a weak DCC, official creditors will significantly lengthen the maturity of their claims and reduce their interest costs consistent with the parameters of the ECF-arrangement. The state-contingent clause will be evaluated at end-2025. If, at this stage, the assessment of Zambia's economic performance and policy making warrants an upgrade to a medium DCC, the upside treatment will be triggered and there will be some acceleration of principal payments and higher interest payments to official creditors. This treatment will remain anchored in the LIC-DSF and meet the corresponding DSA thresholds at medium DCC, i.e., the PV of external debt-to-exports at "substantial space to absorb shocks" threshold at 108 percent by 2027 and maintaining the external debt service-to-revenue ratio at or below the 18 percent threshold over 2026-31.

17. As in the previous DSA update, the restructuring strategy for private claims is presented as an alternative scenario of the DSA, as discussions with non-bonded commercial creditors are still ongoing. Private creditors are expected to deliver a treatment consistent with the DSA parameters and on comparable terms with the OCC. Treatment provided by all private creditors must also remain anchored in the LIC-DSF and meet the corresponding DSA thresholds. In line with the provisions of the G20 Common Framework, comparable treatment will be assessed by taking into account the change in debt service, the NPV loss, and the change in the duration of the claims.[12]

18. A debt treatment in line with program parameters has been agreed for about half of the private claims' perimeter, expected to be implemented by the second half of June, while discussions with the residual private creditors are expected to be finalized by the end of the year. On March 25, 2024, the authorities reached an agreement in principle (AIP) with the Steering Committee of the Ad Hoc Creditor Committee of Zambia's Eurobonds holders, which was assessed by staff as consistent with program parameters. OCC equally confirmed that the OCC Comparability of Treatment (CoT) requirements are met. As for the OCC treatment, the AIP with bondholders includes an upside scenario activated by a dual trigger linked to Zambia's DCC and/or the performance of the 3-year moving average of exports (in US$) and the US$-equivalent of fiscal revenues relative to the IMF staff projections as released at the time of the second review of the

[12] As described in the Common Framework term sheet adopted by the G20 and endorsed by the Paris Club in November 2020.

ECF arrangement.[13] The state-contingent clause will be evaluated over a three-year period, from January 2026 to December 2028. The upside treatment remains anchored in the LIC DSF and meets the DSA corresponding sustainability targets at medium DCC, similarly to the OCC treatment. In the base case scenario, where Zambia remains at weak DCC, the bondholders will be offered two new notes in exchange of the Eurobonds, which imply a nominal haircut of about 20 percent and significant cash debt relief over the program period. One of the notes includes the state-contingent clause, which if triggered would lead to an acceleration of payments, and higher coupon payments. The authorities launched a consent solicitation on May 13, 2024, and announced in June that participation has reached more than 90 percent of the face value of the claims.

19. Relative to the previous DSA update, the baseline also includes the revised strategy for the clearance of arrears, in particular, the fuel arrears to external suppliers. The authorities announced a liability management operation aimed at seeking net present value gains on the fuel arrears clearance. The stock of fuel arrears reached $897 million at end-2023 (a 50-percent increase over 2022), of which only 48 percent represented principal, the rest being due to accrued interest and penalties. The operation will be financed through a loan denominated in U.S. dollars from domestic banks. Banks will secure the funding by drawing on their assets held abroad. Besides achieving net present value gains, the operation shifts external liabilities to domestic FX liabilities for the government mitigating the external debt sustainability risks caused by the drought shock.

20. At the operational level, debt sustainability will also be supported by the debt conditionality under the IMF program and the IDA Sustainable Development Finance Policy. These stipulates a zero ceiling on new non-concessional external borrowing during the program period. The program sets a ceiling on the PV of new concessional external borrowing as well. The Indicative Target (IT) on the present value of new external borrowing is set in line with the expected borrowing plan for 2024-25 (see Text Table 4). The 2024 borrowing program (Text Table 4) also include loans in the pipeline that are likely to be part of the 2025 budget and expected to be signed by end-2024. If the signature of these loans is delayed into 2025, the borrowing program projections could be revised accordingly at the next review. In 2025, no other new external borrowing is expected, except the financing from the IMF, World Bank, AfDB, and issuances on domestic market.

[13] A persistent overperformance in both US$ exports and the US$-equivalent of fiscal revenues relative to the second review macro-framework was assessed by staff as highly correlated with an upgrade in the debt carrying capacity.

Text Table 4. Zambia: Summary Table of Projected Borrowing Program [1/]

January 1, 2023 to December 31, 2024

PPG external debt	Volume of new debt in 2023-24		PV of new debt in 2023-24 (program purposes)		PV of new debt in 2023-24 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By Sources of Debt Financing	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
Concessional Debt, of which	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
IFI debt	175.0	100	71.9	100	71.9	100
Other	0.0	0	0.0	0	0.0	0
Non-Concessional Debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
By Creditor Type	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
IFI	175.0	100	71.9	100	71.9	100
Other	0.0	0	0.0	0	0.0	0
Uses of Debt Financing	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
Infrastructure	175.0	100	71.9	100	71.9	100
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	

1/ In line with the TMU definition of debt ceilings, it does not include new financing from IMF, World Bank, AfDB and projected issuances of local-currency debt to non-residents
Sources: IMF staff calculations based on authorities' reported data.

21. **Downside risks to the outlook**. Uncertainties around the outlook for copper prices and production is a key source of risk.[14] Rainfall variability also remains a key risk to Zambia's sustainable growth, affecting critical sectors like agriculture, electricity and mining, and also likely to aggravate external vulnerabilities, although the authorities' reform agenda aims to mitigate these risks over time. The materialization of these risks would increase debt vulnerabilities.

22. **Upside risks**. These stem mainly from a faster global and domestic growth, a speedy resolution of the remaining aspects of the debt restructuring, greater confidence effects, including from stronger and broader reform momentum, higher copper prices and realization of announcements to invest in mineral development.

23. **Realism tools suggest that baseline scenario projections are reasonable.** The DSA realism tools (Figure 3, 4) highlight the large size of the programmed fiscal adjustment relative to outcomes in other LIC programs, and the likelihood of a diminished growth contribution from public investment over the forecast period. However, the risk that the adjustment proves infeasible is mitigated by the demonstrated track record of the authorities to take needed measures. The unusual relation between the fiscal adjustment and the growth projections in 2024 and 2025 under the baseline is due to the impact of the drought shock, and respectively, the rebound expected in 2025.

[14] The baseline is based on futures market prices, which suggest prices will remain at recent elevated levels, and are consistent with the assumptions under underpinning the [April 2024 IMF World Economic Outlook].

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

24. Zambia's debt-carrying capacity under the Composite Indicator (CI) rating is assessed as weak, unchanged from the previous DSA.[15] The latest CI score of 2.62 remains below the cut-off for medium debt-carrying capacity of 2.69, so the assessment of debt sustainability is based on the thresholds for a weak debt-carrying capacity country.

25. The DSA includes stress tests that follow standardized and tailored settings. The standardized stress tests indicate breaches of all debt thresholds for an extended period. Zambia has a significant reliance on commodity exports that triggers the commodity price shock, but the natural disasters shock does not apply. Given significant Eurobond issuance in the past, the market financing tool applies. The contingent liabilities shock is calibrated to Zambia, with an additional 10 percent of GDP added to the standard SOE shock to account for risks stemming from the debt of SOEs, as well as potential contingent risks arising from the 2020 acquisition of the Mopani mine by ZCCM-IH, a majority state-own investment holding company.[16] The rest of the components under the contingency liability shock are kept at their default settings.

Text Table 5. Zambia: Composite Indicator and Thresholds

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.62	2.57	2.59

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.157	1.22	46%
Real growth rate (in percent)	2.719	3.871	0.11	4%
Import coverage of reserves (in percent)	4.052	31.260	1.27	48%
Import coverage of reserves^2 (in percent)	-3.990	9.772	-0.39	-15%
Remittances (in percent)	2.022	1.455	0.03	1%
World economic growth (in percent)	13.520	2.909	0.39	15%
CI Score			2.62	100%
CI rating			Weak	

New framework	Cut-off values			
Weak		CI <	2.69	
Medium	2.69	≤ CI ≤		3.05
Strong		CI >	3.05	

[15] The composite indicator is calculated using data from the April 2024 WEO and the latest available 2022 CPIA.

[16] Sensitivity analysis conducted by staff at the time of Staff Level Agreement in December 2021 showed that the Mopani mine would be financially viable even if copper prices fell to US$7,070 per metric ton and copper output only reached MT86,000. In that scenario, it would take ZCCM-IH until 2040 to repay the debt due to Glencore. However, the net cash flow would remain marginally positive after royalties and capex. On December 1, 2023, after a lengthy search, the authorities selected United Arab Emirates' International Resources Holdings (IRH) as the new strategic equity partner.

EXTERNAL DSA ASSESSMENT

26. Under the baseline, all four external debt burden indicators breach their respective thresholds (Figure 1). The debt service-to-revenue ratio soars to a peak of 69 percent in 2024 given the large amount of debt service still falling due and the relatively low revenue base and remains well above the 14 percent threshold until 2031 (averaging about 25 percent in 2024-33). Similarly, the debt service-to-exports ratio peaks at around 28 percent in 2024 and only falls to the threshold of 10 percent in 2029 (averaging about 12 percent over 2024-33). On the stock side, the PV of PPG external debt-to-GDP averages about 44½ percent from 2024-33, falling below the prudent threshold of 30 percent only in 2035,[17] while the PV of PPG external debt-to-exports indicator also breaches the threshold at about 146 percent in 2023 (averaging about 95½ percent over 2024-33).

27. The thresholds for all four external debt indicators are breached by large margins under stress tests. The standardized exports shock is the most extreme for all external debt indicators, except the debt service-to-revenue ratio for which the combination shock is the most extreme. Under the standardized exports shock, the PV of PPG external debt-to-exports ratio peaks at 349 percent in 2026 and remains well above the threshold throughout the medium and long term. The market financing tool also points to significant vulnerabilities debt vulnerabilities in Zambia, although the relevance of this signal is reduced given Zambia has currently no access to international capital markets.

PUBLIC DSA ASSESSMENT

28. Under the baseline, the benchmark for the PV of total PPG debt-to-GDP is breached throughout the medium and long term (Figure 2). After peaking at 119 percent in 2023, the ratio remains elevated (at an average of about 67 percent from 2024-33), before finally falling below the threshold in 2038. The most extreme shock for this indicator is still the exports shock, which peaks at 108 percent in 2026. Similarly, the combined contingent liabilities shock, which accounts for risks from SOE debt, PPPs and the financial sector, is the most extreme shock for total debt service-to-revenues indicator, peaking at 103 percent in 2026.

RISK RATING AND VULNERABILITIES

29. Zambia remains in debt distress, and debt is deemed unsustainable in the absence of a debt treatment in line with program parameters for all commercial claims in the restructuring perimeter. This DSA update is based on the macroeconomic framework underpinning the third review, which entails significant fiscal adjustment over the medium term and incorporates the expected new financing of around US$3.5 billion from the IMF, World Bank

[17] Note the measurement of this indicator is complicated by the fact that the authorities are currently working on rebasing GDP; however, this work is not expected to be concluded until end-2025 at the earliest.

(including grants), and the African Development Bank together over 2022-25.[18] Nevertheless, large financing gaps will remain over this period and would need to be filled through the completion of the debt restructuring operation in line with the DSA and IMF program parameters.

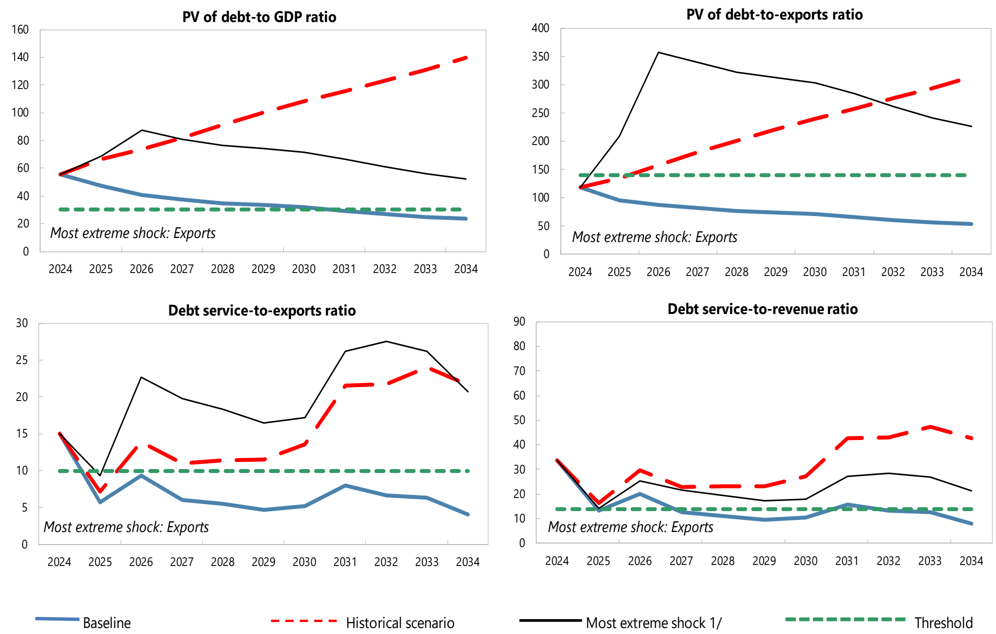
30. In the alternative restructuring scenario that considers the authorities' restructuring strategy to reach agreements with all private creditors on treatments on comparable terms, Zambia's would be assessed as sustainable on forward-looking basis. Under the restructuring scenario that incorporates the delivery of the state-contingent debt relief agreed within the framework of the G20 Common Framework, two alternative baselines might materialize depending on the evaluation of Zambia's DCC at the end of the program period:

- Under the scenario where Zambia remains assessed as weak DCC, the base case treatment will prevail (Text Figure 3). Under this alternative baseline, the PV of external debt-to-exports falls below the "substantial space to absorb shocks" threshold of 84 percent by 2027, while the debt service-to-revenue ratio falls below the 14 percent threshold by 2025 and remains below the 14 percent on average over 2026-31. Therefore the targets under the IMF-supported program are met, and Zambia's debt would be assessed as sustainable with a moderate risk of external debt distress over the medium term, despite the protracted and large breach of the threshold by the PV of PPG external debt-to-GDP ratio indicator that averages about 36 percent from 2024-33, and only falls below the threshold of 30 percent in 2031.[19] In parallel, the external debt service-to-exports indicator would remain well below its threshold, averaging 6½ percent over 2026-31.

[18] Total financing from the World Bank (including projected disbursements from existing commitments) amounts to about US$2.6 billion over 2022-25. New financing from new operations that were approved after the SLA and which contribute to reducing the BoP financing gap amounts to US$1.6 billion out of which about US$575 million will be provided in grants.

[19] Note the measurement of this indicator is complicated by the fact that the authorities are currently working on rebasing GDP; however, this work is not expected to be concluded until end-2024 or even 2025.

Text Figure 3. Zambia: Alternative baseline, Base Case Treatment – Indicators of PPG External Debt, 2024–2034[1/]



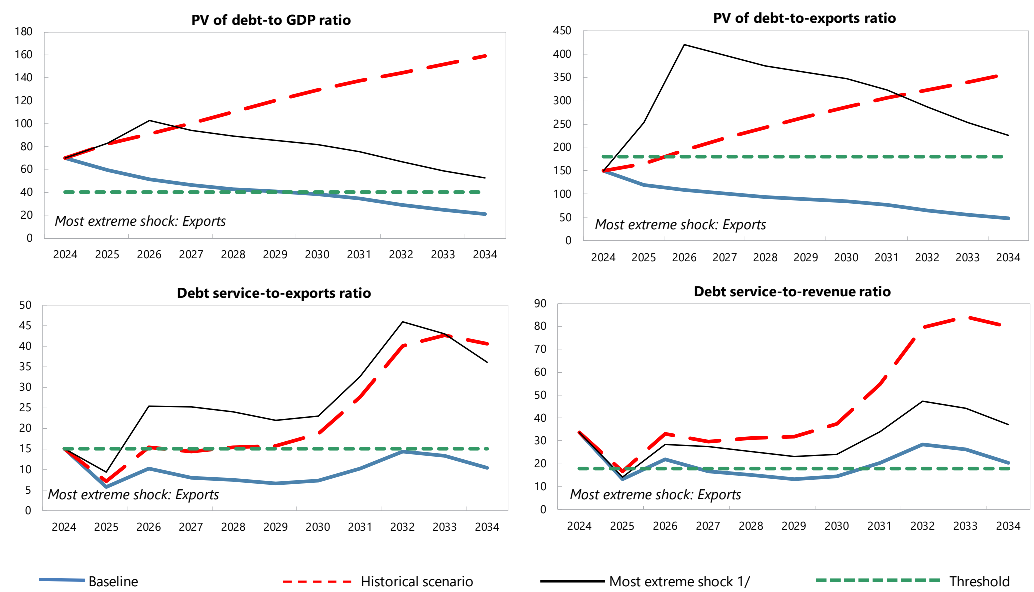
1/ Includes the agreed treatments and the authorities' strategy for the other commercial creditors. Sources: IMF staff projections based on the main elements of the agreed treatments and the authorities' restructuring strategy.

- Under a scenario where Zambia's debt-carrying capacity is upgraded to medium, the Upside treatment will be triggered.[20] Under this scenario, risks to Zambia's debt sustainability are mitigated by the steady decline of the PV of external debt-to-exports that falls below the "substantial space to absorb shocks" threshold of 108 percent by 2027, while the external debt service-to-revenue ratio remains at about 18 percent on average over 2026-31. This mitigates the protracted and large breach of the threshold by the PV of PPG external debt-to-GDP ratio indicator, which averages about 43½ percent from 2024-33, and only falls below the threshold of 40 percent in 2030. In parallel, the external debt service-to-exports indicator remains well below its threshold, averaging 8½ percent over 2026-31. All external debt burden indicators do decline to levels consistent with Zambia reaching a moderate risk of external debt distress over the medium term (see Text Figure 4).[21]

[20] Regarding the dual trigger of the state-contingent clause in the AIP with bondholders, a persistent overperformance in both US$ exports and the US$-equivalent of fiscal revenues relative to the second review macro-framework has been assessed to be highly correlated with an upgrade in the debt carrying capacity.

[21] The temporary breaches beyond 2031 of the external debt service-to-revenues ratio are judged to be distant and marginal. They are mitigated by the fact that in a scenario where the debt carrying capacity were to be upgraded, the medium-term outlook would also be more favorable in terms of revenues performance than currently assumed under the baseline.

Text Figure 4. Zambia: Alternative baseline, Upside Case Treatment – Indicators of PPG External Debt, 2024-2034[1/]



1/ Includes the agreed treatments and the authorities' strategy for the other commercial creditors. Sources: IMF staff projections based on the main elements of the agreed treatments and the authorities' restructuring strategy.

31. Risks to the debt outlook are significant. This DSA is predicated on the Zambian authorities' commitment under their program to undertake credible steps to restore medium-term debt sustainability, including to restore macroeconomic stability and achieve higher economic growth. Delays or slippages in fiscal policy adjustment, or weather-related and external shocks that impact the macroeconomic framework, could significantly impact the debt trajectory. These risks are mitigated by the authorities' track record of implementing robust policy reforms since coming to power in August 2021.

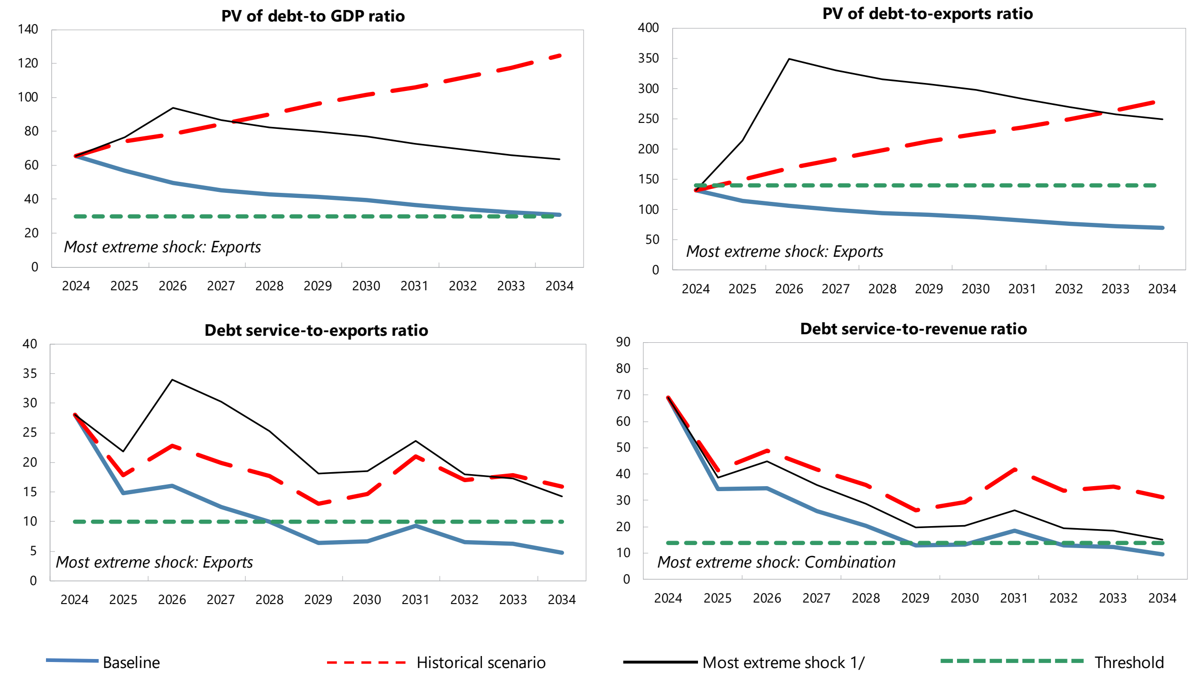
32. Other reforms to support debt sustainability following the debt restructuring are also in train and further mitigate risks. To strengthen the institutional framework, the authorities adopted a new Public Debt Management Act in August 2022.[22] This provides greater oversight on the contracting of debt. This will be supported by ongoing efforts to strengthen public financial management more broadly and to strengthen debt transparency, as well as plans to modernize and strengthen capacity of the debt management unit.

[22] The adoption of the Public Debt Management Act was supported under the IMF program and IDA's Sustainable Debt Financing Policy.

AUTHORITIES' VIEWS

33. The authorities shared staff's assessment of their debt sustainability and emphasized their commitment to completing the debt restructuring operation of their external debt in line with DSA and IMF program parameters. The authorities highlighted that an agreement in principle has been reached with the Eurobonds' holders on March 25, 2024, which is expected to be implemented by end-June, while the work on signing the bilateral agreements with official creditors was advancing well. The authorities also emphasized their commitment to reach restructuring agreements with other external creditors on comparable terms and consistent with IMF-program parameters. The authorities agreed that once these agreements were implemented debt sustainability would be restored.

Figure 1. Zambia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2024–34



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price 2/	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.2%	4.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	10	10

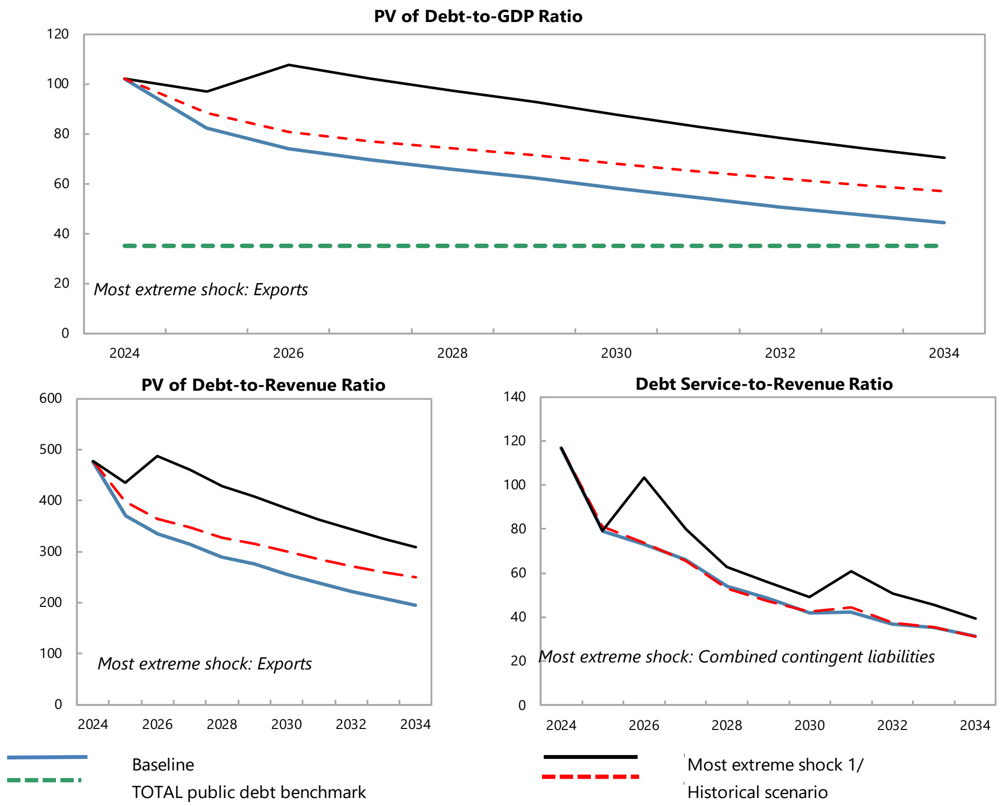
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Zambia: Indicators of Public Debt Under Alternative Scenarios, 2024–34



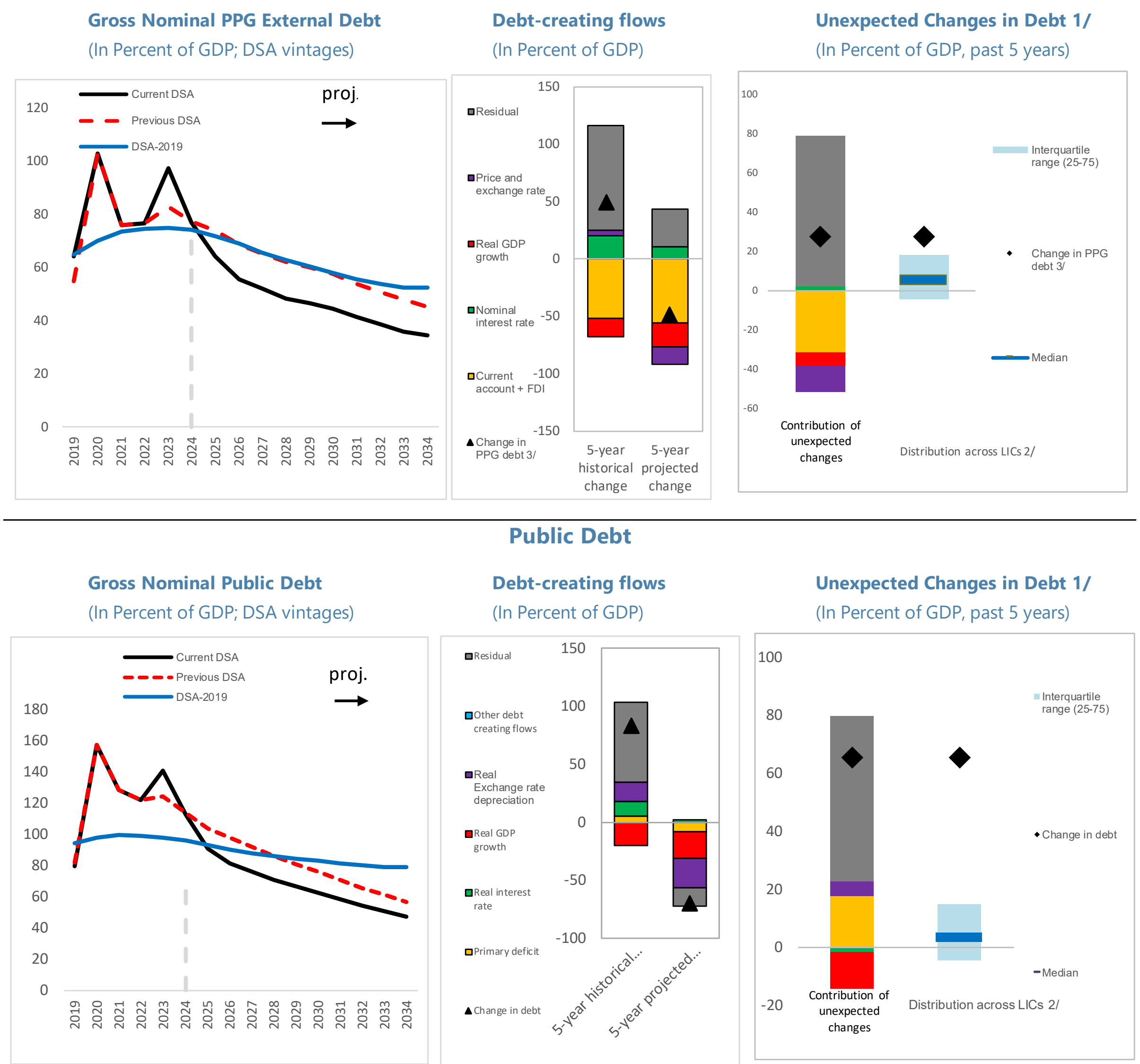
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	38%	38%
Domestic medium and long-term	28%	28%
Domestic short-term	34%	34%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.2%	4.2%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	10	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.5%	5.5%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	1.1%	1.1%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Zambia: Drivers of Debt Dynamics – Baseline Scenario

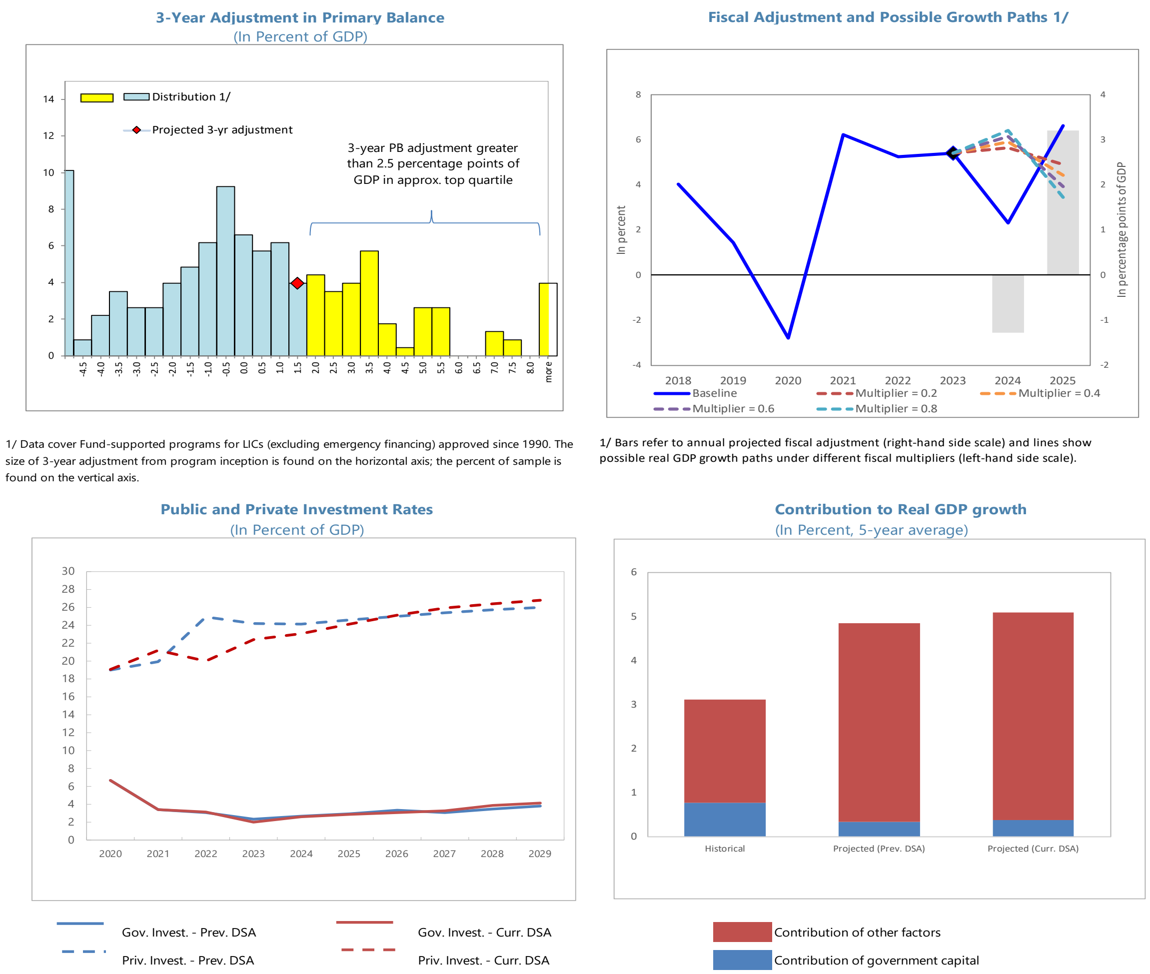


1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Zambia: Realism Tools



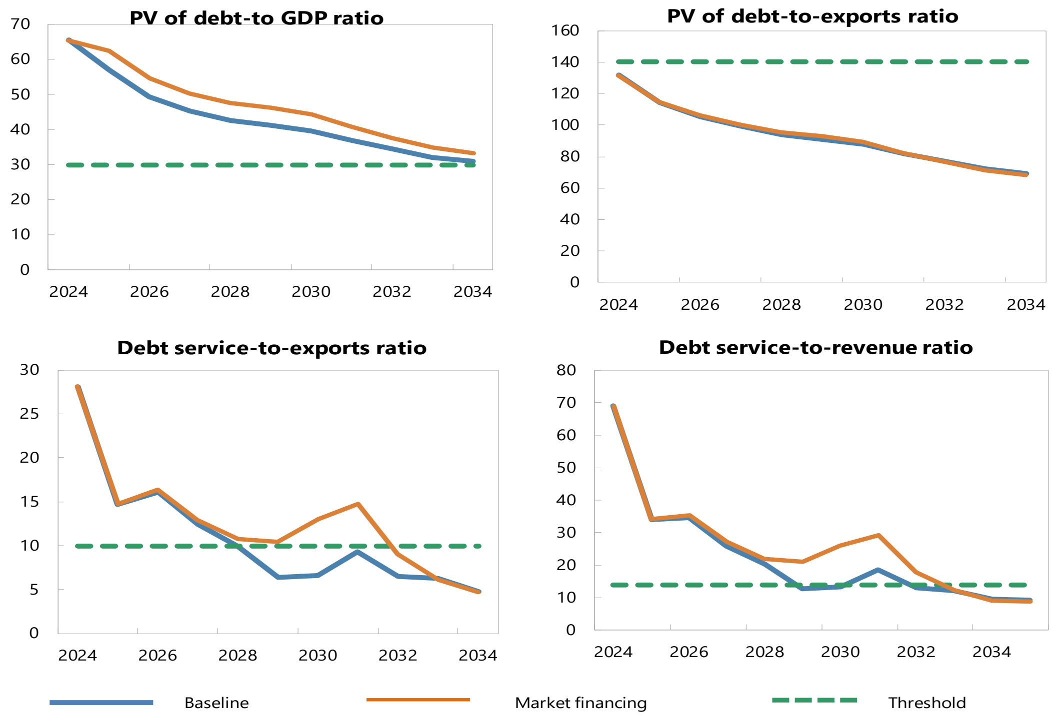
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Figure 5. Zambia: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	25	5000
Breach of benchmark	Yes	Yes
Potential heightened liquidity needs	High	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



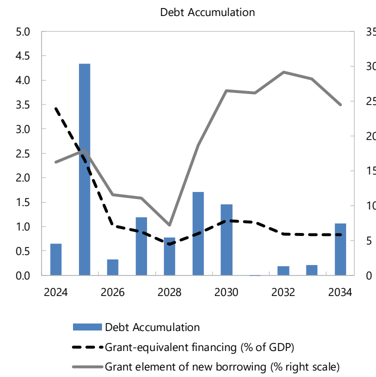
Sources: Country authorities; and staff estimates and projections.

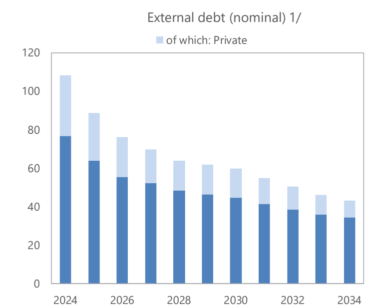
Table 1. Zambia: External Debt Sustainability Framework, Baseline Scenario, 2021–39

(In Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2039	Historical	Projections
External debt (nominal) 1/	113.5	105.8	127.1	108.1	88.6	76.0	69.7	63.9	61.8	43.0	44.2	94.4	65.7
of which: public and publicly guaranteed (PPG)	75.9	76.7	97.5	76.7	63.9	55.4	52.1	48.3	46.3	34.3	24.4	60.5	48.9
Change in external debt	-36.5	-7.7	21.4	-19.1	-19.5	-12.6	-6.3	-5.8	-2.1	-3.1	-0.6		
Identified net debt-creating flows	-42.2	-29.9	4.0	-6.7	-16.5	-14.7	-14.4	-13.8	-13.4	-12.4	-10.6	-6.9	-12.9
Non-interest current account deficit	-19.1	-8.7	-1.4	-2.4	-9.0	-7.7	-8.0	-7.9	-7.8	-7.1	-6.2	-4.6	-7.1
Deficit in balance of goods and services	-18.3	-8.3	-2.1	-6.9	-13.7	-12.5	-12.2	-11.9	-11.7	-11.2	-9.0	-1.9	-11.4
Exports	53.1	42.7	40.7	49.6	49.6	46.7	45.6	45.3	45.1	44.3	35.1		
Imports	34.8	34.4	38.6	42.7	35.9	34.2	33.4	33.4	33.4	33.1	26.1		
Net current transfers (negative = inflow)	-1.4	-1.0	-0.9	-2.0	-1.4	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-1.1	-1.0
of which: official	0.0	0.0	-0.5	-1.4	-0.8	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3		
Other current account flows (negative = net inflow)	0.5	0.6	1.6	6.5	6.0	5.8	5.0	5.0	4.7	4.9	3.5	-1.6	5.3
Net FDI (negative = inflow)	-3.1	-0.6	0.1	-3.8	-3.8	-4.5	-4.3	-4.3	-4.3	-4.3	-3.4	-3.1	-4.2
Endogenous debt dynamics 2/	-20.0	-20.6	5.3	-0.5	-3.7	-2.5	-2.1	-1.6	-1.3	-1.0	-0.9		
Contribution from nominal interest rate	7.2	4.9	3.3	2.7	2.2	1.9	1.7	1.7	1.6	1.0	1.1		
Contribution from real GDP growth	-7.7	-4.5	-5.9	-3.2	-5.8	-4.5	-3.8	-3.3	-2.9	-2.0	-2.0		
Contribution from price and exchange rate changes	-19.6	-21.0	7.9	...	...	...	...	...	...	...	...		
Residual 3/	5.7	22.2	17.4	-12.3	-3.0	2.1	8.1	8.0	11.3	9.3	10.0	17.5	5.3
of which: exceptional financing	-10.1	-8.0	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	59.4	65.3	56.7	49.3	45.2	42.5	41.1	30.8	22.0		
PV of PPG external debt-to-exports ratio	...	...	146.1	131.7	114.4	105.6	99.2	93.8	91.2	69.5	62.6		
PPG debt service-to-exports ratio	25.9	28.8	19.3	28.1	14.7	16.1	12.4	10.0	6.4	4.8	6.4		
PPG debt service-to-revenue ratio	63.1	61.6	38.4	69.0	34.2	34.6	25.9	20.2	12.8	9.4	10.0		
Gross external financing need (Million of U.S. dollars)	-697.6	1348.8	2571.6	2757.4	-853.4	-734.3	-1727.4	-2325.0	-4084.4	-4776.0	-8727.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.2	5.2	5.4	2.3	6.6	5.9	5.6	5.1	4.9	4.8	4.9	3.4	4.9
GDP deflator in US dollar terms (change in percent)	14.7	25.2	-8.2	-10.1	15.2	9.2	5.9	2.9	2.5	2.8	2.9	-2.0	3.6
Effective interest rate (percent) 4/	5.9	5.7	3.1	1.9	2.5	2.5	2.5	2.6	2.8	2.4	2.6	3.1	2.5
Growth of exports of G&S (US dollar terms, in percent)	37.0	6.1	-8.0	12.2	22.8	8.9	9.1	7.5	7.0	7.3	0.0	1.4	9.4
Growth of imports of G&S (US dollar terms, in percent)	-4.3	30.3	8.3	1.9	3.3	10.2	9.1	8.1	7.6	7.2	0.0	2.9	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	16.3	18.0	11.6	11.1	7.2	18.6	24.5	25.2	...	19.7
Government revenues (excluding grants, in percent of GDP)	21.8	20.0	20.4	20.2	21.4	21.7	21.8	22.3	22.4	22.5	22.5	19.3	22.0
Aid flows (in Million of US dollars) 5/	262.5	226.4	373.2	753.3	910.3	581.6	570.1	341.5	607.0	712.8	798.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.4	2.4	1.0	0.9	0.6	0.9	0.8	0.7	...	1.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	23.1	25.2	17.9	17.3	18.0	27.5	34.4	39.1	...	28.1
Nominal GDP (Million of US dollars)	22,096	29,122	28,163	25,913	31,832	36,811	41,141	44,482	47,826	69,093	100,738		
Nominal dollar GDP growth	21.8	31.8	-3.3	-8.0	22.8	15.6	11.8	8.1	7.5	7.7	7.9	1.6	8.7
Memorandum items:													
PV of external debt 7/	...	...	89.1	96.7	81.4	69.9	62.9	58.1	56.6	39.4	41.7		
In percent of exports	...	...	219.1	195.0	164.3	149.8	138.0	128.2	125.4	89.1	118.7		
Total external debt service-to-exports ratio	35.9	32.6	25.7	34.0	20.4	21.7	17.9	15.4	8.0	10.1	2.8		
PV of PPG external debt (in Million of US dollars)			16739.4	16923.5	18046.1	18151.0	18589.3	18908.0	19666.8	21259.9	22153.4		
(PVt-PVt-1)/GDPt-1 (in percent)				0.7	4.3	0.3	1.2	0.8	1.7	1.1	-0.1		
Non-interest current account deficit that stabilizes debt ratio	17.4	-1.0	-22.8	16.6	10.4	4.9	-1.7	-2.0	-5.7	-4.0	-5.6		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

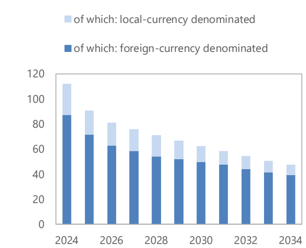
Table 2. Zambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–39

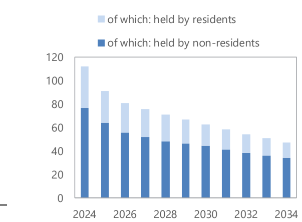
(In Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2039	Historical	Projections
Public sector debt 1/	**128.4**	**122.1**	**141.1**	**112.1**	**90.8**	**81.0**	**75.7**	**70.9**	**66.9**	**47.5**	**35.5**	**85.6**	**70.1**
of which: external debt	**75.9**	**76.7**	**97.5**	**76.7**	**63.9**	**55.4**	**52.1**	**48.3**	**46.3**	**34.3**	**24.4**	**60.5**	**48.9**
Change in public sector debt	-29.2	-6.4	19.0	-29.0	-21.3	-9.8	-5.3	-4.8	-4.1	-3.3	-2.0		
Identified debt-creating flows	**-42.7**	**0.6**	**16.5**	**-16.1**	**-20.6**	**-9.3**	**-4.3**	**-4.3**	**-3.7**	**-3.1**	**-2.0**	**3.0**	**-6.8**
Primary deficit (cash basis)	**3.6**	**1.6**	**-0.6**	**0.7**	**-2.5**	**-2.3**	**-2.0**	**-1.9**	**-1.9**	**-1.3**	**-0.6**	**1.1**	**-1.6**
Revenue and grants	22.4	20.4	21.5	21.4	21.8	21.8	21.9	22.5	22.4	22.7	22.7	**19.8**	**22.3**
of which: grants	0.6	0.4	1.1	1.2	0.8	0.4	0.4	0.4	0.3	0.3	0.3		
Primary (noninterest) expenditure	24.4	22.0	20.9	22.1	19.7	19.9	20.2	20.8	20.8	21.5	22.2	**20.7**	**20.9**
Automatic debt dynamics	**-46.3**	**-1.0**	**17.1**	**-16.7**	**-18.0**	**-7.1**	**-2.4**	**-2.4**	**-1.8**	**-1.8**	**-1.4**		
Contribution from interest rate/growth differential	-11.6	-3.7	-4.3	-8.6	-5.7	-2.9	-2.2	-1.9	-1.6	-1.5	-1.2		
of which: contribution from average real interest rate	-2.3	2.7	2.0	-5.4	1.3	2.1	2.0	1.7	1.7	0.8	0.6		
of which: contribution from real GDP growth	-9.3	-6.4	-6.3	-3.2	-7.0	-5.0	-4.3	-3.7	-3.3	-2.3	-1.7		
Contribution from real exchange rate depreciation	-34.7	2.6	21.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**13.5**	**-6.9**	**2.5**	**-21.1**	**-13.1**	**-4.7**	**-1.1**	**-0.9**	**-0.6**	**-0.4**	**-0.2**	**9.1**	**-4.1**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**119.2**	**102.0**	**82.4**	**74.0**	**69.6**	**65.9**	**62.4**	**44.4**	**33.4**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**555.9**	**476.8**	**370.8**	**335.0**	**313.9**	**290.0**	**274.8**	**194.5**	**146.6**		
Debt service-to-revenue and grants ratio 3/	**126.6**	**118.4**	**65.1**	**116.7**	**78.9**	**73.3**	**66.2**	**54.1**	**48.5**	**31.3**	**27.0**		
Gross financing need 4/	30.4	25.7	13.4	24.8	15.3	14.2	12.9	10.5	9.2	5.8	5.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.2	5.2	5.4	2.3	6.6	5.9	5.6	5.1	4.9	4.8	4.9	**3.4**	**4.9**
Average nominal interest rate on external debt (in percent)	5.2	6.4	4.2	3.2	3.5	3.4	3.4	3.6	3.7	3.2	3.4	**5.0**	**3.4**
Average real interest rate on domestic debt (in percent)	-10.7	0.1	1.5	-12.6	0.6	6.7	7.2	5.7	5.7	4.1	2.8	**7.8**	**3.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	-36.4	4.2	33.0	...	...	...	...	...	...	...	...	**10.7**	**...**
Inflation rate (GDP deflator, in percent)	25.1	6.1	9.3	20.2	9.9	5.0	5.9	6.6	6.2	6.4	6.6	**10.5**	**7.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	25.4	-5.3	0.0	8.2	-4.8	6.7	7.5	8.2	4.8	4.5	5.5	**5.6**	**5.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	32.8	7.9	-19.6	29.7	18.8	7.6	3.3	2.9	2.2	2.0	1.4	**-11.0**	**6.9**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Zambia: Sensitivity Analysis for Key Indicators and Publicly Guaranteed External Debt, 2024–34 (In Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	**65**	**57**	**49**	**45**	**43**	**41**	**40**	**37**	**34**	**32**	**31**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**65**	**74**	**78**	**84**	**90**	**96**	**101**	**106**	**111**	**117**	**124**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**65**	**69**	**62**	**58**	**55**	**54**	**52**	**50**	**48**	**46**	**44**
B. Bound Tests											
B1. Real GDP growth	**65**	**62**	**58**	**53**	**50**	**48**	**47**	**43**	**40**	**38**	**36**
B2. Primary balance	**65**	**59**	**55**	**51**	**48**	**47**	**45**	**43**	**41**	**39**	**37**
B3. Exports	**65**	**76**	**93**	**86**	**82**	**80**	**77**	**73**	**69**	**66**	**63**
B4. Other flows 3/	**65**	**61**	**58**	**53**	**50**	**48**	**47**	**44**	**41**	**38**	**37**
B5. Depreciation	**65**	**67**	**59**	**54**	**51**	**49**	**47**	**44**	**41**	**38**	**37**
B6. Combination of B1-B5	**65**	**78**	**78**	**72**	**69**	**67**	**64**	**61**	**58**	**55**	**53**
C. Tailored Tests											
C1. Combined contingent liabilities	**65**	**63**	**57**	**53**	**51**	**49**	**48**	**46**	**44**	**42**	**41**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**65**	**62**	**59**	**56**	**55**	**54**	**53**	**51**	**49**	**47**	**46**
C4. Market Financing	**65**	**62**	**54**	**50**	**48**	**46**	**44**	**41**	**38**	**35**	**33**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	132	114	106	99	94	91	88	82	77	72	69
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	132	**149**	**168**	**184**	**198**	**212**	**225**	**236**	**249**	**263**	**280**
A2. Alternative Scenario : Contingent Liabilities + FX debt	132	138	133	127	121	119	116	112	108	103	100
B. Bound Tests											
B1. Real GDP growth	132	114	106	99	94	91	88	82	77	72	69
B2. Primary balance	132	118	118	112	107	104	101	96	91	87	84
B3. Exports	132	**214**	**349**	**331**	**316**	**308**	**298**	**283**	**270**	**257**	**249**
B4. Other flows 3/	132	123	123	116	110	107	104	97	92	87	84
B5. Depreciation	132	110	103	97	92	89	86	80	75	70	68
B6. Combination of B1-B5	132	**187**	**140**	**210**	**200**	**196**	**190**	**180**	**171**	**163**	**158**
C. Tailored Tests											
C1. Combined contingent liabilities	132	128	122	117	112	109	106	103	99	94	92
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	132	135	136	130	125	123	120	115	110	106	105
C4. Market Financing	132	114	106	100	95	93	89	82	77	71	68
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**28**	**15**	**16**	**12**	10	6	7	9	7	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**28**	**18**	**23**	**20**	**18**	**13**	**15**	**21**	**17**	**18**	**16**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**28**	**15**	**17**	**14**	**11**	8	8	**11**	8	8	6
B. Bound Tests											
B1. Real GDP growth	**28**	**15**	**16**	**12**	10	6	7	9	7	6	5
B2. Primary balance	**28**	**15**	**16**	**13**	**11**	7	7	10	7	7	5
B3. Exports	**28**	**22**	**34**	**30**	**25**	**18**	**19**	**24**	**18**	**17**	**14**
B4. Other flows 3/	**28**	**15**	**16**	**13**	**11**	7	7	10	7	7	5
B5. Depreciation	**28**	**15**	**16**	**12**	10	6	7	9	6	6	5
B6. Combination of B1-B5	**28**	**20**	**28**	**23**	**19**	**13**	**13**	**18**	**13**	**13**	**10**
C. Tailored Tests											
C1. Combined contingent liabilities	**28**	**15**	**17**	**13**	**11**	7	7	**10**	7	7	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**28**	**16**	**18**	**15**	**12**	8	8	**11**	8	8	6
C4. Market Financing	**28**	**15**	**16**	**13**	**11**	**10**	**13**	**15**	9	6	5
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**69**	**34**	**35**	**26**	**20**	13	13	**19**	13	12	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**69**	**41**	**49**	**42**	**36**	**26**	**29**	**42**	**34**	**35**	**31**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**69**	**34**	**37**	**28**	**23**	**15**	**16**	**21**	**15**	**15**	12
B. Bound Tests	**69**	**34**	**37**	**28**	**23**	**15**	**16**	**21**	**15**	**15**	12
B1. Real GDP growth	**69**	**37**	**41**	**30**	**24**	**15**	**16**	**22**	**15**	**14**	11
B2. Primary balance	**69**	**34**	**35**	**27**	**22**	**14**	**15**	**20**	**14**	14	11
B3. Exports	**69**	**37**	**42**	**36**	**30**	**21**	**21**	**27**	**20**	**20**	**16**
B4. Other flows 3/	**69**	**34**	**35**	**27**	**22**	**14**	**15**	**20**	**14**	14	11
B5. Depreciation	**69**	**42**	**42**	**31**	**24**	**15**	**16**	**22**	**16**	**15**	11
B6. Combination of B1-B5	**69**	**39**	**45**	**36**	**29**	**20**	**20**	**26**	**20**	**19**	**15**
C. Tailored Tests											
C1. Combined contingent liabilities	**69**	**34**	**36**	**27**	**22**	**14**	**15**	**20**	**15**	**14**	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**69**	**38**	**40**	**31**	**25**	**16**	**17**	**22**	**16**	**15**	12
C4. Market Financing	**69**	**34**	**35**	**27**	**22**	**21**	**26**	**29**	**18**	12	9
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Zambia: Sensitivity Analysis for Key Indicators of Public Debt, 2024–34
(In Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	**102**	**82**	**74**	**70**	**66**	**62**	**58**	**54**	**51**	**47**	**44**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**102**	**88**	**81**	**77**	**74**	**71**	**68**	**65**	**62**	**59**	**57**
B. Bound Tests											
B1. Real GDP growth	**102**	**92**	**94**	**92**	**91**	**91**	**89**	**88**	**87**	**87**	**87**
B2. Primary balance	**102**	**88**	**86**	**81**	**77**	**73**	**69**	**65**	**61**	**58**	**54**
B3. Exports	**102**	**97**	**108**	**102**	**97**	**93**	**88**	**83**	**78**	**74**	**70**
B4. Other flows 3/	**102**	**87**	**82**	**78**	**73**	**70**	**65**	**61**	**57**	**54**	**51**
B5. Depreciation	**102**	**104**	**92**	**86**	**81**	**76**	**70**	**65**	**60**	**56**	**52**
B6. Combination of B1-B5	**102**	**87**	**86**	**82**	**79**	**77**	**74**	**71**	**68**	**65**	**63**
C. Tailored Tests											
C1. Combined contingent liabilities	**102**	**101**	**92**	**87**	**82**	**79**	**74**	**70**	**66**	**62**	**59**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**102**	**88**	**82**	**81**	**81**	**81**	**80**	**79**	**79**	**79**	**79**
C4. Market Financing	**102**	**82**	**74**	**70**	**67**	**63**	**59**	**55**	**51**	**47**	**44**
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	477	371	335	314	290	275	256	238	222	208	194
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	477	398	365	347	327	315	300	284	272	260	250
B. Bound Tests											
B1. Real GDP growth	477	415	423	414	400	398	391	385	381	379	378
B2. Primary balance	477	395	389	365	339	323	303	284	268	252	238
B3. Exports	477	436	487	460	428	409	385	363	343	325	308
B4. Other flows 3/	477	389	372	349	323	307	287	268	252	236	222
B5. Depreciation	477	468	417	387	356	335	309	286	265	246	228
B6. Combination of B1-B5	477	392	388	370	349	339	323	309	297	286	277
C. Tailored Tests											
C1. Combined contingent liabilities	477	454	414	390	363	346	326	306	289	273	259
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	477	425	400	394	376	369	357	347	345	345	346
C4. Market Financing	477	371	336	316	293	278	258	239	221	206	192
Debt Service-to-Revenue Ratio											
Baseline	117	79	73	66	54	48	42	42	37	35	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	117	81	74	66	53	47	42	44	37	36	31
B. Bound Tests											
B1. Real GDP growth	117	86	89	85	73	69	64	67	64	65	62
B2. Primary balance	117	79	82	79	61	54	47	50	46	43	37
B3. Exports	117	79	76	73	60	54	47	48	42	41	36
B4. Other flows 3/	117	79	74	68	56	50	43	44	38	37	33
B5. Depreciation	117	82	86	78	64	55	48	51	45	43	37
B6. Combination of B1-B5	117	79	79	73	62	58	52	53	48	47	44
C. Tailored Tests											
C1. Combined contingent liabilities	117	79	103	80	63	56	49	61	51	45	39
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	117	87	79	72	66	62	57	58	53	57	56
C4. Market Financing	117	79	74	67	56	57	54	53	42	35	31

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

ZAMBIA

June 25, 2024

THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, MODIFICATIONS OF THE MONETARY POLICY CONSULTATION CLAUSE AND OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

Prepared By | Prepared by the African Department in consultation with the Strategy, Policy, and Review Department.

This supplement provides additional information since the issuance of the Staff Report (EBS/24/66) on June 13, 2024. The information does not alter the thrust of the staff appraisal.

The two prior actions for the review have been completed. Specifically:

1. **The authorities approved a revised 2024 budget in line with the program parameters.** The revised budget was submitted to Parliament on June 21, 2024, and includes provisions for the humanitarian drought response and the liability management operation to clear fuel arrears. To alleviate the impact of the drought to the most vulnerable, the government will double the cash transfers to households already in its social cash transfer scheme and extend coverage to an additional 1.2 million households for a period of a year, reaching a total of 2.5 million affected households. The authorities have also approved a cash for work scheme of 0.3 percent of GDP to extend its reach in urban areas.

2. **The authorities also approved and published on June 19, 2024, a revised arrears clearance strategy that includes a liability management operation for fuel arrears.** The revised arrears strategy takes stock of the progress made so far in clearing legacy arrears (accumulated up to end-2021). It also envisages a liability management operation for fuel arrears that aims to secure net present value savings and to arrest the buildup of liabilities due to the accumulation of penalties and interest. The revised strategy puts more stress on transparency and the strengthening of the PFM processes in monitoring and preventing arrear accumulation.

Statement by Mr. Willie Nakunyada, Executive Director for Zambia, and Ms. Linda Motsumi, Senior Advisor to the Executive Director

June 26, 2024

Introduction

1. On behalf of our Zambian authorities, we appreciate the constructive engagement with Fund staff. The authorities broadly concur with the staff analysis and the assessment of key policy priorities.

2. The post-pandemic economic recovery momentum in Zambia has encountered strong headwinds from the challenging global environment, and the most devastating drought in recent memory. Specifically, the drought has severely affected agricultural output, electricity generation, and economic activity at large. Preliminary estimates indicate that about 48 percent of Zambia's population has been affected by the drought and a national disaster and emergency was declared by President Hakainde Hichilema in February 2024. Against this background, the country is facing additional external financing needs to bridge the food and electricity deficits. At the same time, fiscal financing gaps arising from the need to fund the humanitarian response have necessitates the need to scale up the social cash transfer, as well as interventions for early recovery and resilience building. The implementation of these measures is estimated to require more than US$900 million financing, of which only US$512 million is readily available. To support drought-response efforts, the authorities are requesting an augmentation of access amounting to 30 percent of quota under the ECF arrangement. More generally, they are seeking continued support from development partners to alleviate the impact of the drought on the general populace.

3. Notwithstanding the challenging domestic and external environment, the authorities continue to make significant progress to transform the economy and remain committed to the reform agenda underpinned by the ECF-supported arrangement. In this vein, they have continued to take decisive actions aimed at restoring fiscal discipline, mainly through expenditure prioritization; enhancing social spending; restoring debt sustainability; containing inflationary pressures; and facilitating higher and more inclusive growth. At the same time, the authorities remain committed to the efforts towards a debt treatment plan that meets the program parameters and comparability of treatment as defined by the Official Creditors Committee (OCC).

Program Performance

4. Program performance has been satisfactory with all quantitative performance criteria (QPC) and indicative targets (IT) for end-2023 met, except for the IT on net clearance of Value-Added Tax (VAT) refund arrears. The authorities have updated the strategy to clear domestic arrears, in line with the program requirements. For end-March 2024, ITs for the primary balance and non-mining fiscal revenue were met. However, the ITs for net international reserves (NIR), social spending and arrears clearance were missed. Higher multilateral disbursement, central government transfer of all foreign exchange (FX)- related budget support disbursements and seizing the opportunity to build reserve at an appropriate time should help sustain the objective of accumulating reserves in line with the program requirements. All, but one, structural benchmarks were met, with others completed with minor delays. While the migration of Farmer Input Support Program in at least 33 districts has not

been met, Cabinet approval of migration of 74 districts expected by end-September 2024 provides space for implementation.

5. In view of the additional FX required for priority imports, the authorities are requesting for modifications to the end-June and end-December 2024 QPCs to the NIR targets. To reflect the impact of the drought, they are also requesting modifications for QPCs for the primary fiscal balance and the monetary policy consultation clause. They seek adjustors to the primary balance for the liability management operation to clear arrears and to the NIR target to account for central government debt service payments. The authorities' also request to adjust the ceiling on contracted but undisbursed debt for end-2024 to align with lower-than-expected project disbursement. Broadly, they seek the Executive Directors support in completion of the 3rd ECF Review and of the financing assurances review.

Recent Economic Development and Outlook

6. Real GDP growth firmed from 5.2 percent in 2022 to 5.4 percent in 2023, driven by increased activity in non-mining and non-agricultural sectors, mainly ICT, tourism, and transport. On account of the drought. In 2024, real GDP growth is projected to significantly decline to 2.3 percent owing to a slower-than-expected rebound in mining production, a further contraction in agricultural output, and the impact of power shortages on overall economic activity. Looking ahead, growth is projected to rebound to an average of 6.2 percent over 2025-26, as the drought effects dissipate. That said, the medium-term outlook is subject to risks from volatile commodity prices, subdued global growth, intensification of regional conflicts, as well as rising food and energy prices.

7. Inflation increased from 9.9 percent at the end of 2022 to 13.1 percent in 2023 amid elevated food and fuel prices, as well as the deprecation of the Kwacha. Inflation further rose to 14.7 percent in May 2024 and is expected to peak around 15 percent in 2024 amplified by the effects of drought on food prices, before moderating to 9.8 percent in 2025. Despite the depreciation of the Kwacha, exports continued to decline alongside a marked increase in imports. As such, the current account balance deteriorated to a deficit of 1.9 percent of GDP in 2023. Notwithstanding the deterioration in the current account, gross international reserves firmed from 3.4 to 3.7 months of prospective import cover between 2022 and 2023, respectively, supported by multilateral disbursements.

Fiscal Policy and Debt Management

8. The authorities reaffirm their commitment to a multi-year fiscal consolidation path to ensure debt sustainability through revenue mobilization and reprioritized spending, while preserving priority social and investment expenditures. That said, the stronger than projected primary fiscal surplus achieved in 2023 is expected to deteriorate into a deficit in 2024 as the drought continue to create external and fiscal financing needs.

9. The authorities aim to compensate for the drought-induced shortfall in financing needs by improving tax administration and compliance. In this regard, the Zambia Revenue Authority (ZRA) has made remarkable progress in implementing significant institutional reforms. The Large Taxpayer Office (LTO) for non-mining, and the Specialized Tax Office (STO) for mining was established in January 2024 to better serve the taxpayers through taxpayer education and enhanced data analytics. Further, the electronic invoicing system was launched in March 2024 to help plug revenue leakages, thereby increasing revenue collection. The full implementation for all VAT and Company Income Tax (CIT)

registered taxpayers is scheduled for July 1, 2024, and will allow taxpayers to only claim VAT refunds based on invoices generated within this new system. The taxation of VAT on Cross-Border Electronic Services was also launched on April 1, 2024, to complement other initiatives aimed at effectively taxing the digital services provided by non-resident companies. Simultaneously, the ZRA successfully interfaced government systems such as the Integrated Financial Management Information System (IFMIS) and the Ministry of Lands database to improve accuracy and reduce fraud in tax assessment. The digital Tax Clearance Certificate that helps to verify taxpayers compliance status was also introduced.

10. The authorities have succeeded in their expenditure containment efforts while exceeding social spending target in 2023. However, the revised 2024 budget necessitates further spending reprioritization to create fiscal space to increase the social cash transfer and school feeding programme. To facilitate this, the authorities have reduced other domestic primary expenditures, scaling down intergovernmental transfers, preventing an increase in the stock of fuel arrears, continuously clearing expenditure, and VAT refund arrears, and refraining from introducing fuel subsidies.

11. The authorities are committed to strengthening Public Finance Management to improve transparency and calibrate spending. To control spending, the IFMIS system that was rolled out to all 61 central government budgetary institutions has been expanded to other ministries, and they will be required to record their expenditure arrears and multi-year commitments by end-July 2024. Meanwhile, in January 2024, the authorities adopted the Supervisory and Performance Monitoring Framework to strengthen governance and management of State-Owned Enterprises (SOEs). Further, the Ministry of Finance and National Planning performance contracts with SOEs by end 2024, to become effective in 2024. They are also committed to establishing a Cash Management Unit and a Cash Management Technical Committee by end-July 2024. In the meantime, the Secretary to the Treasury has approved a new action plan to improve cash management and forecasting functions and reduce idle cash balances and the number of accounts held by the central government institutions in commercial banks.

12. The authorities are committed to restoring debt sustainability and returning the risk of debt distress to "moderate" over the medium-term. To this end, they undertake to refrain from contracting non-concessional debt and to limit new external borrowing and disbursement of contracted but undisbursed external debt to central government and ZESCO. In addition, the Debt Management Office (DMO) whose establishment was approved by Cabinet as at end-December 2023, is expected to be operational by end-2024. The authorities have made continued progress in reaching bilateral agreements under the OCC MOU. Alongside, an agreement in principle between Government and the Steering Committee of Bondholders was reached on March 25, 2024, and the consent solicitation was initiated on May 13, 2024. Subsequently on June 11, 2024, the government exchanged its three outstanding Eurobonds (due 2022, 2024, and 2027) for two new amortizing bonds ($1.72 billion with a final maturity in 2033 and $1.36 billion with a final maturity in 2053 in the base case scenario. At the same time, the authorities are making progress in seeking debt relief from other commercial external creditors in good faith and in line with the program parameters and comparable terms of treatment as defined by the OCC.

Monetary Policy and Exchange Rate Policies

13. The Bank of Zambia (BoZ) remains committed to the inflation targeting (IT) framework to maintain price stability and stands ready to use all instruments at its disposal to bring inflation within target and anchor inflation expectations. To this end, a more restrictive monetary policy stance has been adopted by hiking the Policy Rate and increasing statutory reserve requirements. In addition, the BoZ has made progress in modernizing its monetary policy framework and enhancing communication. In this regard, two external members have been appointed to the Monetary Policy Committee (MPC) and the inaugural Monetary Policy Report (MPR) was published in February 2024. Going forward, the MPR will be published on the Bank of Zambia website soon after each MPC meeting.

14. The central bank undertakes to maintain a flexible exchange rate as a primary shock absorber, while mitigating excessive volatility and accumulating international reserves. On May 24, 2024, the foreign exchange market guidelines were issued to enhance transparency, efficiency, and the effectiveness of the foreign exchange market. In addition, the revised rules for the Interbank Foreign Exchange Market (IFEM) were issued on June 14, 2024, to better promote price discovery.

Financial Sector Policies

15. The banking sector remains broadly sound and stable supported by strong capital adequacy, high liquidity buffers, and a low non-performing loan ratio. Credit to private sector has increased markedly while the banks' exposure to government declined to 26 percent of its total assets, from a peak of around 37 percent at the end of December 2021. The BoZ continues to strengthen its banking and regulatory framework to enhance financial sector resilience. The inter-agency Financial Stability Committee, established under the 2022 BoZ Act, held its first meeting in April 2024. The maiden Financial Stability Report, for publication by the end of June 2024, was approved in May 2024. As part of expanding the macro-prudential toolkit, the authorities expect to issue, by end-June 2024, regulations to guide the deployment of countercyclical capital and conversation buffers. Simultaneously, BoZ, benefiting from Fund Technical Assistance (TA), will gradually implement regulations on liquidity coverage ratios (LCR) and net stable funding ratio (NSFR) to enhance liquidity risk management, in line with Basel III standards.

16. To ensure depositor protection and transparency, the BoZ is making continued efforts to enhance its deposit insurance framework. Accordingly, the Deposit Protection Fund (DPF) Unit was established to draft the regulatory framework for an effective deposit insurance, in line with Core effective Principles of Deposit Insurance System and Basel Supervisory Principles. The details of the DPF, alongside the review of the Banking and Financial Services Act (BFSA) will be finalized following consultations with stakeholders, including the IMF.

17. The authorities place a high premium on promoting financial inclusion to integrate the previously unbanked segments of the population. To this end, the BoZ has initiated efforts to facilitate access to affordable credit to micro, small and medium enterprises (MSMEs), while the establishment of a Credit Guarantee Fund (CGF) is expected to be implemented by end-June 2024. To provide sustainable financial products and services to, at least, 85 percent of the population, the authorities launched the Second National Financial Inclusion Strategy (2024-28) in March 2024.

Structural and Governance Reforms

18. Advancement of structural and governance reforms continue to rank high on the authorities' agenda to promote attainment of higher and more inclusive growth. The authorities have made progress in implementing the recommendations of the IMF Governance Diagnostic Assessment Report. In this regard, the Access to Information Act (ATI) was assented to in December 2023 and the Statutory Instrument to commence the Act will be issued by end June 2024. The authorities aim to submit to Parliament, the amended Anti-Corruption Act to strengthen provisions for penalties and sentences by end March 2025. Moreover, the authorities migrated to an online application of mining licenses to efficiently scrutinize the issuance of mining licenses and transfer application, as well as commitment to environmental safety, work programs and production.

19. In view of the ongoing drought conditions, the authorities are enhancing efforts to build a climate-resilient energy sector. In the near-term, the authorities are promoting investment in power generation infrastructure as well as in alternative green and renewable energy sources. The Climate Change Bill to tackle climate-induced challenges through mitigation and adaptation strategies, and research, is currently being drafted and envisaged to be submitted to Cabinet and then Parliament by end-2024. They view future support under the Resilience and Sustainability Facility (RSF) in a new program, as instrumental in supporting the policies to enhance climate resilience, considering the country's susceptibility to adverse climate shocks.

20. Meanwhile, Cabinet approved the Comprehensive Agriculture Transformation Support Program (CATSP) to provide service support, access to finance for irrigation development and increase value-added, storage and logistics support to farmers. To support growth in selective industries, the Investment, Trade and Business Development (Amendment) Act was approved in April 2024 which will provide incentives to investors investing in new projects or expansion in a special economic zone, priority sectors, rural areas, and farm blocks.

21. The authorities remain committed to Anti-Money Laundering and Combating the Financing for Terrorism (AML/CFT). At the end of 2023, the authorities established an AML/CFT/CPF supervisory unit to focus on risk-based on-site examinations of regulated entities to ensure sanctioning of non-compliant financial services providers and provide remedial measures. The implementation of the 2022 safeguards assessments recommendations are well underway.

Conclusion

22. The authorities reiterate their commitment to the objectives of the ECF arrangement, despite the difficult environment compounded by shocks from the severe drought from the El Nino Phenomenon. As such, they view the policy anchor provided by the Fund supported ECF arrangement, as instrumental in the stabilization of macroeconomic conditions and realization of the key objectives of their Eighth National Development Plan (8NDP). They look forward to further Fund technical support to help address the impact of the drought and other attendant constraints to unlock the country's enormous growth and development potential.