INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/350

ZAMBIA

December 2024

FOURTH REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA

In the context of Fourth Review Under the Arrangement Under the Extended Credit Facility 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 December 16, 2024, following discussions that ended on October 15, 2024 with the officials of Zambia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 27, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association
- 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
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PRESS RELEASE

PR 24/476

IMF Executive Board Completes Fourth Review Under the Extended Credit Facility and Financing Assurances Review

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the fourth review under the 38-month Extended Credit Facility (ECF) Arrangement for Zambia, providing Zambia with immediate access to about US$[184] million.
- Program performance has remained broadly satisfactory. All June 2024 quantitative performance criteria (QPCs) and most indicative targets for June and September 2024 were met.
- The authorities remain committed to maintaining macroeconomic stability and restoring fiscal and debt sustainability, while supporting vulnerable households and advancing structural and governance reforms to foster growth.

Washington, DC December 16, 2024: The Executive Board of the International Monetary Fund (IMF) completed today the fourth review of Zambia's 38-month Extended Credit Facility (ECF) Arrangement and financing assurances review. Completion of the review allows for an immediate disbursement of SDR 139.88 million (about US$184 million), bringing Zambia's total disbursement under the ECF-supported program to SDR 992.86 million (about US$1.3 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), with the access augmented to SDR 1,271.66 million (130 percent of quota, about US$1.7 billion) on June 24, 2024 (IMF Press Release 24/242) 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 remained broadly satisfactory despite difficult domestic and international challenges. All June 2024 quantitative performance criteria (QPCs) and most indicative targets (ITs) for June and September 2024 have been met, except for the June 2024 IT on the clearance of expenditure arrears and the September 2024 IT on social spending, which were missed by a small margin. Five out of fifteen structural benchmarks were not met, although two were completed with a slight delay.

With the historic drought significantly contracting agriculture and electricity production, growth in 2024 is expected to decline further to 1.2 percent, down from 2.3 percent projected in the Third Review. While the current account has improved, including due to subdued imports earlier in the year, inflation has risen further due to higher food prices and past currency depreciation. Nevertheless, the authorities remain committed to maintaining macroeconomic stability and restoring fiscal and debt sustainability, while supporting vulnerable households. The authorities are also taking steps to improve governance and advance other structural reforms, including in the energy sector, to foster inclusive growth.

Zambia's public debt is assessed as sustainable, but the country remains at high risk of overall and external debt distress based on a full post-restructuring macro-framework. This framework incorporates, among others, the treatment of official bilateral claims agreed with Zambia's Official Creditor Committee (OCC), the completed Eurobond exchange, and the agreements in principle (AIP) reached with most external commercial creditors, which enable Zambia to fully close its exceptional financing gap. Although Zambia is at a high risk of debt distress because of near-term breaches of the DSA thresholds, Zambia is expected to reach a moderate risk of external debt distress over the medium term.

Following the Executive Board discussion on Zambia, Mr. Nigel Clarke, Deputy Managing Director, and Acting Chair, issued the following statement:

"Program performance remains satisfactory, as the authorities remain committed to economic stabilization and advancing structural and governance reforms, despite the severe impact of a historic drought. Contracting agricultural and electricity outputs have slowed growth and accelerated inflation.

"Fiscal consolidation, prudent monetary policy and further reserve accumulation, exchange rate flexibility, and sound financial policies will be crucial for safeguarding macro-financial stability and building resilience against shocks.

"The fiscal consolidation path envisaged in 2025 will support restoring fiscal and debt sustainability. Planned measures to expand the tax base, harmonize corporate income tax, and index excises are adequate, although heightened risks to the post-drought recovery necessitate contingency revenue and expenditure measures. Progress in enhancing revenue mobilization and strengthening spending efficiency and transparency, including of state-owned enterprises, are critical to generate much needed fiscal space, including to support the most vulnerable.

"Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress. This assessment is based on a full post-restructuring macro-framework, incorporating the treatment of official bilateral claims agreed with the official creditors committee, the completed Eurobond exchange, and the agreements in principle with most commercial private creditors. Zambia is expected to reach a moderate risk of external debt distress over the medium term.

"The Bank of Zambia remains ready to act and maintains data-dependent monetary policy, which is key to preserving the credibility of its inflation targeting framework.

Reserve accumulation and sustained exchange rate flexibility remain critical for addressing external shocks.

"Governance and structural reforms are vital for promoting private sector activity and economic diversification. Enhancing transparency in the energy sector and resource management, strengthening anti-corruption measures, continuing agriculture reform, alongside building climate resilience, will improve the business climate and support sustainable and more inclusive growth."

INTERNATIONAL MONETARY FUND

ZAMBIA

November 27, 2024

FOURTH REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Zambia faces a severe drought, sharply reducing agricultural and electricity output and leading to extensive load shedding. In response, the authorities expanded social cash transfers to support affected households. Multilateral financing has eased fiscal and balance of payments pressures. Despite these challenges, policy adjustment and reforms are supporting macro stability and fiscal and debt sustainability.

Program Status. In August 2022, the IMF's Executive Board approved a 38-month ECF arrangement (100 percent of quota, SDR 978.2 million), augmented by 30 percent of quota in June 2024 (SDR 1,271.66 million) in response to the drought. Completion of this review grants access to SDR 139.88 million (about US$186 million), bringing total disbursements so far to SDR 992.86 million (US$1.3 billion).

Program Performance. Program performance has remained broadly satisfactory. All end-June 2024 quantitative performance criteria; and most end-June and end-September indicative targets (IT)s were met, except for the end-June IT on expenditure arrears clearance and the end-September IT on social spending (based on preliminary data), both missed by a small margin. Ten out of fifteen structural benchmarks were met, with two completed after some delay.

Outlook and Risks. The medium-term macroeconomic outlook remains positive but subject to significant downside risks. While growth and trade balance are expected to improve with increased copper production and investment, the drought effects and power shortages are dampening near-term growth and raising inflation. Growth prospects hinge on favorable conditions in agriculture and mining, alongside successful debt restructuring and reforms. Potential risks from commodity price volatility, climate shocks, and domestic social pressures associated with rising cost of living could undermine stability and slow reform progress.

Review Discussions. Discussions focused on advancing fiscal consolidation while preserving social spending; promoting a flexible exchange rate, building reserves, and bringing inflation down toward the inflation target band; persevering with reforms to strengthen policy frameworks and institutions to support macro and financial stability; and scaling up efforts to implement reforms in the energy sector and those to improve transparency, governance and the business environment, with a view of fostering private sector investment and inclusive growth. Strengthening social spending remains a cornerstone of efforts to mitigate the socioeconomic impacts of the drought and the cost-of-living crisis.

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), Masilokwa, (local economist) and Ree (all AFR), and Messrs. Josic (SPR), Roy (MCM) and Tumino (FAD) visited Lusaka October 2-15, 2024. Discussions were held with Minister of Finance and National Planning Musokotwane, Governor of the Bank of Zambia Kalyalya, Secretary to the Treasury Nkulukusa, Deputy Governor Chipimo, and other senior officials. The mission team also met with His Excellency President Hakainde Hichilema, representatives from various government agencies, the private sector, and development partners. Ms. Motsumi (OED) participated in the discussions. Messrs. Guzman and Qi assisted in the preparation of the report.

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CONTEXT

1. Zambia has experienced a historic drought with economic effects exceeding initial expectations. Agriculture and electricity output has contracted significantly. By end-September, electricity generation reached 27.2 percent of installed capacity, resulting in significant load shedding. The Kariba dam, covering about 80 percent of the national electricity supply in good times, generates less than 10 percent of normal output. Consequently, mining companies have doubled their reliance on imported electricity, to 40 percent of consumption. In October, the regulator approved increasing emergency electricity tariffs (by a weighted average of 70 percent) to import MW300 and reduce load shedding. Against this backdrop, the authorities mobilized additional multilateral financing. The social cash transfers were doubled and expanded to affected households. The 30-percent augmentation of the access under the ECF arrangement in June has also eased the fiscal and balance of payments pressures. The rainy season has now started, with rain levels as expected for the moment.

RECENT ECONOMIC DEVELOPMENTS

2. The drought has weakened economic activity (Figure 1, Table 1). In 2024H1, contractions in agriculture (20.6 percent y/y) and electricity (9.6 percent y/y) and a deceleration in non-mining non-agriculture activity (from 7.7 percent in 2023H1 to 3.5 percent y/y) amid intensifying power shortages dragged growth to 1.9 percent (y/y). Copper production increased by 1.6 percent (y/y) up to July although it registered a rebound in August. The September PMI showed the sharpest decline in private sector activity in over four years as load shedding intensified.

3. The current account balance improved in 2024H1 (Figure 2, Tables 2a-b). While the economic slowdown compressed overall imports, imports of electricity and refined oils in response to electricity shortages increased. Along with increased grants, the current account shifted to a surplus of 0.3 percent of GDP in 2024H1 from a deficit of 1.3 percent in 2023H1. Goods exports remained broadly unchanged relative to 2023H1, as stronger copper and gold exports offset weaker non-traditional exports. Excluding a one-off private debt transaction that bolstered the financial account in 2024H1, financial inflows were driven by higher net FDI into the mining sector (1.9 percent of GDP vs. 0.9 percent last year). By end-October, gross international reserves (GIR) rose to US$4.2 billion (4.3 months of import cover) from US$3.9 billion at end-June, supported by multilateral disbursements and higher foreign exchange (FX) reserve requirements.

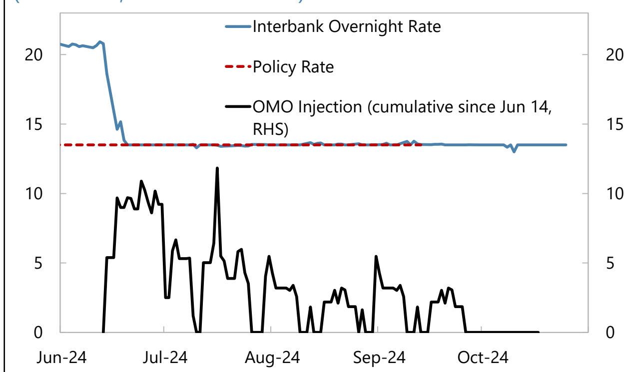
Balance of Payment
(In Percent of GDP)

Sources: Bank of Zambia and IMF staff calculations.

4. **The exchange rate has weakened recently**. Following a 10.4-percent depreciation in 2024Q1 vis-à-vis the U.S. dollar, the Kwacha weakened by 1.8 percent q/q in Q2.[1] While the Kwacha was broadly stable through September, supported by subdued imports and the revised Interbank Foreign Exchange Market (IFEM) rules[2] introduced in June, the strengthening of the US dollar in October led to renewed weakening. The real effective exchange rate appreciated by 2.4 percent between December 2023 and September 2024. The FX backlog, which peaked in mid-March, has significantly eased as the Bank of Zambia (BoZ) sold US$856 million in net terms by mid-November.

5. **Inflation has continued to accelerate, driven by higher food prices and past depreciation**. CPI inflation reached 15.7 percent y/y in October—the highest since December 2021—drifting further from the target band (6–8 percent). Food inflation stood at 18.2 percent, while non-food inflation appears to have been declining since June 2024.[3] The November electricity tariff hike will not directly impact CPI.[4] After holding rates in August, the BoZ increased the policy rate by 50 basis points to 14 percent in November, aiming to steer inflation towards the target band.

BoZ's Open Market Operation
(In Percent, in Billion Kwacha)



Sources: Bank of Zambia and IMF staff estimates

6. **Fiscal performance in 2024 has been marked by constrained domestic financing and spending compression (Figure 3, Tables 3a-b).** The end-June primary surplus reached K 22.8 billion (3.4 percent of GDP), well-above the program target. Weaker receipts from mining sector profit taxes were compensated by higher receipts from import taxes, higher-than-budgeted dividend transfers from the BoZ (K 3 billion), and other exceptional revenues (i.e. forfeited funds of K 1.9 billion). Tight domestic financing reduced investment and spending on goods and services. Preliminary end-September data show non-mining revenues at K 94.4 billion (up from a floor of K 87.2 billion), with the primary surplus estimated at K 19.7 billion (2.9 percent of GDP). The government continued to clear VAT arrears above the floor (refunds of K 8 billion versus a floor of K 3 billion), but the stock increased as more claims were audited.

7. **Tight liquidity conditions constrained domestic market financing in 2024H1 but have improved afterwards.** The February increase in SRR tightened banking liquidity significantly,

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[1] The nominal effective exchange rate depreciated by 1 percent in 2024Q2 and by 0.3 percent in 2024Q3.

[2] Effective June 14, the revised IFEM rules mandate all FX transactions to be conducted through authorized dealers (ADs), and that retail FX transactions (those below US$1 million) be executed at ADs' board rates.

[3] Contributions of food and energy (i.e., utility and transportation costs) to CPI inflation (y/y) amounted to 85 percent in October 2024.

[4] Although the weighted average tariff increase is 70 percent, rates for the lowest tiers, covering households and SMEs, have been reduced by 20 percent. Since the CPI basket includes only these tiers, the direct inflation impact in CPI is expected to be minimal.

resulting in net domestic amortization in government securities (at K 1.8 billion) in 2024H1. On June 5, the BoZ allowed banks to meet 40 percent of the kwacha SRR (K 8.4 billion) with government bonds sold through an offer at prevailing yields, effectively reverting the impact of the February SRR hike.[5] As liquidity eased, excess reserves returned to around 4 percent of deposits. The BoZ also resumed open market operations (OMOs) in mid-June, aligning the interbank and policy rates and providing, on average, K 3.6 billion until end-September. As liquidity eased, demand for government securities resumed, especially for bonds, with renewed interest from non-resident investors.[6,7] Although the stock of non-resident holdings (NRHs) declined by 3.2 percent (by K 1.8 billion) this year up to September 2024, recent demand—driven by progress with the debt restructuring, recent Kwacha stability, and high yields—has been reportedly accommodated through the secondary market.[8]

8. **The declining sovereign-bank nexus has supported private sector credit growth, which has slowed down due to the impact of the drought.** Banking sector assets grew by 7.1 percent between end-2023 and end-August 2024. Lower claims on the central government—from 21.7 percent of total assets at end-2023 to 21.2 percent at end-August 2024— allowed banks to extend credit to the private sector (from 24.5 percent to 25.7 percent of total assets). However, after growing at 24.8 percent in 2023, private sector credit growth (at constant exchange rate) decelerated to 11.6 percent by end-August, with significant slowdowns in manufacturing, energy, and trade.[9]

9. **Banking sector soundness remains broadly stable (Table 5).** Financial indicators suggest strong capital adequacy, exceeding 20 percent at end-August, partially boosted by earnings from government securities. Although moderate at 4.4 percent of total loans, NPLs have increased marginally in 2024 mainly due to FX loans in mining and quarrying, real estate, and personal loans. While liquidity ratios remain above prudential requirements, Kwacha liquidity has declined in 2024.[10] In July 2024, a public bank acquired a small insolvent state-owned bank through a purchase and assumption transaction.

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[5] The SRR for new deposits, provisioned only in cash, remains at 26 percent.

[6] NRHs are limited to 5 percent of gross issuances in primary auctions. This measure constitutes a residency-based capital inflow measure under the Fund's institutional view on the liberalization and management of capital flows and should be removed as conditions allow.

[7] The bid subscription rate for T-bills increased from 50 percent during January – May 2024 to 95 percent during June – September 2024 while it increased from 89 percent to 135 percent, respectively, for bonds.

[8] Up to September 2024, the one-year yield increased by 355 basis points (bps), while the one for the 10-year bonds was muted at 25 bps, reflecting non-residents demand. Yields on the 91-day T-bills, however, remained below the monetary policy rate. The negative spread widened by 100 bps to 250 bps in 2024 up to September 2024.

[9] The Kwacha-denominated loan-to-deposit ratio (LDR) increased from 41.3 percent at end-2023 to 46.9 percent at end-August 2024; the FX-denominated LDR declined from 34.4 percent to 33.4 percent during this period.

[10] Kwacha-denominated liquid assets declined from 47 percent of deposits and short-term liabilities at end-2023 to 33 percent at end-August 2024, while the FX-denominated liquidity ratio declined marginally from 47 percent to 46 percent during the same period.

10. Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress. Staff's baseline is based on a full post-restructuring macro-framework incorporating the treatment of official bilateral claims agreed with Zambia's Official Creditor Committee (OCC), the completed Eurobond exchange, and the agreements in principle (AIP) reached with some of the external commercial creditors. It also assumes a treatment of the residual claims of other external commercial creditors in line with the authorities' restructuring strategy and consistent with program parameters and comparability of treatment principles. Although Zambia is at a high risk of debt distress because of near-term breaches of the DSA thresholds, it is expected to reach a moderate risk of external debt distress over the medium term with the PV of external debt-to-exports projected to fall below the "substantial space to absorb shocks" threshold of 84 percent by 2027. The debt service-to-revenue ratio is expected to fall below the 14 percent threshold by 2025, remaining below this level on average through 2026–31. Zambia's exceptional financing gap is closed, with international reserves reaching five months of import coverage by the end of the program.

PROGRAM PERFORMANCE

11. Program performance remains broadly satisfactory (MEFP, Tables 1-2). All end-June 2024 quantitative performance criteria (QPCs) and most end-June and end-September indicative targets (ITs) have been met, except for the end-June IT on the clearance of expenditure arrears, which was missed by a small margin and the end-September IT on social spending (based on preliminary data). Out the 15 structural benchmarks (SBs), ten have been met and two were completed with some delays. The June FSIP contracts were published with some delay, and July and August contracts have been published in a timely manner (**continuous SB**). The authorities have published the statutory instrument to define the elements of the fuel price formula and institutionalize the review process in November, but the revised pipeline open access tender guidelines are still being prepared (both **end-August 2024 SBs**). The authorities have not published summary information on procurement contracts related to maize imports nor the tender results on Tazama's open access as the tenders did not take place due to the emergency situation.

OUTLOOK AND RISKS

12. The near-term outlook has deteriorated due to the drought. Growth in 2024 is projected at 1.2 percent, reflecting more severe contractions in agriculture and electricity output, which have negatively impacted non-agricultural non-mining activities, particularly manufacturing. Inflation is expected to continue to rise by end-2024, driven by the second-round effects of the electricity tariff hike. An anticipated increase in copper exports is expected to improve the trade balance to a small surplus in 2024. The financial account is projected to improve with increased FDI. GIR is projected at 4.5 months of imports by end-2024.

13. The medium-term outlook remains positive, contingent on a good harvest, increased mining production, and favorable copper prices (Text Table 1). Growth is projected to rise to

6.2 percent in 2025 and further to 6.6 percent in 2026, as mining and agriculture recover.[11] Inflation is expected to remain elevated before converging to the target band by end-2025 as food and energy prices normalize. The external position is expected to improve, driven by faster export growth relative to imports, supported by new investment in the mining sector. Risk premia are projected to decline.

Text Table 1. Zambia: Medium-Term Macroeconomic Framework, 2022–29
(in percent of GDP, unless otherwise indicated)

	2022	2023	2024		2025		2026	2027	2028	2029
			ECF 3rd		ECF 3rd					
		Est.	Review*	Proj.	Review*	Proj.	Projections			
Real GDP (percent change)	5.2	5.4	2.3	1.2	6.6	6.2	6.6	6.2	5.1	4.8
of which: extractive	-3.7	-3.5	4.1	4.7	13.1	11.2	10.8	16.9	8.7	5.0
GDP deflator (percent change)	6.1	7.1	20.2	19.2	9.9	9.7	5.2	6.4	7.0	6.4
CPI inflation, average (percent)	11.0	10.9	14.6	14.9	12.1	12.8	7.0	7.0	7.0	7.0
CPI inflation, eop (percent)	9.9	13.1	15.0	16.4	7.9	7.6	7.0	7.0	7.0	7.0
Primary fiscal balance (% GDP), commitment basis	0.8	1.5	2.9	2.5	3.3	3.3	3.1	2.9	2.7	2.1
Primary fiscal balance (% GDP), cash basis	-1.6	0.6	-0.7	0.5	2.1	1.9	1.8	1.7	1.7	1.6
Current account balance (% GDP)	3.8	-2.1	-0.2	0.7	6.9	5.0	4.9	7.4	7.6	7.2
Financial account (% GDP)	-11.7	-1.6	-9.5	-3.9	-10.4	-3.4	-5.1	-6.1	-5.1	-5.7
FDI (net % GDP)	0.7	-0.1	3.8	3.7	3.8	3.7	4.5	4.3	4.3	4.3
Trade Balance (% of GDP)	11.6	5.0	9.7	8.2	15.9	12.7	13.3	15.2	15.3	14.8
Gross international reserves (months of prospective imports)	3.4	3.5	4.3	4.5	5.0	5.3	5.2	5.6	6.0	6.0

Sources: Zambian authorities and IMF staff estimates and projections.
* IMF CR No. 24/190

14. Downside risks to the outlook dominate (Annex 1). Commodity price shocks could lead to external and fiscal imbalances and undermine investment. Domestically, subdued mining production, protracted climate shocks, and increasing social discontent could exacerbate imbalances and slow reform momentum, threatening the recovery.[12] Risks to inflation are titled to the upside, driven by higher food and fuel prices due to loadshedding. Domestic market conditions—with a narrow investor base and an increasing sovereign-bank nexus—could challenge government financing and pose risks to financial stability. Shifts in market sentiment could weigh on government's gross financing needs, averaging 2.8 percent of GDP in 2025-28. On the upside, renewed mining investments could boost confidence, supporting growth.

POLICY DISCUSSIONS

Zambia needs to safeguard macro-financial stability while dealing with recurring climate and external shocks. Recovery from the drought and building buffers to deal with shocks requires sustained fiscal consolidation through revenue-raising measures. Inflation dynamics highlight the need to balance risks to growth and inflation. Efforts to strengthen financial sector policies are well-geared to better monitor financial risks and enhance crisis preparedness. Structural reforms should prioritize strengthening institutions, governance, and the rule of law, and promoting a level playing field for private sector development that would support inclusive growth.

[11] Growth of mining production in 2024 was stronger than expected with the Kansanshi mine's flagship expansion project more than offsetting slow recovery of KCM. Strong growth outlook in 2025-28 hinges on operational normalization Mopani and KCM and pipeline expansions of other mines.

[12] La Niña is expected to bring significant rainfall to the region during the upcoming agricultural season, increasing risk of flooding, including in open copper mines.

A. Sustaining Consolidation Efforts for Fiscal and Debt Sustainability

15. The 2024 primary fiscal balance (cash basis) is expected to be stronger than targeted (Tables 3a-b). It is projected at around 0.5 percent of GDP against a deficit target of 0.7 percent of GDP. Revenue (excluding grants) are projected at 20.9 percent of GDP close to the level projected at the Third Review, while primary expenditures are expected to be contained.[13] While social spending and the drought response remain prioritized, other spending categories are projected below budget allocations. The authorities also revised upwards domestic interest spending in 2024. The overall deficit (cash basis) is projected to narrow to 5.2 percent of GDP from 6.1 percent of GDP. The authorities have started clearing fuel arrears, with completion expected by end-2024.[14] The primary surplus (commitment basis) is projected at 2.5 percent of GDP in 2024, lower than the 2.9-percent projection at the Third Review due to claims for VAT refunds accumulating at a higher pace than repayments.

16. The authorities remain committed to fiscal consolidation (MEFP, ¶10). The 2025 draft budget was in line with the program targets (**end-September 2024 SB**). Reflecting the stronger fiscal consolidation in 2024 and changes in the macro outlook, the authorities are committed to a primary surplus (cash basis) of 1.9 percent of GDP. The budget includes indexing excises with inflation, partially harmonizing corporate income tax (CIT) rates, and revenues from collecting the excess compensation for transport costs to oil marketing companies that use the Tazama pipeline. The authorities have also identified K 5.5 billion (0.7 percent of GDP) as spending contingency to accommodate maize imports. In June 2025, with an expected good harvest, the authorities will end drought-related social cash transfers and cash-for-work programs. Spending in health and education is expected to increase, with plans to hire 2,000 teachers and 2,000 health workers. With this, the authorities propose an end-September 2025 primary fiscal surplus of K 11.5 billion (IT), based on floors on fiscal revenues of K 100 billion (IT) and on social spending of K 42 billion (IT). Financing requirements are projected at 3.8 percent of GDP, with domestic borrowing at 1.9 percent of GDP (up from 0.1 percent at the time of the Third Review as overall 2025 spending has increased, and some foreign financing disbursement is backloaded to 2026.) Going forward, staff agrees with the Government on revamping the fiscal framework to better account for the mining wealth (MEFP, ¶11).

[13] Final 2023 GDP numbers, released in September, revising down nominal GDP, resulting in a higher revenue-to-GDP ratio in 2023-24 compared to the Third Review.

[14] For details, please see Box 1 at IMF Country Report No. 24/190.

Text Table 2. Zambia: Main Proposed Tax Measures in the 2025 Budget

	Kwacha million	Percent of GDP
Income Taxes	**958**	**0.12**
Harmonizing CIT rates (from 15 to 20 percent for non-traditional exports; copper value addition firms)	268	0.03
Increasing the turnover tax threshold from K800,000 per year to K5 million per year and the turnover rate from 4 to 5 percent	220	0.03
Increasing Rental Income Tax for rental income above K0.8m per year from 12.5 to 16 percent	200	0.03
Increasing the property transfer tax for real estate from 5 to 8 percent	270	0.03
Excises	**975**	**0.12**
Indexing with inflation excise for fuel (@ 13 percent)	275	0.04
Indexing with inflation excises for tobacco	100	0.01
Other excise measures (on betting, non-alcoholic beverages, second-hand vehicles)	600	0.08
Custom Duties and International Trade Taxes	**887**	**0.11**
Increasing Custom duties (on hose pipes, paper and packaging products, selected steel products, second-hand vehicles)	287	0.04
Reintroducing export taxes on gemstones and precious metals at 15 percent	600	0.08
Non-tax revenue	**1,995**	**0.25**
Adjusting Fee units	15	0.00
Doubling Mobile Money Transactions Levies and removing exemptions	180	0.02
Exceptional Revenue from Excess Profit fees for Tazama fuel pipeline*	1,800	0.23
Total	**4,815**	**0.61**

Source: MoFNP and IMF staff estimates

** The Energy Regulation Board, in its price build up formula, applies a higher-than-transport cost for the use of the Tazama oil pipeline to partly mitigate the actual higher costs of the fuel still imported by road. This generates excess transport cost recovery for the Tazama pipeline and the companies using it.*

17. Staff emphasized the need for revenue measures to address development needs and build buffers to face potential repeated shocks (MEFP, ¶12). Improving tax compliance, broadening the tax base, and enhancing tax policy are paramount to avoid procyclical policies and create space to build buffers against economic shocks and support development. To this end, the authorities approved tax measures for a combined yield of 0.6 percent of GDP (Text Table 2). Some measures—like CIT harmonization and excise indexations—appropriately protect the tax base and minimize distortions, while others—such as raising tariffs to protect select local activities or the turnover tax for small businesses—raise the cost of doing business and could dent compliance. More specifically:

- **Tax policy**. In 2025, the authorities have adopted revenue measures of 0.6 percent of GDP (see Text Table 2). CIT will be harmonized for firms in non-traditional exports' sector (excluding agriculture) and copper cathodes (from 15 percent to 20 percent). Farming and agro-processing sectors continue to benefit from lower rates, with the harmonization postponed due to the drought. Turnover tax will be increased alongside the threshold above which CIT is applied. Specific excises will be adjusted with inflation. The authorities will continue to refrain from granting tax exemptions.
- **Tax compliance.** The Zambia Revenue Authority (ZRA) has implemented compliance initiatives, requiring all VAT registered taxpayers to use the Smart Invoice System (SIS) for electronic invoicing starting July 2024. In 2025, VAT deductions will be restricted to transactions with SIS-issued invoices. ZRA plans to establish a compliance risk management unit by mid-2025 (**proposed end-June 2025 SB**) and is advancing electronic customs data exchanges with neighboring countries.

- **VAT refunds**. ZRA has increased the pace of VAT refunds from K 1.4 billion to K 1.7 billion per month in 2024 and will adopt risk-based audits by end-2025.

18. Public financial management (PFM) reforms will help improve the transparency and efficiency of public spending (MEFP, ¶16-22).

- **State-owned enterprises (SOEs).** SOEs are not performing well, with about half reporting losses, becoming dependent on capital injections and creating fiscal risks. The new SOE policy establishes principles, among others, to improve SOE governance, oversight and financial sustainability **(end-October 2024 SB)**. The authorities aim at submitting to Cabinet a SOE Act incorporating the principles of the SOE policy in 2025 (**proposed end-September 2025 SB**). Performance management contracts between the Ministry of Finance and National Planning (MoFNP) and SOEs will be signed starting in 2025. To enhance transparency, the Industrial Development Corporation published 2019-22 audited financial statements **(end-October 2024 SB)**.

- **Expenditure and commitment control.** The rollout of the IFMIS system plans to include the provincial offices of the Ministries of Agriculture, Fisheries and Livestock by end-2024 and Ministry of Health in 2025. Recording arrears up to 2023 in IFMIS is delayed to March 2025, and recording of multi-year commitments will start in January 2025. Navision, the PFM system for local authorities, will be deployed by end-2025.

- **Cash management.** A survey of government bank accounts to mobilize idle balances to the Treasury Single Account is delayed, and now expected by end-2024. The cash management unit and committee are established to support cash-flow forecasting, but not yet operational due to staffing issues. The authorities are proposing delaying implementing the 2025 cash-flow forecasting plan (**end-December 2024 SB, proposed to reset to end-March 2025**).

- **Public Investment Management (PIM) and Public Private Partnerships (PPPs).** The authorities plan to finalize bylaws for the PPP law by end-2024, a pre-condition to sign new PPPs. Inclusion of 2025 investment projects in the IFMIS is ongoing, with completion expected by end-2024. While the 2025 public investment plan is aligned with the budget, in-year data and information shortcomings are an obstacle for effective PIM.[15]

- **Fiscal risks**. The first Fiscal Risk Statement (FRS) described fiscal risks broadly, including those associated with SOEs, the pension fund, PPPs, and climate (**end-June 2024 SB**). Careful management of fiscal risks—particularly those arising from growth challenges—is crucial to reducing economic hardship. In 2025, the authorities plan to extend the FRS with sensitivity analysis on macroeconomic scenarios, quantifying their impacts on fiscal variables, and adding

[15] The 2024 update to the 2017 Public Investment Management Assessment (PIMA), including a Climate PIMA (C-PIMA), will provide recommendations for strengthening the management of public investment and enhancing the climate sensitivity of capital spending. An IMF Public Investment Management Assessment (PIMA), including the climate module, was completed in November 2024.

detailed quantitative financial information about SOEs and signed PPPs to better assess fiscal risks (**proposed end-September 2025 SB**).

19. The authorities continue strengthening debt management and transparency (MEFP, ¶26-31). A new regulatory framework for public debt management, including oversight of government guarantees for public bodies and SOEs performance, was approved in June 2024. To operationalize the new Debt Management Office (DMO) within the MoFNP, organized along front, middle and back offices, the authorities will publish and adopt the procedures manual (**end-December 2024 SB, proposed to reset to end-March 2025**). Enhanced debt transparency includes publishing medium-term debt management strategies, annual borrowing plans (ABP), quarterly debt bulletins, and quarterly issuance plans, including a breakdown of planned issuances of T-bills and bonds in the ABP. Disclosing the financial terms on FX loans contracted for clearance of fuel arrears, along with an estimate of the gains, will further support transparency.

B. Safeguarding Price and External Stability

20. While the BoZ has adequately tightened monetary policy, further tightening may be required (MEFP, ¶32-33). Despite the supply-driven nature of inflation, the negative real policy rate, the relative loosening of liquidity following the change in provisioning the SRR, and strong growth in monetary aggregates, could exacerbate inflation further. Demand-side inflationary pressures could raise particularly if supply bottlenecks such as power shortages persist into 2025. A prolonged divergence of inflation from its target band risks undermining the credibility of the inflation-targeting (IT) framework. In view of this, the BoZ stands ready to take appropriate actions and will continue to ensure that monetary policy decisions remain forward-looking, data-dependent, and supported by effective communication The BoZ also intends to maintain the SRR level, which it considers important for exchange rate stability.

21. Improving the monetary policy framework is key to enhance monetary policy transmission and develop the interbank market (MEFP, ¶40). The current setup—with daily SRR compliance and fixed-rate full allotment in OMOs—limits the time horizon for banks' liquidity management and causes excessive resort to BoZ open market operations (OMOs) in banks' daily cash management. Staff recommended enhancing the monetary framework by reversing the provision of the SRR to cash balances, complementing the fixed-rate full-allotment system with standing corridor facilities, moving back to reserve monthly averaging, and realigning OMO cycles with it, and by scaling up BoZ communication. The BoZ intends to undertake a comprehensive review of the monetary policy framework and committed including to moving to reserve averaging as conditions allow.

22. The BoZ should sustain exchange rate flexibility while limiting FX market interventions in line with reserve targets (MEFP, ¶35-37). The exchange rate should remain the primary tool for absorbing any residual BOP adjustment needs. Given repeated shocks, the BoZ remains committed to the end-2024 NIR target and proposes setting the end-September 2025 NIR indicative target (IT) at US$2,550 million, consistent with reaching 5-month import coverage by end-2025. In terms of enhancing the FX market functioning, the revised IFEM rules appropriately removed BoZ's power to declare market stress conditions and trigger regulatory ceilings on AD's quote adjustments.[16] Advancing FX market reforms would help reduce AD's dependence on the BoZ as FX supplier and revive interbank trading; a clear FX intervention strategy will help strengthen FX management, build reserves, and enhance resilience to external shocks.

23. The BoZ is committed to removing multiple currency practices (MCPs, MEFP, ¶34). Zambia maintains two multiple currency practices (MCPs) under the IMF's new policy.[17] The official actions giving rise to MCPs were introduced before program approval and have remained unchanged since. They arise from the BOZ' official exchange rate used to purchase U.S. dollars from the revenue authorities for (i) mining tax receipts, calculated as the average mid-rate from the preceding months, and (ii) custom duties receipts, calculated as the median of rates from any four leading commercial banks for the two weeks preceding the later of the date of importation, or the making of the first entry for those good. The most recent impermissible spreads were observed for both on November 15, 2024. Staff considers the economic impact of the MCPs to be minimal. The authorities are not requesting approval as they have committed to remove them by October 2025.

24. Starting 2025, the BoZ will request all domestic transactions to settle in kwacha (MEFP, ¶44). The BoZ is proposing a phased approach while limiting exemptions, establishing the Kwacha as Zambia's sole legal tender as prescribed by law. While this measure would enhance the effectiveness of monetary policy, staff noted that volumes in the FX market would likely increase but could result in higher Kwacha volatility—especially if backlogs reoccur—and some financial disintermediation. Staff cautioned against administrative measures to promote de-dollarization. Going forward, staff proposed that the authorities consider market-driven incentives once macroeconomic stability is consolidated (having achieved low and stable inflation), hedging instruments to manage exchange rate risks are available to the private sector, and prudential regulation is in place to help internalize financial risks associated with dollarization.

C. Strengthening Financial Policies

25. Progress has been made in strengthening the prudential regulation and supervision for capital adequacy, liquidity, and cyber risk management, and AML/CFT/CPF (MEFP, ¶40). Regulations for countercyclical capital and conservation buffers will be issued by end-December 2024 while regulations on liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) will be issued by end-2025. To enhance cyber resilience, the BoZ conducted two on-site examinations as of end-September 2024, with two additional assessments scheduled by end-2024. In terms of AML/CFT/CPF supervision, the BoZ participated in one joint examination of a commercial bank in July 2024, with two others expected to be completed by end-2024.

[16] The so-called Constrained Pricing Mechanism (CPM) was added to the IFEM rules during the 2020 revision. But was never triggered.

[17] For details, see Guidance Note for the Fund's Policy on Multiple Currency Practices.

26. The BoZ continues to remain vigilant to preserve financial stability (MEFP, ¶39-40). Following the maiden publication of the Financial Stability Report (FSR) in May, the October 2024 FSR has been published. In the context of the drought, the BoZ has undertaken both macro and micro stress testing to monitor the impact of the drought on the banking sector. NPLs are projected to rise, particularly in the agriculture sector and sectors affected by the energy crisis.[18] Building financial sector resilience is essential, given repeated shocks that could deteriorate asset quality and key structural financial risks, including dollarization, credit concentration, and sovereign-bank nexus.[19]

27. The BoZ is working to upgrade the Banking and Financial Services Act (BFSA, MEFP, ¶41). Based on recommendations of the 2022 Governance Diagnostic Assessment and the 2017 Financial Sector Assessment Program, the BFSA review will focus, inter alia, on ownership changes, auditing, prudential requirements, consolidated supervision, transparency on the guiding principles for bank intervention, enforcement, and resolution.[20] The authorities would need additional time to submit the BFSA to Parliament (**end-December 2024 SB, proposed to reset to end-March 2025**).

28. The BoZ is working towards developing deposit insurance (MEFP, ¶42). The draft legal framework on deposit insurance would include, inter alia, coverage, depositor preference, and funding. The BoZ will adopt this framework consistent with the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers (IADI) and Basel Supervision Principles (**end-April 2025 SB**).[21]

29. Careful calibration of facilities to support the recovery and promote financial inclusion is essential for effective financial stability support (MEFP, ¶39, ¶43).

- To support the 2024/25 agricultural season and address energy shortages, the BoZ plans to provide liquidity support of K 5 billion (3/4 percent of GDP) close to the monetary policy rate via the Stability and Resilience Facility (SRF), to provide affordable credit with a maximum tenor of

[18] While a macro-stress testing exercise as part of the June 2024 Financial Stability Report (FSR) indicated NPLs would rise to 5.2 percent by 2025 due to the drought, a more recent micro-stress testing in September 2024 suggested NPLs would increase from 4.9 percent to 6.4 percent during 2024-26.

[19] Large loan exposures (those exceeding 10 percent of a bank's regulatory capital) stood at 116 percent of regulatory capital at end-August 2024 while the largest 20 loans of banks accounted for 62 percent of total loans. Deposit concentration ratio was 44 percent. Foreign currency loans accounted for 41 percent of total loans while foreign currency deposits stood at 49 percent of total deposits.

[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 IADI Core Principles for Effective Deposit Insurance Systems – Executive Summary (bis.org).

seven years.[22] It is expected to be implemented in a short timeframe, with close monitoring to reach targeted groups while credit risks are handled adequately.[23] The BoZ should incorporate the liquidity impact into its monetary operations.

- The Zambia Credit Guarantee Scheme, facilitating access to affordable credit to micro, small, and medium enterprises (MSMEs), will expand to K 851.7 million in 2025, from K 386 million in 2024.[24] Enhancing its transparency will improve assessing credit performance, guarantee utilization, and the extent to which guarantees are called in lieu of the annual transfers provided by the government.
- Separately, the BoZ, collaborating with the National Advisory Board for Impact Investment, has developed the Small Business Growth Initiative establishing a partial credit guarantee (with first-loss coverage) on BoZ seed funding (a K 5 billion envelope) and donor funds to support lending to bankable MSMEs projects. A pilot will be launched by end-2024 with BoZ funding provided in tranches.[25] While the design is being finalized, the governance arrangements and operational modalities must include measures to safeguard BoZ's autonomy, financial position, and credibility.

30. Progress towards implementing the safeguards assessment recommendations has been slow (MEFP, ¶46). The BoZ is still waiting to obtain a legal opinion from the Office of the Attorney General to clarify the interpretation of the statutory limit on credit to the government and the rollover of government securities, and to ascertain its compliance with the law.

D. Advancing Structural Reforms to Improve Governance and Support Growth

31. A sustained reform momentum is key to promoting higher and more inclusive growth (MEFP, ¶47).

- **Agriculture.** The authorities will continue expanding the e-voucher. The Comprehensive Agriculture Transformation Program (CATSP) approved by Cabinet in March 2024 envisions

[22] The facility targets farmers at the onset of the 2024/25 agriculture season and businesses seeking financing for solar projects.

[23] Lessons from the Targeted Medium-Term Refinancing Facility (TMTRF) and linked to MPR implemented during Covid times should be factored in for enhancing SRF effectiveness. Around 65 percent of the TMTRF funds were used to finance restructured facilities, with 35 percent provided as new credit. Bank lending was heavily tilted towards big corporates while non-bank lending targeted households. NBFIs, which charged relatively higher interest rates than banks, were more active to pass on interest rate reductions.

[24] Budgetary transfers are made on an annual basis by the government to the Zambia Credit Guarantee Scheme (ZCGS), a limited company wholly owned by the government. The government provides partial guarantees through this scheme for credit provided to underserved groups such as the women, youth, and those in rural areas.

[25] Financing will become available depending on the progress and outcomes of the pilots.

refocusing the role of the public sector and enhancing private sector investment.[26] Consistent implementation of CASTP will be key to mitigating the lingering effects of the drought and building resilience while promoting a more diversified, commercially oriented agricultural sector. The authorities will also publish the 2024 audited financial statements of the food reserve agency (**proposed end September 2025 SB)** to increase fiscal transparency.

- **Energy.** Despite some setbacks, the authorities will advance the implementation of envisaged energy reforms. To this end, the rule-based framework for fuel prices was approved in November and the new guidelines for Tazama's open access, promoting competition, are expected to be approved by end-2024 (**proposed end-December 2024 SB**). The authorities will also start collecting the transportation cost differential from the oil supplier that uses the pipeline.[27] The authorities are committed to operationalize Tazama's open access in April 2025 (**proposed end-April 2025 SB**).

32. Structural reforms should continue focusing on improving the business climate. Sustaining business confidence would benefit from renewed dialogue with the private sector, focused on measurable deliverables to address obstacles (e.g. nuisance regulations) that are reportedly being expanded.[28] Strengthened transparency and governance in resource wealth management, including by further clarifying policy intentions regarding mining production conditions under new licenses and consistently implementing the new online licensing system (SSOMCS), is critical to unlock greenfield investment potential expected from the ongoing aerial survey. Transparent communication is needed to affirm the authorities' strategy in the State's participation in greenfield mining projects, so that private sector stakeholders understand fully the terms of engagement.

33. The draft Climate Change Bill is expected to be submitted to Parliament by end-2024 (MEFP, ¶48). 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-related initiatives. A Climate Public Investment Management Assessment (C-PIMA) and a Country Climate and Development Report (CCDR) are expected to be concluded by mid-2025. The strategy would help catalyze climate finance, thus building economic resilience to climate shocks.

[26] Key legislative initiatives planned under CATSP include reviewing FRA Act (to streamline and refocus its mandate), replacing the Control of Goods Act, establishing guidelines for export and import controls, and enacting a law to implement the Agricultural Aggregator Alliance model, which is expected to serve as the commercial alternative to the FISP program.

[27] The transportation cost line in the fuel pricing formula is set as the weighted average cost of the road transportation cost (high) and the pipeline usage cost (low), which results in extra profit for the oil supplier that uses the pipeline. The authorities have instructed TAZAMA company to collect this differential dating back from usage charge for July 2024.

[28] For example, Zambia Qualification Authority Act 2024 prohibits business from employing a person without verifying the qualification (e.g., engineering degree or license) with the Authority and criminalizes the contravention of this requirement (up to a year of imprisonment or a fine).

34. Governance reforms remain essential for private sector development MEFP, ¶51). The revised Anti-Corruption Act, prepared in consultation with IMF staff, is to be submitted to Parliament on schedule (**end-March 2025 SB**). After its enactment, reforms to the forfeited asset management framework, the asset declaration system for public officials, and the Public Interest Disclosure Act will proceed. The Public Audit Act of 2016 and the State Audit Commission Act of 2016 are expected to be enacted timely (**end-January 2025 SB**). The authorities are working on strengthening public procurement and the transparency and accountability of public finance. Authorities are committed to publishing procurement contracts related to maize imports (**continuous SB**) once the tenders resume.

35. The authorities are addressing data gaps (MEFP, ¶53). They have strengthened data collection and estimation of key national economic statistics; are working towards rebasing national accounts to 2022 by end-2025; and improving coverage of BOP transactions. Further efforts are needed in improving data sources to ensure balance of payments and international investment position stock-flow consistency.

PROGRAM MODALITIES AND FINANCING

36. Program modalities remain unchanged. Monitoring will continue semi-annually through ITs, QPCs, and structural benchmarks, with new proposed end-September ITs consistent with the updated macro-framework (MEFP, Table 1). The authorities have requested that a new deadline for publishing the revised pipeline open-access tender procedures be set to end-December 2024. They have also requested resetting four end-2024 SBs—submitting a revised the Banking and Financial Services Act to the Parliament, implementing the 2025 cash-flow forecasting plan, issuing the procedures manual for the DMO (all to end-March 2025) and conducting an independent audit of the 2024-25 e-voucher rollout (to end-September 2025)—as these actions require additional time for completion. New SBs are proposed for 2025 before program expiration (MEFP, Table 2).

37. Adequate financing assurances are in place for the remainder of the program. The program remains fully financed, with firm commitments through October 2025 (Text Table 3).

Text Table 3. Zambia: Baseline Program Financing (US$ million)

	2022	2023	2024	2025	**Total**
Financing gap [1]	**3,059**	**2,033**	**1,383**	**1,020**	**7,495**
Official financing	**737**	**538**	**1,383**	**1,020**	**3,678**
IMF ECF	187	373	760	370	1,690
World Bank [2]	550	165	524	499	1,738
AfDB	-	-	100	150	250
Exceptional Financing (Accumulation of arrears) [3]	**2,322**	**1,495**	**-**	**-**	**3,817**

Source: IMF staff estimates and projections.

1/ For 2022 and 2023, pre-restructuring financing gap before external debt treatment from commercial creditors. Under the post-restructuring baseline, includes the exceptional financing from the debt restructuring from 2024 onwards.

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

3/ In 2022 and 2023, the arrears accummulated on restructurable debt covered the financing gap.

38. The authorities are making good-faith efforts toward a restructuring agreement with private commercial creditors on comparable terms and in line with program parameters. The preparation of the bilateral agreements to implement the MoU signed by the Official Credit Committee (OCC) satisfy the IMF's Lending into Official Arrears (LIOA) policy. Arrears to other official bilateral creditors are deemed away in the application of the LIOA policy.[29] The OCC confirmed comparability of treatment (CoT) for the agreements in principle with the China Development Bank and the Industrial and Commercial Bank of China. To date, restructuring agreements cover about 90 percent of Zambia's external debt within the restructuring perimeter. The authorities are actively engaged with commercial lenders in good faith and in a collaborative manner, aiming to reach agreements consistent with IMF program parameters and CoT as defined by the OCC. Considering Zambia's progress in the restructuring process, staff supports the completion of the financing assurance review.

39. Zambia's capacity to repay the Fund is adequate. Zambia's debt stock to the IMF as a share of GDP, based on existing and prospective drawings, is projected to peak at 5.5 percent in 2025, remaining elevated thereafter. This is above the 75th percentile of past PRGT arrangements (Figure 6) and ranks among the PRGT's top exposures in the last decade. Annual repayments to the IMF are expected to peak at 0.6 percent of GDP and 1.4 percent of exports in 2031 (Table 8). However, Zambia's debt to the IMF 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 IMF close to or below the median for the comparator group and below the 75th percentile as a share of exports.

40. Zambia's capacity to repay the Fund is subject to significant downside risks. These include commodity price and climate 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.

41. Enterprise risks are assessed as moderate. IMF's financial risks arise from the stressed debt situation and potential macro-financial challenges, but these are mitigated by the program's design and credible debt relief prospects. The program also catalyzes donor and creditor support while anchoring policy adjustments and reforms. Failure to complete the review could elevate reputational risks for the IMF and impact IMF member engagement.

42. 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), 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 the program as it is included in the authorities' restructuring request.

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

STAFF APPRAISAL

43. Zambia is advancing its reform efforts despite a historic drought. The authorities remain focused on maintaining macroeconomic stability and restoring fiscal and debt sustainability, while supporting vulnerable households.

44. Economic activity has weakened in 2024, with the drought sharply contracting agriculture and electricity outputs. Growth is projected to decline to 1.2 percent, down from 2.3 percent in the Third Review, though a rebound is expected in 2025 with a positive medium-term outlook. The current account has improved due to subdued imports and increased grants, and Kwacha's depreciation has stabilized. Inflation has risen, driven by higher food prices and past currency depreciation. Mid-year liquidity improvements have supported fiscal performance and enabled domestic financing recovery.

45. Program performance has remained broadly satisfactory. All June 2024 quantitative performance criteria (QPCs) and most indicative targets (ITs) for June and September 2024 have been met, except for the June 2024 IT on the clearance of expenditure arrears, which was missed by a small margin and the September 2024 IT on social spending which was also missed. Five out of fifteen structural benchmarks were not met, although two were completed with a slight delay.

46. The 2025 budget provides an appropriate fiscal anchor, but it hinges on a prompt post-drought recovery, with downside risks to revenue. Plans to expand the tax base, harmonize CIT, and index excises are steps in the right direction. However, should liquidity strains or adverse events arise, prompt actions—including additional efforts for domestic revenue mobilization and re-prioritizing expenditures—will be essential. With shocks becoming more frequent, stronger revenue mobilization is needed to support development goals, build resilience, and ensure fiscal and debt sustainability.

47. Sustaining progress on fiscal structural reforms will enhance revenue mobilization, mitigate fiscal risks, and strengthen spending efficiency and transparency. PFM reforms, including enhanced SOE governance, IFMIS expansion, and improved cash management through the Treasury Single Account and better coordination with the debt management office, will be essential for addressing fiscal risks. A Fiscal Risk Statement (FRS) with macroeconomic sensitivity analysis and expanded SOE disclosure would further enhance fiscal risk management. With a new debt management framework in place, increased transparency—through foreign exchange loan disclosures and detailed borrowing plans—will further support fiscal sustainability efforts.

48. Monitoring demand-side inflationary pressures, which could be compounded by supply-side constraints, is crucial to reduce inflation and support economic recovery. Maintaining a tightening bias as supply pressures ease will help contain inflation while supporting economic recovery from the drought. Strengthening the monetary policy operational framework—by adopting reserve averaging and establishing a standing facility to improve liquidity management—is also crucial for refining inflation targeting, enhancing policy transmission, and developing the interbank market. Furthermore, sustained efforts to build foreign exchange reserves remain important, with a target of reaching five months of import coverage by end-2025.

49. The BoZ's commitment to removing two MCPs is welcome. The official actions giving rise to MCPs were introduced before program approval and have remained unchanged since. Staff considers the economic impact of the MCPs to be minimal and welcomes the authorities' commitment to remove them by October 2025.

50. Strengthening financial oversight and resilience measures will safeguard asset quality, support stability, and promote financial inclusion. Preserving financial sector resilience is essential to mitigate drought-related impacts on asset quality, particularly in the agriculture and energy sectors. Continuously monitoring loan portfolios and conducting stress tests, while implementing targeted drought response facilities to provide affordable credit for food and energy production, is crucial. Strengthening the macro-prudential framework, supported by regular stability reports and an upcoming IMF-supported Financial Sector Stability Review, will bolster financial stability. Ongoing improvements in prudential regulation, revisions to the Banking and Financial Services Act, and upgrades to the deposit insurance framework will further enhance financial sector resilience. Expanding micro, small, and medium enterprises credit access will support financial inclusion.

51. Persevering with the implementation of structural reforms will help foster a competitive business climate and promote investment and inclusive growth. Continued reforms in agriculture and energy will support diversification and private sector-led growth while building climate resilience. Progress in energy reforms, particularly in fuel pricing and the open access to the Tazama pipeline—without further delay—will improve cost efficiency and transparency. Renewed private sector dialogue and establishing clear principles for resource management will help attract investments. Governance reforms are vital to enhance transparency, accountability, and trust in public institutions. Steps to strengthen anti-corruption measures, forfeited asset management, asset declarations for public officials, and public interest disclosures will support these goals.

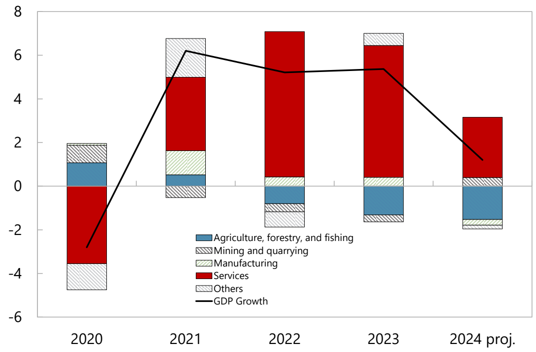
52. Staff supports the authorities' requests to complete the Fourth Review under the ECF-supported arrangement and the financing assurances review. Staff supports the authorities' request to reset four structural benchmarks to a new date. Given satisfactory program performance and progress in the debt restructuring, continued commitments to fiscal and debt sustainability, sound macroeconomic policies, and structural reforms, as outlined in the LOI and MEFP, staff will support the authorities in achieving the program objectives.

Figure 1. Zambia: Real Sector Developments, 2020-24

(In percent, unless otherwise specified)

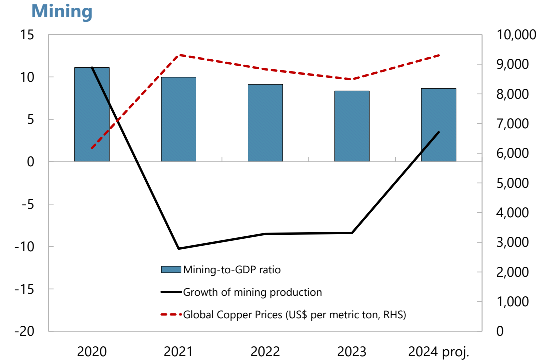
The growth outlook has weakened further since the third review…

Contributions to GDP Growth



…while mining production has started to recover.

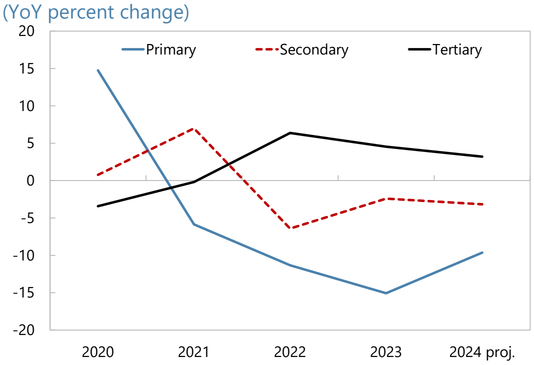
Mining



The drought impact is dragging growth across sectors ….

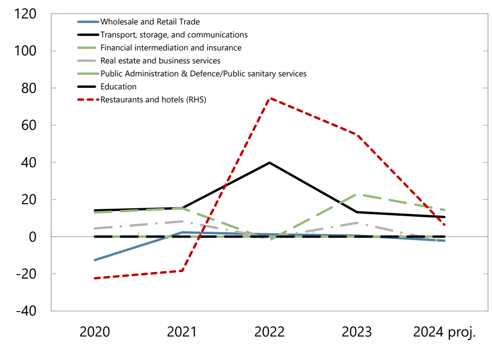
Primary, Secondary, and Tertiary Sectors

(YoY percent change)



…with services growth also decelerating.

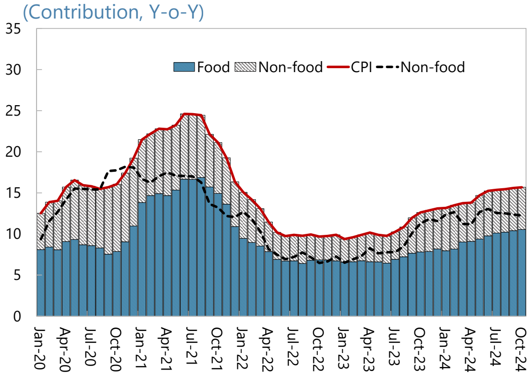
Components of Services Growth



Inflation has kept drifting away from the target band…

CPI Inflation

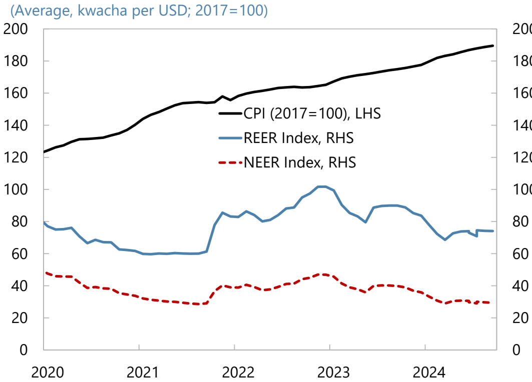
(Contribution, Y-o-Y)



…driven by food prices and past exchange rate depreciation

Consumer Price Index and Exchange Rate

(Average, kwacha per USD; 2017=100)



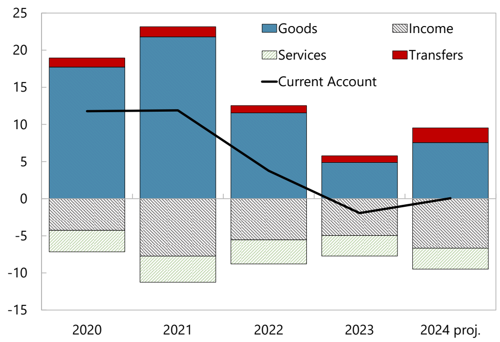
Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 2. Zambia: External Sector Developments, 2020–24

(Percent of GDP, unless otherwise specified)

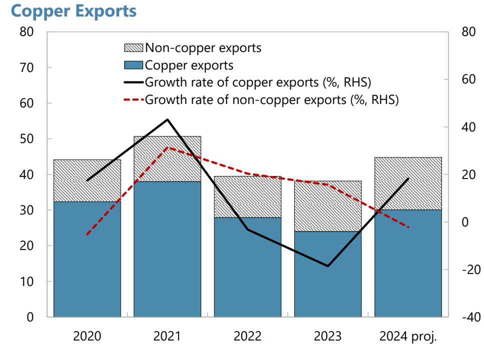
The current account deficit is expected to decline in 2024....

Current Account



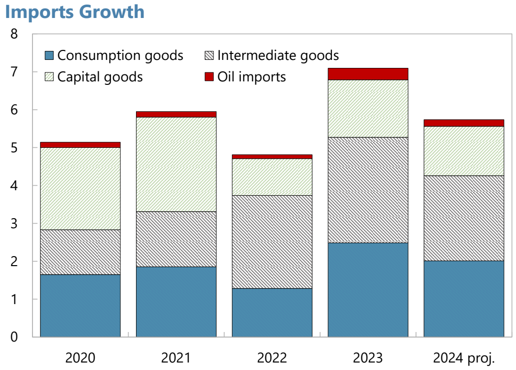
... supported by strong copper exports....

Copper Exports



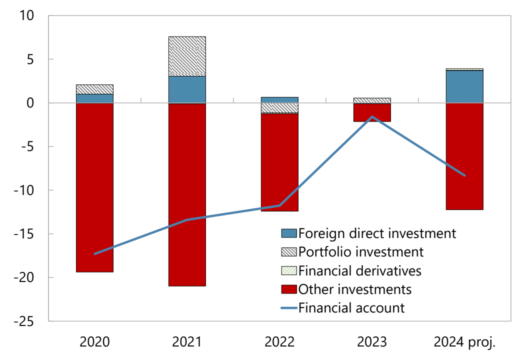
...while imports growth is expected to slow down.....

Imports Growth



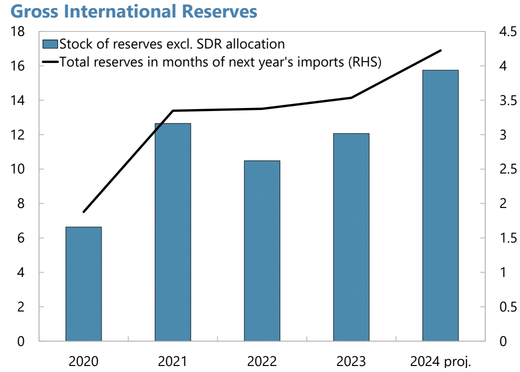
The financial account deficit is expected to widen following the higher public sector amortization schedule....

Financial Account



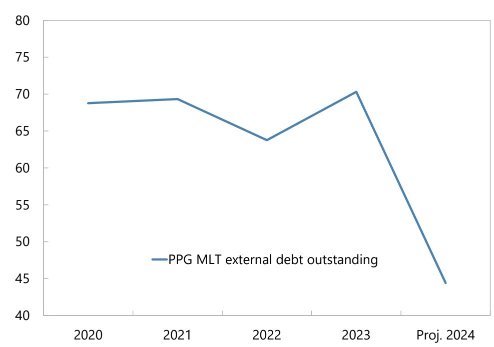
FX Reserves increased supported by the higher FX statutory reserve requirement...

Gross International Reserves



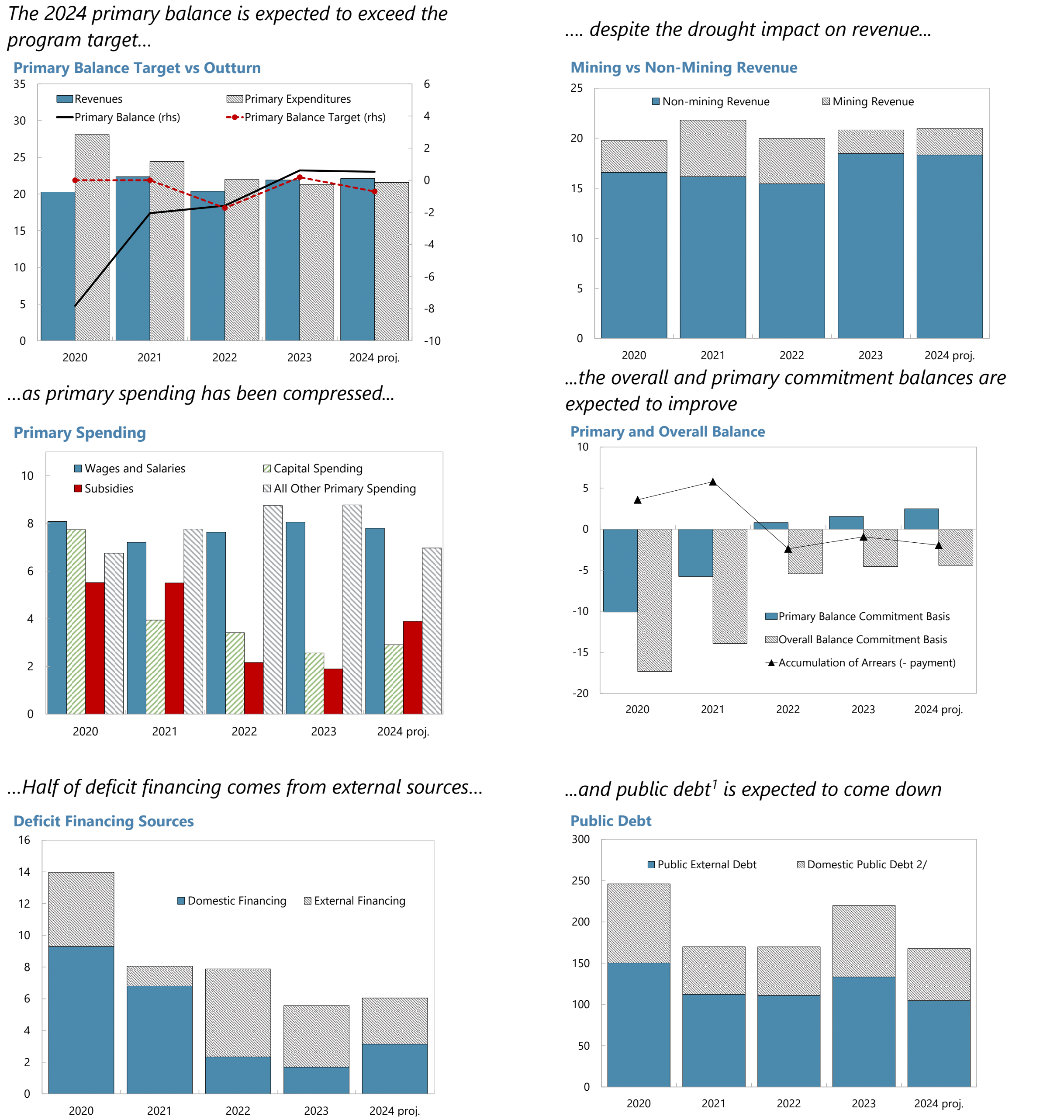
... while external debt is expected to decline with the debt restructuring.

External Debt



Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 3. Zambia: Fiscal Developments, 2020–24

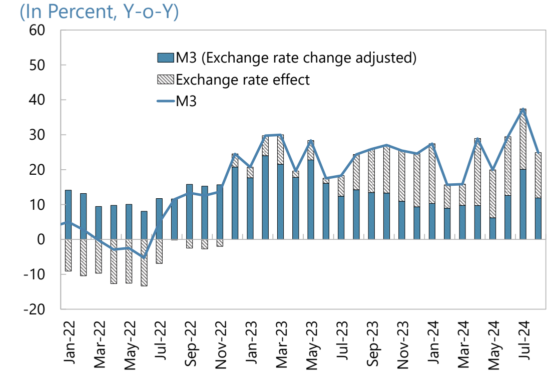


Sources: Zambia: Ministry of Finance National Planning and IMF staff estimates.
1/Pre-restructuring stocks
2/ Domestic Debt includes Non-Resident Holdings and Budgetary Arrears

Figure 4. Zambia: Monetary and Financial Developments, 2020-24

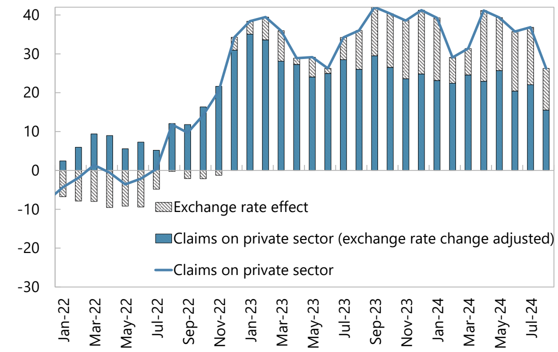
M3 growth rate remains elevated….

M3
(In Percent, Y-o-Y)



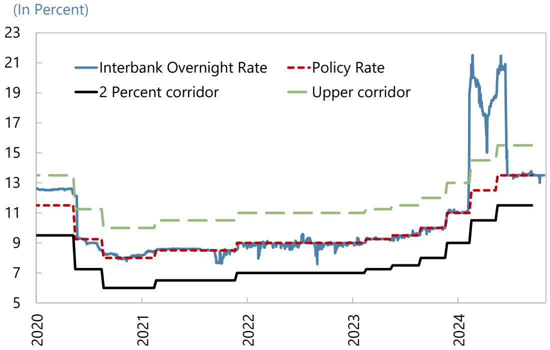
… as does credit growth ….

Private Sector Credit
(In Percent, Y-o-Y)



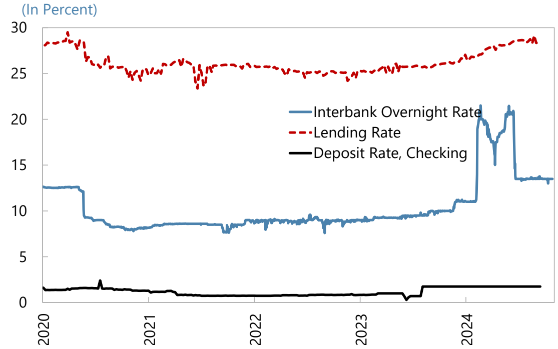
Interbank rate has aligned back to the policy rate since June….

Policy Rate and Interbank Rate
(In Percent)



… while deposit and lending rates remain steady

Average Lending and Deposit Rates
(In Percent)



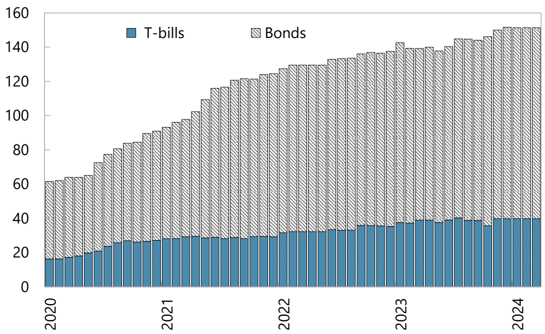
Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 5. Zambia: Financial Sector Developments, 2020–24

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

Outstanding Government Securities

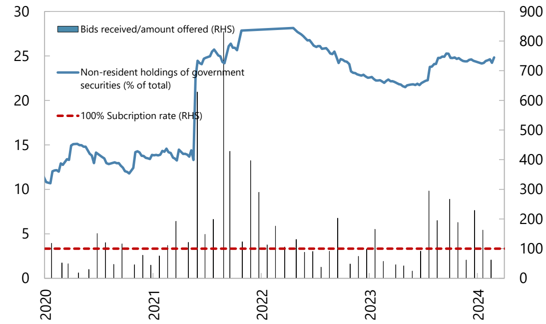
(T-bills and Bonds, billions of kwacha, face value)



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

Non-Resident Holdings of Government Bonds

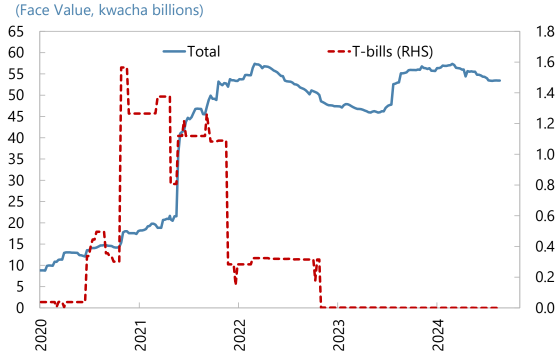
(In Percent)



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

Foreign Holdings of Government Securities

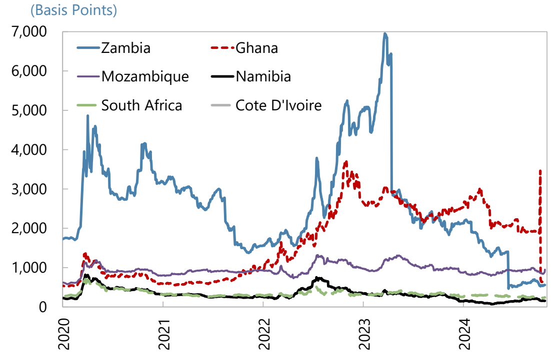
(Face Value, kwacha billions)



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

Weighted Average Spread

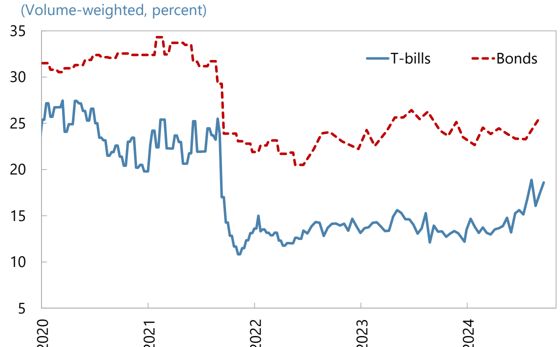
(Basis Points)



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

Government T-Bills and Bonds Yields

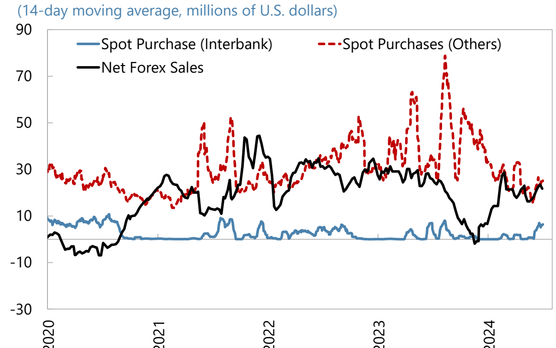
(Volume-weighted, percent)



Banks remained net purchaser 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)

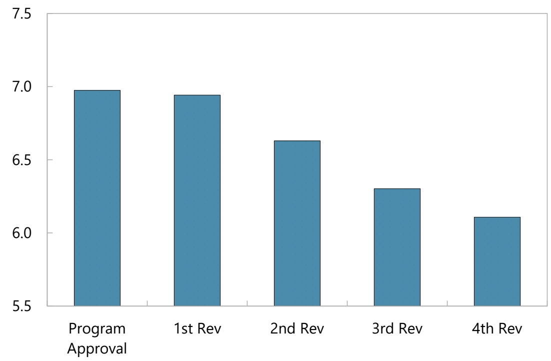


Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 6. Zambia: Economic Performance Under the ECF Program

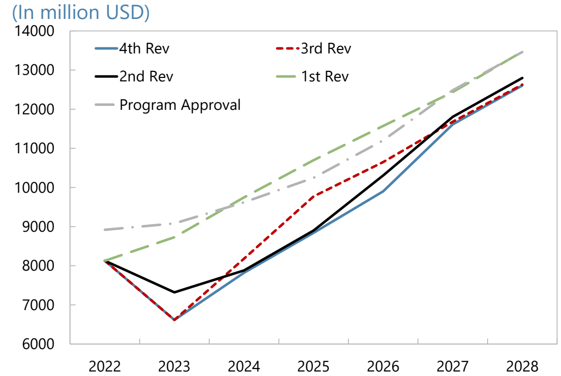
The expected recovery in the mining sector has been delayed…

Copper Production Total: 2022-28
(In million metric tons)



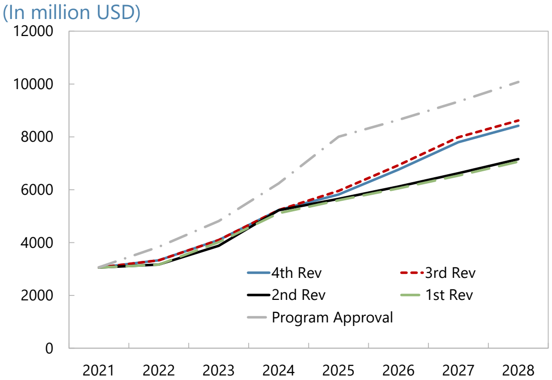
impacting the export receipts in the short term…

Copper Exports
(In million USD)



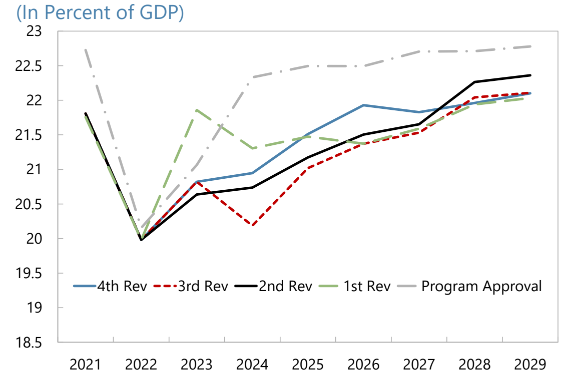
the speed of reserve accumulation

Gross International Reserves
(In million USD)



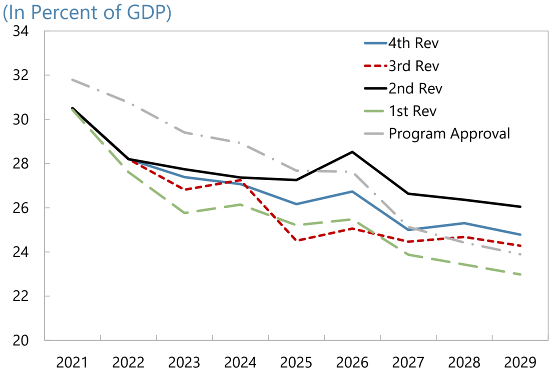
with shortfalls from mining revenue being only partly compensated by other revenue….

Total Revenue
(In Percent of GDP)



and fiscal consolidation being mostly expenditure driven…

Total Expenditure
(In Percent of GDP)



but growth prospects remain strong

Real GDP
(Index, 2022=100)

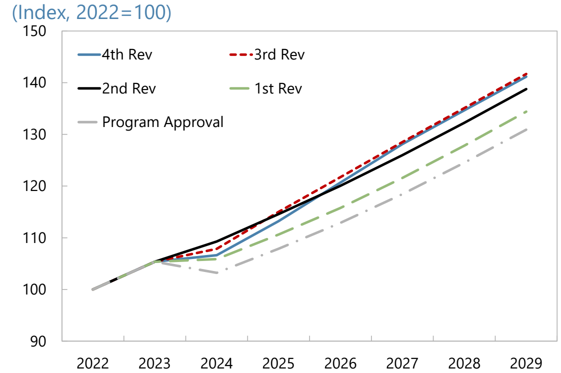
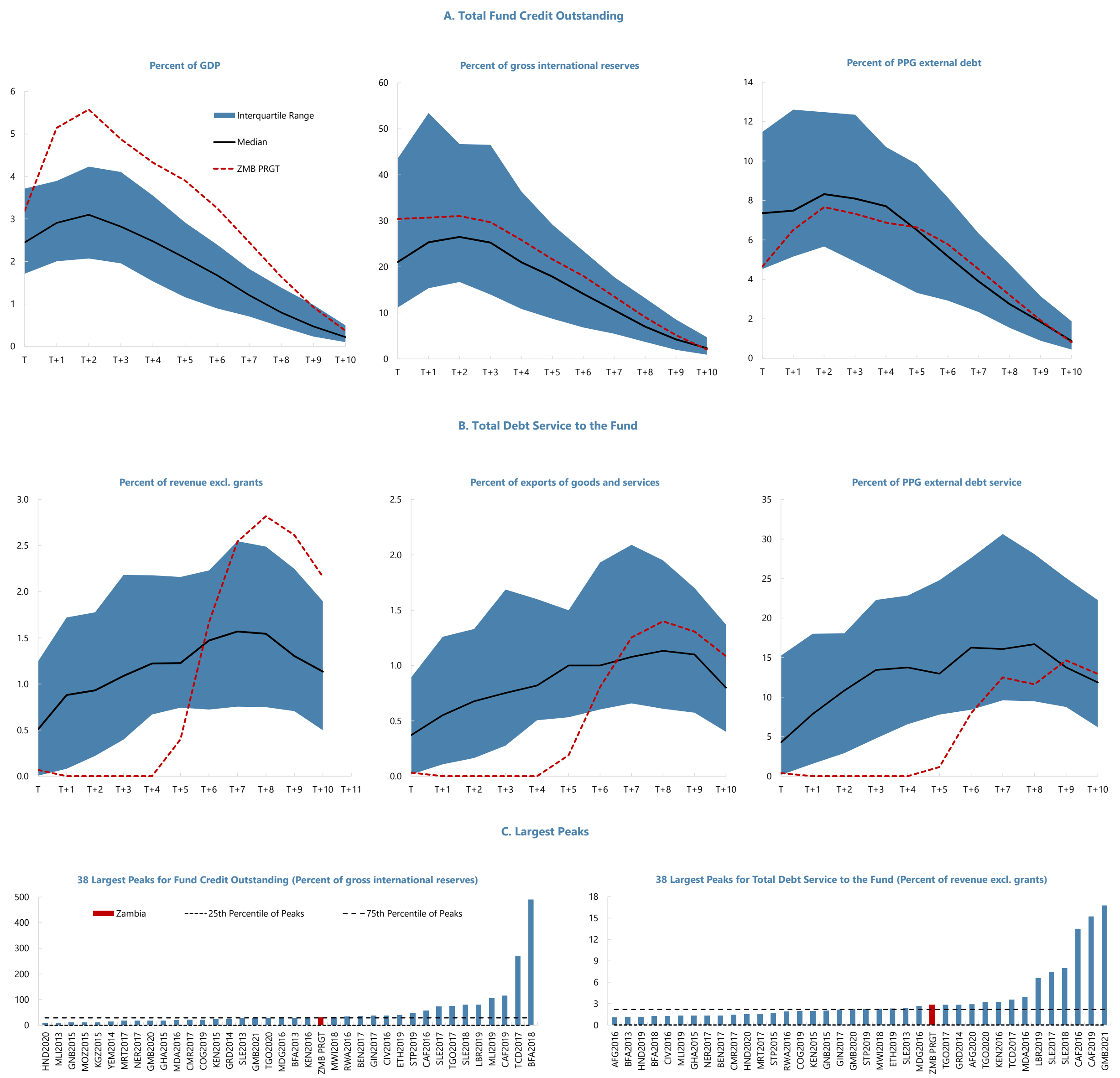


Figure 7. Zambia: Capacity to Repay Indicators Compared to PRGT Countries

(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
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
					ECF 3rd		ECF 3rd					
				Est.	Review*	Proj.	Review*	Proj.		Projections		
National Accounts and Prices												
GDP growth at constant prices (in percent)	-2.8	6.2	5.2	5.4	2.3	1.2	6.6	6.2	6.6	6.2	5.1	4.8
Agriculture (in percent)	17.2	6.9	-10.6	-20.5	-19.4	-31.4	27.4	32.3	27.5	4.6	4.0	4.0
Mining (in percent)	8.0	-4.7	-3.7	-3.5	4.1	4.7	13.1	11.2	10.8	16.9	8.7	5.0
Non-mining, non-agricultural (in percent)	-5.6	7.7	7.7	8.3	3.4	2.7	5.1	4.7	5.2	5.1	4.7	4.9
GDP deflator (in percent)	13.9	25.2	6.1	7.1	20.2	19.2	9.9	9.7	5.2	6.4	7.0	6.4
GDP at market prices (billions of kwacha)	332.7	442.3	494.0	557.4	699.8	672.3	819.6	783.1	878.1	991.9	1,115.4	1,244.0
Consumer prices												
Consumer prices (average)	15.7	22.0	11.0	10.9	14.6	14.9	12.1	12.8	7.0	7.0	7.0	7.0
Consumer prices (end of period)	19.2	16.4	9.9	13.1	15.0	16.4	7.9	7.6	7.0	7.0	7.0	7.0
External Sector												
Current account balance	11.8	11.9	3.8	-2.1	-0.2	0.7	6.9	5.0	4.9	7.4	7.6	7.2
Exports of goods and servies	47.2	53.1	42.7	41.5	49.6	48.9	49.6	47.8	46.3	46.7	46.4	46.2
Imports of goods and services	32.3	34.8	34.4	39.4	42.7	43.6	35.9	37.8	35.3	33.5	33.1	33.4
Average exchange rate (kwacha per U.S. dollar)	18.3	20.0	17.0	20.2	...	...	...	...	...	...	...	...
(percentage change; depreciation +)	42.3	9.1	-15.3	19.2	...	...	...	...	...	...	...	...
End-of-period exchange rate (kwacha per U.S. dollar)	21.2	16.7	18.1	25.7	...	...	...	...	...	...	...	...
Terms of trade (deterioration -)	14.0	22.5	-5.8	-13.6	10.7	6.9	4.1	1.8	0.5	-0.1	-0.6	-0.7
Gross international reserves (months of prospective imports)	1.9	3.3	3.4	3.5	4.3	4.5	5.0	5.3	5.2	5.6	6.0	6.0
Money and Credit												
Reserve money (end of period)	57.0	8.5	12.0	65.5	10.5	41.7	13.2	13.9	11.6	15.0	14.4	13.5
Money supply (M3, percentage change)	46.4	3.7	24.5	24.6	10.5	31.7	13.2	13.9	11.6	15.0	14.4	13.5
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	12.8	12.6	13.8	13.9	15.6	17.4	17.7	17.2	16.8
Credit to the private sector growth	8.5	-7.8	34.2	41.3	23.6	29.5	29.0	31.7	25.2	15.1	9.6	9.0
Credit to the private sector growth (constant exchange rate)[1]	14.2	-3.3	34.8	23.8	16.6	23.5	38.5	38.8	28.4	12.1	6.7	5.8
National Accounts												
Gross investment	32.2	31.4	27.0	31.4	32.3	27.8	31.7	32.1	32.1	32.1	32.4	33.0
Public	7.7	3.9	3.4	2.6	3.2	2.9	3.3	3.2	3.2	3.2	3.5	4.2
Private	24.5	27.4	23.6	28.9	29.1	24.9	28.4	28.9	28.9	28.9	28.9	28.9
National savings	44.0	43.3	30.7	29.3	32.0	28.5	38.5	37.1	36.9	39.5	40.0	40.2
Central Government Budget												
Revenues	20.3	22.4	20.4	21.9	21.4	22.1	21.8	22.6	22.4	22.3	22.4	22.6
Taxes	15.7	16.1	16.1	16.6	15.7	16.5	16.5	16.9	17.3	17.2	17.2	17.5
Grants	0.5	0.6	0.4	1.1	1.2	1.1	0.8	1.0	0.5	0.3	0.4	0.4
Other revenues	0.0	0.0	0.0	4.2	4.5	4.5	4.5	4.7	4.7	4.8	4.8	4.7
Expenditures	34.0	30.5	28.2	27.4	27.3	28.5	24.5	26.4	26.3	24.9	24.8	24.6
Expenses	26.3	26.6	24.8	24.8	24.1	25.6	21.2	23.2	23.1	21.7	21.3	20.5
Net acquisition of nonfinancial assets	7.7	3.9	3.4	2.6	3.2	2.9	3.3	3.2	3.2	3.2	3.5	4.2
Net lending/borrowing (cash basis)	-13.8	-8.1	-7.8	-5.5	-5.9	-6.4	-2.7	-3.8	-3.9	-2.6	-2.4	-2.0
Net lending/borrowing (commitment basis)[2]	-17.3	-13.9	-5.4	-4.5	-2.3	-4.4	-1.5	-2.4	-2.6	-1.5	-1.4	-1.5
Primary balance (cash basis, program target)	-7.8	-2.1	-1.6	0.6	-0.7	0.5	2.1	1.9	1.8	1.7	1.7	1.6
Non-mining primary balance	-11.0	-7.7	-6.1	-1.7	-3.3	-2.1	-1.3	-1.3	-1.6	-1.8	-1.8	-1.8
Public Debt												
Total public debt (gross, end-of-period)[3,4]	150.3	112.1	110.9	133.4	110.1	104.6	88.5	89.7	79.2	72.7	67.1	62.8
External	95.8	57.8	58.8	86.4	70.1	63.0	56.9	55.0	47.8	43.8	39.8	37.6
Domestic	54.5	54.4	52.1	46.9	39.9	41.6	31.6	34.8	31.4	28.9	27.3	25.1

Sources: Zambian authorities; and IMF staff estimates and projections.
* IMF CR No. 24/190
[1] Exchange rate for end-2023 (25.7 ZMK/USD) 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 3rd		ECF 3rd					
				Est.	Review*	Proj.	Review*	Proj.	Projections			
Current Account	**2,139**	**2,630**	**1,093**	**-583**	**165**	**179**	**2,416**	**1,533**	**1,702**	**2,930**	**3,266**	**3,320**
Current Account, excluding budget support grants					-56	-59	2,188	1,135	1,575	2,828	3,164	3,218
Trade balance	3,216	4,816	3,368	1,373	2,514	2,121	5,068	3,885	4,667	6,019	6,591	6,828
Exports, f.o.b.	8,003	11,202	11,505	10,521	11,851	11,650	14,644	13,593	15,017	17,107	18,439	19,750
Of which: Copper	5,868	8,396	8,129	6,617	8,181	7,823	9,772	8,843	9,902	11,612	12,604	13,575
Imports, f.o.b	-4,787	-6,386	-8,137	-9,148	-9,337	-9,529	-9,576	-9,707	-10,350	-11,087	-11,848	-12,922
Services (net)	-524	-779	-946	-773	-725	-767	-716	-794	-792	-815	-860	-942
Income (net)	-775	-1,709	-1,614	-1,439	-2,145	-1,711	-2,382	-2,128	-2,517	-2,607	-2,849	-2,966
Of which: Interest on public debt	-635	-736	-906	-717	-723	-538	-612	-515	-705	-491	-553	-493
Current transfers (net)**	221	301	285	257	300	297	219	173	217	230	282	297
Other official grants				128	131	131	35	0	36	36	71	70
Private transfers	221	301	285	129	169	166	184	173	182	194	211	227
Capital and Financial Account	-3,058	-2,882	-3,338	-350	-2,397	259	-3,230	-985	-1,727	-2,337	-2,120	-2,568
Capital account	80	77	76	78	64	1,265	71	70	72	73	71	69
Project grants	80	77	76	78	64	65	71	70	72	73	71	69
Other Private***	0	0	0	0	0	1,200	0	0	0	0	0	0
Financial account	-3,138	-2,959	-3,414	-428	-2,461	-1,006	-3,301	-1,054	-1,799	-2,410	-2,191	-2,637
Foreign direct investment (net)	181	674	198	-31	974	969	1,197	1,145	1,567	1,707	1,853	1,996
Portfolio investment (net)	194	1,002	-332	155	7	-36	5	1	176	177	201	170
Financial derivatives (net)	-10	-26	-31	-4	47	46	157	155	177	200	217	234
Other investments (net)	-3,503	-4,609	-3,249	-548	-3,489	-1,986	-4,659	-2,356	-3,719	-4,494	-4,462	-5,036
Public sector (net)	-2	-1,346	-1,021	-898	-2,081	-249	-825	185	-118	-76	-337	225
Disbursements	1,424	571	914	333	464	426	640	412	443	249	219	731
Amortization due	-1,426	-1,917	-1,935	-1,232	-2,545	-675	-1,465	-227	-561	-325	-556	-506
Monetary Authority (SDR Allocation)	0	1,328	0	0	0	0	0	0	0	0	0	0
Commercial banks (net)	-413	-205	-411	625	469	369	-92	-162	-113	-79	-55	-39
Other sectors	-3,088	-4,387	-1,817	-275	-1,877	-2,106	-3,743	-2,379	-3,488	-4,339	-4,070	-5,223
Errors and Omissions	-635	-370	-5	-661	0	-578	0	0	0	0	0	0
Overall Balance	-1,555	-623	-2,251	-1,594	-2,453	-378	-1,042	150	-152	491	1,044	650
Financing	1,555	623	2,251	1,594	2,453	378	1,042	-150	152	-492	-1,044	-650
Central bank net reserves (- increase)	233	-1,607	-71	100	-10	-245	-763	-800	-254	-874	-1,166	-752
Of which: Change in gross reserves	248	-1,604	-258	-274	-769	-1,005	-1,133	-1,170	-254	-874	-1,109	-620
Of which: Use of Fund resources	-15	-3	187	373	760	760	370	370	0	0	-57	-132
New MDB financing					622	624	479	649	406	382	121	102
WB loans					302	285	102	102	79	30	20	0
WB grants					220	238	227	398	127	102	102	102
AfDB loans					100	100	150	150	200	250	0	0
Exceptional financing (accumulation of arrears)****	1,322	2,230	2,322	1,495	1,841	0	1,326	0	0	0	0	0
Memorandum Items:												
Exports of goods and services	8,558	11,728	12,444	11,454	12,851	12,635	15,776	14,662	16,242	18,489	19,939	21,366
Imports of goods and services	5,866	7,691	10,022	10,854	11,062	11,281	11,424	11,571	12,367	13,285	14,208	15,479
Change in copper export volume (percent)	14.4	-5.2	2.2	-15.3	7.3	8.0	13.1	11.2	10.8	16.9	8.7	5.0
Gross international reserves	1,203	2,796	3,054	3,328	4,097	4,333	5,230	5,503	5,757	6,631	7,740	8,359
In months of prospective imports	1.9	3.3	3.4	3.5	4.3	4.5	5.0	5.3	5.2	5.6	6.0	6.0
GDP (billions of U.S. dollars)	18.1	22.1	29.1	27.6	25.9	25.9	31.8	30.7	35.1	39.6	43.0	46.3

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

* IMF CR No. 24/190.

**Excluding prospective budget support grants.

***The other private capital account balance stems from debt write-downs totaling over US$ 1.2 billion, negotiated between resident enterprises and non-resident entities. These write-downs have been recorded in the capital account as debt forgiveness, benefiting Zambian enterprises and Zambia.

**** For the third review, which assumed pre-restructuring debt service on external commercial debt, the residual gap indicated the gap that needed to be covered by the external commercial debt restructuring.

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 3rd		ECF 3rd					
				Est.	Review*	Proj.	Review*	Proj.	Projections			
Current Account	11.8	11.9	3.8	-2.1	-0.2	0.7	6.9	5.0	4.9	7.4	7.6	7.2
Current Account, excluding budget support grants					-0.2	-0.2	6.9	3.7	4.5	7.1	7.4	7.0
Trade balance	17.7	21.8	11.6	5.0	9.7	8.2	15.9	12.7	13.3	15.2	15.3	14.8
Exports, f.o.b.	44.1	50.7	39.5	38.2	45.7	45.1	46.0	44.3	42.8	43.2	42.9	42.7
Of which: Copper	32.4	38.0	27.9	24.0	31.6	30.3	30.7	28.9	28.2	29.3	29.3	29.3
Imports, f.o.b	-26.4	-28.9	-27.9	-33.2	-36.0	-36.9	-30.1	-31.7	-29.5	-28.0	-27.6	-27.9
Services (net)	-2.9	-3.5	-3.2	-2.8	-2.8	-3.0	-2.2	-2.6	-2.3	-2.1	-2.0	-2.0
Income (net)	-4.3	-7.7	-5.5	-5.2	-8.3	-6.6	-7.5	-6.9	-7.2	-6.6	-6.6	-6.4
Of which: Interest on public debt	-3.5	-3.3	-3.1	-2.6	-2.8	-2.1	-1.9	-1.7	-2.0	-1.2	-1.3	-1.1
Current transfers (net)**	1.2	1.4	1.0	0.9	1.2	1.1	0.7	0.6	0.6	0.6	0.7	0.6
Other official grants	0.0	0.0	0.0	0.5	0.5	0.5	0.1	0.0	0.1	0.1	0.2	0.2
Private transfers	1.2	1.4	1.0	0.5	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Capital and Financial Account	-16.9	-13.0	-11.5	-1.3	-9.3	1.0	-10.1	-3.2	-4.9	-5.9	-4.9	-5.5
Capital account	0.4	0.3	0.3	0.3	0.2	4.9	0.2	0.2	0.2	0.2	0.2	0.1
Project grants	0.4	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Other Private	0.0	0.0	0.0	0.0	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0
Financial account	-17.3	-13.4	-11.7	-1.6	-9.5	-3.9	-10.4	-3.4	-5.1	-6.1	-5.1	-5.7
Foreign direct investment (net)	1.0	3.1	0.7	-0.1	3.8	3.7	3.8	3.7	4.5	4.3	4.3	4.3
Portfolio investment (net)	1.1	4.5	-1.1	0.6	0.0	-0.1	0.0	0.0	0.5	0.4	0.5	0.4
Financial derivatives (net)	-0.1	-0.1	-0.1	0.0	0.2	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Other investments (net)	-19.3	-20.9	-11.2	-2.0	-13.5	-7.7	-14.6	-7.7	-10.6	-11.3	-10.4	-10.9
Public sector (net)	0.0	-6.1	-3.5	-3.3	-8.0	-1.0	-2.6	0.6	-0.3	-0.2	-0.8	0.5
Disbursements	7.9	2.6	3.1	1.2	1.8	1.6	2.0	1.3	1.3	0.6	0.5	1.6
Amortization due	-7.9	-8.7	-6.6	-4.5	-9.8	-2.6	-4.6	-0.7	-1.6	-0.8	-1.3	-1.1
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	2.3	1.8	1.4	-0.3	-0.5	-0.3	-0.2	-0.1	-0.1
Other sectors	-17.0	-19.9	-6.2	-1.0	-7.2	-8.1	-11.8	-7.8	-9.9	-11.0	-9.5	-11.3
Errors and Omissions	-3.5	-1.7	0.0	-2.4	0.0	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-8.6	-2.8	-7.7	-5.8	-9.5	-1.5	-3.3	0.5	-0.4	1.2	2.4	1.4
Financing	8.6	2.8	7.7	5.8	9.5	1.5	3.3	-0.5	0.4	-1.2	-2.4	-1.4
Central bank net reserves (- increase)	1.3	-7.3	-0.2	0.4	0.0	-0.9	-2.4	-2.6	-0.7	-2.2	-2.7	-1.6
Of which: Change in gross reserves	1.4	-7.3	-0.9	-1.0	-3.0	-3.9	-3.6	-3.8	-0.7	-2.2	-2.6	-1.3
Of which: Use of Fund resources	-0.1	0.0	0.6	1.4	2.9	2.9	1.2	1.2	0.0	0.0	-0.1	-0.3
New MDB financing	0.0	0.0	0.0	0.0	2.4	2.4	1.5	2.1	1.2	1.0	0.3	0.2
WB grants	0.0	0.0	0.0	0.0	0.7	0.9	0.7	1.3	0.4	0.3	0.2	0.2
Exceptional financing (accumulation of arrears)***	7.3	10.1	8.0	5.4	7.1	0.0	4.2	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Financial Account (percent of GDP w/o FDI)	-18.3	-16.4	-12.4	-1.4	-13.3	-7.6	-14.1	-7.2	-9.6	-10.4	-9.4	-10.0
Total official grants (percent of GDP)	0.4	0.3	0.3	0.7	0.8	0.8	0.3	0.2	0.3	0.3	0.3	0.3
Gross international reserves	1,203.4	2,795.5	3,054.0	3,327.7	4,097.1	4,332.9	5,230.4	5,502.9	5,756.7	6,630.6	7,739.6	8,359
In months of prospective imports	1.9	3.3	3.4	3.5	4.3	4.5	5.0	5.3	5.2	5.6	6.0	6.0
GDP (billions of U.S. dollars)	18.1	22.1	29.1	27.6	25.9	25.9	31.8	30.7	35.1	39.6	43.0	46.3

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

* IMF CR No. 24/190

**Excluding prospective budget support grants.

*** For the third review, which assumed pre-restructuring debt service on external commercial debt, the residual gap indicated the gap that needed to be covered by the external commercial debt restructuring.

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 3rd		ECF 3rd					
				Est.	Review*	Proj.	Review*	Proj.		Projections		
Revenues	67,437	98,945	100,684	122,104	149,647	148,604	179,037	176,939	197,004	221,312	250,069	281,624
Revenues excluding grants	65,722	96,463	98,702	116,055	141,257	141,005	172,276	169,393	192,931	217,849	245,588	277,014
Revenues excluding grants adjusted by the backlog of VAT refunds	64,163	94,547	96,861	111,830	145,365	138,764	176,385	173,128	196,666	221,584	249,323	280,749
Tax	52,182	71,151	79,492	92,381	109,884	110,848	135,142	132,273	151,691	170,502	192,312	218,235
Income tax	19,831	22,815	26,890	30,232	36,429	36,463	42,670	42,474	49,369	55,767	62,709	69,943
Profit tax	9,513	19,242	21,020	14,913	18,902	18,674	26,738	22,287	27,744	32,099	36,120	40,829
Mining	5,300	12,702	11,958	5,353	7,486	7,244	13,080	8,522	12,309	14,444	16,268	17,688
Non-mining	4,213	6,540	9,062	9,560	11,416	11,430	13,658	13,765	15,435	17,655	19,853	23,141
Value-added tax	14,639	19,516	20,816	33,209	38,271	38,768	46,650	47,076	52,425	58,474	65,410	76,086
Excise taxes	4,661	4,327	5,190	7,548	8,514	9,020	10,114	11,360	12,658	13,793	16,547	18,738
Taxes on international trade	3,538	5,250	5,577	6,480	7,767	7,924	8,971	9,077	9,494	10,370	11,526	12,638
Other revenues	0	0	0	23,674	31,373	30,157	37,134	37,120	41,241	47,347	53,276	58,779
Of which: Mining royalties	5,241	12,268	10,445	7,709	10,800	10,556	15,401	15,816	17,352	20,363	22,933	24,935
Grants	1,715	2,481	1,981	6,049	8,390	7,599	6,761	7,546	4,072	3,463	4,481	4,610
Expenditures	113,227	134,929	139,315	152,642	190,687	191,374	200,856	206,822	230,888	247,415	276,873	306,569
Expenses	87,478	117,477	122,446	138,340	168,326	171,785	173,799	181,394	202,789	215,674	237,835	254,778
Compensation of employees	26,881	31,881	37,699	44,898	50,871	52,433	60,904	58,522	65,285	73,750	82,859	93,092
Goods and services	10,330	15,094	13,084	12,981	13,153	9,791	20,438	23,040	29,032	32,200	36,668	41,471
Interest	19,762	26,910	30,797	33,943	36,343	46,314	39,421	44,402	49,722	43,186	45,678	45,405
Domestic	14,525	24,929	30,057	31,782	28,641	38,900	33,720	37,335	43,350	37,557	39,989	40,049
Foreign	5,237	1,980	739	2,161	7,701	7,414	5,700	5,641	5,230	4,775	5,146	5,195
Subsidies	18,368	24,345	10,715	10,565	27,222	26,167	11,337	12,203	13,480	15,531	16,231	18,250
Of which: Agricultural (FISP and FRA)	11,748	11,845	8,526	8,788	10,241	13,117	10,265	10,951	12,077	13,946	14,449	16,262
Of which: Energy (fuel and electricity)[2]	5,099	10,610	1,840	969	16,202	12,494	0	0	0	0	0	0
Intergovernmental transfers	7,487	8,799	15,382	17,144	16,676	16,075	19,309	21,931	22,196	25,941	29,106	32,385
Social protection	2,468	5,538	7,424	7,660	15,932	13,372	13,638	14,078	13,780	15,557	17,485	19,427
Other	2,183	4,911	7,346	11,149	8,130	7,633	8,753	7,219	9,293	9,510	9,808	4,748
Net acquisition of nonfinancial assets	25,749	17,451	16,870	14,301	22,361	19,589	27,056	25,428	28,099	31,741	39,038	51,791
Of which: Domestically-financed	4,901	9,296	10,828	10,144	9,700	8,377	7,820	12,642	14,910	23,781	31,595	31,131
Of which: Foreign-financed	20,848	8,155	6,041	4,157	12,661	11,212	19,236	12,786	13,189	7,960	7,443	20,660
Net lending/borrowing (cash basis)	-45,789	-35,984	-38,632	-30,538	-41,040	-42,769	-21,819	-29,883	-33,884	-26,103	-26,804	-24,944
Primary balance (cash basis)	-26,027	-9,074	-7,835	3,405	-4,698	3,545	17,602	14,519	15,838	17,082	18,873	20,461
Expenditure arrears (- payments)	6,008	14,525	-13,642	-9,404	-21,034	-15,380	-5,575	-7,669	-7,632	-7,633	-7,698	-2,394
Backlog of VAT refunds (flow)	1,558	1,916	1,841	4,225	-4,109	2,241	-4,109	-3,735	-3,735	-3,735	-3,735	-3,735
Arrears on external interest (flow)	4,327	9,120	0	0	0	0	0	0	0	0	0	0
Overall balance, (commitment basis)	-57,682	-61,546	-26,831	-25,359	-15,898	-29,630	-12,135	-18,479	-22,517	-14,735	-15,371	-18,815
Primary balance (commitment basis)	-33,594	-25,516	3,966	8,585	20,445	16,684	27,286	25,923	27,205	28,451	30,307	26,590
Financing	45,789	35,984	38,632	30,538	41,040	42,769	21,819	29,883	33,884	26,103	26,804	24,944
Net acquisition of financial assets (+ drawdown, - accumulation)	-816	-2,674	-1,440	491	1,822	1,053	0	0	0	0	0	0
Net incurrence of liabilities	47,323	38,292	40,379	30,562	39,218	41,716	21,819	29,883	33,884	26,103	26,804	24,944
Domestic	31,754	32,774	12,968	8,950	17,450	22,163	982	15,029	27,142	31,497	30,333	15,207
Foreign	15,568	5,518	27,411	21,612	21,768	19,553	20,837	14,854	6,742	-5,394	-3,529	9,737
Exceptional financing	0	0		0	0	0		0	0	0	0	0
Statistical discrepancy / financing gap	-717	366	-307	-515	0	0		0	0	0	0	0
Memorandum items:												
Primary expenditure (cash basis)	93,464	108,019	108,519	118,698	154,345	145,060	161,435	162,420	181,166	204,230	231,195	261,163
Primary expenditure (commitment basis)	99,472	122,544	94,876	109,294	133,310	129,679	155,860	154,751	173,534	196,596	223,497	258,769
Primary balance excluding mining revenues (commitment basis)[1]	-44,134	-50,486	-18,438	-4,477	2,159	-1,116	-1,195	1,586	-2,456	-6,356	-8,894	-16,032
Net domestic financing	32,571	35,447	14,407	8,459	15,629	21,110	982	15,029	27,142	31,497	30,333	15,207
Net external financing (in million of US$)	1,555	623	2,251	1,594	392	140	-511	-548	25	-594	-1,146	-752
Mining revenues (in million of US$)	575	1,247	1,321	646	677	685	1,106	953	1,185	1,389	1,510	1,586
Non-mining primary balance (cash basis)	-36,568	-34,045	-30,239	-9,656	-22,984	-14,255	-10,879	-9,818	-13,824	-17,725	-20,327	-22,162
Backlog of VAT refunds (stock)	8,451	10,368	12,209	16,434	12,326	18,675	8,217	14,940	11,205	7,470	3,735	0
Stock of expenditure arrears	42,506	57,031	47,659	61,421	34,999	51,929	27,965	43,554	34,964	27,514	20,190	18,102

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

* IMF CR No. 24/190

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

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

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

(Percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
				Est.	ECF 3rd Review*	Proj.	ECF 3rd Review*	Proj.	Projections			
Revenues	20.3	22.4	20.4	21.9	21.4	22.1	21.8	22.6	22.4	22.3	22.4	22.6
Revenues excluding grants	19.8	21.8	20.0	20.8	20.2	21.0	21.0	21.6	22.0	22.0	22.0	22.3
Revenues excluding grants adjusted by the backlog of VAT refunds	19.3	21.4	19.6	20.1	20.8	20.6	21.5	22.1	22.4	22.3	22.4	22.6
Tax	15.7	16.1	16.1	16.6	15.7	16.5	16.5	16.9	17.3	17.2	17.2	17.5
Income tax	6.0	5.2	5.4	5.4	5.2	5.4	5.2	5.4	5.6	5.6	5.6	5.6
Profit tax	2.9	4.4	4.3	2.7	2.7	2.8	3.3	2.8	3.2	3.2	3.2	3.3
Mining	1.6	2.9	2.4	1.0	1.1	1.1	1.6	1.1	1.4	1.5	1.5	1.4
Non-mining	1.3	1.5	1.8	1.7	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.9
Value-added tax	4.4	4.4	4.2	6.0	5.5	5.8	5.7	6.0	6.0	5.9	5.9	6.1
Excise taxes	1.4	1.0	1.1	1.4	1.2	1.3	1.2	1.5	1.4	1.4	1.5	1.5
Taxes on international trade	1.1	1.2	1.1	1.2	1.1	1.2	1.1	1.2	1.1	1.0	1.0	1.0
Other revenues	0.0	0.0	0.0	4.2	4.5	4.5	4.5	4.7	4.7	4.8	4.8	4.7
Of which: Mining royalties	1.6	2.8	2.1	1.4	1.5	1.6	1.9	2.0	2.0	2.1	2.1	2.0
Grants	0.5	0.6	0.4	1.1	1.2	1.1	0.8	1.0	0.5	0.3	0.4	0.4
Expenditures	34.0	30.5	28.2	27.4	27.3	28.5	24.5	26.4	26.3	24.9	24.8	24.6
Expenses	26.3	26.6	24.8	24.8	24.1	25.6	21.2	23.2	23.1	21.7	21.3	20.5
Compensation to employees	8.1	7.2	7.6	8.1	7.3	7.8	7.4	7.5	7.4	7.4	7.4	7.5
Goods and services	3.1	3.4	2.6	2.3	1.9	1.5	2.5	2.9	3.3	3.2	3.3	3.3
Interest	5.9	6.1	6.2	6.1	5.2	6.9	4.8	5.7	5.7	4.4	4.1	3.6
Domestic	4.4	5.6	6.1	5.7	4.1	5.8	4.1	4.8	4.9	3.8	3.6	3.2
Foreign	1.6	0.4	0.1	0.4	1.1	1.1	0.7	0.7	0.6	0.5	0.5	0.4
Subsidies	5.5	5.5	2.2	1.9	3.9	3.9	1.4	1.6	1.5	1.6	1.5	1.5
Of which: Agricultural (FISP and FRA)	3.5	2.7	1.7	1.6	1.5	2.0	1.3	1.4	1.4	1.4	1.3	1.3
Of which: Energy (fuel and electricity)[2]	1.5	2.4	0.4	0.2	2.3	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Intergovernmental transfers	2.3	2.0	3.1	3.1	2.4	2.4	2.4	2.8	2.5	2.6	2.6	2.6
Social protection	0.7	1.3	1.5	1.4	2.3	2.0	1.7	1.8	1.6	1.6	1.6	1.6
Other	0.7	1.1	1.5	2.0	1.2	1.1	1.1	0.9	1.1	1.0	0.9	0.4
Net acquisition of nonfinancial assets	7.7	3.9	3.4	2.6	3.2	2.9	3.3	3.2	3.2	3.2	3.5	4.2
Of which: Domestically-financed	1.5	2.1	2.2	1.8	1.4	1.2	1.0	1.6	1.7	2.4	2.8	2.5
Of which: Foreign-financed	6.3	1.8	1.2	0.7	1.8	1.7	2.3	1.6	1.5	0.8	0.7	1.7
Net lending/borrowing (cash basis)	-13.8	-8.1	-7.8	-5.5	-5.9	-6.4	-2.7	-3.8	-3.9	-2.6	-2.4	-2.0
Primary balance (cash basis)	-7.8	-2.1	-1.6	0.6	-0.7	0.5	2.1	1.9	1.8	1.7	1.7	1.6
Expenditure arrears (- payments)	1.8	3.3	-2.8	-1.7	-3.0	-2.3	-0.7	-1.0	-0.9	-0.8	-0.7	-0.2
Backlog of VAT refunds (flow)	0.5	0.4	0.4	0.8	-0.6	0.3	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3
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, (commitment basis)[1]	-17.3	-13.9	-5.4	-4.5	-2.3	-4.4	-1.5	-2.4	-2.6	-1.5	-1.4	-1.5
Primary balance (commitment basis)[1]	-10.1	-5.8	0.8	1.5	2.9	2.5	3.3	3.3	3.1	2.9	2.7	2.1
Financing	13.8	8.1	7.8	5.5	5.9	6.4	2.7	3.8	3.9	2.6	2.4	2.0
Net acquisition of financial assets (+ drawdown, - accumulation)	-0.2	-0.6	-0.3	0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.2	0.6	0.3	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	14.2	8.7	8.2	5.5	5.6	6.2	2.7	3.8	3.9	2.6	2.4	2.0
Domestic	9.5	7.4	2.6	1.6	2.5	3.3	0.1	1.9	3.1	3.2	2.7	1.2
Foreign	4.7	1.2	5.5	3.9	3.1	2.9	2.5	1.9	0.8	-0.5	-0.3	0.8
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy / financing gap	-0.2	0.1	-0.1	-0.1	0.0	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	21.3	22.1	21.6	19.7	20.7	20.6	20.6	20.7	21.0
Primary expenditure (commitment basis)	29.9	27.7	19.2	19.6	19.1	19.3	19.0	19.8	19.8	19.8	20.0	20.8
Net domestic financing	9.8	8.0	2.9	1.5	2.2	3.1	0.1	1.9	3.1	3.2	2.7	1.2
Net external financing	0.5	0.1	0.5	0.3	0.1	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1
Mining revenues	3.2	5.6	4.5	2.3	2.6	2.6	3.5	3.1	3.4	3.5	3.5	3.4
Primary balance excluding mining revenues (commitment basis)[1]	-13.3	-11.4	-3.7	-0.8	0.3	-0.2	-0.1	0.2	-0.3	-0.6	-0.8	-1.3
Backlog of VAT refunds (stock)	2.5	2.3	2.5	2.9	1.8	2.8	1.0	1.9	1.3	0.8	0.3	0.0
Stock of expenditure arrears	12.8	12.9	9.6	11.0	5.0	7.7	3.4	5.6	4.0	2.8	1.8	1.5
Nominal GDP (billions of kwacha)	332.7	442.3	494.0	557.4	699.8	672.3	819.6	783.1	878.1	991.9	1,115.4	1,244.0

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

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

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

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

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
				Est.	ECF 3rd Review*	Proj.	ECF 3rd Review*	Proj.	Projections			
					Depository corporations survey:							
Net Foreign Assets	38,980	37,624	50,562	56,457	54,360	83,990	52,619	94,861	90,587	110,152	141,014	173,450
Net Domestic Assets	64,848	70,002	83,437	110,478	130,145	135,815	156,193	155,494	188,829	211,105	226,547	243,703
Domestic claims	102,655	103,414	99,282	140,474	154,346	165,126	180,395	196,076	229,356	255,818	275,868	295,470
Net claims on central government	60,446	64,641	46,798	63,232	62,227	66,390	62,654	68,058	70,698	74,146	77,389	79,642
Claims on other sectors	42,209	38,773	52,484	77,242	92,119	98,736	117,740	128,018	158,658	181,671	198,479	215,829
Claims on other financial corporations	168	189	521	1,080	608	1,265	608	1,265	1,265	1,265	1,265	1,265
Claims on state and local government	51	41	41	15	44	16	48	17	18	20	21	23
Claims on public non-financial corporations	1,148	871	1,358	4,726	3,165	4,958	3,165	4,958	4,958	4,958	4,958	4,958
Claims on private sector	40,842	37,672	50,563	71,421	88,303	92,497		121,777	152,416	175,428	192,234	209,582
(o.w) National currency	24,011	28,615	33,469	43,241	…	…		121,777	152,416	175,428	192,234	209,582
(o.w) Foreign currency	16,831	9,057	17,094	28,180	…	…						
Other items net	-37,806	-33,412	-15,845	-29,996	-24,201	-29,824	-24,201	-40,582	-40,527	-44,713	-49,321	-51,767
Broad Money (M3)	103,829	107,626	133,998	166,935	184,505	219,805	208,813	250,355	279,416	321,257	367,561	417,154
					Bank of Zambia:							
Net Foreign Assets	10,921	12,127	15,472	21,046	16,028	30,084	29,920	52,104	65,044	83,701	113,623	139,617
Asset	26,230	47,101	55,945	86,637	105,003	105,450	121,232	129,344	139,657	160,965	193,633	222,470
Liabilities	-15,309	-34,974	-40,472	-65,590	-88,975	-75,366	-91,312	-77,239	-74,613	-77,264	-80,010	-82,853
Net Domestic Assets	15,856	16,939	17,094	32,855	28,813	46,316	20,829	34,914	32,075	27,962	14,134	5,377
Net domestic claims	33,862	28,710	8,217	31,253	37,997	44,714	30,012	33,072	30,178	26,007	12,120	3,243
Net claims on other depository corporations	5,383	6,984	2,441	5,570	12,040	7,114	12,040	7,114	7,114	7,114	7,114	7,114
Net claims on central government	28,389	21,631	5,667	25,521	16,998	25,412	16,998	25,412	25,412	25,812	26,212	26,612
Claims on other sectors	90	95	110	162	106	87	106	87	87	87	87	87
Other items (net)	-18,007	-11,771	8,877	1,602	-9,184	1,602	-9,184	1,843	1,898	1,955	2,013	2,134
Reserve Money	26,777	29,066	32,567	53,902	44,841	76,400	50,749	87,018	97,120	111,662	127,757	144,994
Currency outside banks and cash in vaults	12,389	13,550	14,740	16,641	11,494	20,553	11,896	20,275	23,792	28,647	28,335	27,119
Other depository corporation reserves	14,304	15,426	17,732	36,781	36,972	62,356	45,465	68,200	71,659	77,445	84,610	91,488
Liabilities to other sectors	84	90	95	480	158	179	178	203	223	252	288	327
Memorandum Items:												
Reserve money (end-of-period, percentage change)	57.0	8.5	12.0	65.5	10.5	41.7	13.2	13.9	11.6	15.0	14.4	13.5
Broad Money (M3) (percentage change)	46.4	3.7	24.5	24.6	10.5	31.7	13.2	13.9	11.6	15.0	14.4	13.5
Credit to the private sector (percentage change)	8.5	-7.8	34.2	41.3	23.6	29.5	29.0	31.7	25.2	15.1	9.6	9.0
Velocity (nominal GDP/M3)	3.2	4.1	3.7	3.3	3.8	3.1	3.9	3.1	3.1	3.1	3.0	3.0
Money multiplier (M3/reserve money)	3.9	3.7	4.1	3.1	4.1	2.9	4.1	2.9	2.9	2.9	2.9	2.9
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	12.8	12.6	13.8	13.9	15.6	17.4	17.7	17.2	16.8
Nominal GDP (billion kwacha)	332.7	442.3	494.0	557.4	699.8	672.3	819.6	783.1	878.1	991.9	1,115.4	1,244.0

Sources: Zambian authorities; and IMF staff estimates and projections.
* IMF CR No. 24/190

Table 5. Zambia: Financial Soundness Indicators, 2015–24

(Percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
										Mar	Jun	Aug
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	23.5	23.7
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	22.1	22.2
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	4.4	4.4
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	85.3	88.3
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	3.5	3.6
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	5.4	5.2
Return on equity	13.1	12.3	15.4	14.7	16.2	12.9	35.1	29.9	33.8	32.9	30.7	30.3
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	46.8	47.3
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	64.6	63.1
Advances to deposits ratio	56.4	50.0	45.2	47.3	51.5	41.0	39.4	35.7	39.8	40.1	39.8	40.3
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	37.0	40.6
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	47.1	47.8
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	0.9	3.5

Source: Bank of Zambia.

Table 6a. Zambia: External Financing Needs and Sources, 2020–29
(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
					ECF 3rd Review*	Proj.	ECF 3rd Review*	Proj.	Projections			
I. Total Requirement	**2,594**	**5,619**	**3,159**	**2,095**	**4,873**	**4,167**	**4,090**	**2,795**	**2,540**	**2,404**	**2,288**	**3,706**
Current Account Deficit, excluding Official Transfers	-2,139	-2,630	-1,093	710	408	429	-1,926	-738	-1,412	-2,690	-2,991	-3,046
Public Sector Debt Amortization	1,426	1,917	1,935	1,232	2,545	675	1,465	227	561	325	556	506
Gross Reserves Accumulation, incl SDR allocation	-248	1,604	258	274	769	1,005	1,133	1,170	254	874	1,109	620
Repayments to the Fund	15	3	0	0	0	0	0	0	0	0	57	132
Other Capital Flows[1]	3,538	4,725	2,058	-121	1,150	2,058	3,418	2,136	3,138	3,896	3,558	5,495
II. Total Sources	**1,272**	**3,389**	**100**	**62**	**1,650**	**2,783**	**1,916**	**1,776**	**2,134**	**2,022**	**2,167**	**3,604**
Official Transfers (Current and Capital)	80	77	76	78	416	1,635	333	467	234	211	244	241
BoZ Liabilities, incl. SDR allocation	0	1,328	0	0	0	0	0	0	0	0	0	0
Foreign Direct Investment, net	181	674	198	-31	974	969	1,197	1,145	1,567	1,707	1,853	1,996
Private Sector Loans, net	-608	-263	-206	-435	-211	-211	-259	-250	-286	-322	-350	467
Loan Disbursements to Public Sector	1,424	571	364	296	464	426	640	412	443	249	219	731
Portfolio Investment, net	194	1,002	-332	155	7	-36	5	1	176	177	201	170
III. Financing Gap (I-II)	**1,322**	**2,230**	**3,059**	**2,033**	**3,223**	**1,383**	**2,175**	**1,020**	**406**	**382**	**121**	**102**
IV. Expected Sources of Financing	**1,322**	**2,230**	**3,059**	**2,033**	**3,223**	**1,383**	**2,175**	**1,020**	**406**	**382**	**121**	**102**
New AfDB/WB financing	0	0	550	165	622	624	479	649	406	382	121	102
WB	0	0	550	165	522	524	329	499	206	132	121	0
WB loans	0	0	550	37	302	285	102	102	79	30	20	0
WB grants	0	0	0	128	220	238	227	398	127	102	102	102
AfDB	0	0	0	0	100	100	150	150	200	250	0	0
Exceptional Financing (Accumulation of arrears)[2]	1,322	2,230	2,322	1,495	1,841	0	1,326	0	0	0	0	0
IMF ECF Arrangement	0	0	187	373	760	760	370	370	0	0	0	0
Memorandum Items												
Gross International Reserves (GIR), total	**1,203**	**2,796**	**3,054**	**3,328**	**4,097**	**4,333**	**5,230**	**5,503**	**5,757**	**6,631**	**7,740**	**8,359**
Reserve Assets (Includes reserve position in the Fund), total[3]	812	2,328	2,672	2,504	3,117	3,193	4,250	4,463	4,665	5,484	6,536	7,096
Imports of Goods and Services (million USD)[3]	5,866	7,691	10,022	10,854	11,062	11,281	11,424	11,571	12,367	13,285	14,208	15,479
Gross remittances (million USD)[3]	135	240	243	246	169	313	184	292	334	377	409	441
GIR in months of prospective imports	1.9	3.3	3.4	3.5	3.3	4.5	4.1	5.3	5.2	5.6	6.0	6.0
o/w total reserve assets in months of prospective imports	1.3	2.8	3.0	2.7	12.4	3.3	6.8	4.3	4.2	4.6	5.1	5.1

[1]Includes financial derivatives (net), errors and omissions, and other sectors from Table 2a.
[2] For the third review, which assumed pre-restructuring debt service on external commercial debt, the residual gap indicated the gap that needed to be covered by the external commercial debt restructuring.
[3] Remmitances data revised based on the newly published BoZ series. Total reserves assets are defined as unencumbered reserves, including the position in the Fund. 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.
* IMF CR No. 24/190

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

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
					ECF 3rd Review*	Proj.	ECF 3rd Review*	Proj.		Projections		
I. Total Requirement	**14.3**	**25.4**	**10.8**	**7.6**	**18.8**	**16.1**	**12.9**	**9.1**	**7.2**	**6.1**	**5.3**	**8.0**
Current Account Deficit, excluding Official Transfers	-11.8	-11.9	-3.8	2.6	1.6	1.7	-6.0	-2.4	-4.0	-6.8	-7.0	-6.6
of which interest due on public debt	3.5	3.3	3.1	2.6	2.3	2.1	1.7	1.7	2.0	1.2	1.3	1.1
Public Sector Debt Amortization	7.9	8.7	6.6	4.5	9.8	2.6	4.6	0.7	1.6	0.8	1.3	1.1
Gross Reserves Accumulation, incl SDR allocation	-1.4	7.3	0.9	1.0	3.0	3.9	3.6	3.8	0.7	2.2	2.6	1.3
of which reserve accumulation	-1.4	1.3	0.9	1.0	3.0	3.9	3.6	3.8	0.7	2.2	2.6	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	7.1	-0.4	4.4	8.0	10.7	7.0	8.9	9.8	8.3	11.9
II. Total Sources	**7.0**	**15.3**	**0.3**	**0.2**	**6.4**	**10.8**	**6.0**	**5.8**	**6.1**	**5.1**	**5.0**	**7.8**
Official Transfers (Current and Capital)	0.4	0.3	0.3	0.3	1.6	6.3	1.0	1.5	0.7	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	0.7	-0.1	3.8	3.7	3.8	3.7	4.5	4.3	4.3	4.3
Private Sector Loans, net	-3.4	-1.2	-0.7	-1.6	-0.8	-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	1.1	1.8	1.6	2.0	1.3	1.3	0.6	0.5	1.6
Portfolio Investment, net	1.1	4.5	-1.1	0.6	0.0	-0.1	0.0	0.0	0.5	0.4	0.5	0.4
III. Financing Gap (I-II)	**7.3**	**10.1**	**10.5**	**7.4**	**12.4**	**5.4**	**6.8**	**3.3**	**1.2**	**1.0**	**0.3**	**0.2**
IV. Expected Sources of Financing	**7.3**	**10.1**	**9.9**	**7.4**	**12.4**	**5.4**	**6.8**	**3.3**	**1.2**	**1.0**	**0.3**	**0.2**
New AfDB/WB financing	0.0	0.0	1.9	0.6	2.4	2.4	1.5	2.1	1.2	1.0	0.3	0.2
WB	0.0	0.0	1.9	0.6	2.0	2.0	1.0	1.6	0.6	0.3	0.3	0.0
WB loans	0.0	0.0	1.9	0.1	1.2	1.1	0.3	0.3	0.2	0.1	0.0	0.0
WB grants	0.0	0.0	0.0	0.5	0.9	0.9	0.7	1.3	0.4	0.3	0.2	0.2
AfDB	0.0	0.0	0.0	0.0	0.4	0.4	0.5	0.5	0.6	0.6	0.0	0.0
Exceptional Financing (Accumulation of arrears)[2]	7.3	10.1	8.0	5.4	7.1	0.0	4.2	0.0	0.0	0.0	0.0	0.0
IMF ECF Arrangement	0.0	0.0	0.6	1.4	2.9	2.9	1.2	1.2	0.0	0.0	0.0	0.0
Memorandum Items												
Gross International Reserves (GIR), total	**6.6**	**12.7**	**10.5**	**12.1**	**15.8**	**16.8**	**16.4**	**18.0**	**16.4**	**16.7**	**18.0**	**18.1**
Reserve Assets (Includes reserve position in the Fund), total[3]	4.5	10.5	9.2	9.1	12.0	12.3	13.4	14.6	13.3	13.9	15.2	15.3
Imports of Goods and Services[3]	32.3	34.8	34.4	39.4	42.7	43.6	35.9	37.8	35.3	33.5	33.1	33.4
Gross remittances[3]	0.7	1.1	0.8	0.9	0.7	1.2	0.6	1.0	1.0	1.0	1.0	1.0
GIR in months of prospective imports	1.9	3.3	3.4	3.5	4.3	4.5	5.0	5.3	5.2	5.6	6.0	6.0
o/w total reserve assets in monhts of prospective	1.3	2.8	3.0	2.7	3.3	3.3	4.1	4.3	4.2	4.6	5.1	5.1

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

[2] For the third review, which assumed pre-restructuring debt service on external commercial debt, the residual gap indicated the gap that needed to be covered by the external commercial debt

[3]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. 24/190

Table 7. Zambia: Schedule of Reviews and Disbursements, 2022-25[1]

Availability Date	Millions of SDR	In Percent of Quota	Conditions
August 31, 2022	139.88	14.3	Board approval of arrangement
April 1, 2023	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	Observance of end-June 2023 and continuous performance criteria and completion of second review
April 1, 2024	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	Observance of end-June 2024 and continuous performance criteria and completion of fourth review
April 1, 2025	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	Observance of end-June 2025 and continuous performance criteria and completion of sixth review
Total	**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	127.3	170.6	170.6	170.6	142.6	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	0.00	0.00	0.00	0.00	27.98	127.26	212.56	254.33	254.33	226.36	127.07	41.77	0.00	0.00	0.00
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	37.7	171.8	286.9	343.2	343.2	305.5	171.5	56.4	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	1.3	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	3.1	15.8	22.3	16.6	18.7	16.0	12.6	4.7	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	2.1	3.2	3.6	3.3	2.8	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	0.3	0.1	0.0	0.0	0.0
Outstanding Fund Credit Based on Existing and Prospective Credit																
Millions of SDRs	419.6	992.9	1271.7	1271.7	1271.7	1243.7	1116.4	903.9	649.5	395.2	168.8	41.8	0.0	0.0	0.0	0.0
Millions of U.S. dollars	559.8	1330.4	1709.0	1710.4	1713.4	1677.6	1507.3	1220.3	876.9	533.6	228.0	56.4	0.0	0.0	0.0	0.0
Percent of exports of goods and services	4.9	10.5	11.7	10.5	9.3	8.4	7.1	5.3	3.6	2.0	0.8	0.2	0.0	0.0	0.0	0.0
Percent of debt service	18.5	78.3	166.8	102.2	141.2	138.8	138.6	95.0	42.4	29.0	12.0	4.2	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	30.7	31.1	29.7	25.8	21.7	18.0	13.6	9.1	5.2	2.1	0.5	0.0	0.0	0.0	0.0
percent of GDP	2.0	5.1	5.6	4.9	4.3	3.9	3.3	2.5	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	12,635	14,662	16,242	18,489	19,939	21,366	22,885	24,525	26,267	28,166	30,218	32,436	34,913	34,913	34,913
External Debt service (millions of U.S. dollars)[1]	3,024	1,699	1,024	1,674	1,213	1,209	1,087	1,284	2,069	1,840	1,904	1,356	1,211	1,500	2,195	2,299
Gross international reserves (millions of U.S. dollars)	3,328	4,333	5,503	5,757	6,631	7,740	8,359	8,985	9,654	10,339	11,088	11,869	12,722	12,722	12,722	12,722
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)	27,578	25,857	30,650	35,075	39,597	42,977	46,290	49,795	53,589	57,615	61,980	66,713	71,846	77,414	83,455	90,011

Sources: IMF staff estimates and projections.

[1]Total debt service includes IMF repayments.

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
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 orderly fiscal adjustment, notably by increasing domestic revenues. 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. Clear and timely communication on the objectives and benefits of reforms is essential to ensure public buy-in.
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.

[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
Incomplete or Weak Policy Implementation, that undermines confidence in the government's fiscal adjustment plans (e.g., triggered by political factors, capacity constraints, and mining sector underperformance).	**L**	**H.** Weak investor confidence leading to tighter financing conditions; declining international reserves; possible disorderly fiscal adjustment triggering political and social instability; and deterioration in financial sector's asset quality.	Strengthen revenue mobilization measures and identify permanent spending reductions. Accelerate PFM reforms. Implement mitigating measures for the most vulnerable. Monitor and manage key fiscal risks and financial sector vulnerabilities. Accelerate structural reforms to level the playing field for the private sector.
External Risks			
Global growth surprises. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some 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. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures, and food insecurity 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.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
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.

Appendix I. Letter of Intent

November 25, 2024
Lusaka, Zambia

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431
United States of America

Dear Madam Managing Director,

1. **The Zambian economy is experiencing its most severe drought-induced shock in over forty years.** Reduced agricultural output and electricity shortages have hit the Zambian economy harder than anticipated. Frequent electricity blackouts have significantly curbed SME productivity and increased production costs while the agriculture sector contracted more than envisaged (by 20.6 percent) in 2024H1. As a result, we have revised the growth projection to 1.2 percent in 2024 from the earlier 2.3 percent. The drought has impacted close to 60 percent of the population. To cushion the impact on the most vulnerable, we have scaled up social protection programs to cover 2.3 million vulnerable households using improved targeting and selection mechanisms partly financed with the support from different development partners including the IMF.

2. **Despite the significant shock, we remained committed to implementing the policies and reforms under the Extended Credit Facility arrangement.** Tighter domestic financing conditions and expenditure containment should lead us, by end-2024, to a higher-than-envisaged primary fiscal surplus on a cash basis by end-2024. Inflation has increased in 2024, due to increasing food and fuel prices and past depreciation of the kwacha. To anchor inflation expectations, the Bank of Zambia at its November monetary policy committee meeting decided to raise the MPR by 50 bps to 14 percent. The current account is expected to record a small surplus in 2024, mainly driven by subdued imports and increased grants while the financial account is projected to improve with increased FDIs.

3. **We have made significant progress on implementing a debt treatment plan aligned with IMF program parameters and achieving comparability of treatment as defined by the Official Creditor Committee.** We are advancing with completing the bilateral agreements with official creditors. Significant progress includes concluding negotiations and execution of agreements with Paramount and Huawei Technologies. We have also reached agreements, in principle with the Industrial and Commercial Bank of China, the China Development Bank, Nedbank, and ZTE Technologies. These agreements, totaling US$1.5 billion, have been assessed consistent with the program parameters and with comparability of treatment, as defined by the Official Creditor Committee. Active engagements with remaining commercial creditors continue, with negotiations advancing across various stages.

4. **We will continue with the implementation of the Eighth National Development Plan (8NDP) to drive policies that secure macroeconomic stability, address Zambia's economic and social challenges, and enhance governance.** We met all end-June 2024 quantitative performance criteria (QPCs) under the ECF program and all end-June and end-September indicative targets (ITs), except for the end-June IT on expenditure arrears clearance, and the end-September IT on social spending, which we were not able to observe by narrow margins. Out of the 15 structural benchmarks (SBs), we achieved ten and completed two with some delays. We published the June FSIP contracts with slight delays, but the July and August contracts were published on time (continuous SB). We will publish the statutory instrument to define elements of the fuel price formula and institutionalize the review process in November, and we expect to complete the revised pipeline open-access tender guidelines by end-2024.

5. **We request the completion of the fourth review under the ECF-supported arrangement and of the financing assurances review.** The completion of the review would allow for a disbursement of SDR 139.9 million, half for budget support. Our program will continue to be based on QPCs and ITs with end-June and end-December as test dates, on continuous performance criteria, and on structural benchmarks consistent with our reform agenda. The QPCs and ITs are detailed in Tables 1 and 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 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. As stated in 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 Fourth review, upon approval by the IMF Executive Board.

Yours sincerely,

/s/

Hon. Dr. Situmbeko Musokotwane, MP
Minister of Finance and National Planning
Republic of Zambia

/s/

Denny H. Kalyalya (Dr.)
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 Third Review under the Extended Credit Facility (ECF) arrangement in June 2024, Zambia has been significantly impacted by the worst drought in the last 40 years. This memorandum updates the MEFP attached to the third review of the program supported by the ECF arrangement approved by the IMF's Executive Board on June 20, 2024.

2. We remain committed to our reform agenda underpinned by the ECF-supported arrangement. Despite the drought, critical steps have been taken to restore fiscal discipline, 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. Growth in the first half of 2024 was impacted by the drought.

- **Real GDP growth reached 1.9 percent in 2024H1, driven by the non-mining non-agricultural sectors**. Growth in information and communication and financial sectors offset significant contractions in agriculture and electricity (by 20.6 and 9.6 percent respectively). Despite the drought, we have been able to mobilize more maize in 2024. The drought destroyed about 70 percent of the cultivated maize, but the Food and Reserve Agency (FRA) and the private sector have been able to mobilize more maize from the northern regions and abroad. However, the impact on electricity generation has been larger-than-envisaged, with significant power outages negatively impacting households and corporates.

- **Inflationary pressures continue**. Inflation reached 15.7 percent in October 2024, driven by food prices and Kwacha depreciation. The Kwacha depreciated by 4.5 percent and 2.4 percent in nominal and real effective terms up to end-September 2024, respectively. In August 2024, the Bank of Zambia (BoZ) decided to keep the policy rate at 13.5 percent. The Monetary Policy Committee judged that the monetary policy stance was appropriate, considering the impact of the drought, past successive increases in the policy rate (by 450 basis points since 2023), an upward adjustment in the statutory reserve ratio (by 900 basis points to 26 percent in 2024), and recent stability in the foreign exchange market. In November the Bank of Zambia raised the policy rate by a further 0.5 percentage points to 14 percent.

- **The current account balance improved in 2024H1.** While the economic slowdown compressed overall imports, imports of electricity and refined oils in response to electricity shortages increased. Along with increased grants, the current account shifted to a surplus of 0.3 percent of GDP in 2024H1 from a deficit of 1.3 percent of GDP in 2023H1. The financial account was supported by an increase in FDI inflows underpinned largely by debt transactions.

Gross reserves reached US$4.2 billion at end-October, equivalent to 4.3 months of import cover, supported by multilateral disbursements and higher FX reserve requirements.

- **Public debt at end-June 2024.** The stock of public and publicly guaranteed (PPG) external debt stood at US$21.4 billion at end-June 2024 from US$21.6 billion at end-2023. The debt stock at end-June 2024 includes US$15.2 billion of Central Government external debt, US$1.4 billion of Government-guaranteed SOE external debt, and about US$8.7 billion of Central Government domestic debt. Total arrears at end-2024Q2 stood at US$8.5 billion, of which external arrears were US$5.5 billion and domestic arrears amounted to US$ 3.0 billion. The stock of non-resident holdings of domestic-currency debt declined in dollar terms to US$2.1 billion by end-June 2024, from US$2.2 billion at end-2023 due to reduced participation. The outstanding stock of domestic government securities stood at K 225.5 billion (33.5 percent of GDP) at end-June 2024, down from K232.6 billion (41.7 percent of GDP) at end-2023. With domestic budget arrears (in U.S. dollar terms) and ZESCO domestic IPP arrears declining, total PPG debt ended at US$28.7 billion (111.2 percent of GDP) at end-June 2024 from US$31.1 billion (121.3 percent of GDP) at end-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$16.6 billion as of June 2024 on external PPG debt, increasing by US$0.5 billion from March 2024. There has been no accumulation of external supplier and contractor arrears, nor arrears on ZESCO other external payables (IPPs), relative to end-June 2024. Expenditure arrears have decreased to K 79.8 billion as of end-June 2024 from K 97.8 billion at end-2023, driven by lower electricity sector arrears. Other budgetary arrears have increased mostly driven by arrears at the FRA (by K 4.9 billion). We are advancing on the liability management operation to clear costly fuel arrears in 2024 by borrowing domestically through uncollateralized arrangements and securing a substantial discount on interest accumulation.

- **Progress has also been made on the liability management operation on fuel arrears.** We reached agreement with three out of the six suppliers for a discount of at least 78 percent on late interests and overdue financial charges, reducing payouts by about 40 percent. Ongoing negotiations with the remaining suppliers are expected to be finalized by end-2024.

- **The debt restructuring is advancing.** Debt service on restructured instruments has started, as the Eurobond exchange was completed on June 11, 2024. Following the completion of Eurobond restructuring, Zambia's weighted average sovereign spread has declined to 577 basis points by end-October. We have reached agreements in principle with China Development bank and with the Industrial and Commercial Bank of China consistent with the IMF program parameters and considering the OCC confirmation of comparable treatment.

- **Liquidity conditions have eased since the last review**. This largely reflects increased net government spending supported, in part, by the government's sales of mining tax-related foreign currency to BoZ as well as SDR conversions. Despite this increase, the interbank interest rate remains contained around the Bank policy rate, while yields in the government securities market have started to cool off. Credit to the private sector has continued to expand but remains broadly on trend. Most of the lending is to households and businesses for mitigating the rising cost of living and the drought-induced energy crisis. In early June, banks were allowed to provision K 8.5 billion of the Kwacha statutory reserve requirements with government bonds issued through a private placement. However, the statutory reserve ratio on both Kwacha and foreign currency deposits remains at 26 percent.

- **The banking sector remained stable as of August 2024.** Capital adequacy ratio reached 23.7 percent at end-August increasing marginally from 23.5 percent at end-2023. Asset quality remained satisfactory with non-performing loans (NPLs) ratio of 4.4 percent, although the ratio marginally increased from 4.2 percent at end- 2023. After BoZ's possession of Investrust Bank, a Statement of Affairs was prepared as required by the BFSA, and the BoZ approved the resolution plan comprising the Purchase and Assumption (P&A) and liquidation of residual assets in July 2024. All deposit liabilities with matched assets were transferred to Zambia Industrial Commercial Bank Limited (ZICB) under the P&A transaction, while the residual assets were placed under liquidation.

III. OUTLOOK AND RISKS

4. The 2024 outlook has deteriorated. We have revised growth to 1.2 percent considering a worse-than-envisaged impact of the drought. The significant load shedding negatively impacted the non-mining sector. Inflation is projected to average around 15 percent in 2024, due to increasing food and fuel prices, past kwacha depreciation and the October emergency electricity tariff hike. The current account is expected to record a small surplus in 2024, mainly driven by subdued imports and increased grants. Multilateral disbursements and FX reserve requirements will help build reserves projected at 4.5 months of prospective imports in 2024.

5. Medium-term growth prospects remain positive, supported by waning shocks, increasing mining production, prudent policies, and dividends from reforms. Growth is projected to rebound to 6.2 percent in 2025, as mining production expands and agricultural output recovers. Inflation is projected to peak in 2024 due to food and energy shortages, before decelerating to single digits by end-2025. The current account surplus is projected at 5 percent of GDP in 2025, supported by higher copper prices and production while the financial account will deteriorate slightly due to increased debt service. Gross international reserves are set to reach 5 months of prospective imports at end-2025, supported by increased multilateral financing and improved mining exports.

6. The medium-term outlook is subject to significant downside risks. Commodity price volatility, along with a global slowdown, could lead to external and fiscal imbalances and undermine investment and growth prospects. Intensifying regional conflicts could result in trade disruptions, increasing food and energy prices and deteriorating food security. Internally, subdued mining production, climate shocks and increasing social discontent could risk the recovery and slow reform momentum. Delays in completing the debt restructuring could intensify financing pressures and dampen investment. The drought could deteriorate the quality of the banking sector. On the upside, completion of the debt restructuring, and renewed mining investments could lead to positive confidence effects that support growth.

IV. MACROECONOMIC POLICIES

A. Fiscal Policy

7. We exceeded the end-June 2024 target on the primary fiscal balance (cash basis) by a wide margin despite lower-than-projected mining revenues. The June 2024 primary fiscal balance reached K 21.7 billion against an adjusted floor of K 0.66 billion (quantitative performance criterion, QPC). We continued to mobilize additional non-mining revenues, which reached K 64.8 billion at end-June 2024, above the indicative target (IT) of K57.3 billion. Despite the need to contract spending, we protected the social spending which reached K 25.5 billion, surpassing the end-June 2024 IT (K 25.2 billion). Due to the financing constraints, we missed the IT on clearing expenditure arrears by clearing K1.3 billion versus a target of K 1.5 billion. We exceeded our target for clearing VAT refunds by clearing K 6.6 billion of the pre-2024 arrears stock versus a target of K 1.2 billion, however the overall pre-2024 stock continued to increase due to ongoing audits. Expenditure arrears at end-June 2024 amounted to K79.8 billion, down from K 97.8 billion at end-2023. 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$37 million versus US$57 million) and, as planned, we drew 50 percent of the ECF disbursement in June 2024.

8. We are on track to overperform on the 2024 primary deficit target, despite significant drought-related budget pressures. Due to expenditure containment and tighter domestic financing conditions, we project a primary fiscal surplus (K 6.2 billion) on a cash basis by end-2024. Revenue is expected to reach K 148.5 billion, slightly below the forecast from the Third Review as the impact of the electricity shortages has affected economic activity. The negative impact has been mitigated through several one-off revenues (higher dividend transfers from the Bank of Zambia, exceptional revenues from Zanaco, and forfeited funds amounting to K 8.5 billion), efforts to improve tax administration and improve service delivery (see ¶12), and reprioritizing expenditures. The primary balance (commitment basis) is projected to reach 3 percent of GDP in 2024, same as at the time of the Third Review, as we plan to maintain the agreed pace of arrears clearance for expenditure and tax arrears (both ITs, see TMU). Specifically:

- **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 have reduced other domestically financed primary expenditure by delaying new hirings, reducing intragovernmental transfers and other operational spending. for a combined K 5.9 billion (0.8 percent of GDP). Despite our commitment to avoid additional budgetary support to the FRA, we granted an additional transfer (of K 1.6 billion) to buy maize.

- **Arrears repayment.** We are undertaking a liability management operation to repay fuel arrears, financed domestically through uncollateralized FX loan, to be completed by end-2024. We will continue to clear expenditure and VAT refund arrears, while preventing new arrears. We commit to repay 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. We will also refrain from generating new external arrears (**continuous QPC**).

- **Subsidies**. We maintained the monthly publication of the adjusted retail and wholesale fuel price structures (**continuous QPC**). Given the difficult economic conditions, FRA has not adjusted maize prices fully to cost recovery on domestically mobilized maize and have generated a small subsidy, estimated at K 588 million during October 2024-April 2025, for which the FRA will be compensated in 2025.

- **Financing:** As envisaged, we are on track to receive the additional external financing from cooperating partners (US$230 million in budget support), while frontloaded 2025 World Bank disbursements by about US$140 million in 2024. We lowered financing from Government securities from K 16 billion to K 4.2 billion to reflect recent market trends and added domestic financing for the fuel arrears liability management operation. 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).

9. We have mobilized additional maize to support food security. We signed a government-to-government contract with Tanzania to import MT650,000 of maize, and have already paid for MT195,000.

- Due to the prevailing economic difficulties, it would be difficult to sell locally the imported maize at cost recovery and plan to reflect any fiscal costs transparently. Additionally, because of the emergency situation, DMMU and FRA did not procure the contracts for logistics and imports of maize. Going forward, we commit that 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 **(continuous SB).**

- 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 **(end-September 2025 SB).**

- We will publish FRA 2024 audited financial statements by end-September 2025 (**proposed end-September 2025 SB)**.

10. We remain committed to fiscal consolidation in 2025. The overriding objective is to improve the primary balance on a cash basis to K 14.5bn (1.9 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 7,604 million and to an end-September 2025 balance (cash basis) of K 11,500 million (IT). On a commitment basis, the target is to improve the primary surplus to 3.3 percent of GDP by 2025 from 0.8 percent of GDP in 2022. We submitted a draft 2025 Budget to Parliament that was consistent with program parameters (**end-September 2024 SB**) and we have adopted additional revenue measures to mobilize K 2.6 billion to reach our revenue targets. In addition, we have identified contingency spending reprioritization amounting to K 5.7 billion, while reducing the transfer to FRA to K 1.7 billion in 2025. We stand ready to adopt additional revenue measures if revenues do not materialize as expected and further contingency measures, if needed. We will also consult with IMF staff on any changes to our fiscal commitments and committed to use any additional revenues, for arrears repayment or VAT refunds in a rule-based and transparent manner.

11. The Government is committed to revamping the fiscal framework to better account for the mining wealth. The Government remains committed to improve fiscal policy formulation. As a resource-rich country, Zambia’s fiscal policy is usually procyclical, with mining revenues being prone to volatility due to global commodity prices. An improved management of the resource wealth requires careful calibration of the fiscal policy, with a new fiscal rule and a sovereign wealth fund (SWF) playing an integral part of the fiscal policy framework. The SWF will help stabilize spending during downturns and support inter-generational equity. To this end, the authorities have requested IMF capacity development to improve the fiscal framework.

B. Fiscal Structural Reforms

MOBILIZING REVENUES

12. We will increase domestic revenues 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 continue strengthening revenue mobilization efforts, in accordance with the Action Plan on Domestic Revenue Mobilization for 2022-25.
  - In 2024, we will refrain from introducing new tax expenditures, except for custom duties on maize imports.
  - In 2025, among other measures, we will progress toward harmonizing the corporate income tax rates across sectors by increasing from 15 to 20 percent the tax rates applied to sectors “Export of non-traditional products” and ”value addition to copper cathodes”. Excises

applied to tobacco and tobacco products, secondhand motor vehicle and fuels will be indexed to inflation and a 10 percent excise duty on betting services will be introduced. An advance Income Tax (AIT) at the rate of 15 percent will be applied on remittances and exports above US$2,000 made through a commercial bank by an account holder without a valid Tax Clearance Certificate. A detailed report on tax expenditures—including corporate and personal income tax, customs and export duties, and excise tax—covering the prior fiscal year is under preparation and will be published by end-2024 (**end-December 2024 SB**).

- **Tax Administration.** To enhance domestic revenue mobilization and improve compliance, the Zambia Revenue Authority (ZRA) is modernizing its internal organization and expanding data analytics. ZRA commenced transitioning to the new operating model, including:

  - Smart invoicing system. All VAT registered taxpayers are required to issue electronic invoices using the Smart Invoice System (SIS) effective July 1st, 2024. Due to technical difficulties, a grace period on enforcing penalties was granted to end-September 2024. Further, effective January 1, 2025, input VAT deductions will be restricted to transactions with invoices issued through the SIS, except for exempted invoices envisaged by the Act.

  - Compliance risk management. ZRA established a corporate compliance risk management team to monitor tax compliance. As part of the BIDA project, ZRA will develop a compliance risk management tool that integrates third-party data to provide a comprehensive 360-degree view of taxpayer transactions. Progress on system interfaces is underway. Through the Government Service Bus, interfaces with the Road Traffic and Safety Agency (eZAMTIS) and the Patents and Companies Registration Agency (PACRA System) are complete. The interface with the Ministry of Lands and Natural Resources (ZILAS) is advanced on ZRA's side but will be delayed to 2026Q1 due to challenges on the ZILAS side. In 2025, major planned interfaces include the Ministry of Finance and National Planning (IFMIS) in Q3 and the Bank of Zambia (eBoP) in Q2. By 2025Q4, interfaces with the Zambia Public Procurement Authority and the Zambia Information Communication Technology Authority are also scheduled. Internally, work on the Smart Invoice and MOSES systems is progressing. The MOSES connection to BIDA is complete, and report development is ongoing. Enhancement of MOSES to capture the other classes of minerals namely, the Gemstones and Industrial Minerals, is expected to be completed before the end of the 2024. For the Smart Invoice System, reports are ready, and user acceptance testing is in progress. We plan to make operational a dedicated compliance risk management unit by 2025Q2 **(proposed end-June 2025 SB).** A dedicated data quality unit will be established by end-March 2025 to improve data integrity and overall decision making/insights, which is expected to enhance compliance.

  - Customs-to-customs electronic data exchange. The electronic data exchange tool minimizes the risk of import undervaluation. The system interfaces with the Namibia Revenue Agency is underway and will be completed by end-September 2025. ZRA completed interfaces with tax administrations in Zimbabwe, Malawi, and Botswana while plans are underway with Tanzania and DRC.

- VAT refunds. The pace of VAT refunding has increased from K 1.35 billion to K 1.7 billion per month in September 2024. To speed up the process, we will conduct risk-based audits and focus audits on high-risk claims by 2025Q4. Where there is overlap, we will consider offsetting legacy refund claims with tax-debt owed. The IMF Compliance Risk Management mission is currently undertaking a capacity development training focusing on assessing the compliance risk strategy of the Zambia Revenue Authority (ZRA) and help develop a Compliance Risk Management (CRM) framework, and an action plan for implementation.

ENHANCING EXPENDITURE EFFICIENCY

13. We will calibrate spending while protecting social spending and continue strengthening public finance management. 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.

14. 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. In 2025, The Budget 2025 envisages increasing social spending to a floor of K50 billion, including interventions in response to the drought.

- *Social Cash Transfer*. In 2024 the amount of the social cash transfer was doubled to K 400 per month via a drought related top-up. An Emergency Cash Transfer (ECT) of the same amount was introduced for households severely affected by the drought. The ECT covered 957 thousand beneficiaries, bringing the total number of recipients of SCT to 2.3 million. The budget allocation for SCT and ECT amounted to K 9.3 billion in 2024. The ECT and the top-up of the SCT are due to be reverted in June 2025.
- *School feeding program*. In 2024, we expanded the coverage of the program to additional 37 districts severely affected by the drought, bringing covered districts to 106 out of a total of 116. To finance the expansion, a supplementary allocation of K300 million was given to Ministry of Education (MOE) as grant support from the French Government. We have budgeted K 0.5 billion for this program in the 2025 Budget and expect to be keep it in place beyond June 2025.
- *Cash for work program*. We implemented the Cash for Work (CFW) program to provide temporal income to vulnerable individuals in exchange for cash wages, to stimulate economic activity at the local community and contribute to community infrastructure maintenance. The 2024 budget provision for the program is of K2.0 billion. The CFW is planned to expire in June 2025.
- *Humanitarian support*. The Disaster Management and Mitigation Unit (DMMU) has coordinated the humanitarian in-kind support to provide food in remote areas where the private sector is absent.
- *Education*. To support free education policy, we will hire 4,200 in 2024, improving the teacher-pupil ratio to an average of 1:5 in 2024 from 1:6 in 2022. We plan to hire 2,000 additional education workers in 2025.

- *Health*. In 2024, 4,000 more health workers will be recruited, and we plan to hire an additional 2,000 frontline health personnel in 2025, bringing the total to over 20 thousand additional workers.
- We are evaluating options to reform the public pension schemes to make them financially sustainable and provide social security to retirees. The reform will allow to implement part of the recommendations in the IMF technical report on the Pension System Assessment (2023).

15. 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 1.1 percent of GDP in 2025 from 1.4 percent of GDP in 2023, against the initial target of 0.9 percent due to increases in input prices requiring higher transfer value. The migration path is envisaged as follows:

- For the 2024/2025 farming season, 74 districts are migrating to the e-voucher with flexible inputs and 42 districts on direct input supply (**end-September 2024 SB**). As of October 1, 2024, 362 input suppliers were accredited, and more than 1,000 input redemption points established, providing widespread access to farmers across e-voucher districts.

- The Government will continue to publish summary information on all procurement contracts related to FISP, including beneficial ownership on the Ministry of Agriculture website (**continuous SB**). The contracts for both seeds and fertilizers awarded in June-July 2024 were published with beneficial ownership information on October 2. All FISP beneficiaries currently enrolled are being verified, with 363,058 beneficiaries (35.4 percent of the target) confirmed as of October 1. Improvements on the ZIAMIS system are still ongoing and expected to be finalized by end-2024, including upgraded support to online payment and a proper audit trail. The 2024 e-voucher rollout will be subject to an independent audit for all the 74 districts once the roll out is completed and inputs are redeemed as such it cannot be completed as originally planned by end-2024 **(end-December 2024 SB, now proposed to reset to end-September 2025).**

- We will complete transitioning all districts to the e-voucher in the 2025/2026 season.

- **We have reconfigured 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, from the original K 4.8 billion. This is in line with the average utilization rates, at 57 percent rate at the end of 2024Q1. The 2025 budget is expected to allocate K 5.26 billion to the CDF, as utilization rates increased to 61.1 percent in 2024Q3.

IMPROVING PUBLIC FINANCIAL MANAGEMENT

16. We will continue to dismantle expenditure arrears in line with our arrears clearance strategy. We have started to repay some of the high-cost fuel arrears, to secure NPV savings. This uncollateralized liability management operation is being financed domestically and its ensuing debt service will be within the budget envelope for arrear clearance.

17. Commitment control system. All 61 MPAs are using the IFMIS system. Over the course of 2024, we extended its use to 10 provincial offices of the Ministry of Education, and to the education board of 10 districts. In July 2024, IFMIS has also been rolled out to the provincial offices of the Auditor General, that have also been linked to the Treasury Single Account. We plan on extending IFMIS to the regional offices of the Ministry of Agriculture and the Ministry of Livestock and Fisheries by end-2024. The transition for provincial and district offices of the Ministry of Health will start in 2025. The stock of arrears in 2023 will be recorded in IFMIS by March 2025, delaying the July 2024 target indicated at the time of Third Review. We will also record multi-year commitments in the IFMIS system by January 2025, slightly delaying the end-2024 initial date. Navision has been adopted as the Public Finance Management System for all Local Authorities and we plan a full roll out by end 2025. 40 local authorities, 4 in each province, have been select as pilot and will start to use the system from December 2024. Navision will not be a standalone system but the process of interfacing with IFMIS will start during 2025.

18. The Government is stepping up its efforts to strengthen the public investment management (PIM) and the public-private partnerships (PPPs) frameworks. The 2024-2026 Public Investment Strategy was published on the MoFNP website, the 2025 Public Investment plan will be published once approved by Parliament end December 2024, and will be aligned with the 2025 National Budget. Over the course of 2024, we aim to record in the IFMIS project module investment projects included in the 2025 Budget to facilitate the monitoring process, including by producing in-year monitoring reports. The draft regulatory framework governing PPPs was submitted to the Ministry of Justice in October 2024, and was adopted by the Cabinet on November 11, 2024. We have abided to the commitment of not signing new PPP until the approval of the regulatory framework. An IMF Public Investment Management Assessment (PIMA), which incorporates the climate module, will start in October 2024. We have developed the Road Sector Investment Programme III (ROADSIP III) through the Road Development Agency (RDA) and will be adopted by Cabinet by end-2024.

19. 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. Despite plans to finalize a survey of government accounts in commercial banks by end-June 2024, the Government is still receiving information from commercial banks on the survey to ascertain the number of bank accounts held by MPAs, with the aim to reduce the number of bank accounts. As of end-September 2024, more than 1,300 bank accounts in commercial banks have been closed. The daily monitoring of the sweeping arrangements with the BoZ and commercial banks is ongoing. To improve cash management, we strengthened 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 (**end-July 2024 SB)**. Due to staffing challenges, the operationalization of the Cash Management Unit has been delayed and we will not be able to implement a cash flow forecasting plan for 2025. The Unit is scheduled to receive follow-up training from the IMF on the cash forecasting tool in January 2025, with implementation of the cash flow forecasting plan expected by the end of March. (**end-December 2024 SB, now proposed for end-March 2025 SB**)

ENHANCING FISCAL TRANSPARENCY AND REPORTING FISCAL RISKS

20. 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. Technical assistance from IMF AFRITAC South is ongoing to determine the feasibility of migrating to accrual accounting in 2027.

21. 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 end-2024, despite the initial plan of July 2024. The Fiscal Risk Statement (FRS), part of the 2025 budget documentation, has been 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)**. We plan to further extend the FRS in 2025, incorporating sensitivity analysis scenarios for the macro, quantifying the impact of those scenarios on fiscal variables, and including quantitative financial information about SOEs and signed PPPs to enhance the understanding of fiscal risks (**proposed end-September 2025 SB**).

22. State-Owned Enterprises (SOEs). To enhance transparency, the Industrial Development Corporation published audited financial statements for 2019-22 on October 31, 2024 **(end-October 2024 SB)**. Originally foreseen for the end of 2024, the MoFNP will sign performance contracts with SOEs by end-January 2025, to become effective during 2025. In addition, the Government prepared the State-Owned Enterprises policy. Cabinet adopted the policy on October 28, 2024 and we published the policy on October 31, 2024 **(end-October 2024 SB)**. The SOE Policy will lead to a prospective SOE Act (**proposed end-September 2025 SB**). 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

23. We continue to face delays toward implementing open access to the TAZAMA pipeline. The TAZAMA pipeline is expected to reduce diesel transportation costs. The open access auctions on the use of the Tazama pipeline by third parties originally planned by end-2024Q1 has experienced further delays. We have faced delays in issuing the guidelines reviewing the open access framework to align with international best practices and guarantee transparent and fact-based shortlisting of OMCs by end-2024 (**end-August 2024 SB, proposed end-March 2025 SB**).

- By end-November, 2024, we will have finalized preclearance of OMCs for the next 12 months, and we will publish the list on the Tazama website.
- We commit to undertake the first delivery under the open access guidelines for the full capacity of the pipeline under the open access guidelines starting April 1, 2025 (**proposed end-April 2025 SB**).
- 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 (**continuous SB**).
- Single-sourcing procurement for strategic reasons under direct bidding will remain an exception regulated under the open access guidelines 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.
- We commit to no longer grant waivers for the sale of petroleum products outside of ERB price and in foreign currency. Going forward, diesel imported through the pipeline will only be sold in local currency for domestic retail distribution.
- Contrary to previous plans, TAZAMA has yet to start collecting the extra compensation from selling wholesale diesel products through the pipeline, estimated at US$78 million between July 1, and end-September 2024. We have started collecting the extra compensation from November 2024, to be remitted to the Treasury.
- The Ministry of Energy has successfully conducted a cost-benefit analysis to add an anti-dragging agent to the pipeline, increasing flow speed by 20 percent.

24. We have strengthened the monthly updates on domestic fuel prices to ensure full cost recovery.

- To enhance transparency in the pricing, the Energy Regulatory Board (ERB) will keep publishing the retail and wholesale price structures simultaneously with the fuel price adjustments on a monthly basis (**continuous SB**). The Government is reviewing the fuel price formula to ensure that 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, reflect pipeline savings to consumers and limit risks of fuel shortages. To compensate for exchange rate fluctuations, we will maintain a transparent adjustment of the compensation factor as indicated by the agreed slate mechanism formula.

- Due to the need for further consultations to refine the Statutory Instrument on Energy Regulation (Petroleum Products Price Setting) Rules, 2024 will be completed with a delay. At end November, we will have adopted the statutory instrument defining the elements of the fuel price formula (both wholesale and retail) and institutionalize the review process for each element as per best practices, with deviation foreseen only under preestablished exceptional circumstances (**end-August 2024 SB**). We have now revised the SI to clearly define the process, formulas, and data sources that will guide the monthly price review of petroleum products. This will ensure cost recovery (plus margin) for Oil Marketing Companies (OMCs) while passing pipeline savings more effectively to consumers. The fuel price formula will continue to incorporate the BPS premium for all fuels (both road and pipeline). To enhance transparency, we will develop detailed implementation guidelines that provide clear instructions for the fuel price formulation. The Statutory Instrument will become into effect on April 1, 2025, coinciding with the first delivery under the revised open access guidelines for the Tazama pipeline.

25. 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 —barring temporary emergency tariff introduced in October to import electricity to reduce load shedding— 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 revenue gain of 14 percent in 2023, 27 percent in 2024, 3 percent in 2025, 3 percent in 2026 and 5 percent in 2027.
- ZESCO's total outstanding debt amounted to US$2.6 billion in September 2024, from US$2.1 billion at end-2022. On-lent loans from the Central Government amounted to US$385 million, US$214 million to commercial lenders and US$2.0 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.

RESTORING DEBT SUSTAINABILITY AND IMPROVING DEBT MANAGEMENT AND TRANSPARENCY

26. 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.

27. We have reached an agreement in principle on a debt restructuring operation in line with program parameters and comparability of treatment (as defined by the official creditors) with most of our creditors. We are advancing with the bilateral agreements with the respective creditors under the OCC MoU. Complementarily, we completed the Eurobond exchange on June 11, 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. As of September 2024, Government has reached agreements in principle with ZTE, Industrial and Commercial Bank of China, Development Bank of China, and NEDBANK.

28. We continue enhancing debt management and transparency. The Government has published the medium-term debt management strategy for the period 2024-26 in June 2024 which will guide our borrowing decisions to manage the cost-risk trade-offs. We have 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 in 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.

29. We are strengthening the institutional framework for debt management. In the context of the new PDM,[31]the Government approved the sinking fund regulation clarifying the nature and scope of guarantees and indemnities, establishing the general provisions of the debt management office, defining the credit risk assessment framework for public bodies in March 2024.

30. We are advancing on establishing a Debt Management Office (DMO). The new DMO is expected to become fully operational by end-2024. To this end, the debt department at the MoFNP has started to receive technical assistance and will be reorganized to become the DMO with front, middle and back offices, effectively following the IMF/World Bank guidelines for public debt management. The Debt Management Office is prioritizing finalizing the DMO manual, with support from a GiZ consultant who will help refine its content and clarify institutional relationships. However, due to planned comprehensive stakeholder engagements, the procedure manual is unlikely to be finalized, adopted and published before Q1 2025 (**end-December 2024 SB, now proposed for end-March 2025 SB**).

31. The Government will continue to rely on issuing securities for domestic financing and aim at diversifying its domestic investor base. Diversification of the domestic investor base will be key to reduce the sovereign-bank nexus and support private credit growth. We will continue to issue the quarterly issuance calendar based on domestic financing conditions, investor appetite and

[31] The 2022 Public Debt Management Act.

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 annual issuance of government bonds, with a nominal upper bound of K1.56 billion in 2024. Similarly, we will limit the annual gross issuance to non-resident holdings to K1.572 billion in 2025. 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

32. The Bank of Zambia (BoZ) remains committed to price stability. Inflation has been rising mainly due to elevated food prices, higher electricity tariffs and exchange rate depreciation. 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 in bringing inflation back to the 6-8 percent target band by 2026.

33. 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.

34. Considering new findings, the BoZ is consulting stakeholders to remove two multiple currency practices (MCPs). The MCPs arise from the BOZ' official exchange rate based on the authorized dealers' exchange rates used to purchase U.S. dollars from the revenue authorities for (i) mining tax receipts, calculated as the average mid-rate from the preceding months, and (ii) custom duties receipts, calculated as the median of rates from any four leading commercial banks for the two weeks preceding the later of the date of importation, or the making of the first entry for those good. The most recent impermissible spreads were observed for both MCPs on November 15, 2024. Removal of the MCPs will require changes in the regulatory framework and sufficient consultations with stakeholders, whose completion is envisaged in October-2025.

35. We will maintain a flexible exchange rate regime whilst mitigating excessive volatility. Our commitment to maintaining exchange rate flexibility is consistent with our aim of increasing international reserves. In this regard, mining companies will continue to pay all tax obligations in U.S. dollars. In turn, BoZ will continue to purchase US dollars arising from these tax payments to build reserves. Further, BoZ will continue to support the FX market to mitigate undue volatility.

36. In May 2024, we introduced the new foreign exchange market guidelines, adopted in May 2024, to improve transparency and efficiency in the FX market. These guidelines require all FX transactions to be conducted with authorized dealers, as well as undertake retail FX transactions (those below US$1 million) at board rates. Since introducing these guidelines, commercial banks bid-offer spreads and exchange rate volatility have declined reflecting increased competition amongst authorized dealers. In June 2024, we also streamlined the IFEM rules (that apply to authorized dealers) by removing the rules requiring restricted pricing under stressed market conditions.

37. The BoZ is sustaining its efforts to build reserves. We met the adjusted end-September 2024 NIR QPC of US$1,748 million, partly due to higher budget support disbursements. The central government will continue to transfer all FX-related budget support disbursements (loans and grants) to the BoZ to support reserve accumulation. We will seize any opportunity to build additional reserves. As the economy recovers in 2025, we will maintain our efforts to build reserves and therefore propose an end-September 2025 NIR IT of US$2,550 million, with GIR projected at 5 months of imports by end-2025.

38. We are taking further steps to modernize the monetary policy operational framework.

- We will review the daily reserve compliance requirement with a view to moving to reserve averaging as conditions allow.
- The process of engaging banks to adopt the ISDA documentation is expected to be finalized by end- 2024. So far, eight banks have signed the ISDA with BoZ with efforts continuing to bring on board the remaining banks. In addition, the signing of the revised Master Repurchase Agreement by all commercial banks is earmarked for completion by the end of the first quarter of 2025.
- Working the with Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), the Bank has started recalibrating parameters of the Quarterly Projection Model (QPM) to enhance forecasting and policy analysis. The exercise is expected to be completed by 2025Q1.

D. Strengthening Financial Policies to Safeguard Financial Stability

39. The BoZ is supporting the economic rebound.

- The BoZ has established a targeted credit facility with an envelope of K 5 billion, the Stability and Resilience Facility (SRF), to help mitigate the impact of the drought on the financial system by facilitating the provision of affordable credit to households engaged in agricultural activity and non-financial enterprises to support food production and address energy shortages. Like the facility offered during COVID-19, based on long-term liquidity provided by the BoZ at close to MPR rate, the SRF will be time bound (no more than 7 years) and channeled through eligible Financial Services Providers (FSPs).

- The results of the micro stress test conducted in September 2024[32], premised on the severe impact of the drought resulting from the El Nino weather pattern, showed that the overall NPL ratio would, on average, increase to 6.4 percent from a baseline of 4.9 percent. However, this will remain below the 10.0 percent benchmark. In terms of solvency, only one bank would breach the minimum capital requirements in 2026 due to high impairments.

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

- The Bank published the inaugural Financial Stability Report (FSR) in June 2024 (**end-June 2024 SB**), which is a semi-annual publication. The FSR also featured the macro stress test which examined the potential impact of the drought on the health of the banking system. The FSR highlighted that commercial banks' capital remains well above the regulatory requirement even in stressed conditions, underpinning their resilience to shocks., including the potential severe impact of the drought on the health of the banking system. The second FSR was published in October 2024.

- To strengthen the identification and analysis of financial stability risks and to help mitigate such risks, we have requested undertaking a Financial Sector Stability Review.

- On expanding the macro-prudential toolkit, we are undertaking several measures:

- Issuance of the capital regulations which provide guidelines on how to deploy countercyclical capital and conservation buffers will be issued by end-October 2024.

- Internal consultations 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 continued. The expectation is to have the regulations on the LCR and NSFR issued by end-2024 and implement them in a "phased-in" approach beginning in 2025. In the meantime, the Bank has continued to conduct quarterly quantitative impact analysis to assess banks' preparedness to implement the liquidity regulations.

- The Bank has continued implementing other macro-prudential tools in a gradual manner including conducting macro stress tests to ascertain the resilience of the system. In addition to the stress test conducted by banks under the internal capital adequacy assessment process (ICAAP), the Bank continued to conduct micro-stress tests and

- To enhance cyber resilience, the Bank, has, in addition to the four cyber on-site examinations conducted in 2023, conducted two more examinations as of end-September 2024. The remaining two scheduled examinations will be conducted by end-December 2024.

[32] The five banks that participated in the stress test constituted 82.9 percent of the total agriculture portfolio and 76.0 of total industry loans, whereas the agriculture sector accounted for 11.8 percent of total industry net loans and advances at end June 2024.

41. The BoZ is reviewing 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 Financial Sector Assessment Program 2017 and BFSA 2017 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, consolidated supervision, transparency on the guiding principles for early intervention, enforcement, and resolution. The Bank will hold consultations with various stakeholders including the IMF on the draft bill. The draft bill is now envisaged to be submitted to Parliament in 2025 **(end-December 2024 SB, proposed to reset to end-March 2025).**

42. The BoZ has taken steps to enhance deposit insurance framework. After establishing the Deposit Protection Fund (DPF) Unit in December 2023, the BoZ is now drafting the regulatory framework. 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 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 (**end-April 2025 SB**).

43. We remain committed to facilitating access to affordable credit to micro, small and medium enterprises (MSMEs). For this purpose, Government has proposed an increased allocation to the Zambia Credit Guarantee Scheme to K 851.7 million in the 2025 Budget from K386 million in 2024. Separately, the BoZ, in collaboration with National Advisory Board for Impact Investment, has completed the design of the Small Business Growth Initiative (SBGI) which aims to establish a credit guarantee facility being finalized following which the SBGI will be launched on a pilot basis by end-2024.

44. The BoZ will enhance the role of the Kwacha in domestic transactions consistent with the provisions of the law. After finalizing consultations with stakeholders and in consultation with the IMF staff, the BoZ will issue revised regulations on the use of the kwacha as the settlement currency in domestic transactions, except for specific circumstances, starting January 1, 2025.

45. The BoZ implemented a dedicated AML/CFT/CPF supervision unit at end-2023 to support its risk-based approach to AML/CFT/CPF supervision and the effective application of sanctions for failure to comply with ML/TF/PF preventative measures. In this regard, the Bank of Zambia participated in one joint examination of a commercial bank in July 2024 and is currently conducting a second examination. The third one is expected to be completed by end-2024.

46. Significant progress has been made to strengthen safeguards at the BoZ based on the IMFs safeguards assessment. However, the opinion of the Office of the Attorney General to clarify the interpretation of the statutory limit on credit to the government and the rollover of government securities, and to ascertain its compliance with the law is still pending.

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

47. The Government will continue to promote growth through selective industrial strategies. More specifically,

- **Increasing productivity in agriculture.** The Comprehensive Agriculture Transformation Support Program (CATSP) was approved in March 2024. It supports service delivery, access to finance, irrigation, and value-added production. Investments will develop farm blocks with new infrastructure in Nansanga, Luena, Luswishi, and Shikabeta. The National Crop Diversification Strategy was launched in September 2024, to promote agro-business and food security. Following board approval of the Compact II by the Millenium Challenge Corporation, the Government will also undertake the Agriculture Policy Reform and Institutional Strengthening Project to facilitate private sector participation and trade in grains, contribute to national food security and promote market-led agricultural sector growth.

- **To enhance growth in the energy sector, the Government will work to increase the electricity generation capacity.** The Government is expanding power generation, including phase II of the 300 MW Maamba Thermal Plant, which is expected to be completed in 2025. The Government is also promoting renewable energy projects to strengthen climate resilience. In this regard, ZESCO and private investors are investing in several solar power stations, including Chisamba (MW100), Choma (MW50), Kasama (MW100) and Kariba (MW100).

- **Expanding mining production.** The Government has started a 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 to operationalize the Minerals Regulation Commission. Due to the need for further consultations, the bill was withdrawn and will be sent back to Parliament in 2025.

48. The government is drafting a Climate Change Bill to tackle climate-induced challenges, which was approved by Cabinet in October 2024 prior to submission to Parliament by end-2024. 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.

49. The Government, with partner support, is continuing the Girls' Education and Women's Empowerment Project. This provides livelihood aid to women and secondary education access for girls from extremely poor households. Midterm impact results show improved household income, savings, food security, and asset ownership, including livestock.

50. Financial inclusion. The implementation of the National Financial inclusion Strategy 2024-28 aims to increase financial inclusion to 85 percent by 2028. In 2025, the Government will undertake a FinScope Survey to ascertain progress made in the attainment of financial inclusion targets.

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

- Statutory Instrument to commence the Access to Information (ATI) Act has been issued in June 2024 along another statutory instrument for the regulations.

- Work is also ongoing to amend the Anti-Corruption Act with 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 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 remain committed to maintaining a sole mining license application system, the existing 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 (**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 publishing regular tax expenditure reports detailing measures that result in significant revenue losses. These updates, alongside revenue and expenditure performance reports, will include explanations for any deviations.

- We will finalize legal and regulatory amendments by end-March 2025 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. The Cabinet Office has continued to provide oversight on implementation of the recommendations the GDA Report.

V. IMPROVING STATISTICS

52. The 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.

53. 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 is the Statistical Business Register update, which is expected to be conducted during October to December 2024. In 2025, key planned activities would be Annual Business Survey, followed by compilation of supply and use table (SUT), compilation of rebased GDP and report writing (December 2025).

54. 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 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. In 2025, tThe framework will include a reconciliation of export of services and imports tracking modules.

55. 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

56. 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.

57. 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 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.

58. 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, this is consistent with the 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, 2024–25[1]

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

	June 2024				September 2024				December 2024	March 2025	June 2025	September 2025
	ECF 3rd Review*	Adjusted Target	Act.	Status	ECF 3rd Review*	Adjusted Target	Act	Status				Proposed
I. Quantitative Performance Criteria[2]												
1. Floor on the central government's primary balance (cash basis)	663		19,330	Met	-1,579		19,677	Met	-4,698	1,829	7,604	11,500
2. Ceiling on new central bank credit to the central government[3]	0		0	Met	0		0	Met	0	0	0	0
3. Floor on the net official international reserves of the Bank of Zambia (millions of US dollars)	1,400	1,429	1,507	Met	1,700	1,748	1,756	Met	1,750	2,100	2,250	2,550
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
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
III. Monetary Policy Consultation												
6. Average CPI inflation												
Upper outer band	17.7				18.2				17.8	17.6	16.9	14.0
Upper inner band	16.7				17.2				16.8	16.6	15.9	13.0
Mid-point	14.7		14.6	Met	15.2		15.5	Met	14.8	14.6	13.9	11.0
Lower inner band	12.7				13.2				12.8	12.6	11.9	9.0
Lower outer band	11.7				12.2				11.8	11.6	10.9	8.0
IV. Indicative Targets												
7. Floor on the fiscal revenue of central government excluding grants and mining revenue[7]	57,259		64,819	Met	87,289		94,416	Met	118,954	32,220	71,579	100,000
8. Ceiling on the present value of new external borrowing (millions of US dollars)[5]	75		0.0	Met	75		0.0	Met	75	0	0	
9. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars)[6]	100		37.09	Met	145		44	Met	145	100	100	100
10. Floor on social spending by the central government	25,227		25,530	Met	42,468		39,035	Not met	50,000	13,618	27,291	42,000
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)	1,500		1,416	Not met	3,000		4,287	Met	4,800	1471	3242	4700
12. Floor on the net clearance of arrears of tax refunds[8] (+clearance/-accumulation)	1,215		6,699	Met	3,122		8,163	Met	4,430	1027	2054	3500
V. Memorandum Items												
13. Expected budget grant disbursments (millions of US dollars)	57		n.a.		86		n.a.		114	n.a	n.a	n.a
14. Expected public sector loan disbursements into the Treasury Single Account at the Bank of Zambia (millions of US dollars)										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*	217		118		390		361		564	136	272	408
16. Government Debt Service (millions of U.S. dollars) *NIR Adjustor*	452		423		551		473		873	99	409	449
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	600	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

Third ECF Review			
Prior Actions			
Submit to Parliament the revised 2024 Budget in line with program parameters.	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.	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.	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.	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.		Quarterly (on an ongoing basis)	Met
Other Structural Benchmarks			
Debt Management - Approve a new organizational structure for the debt management office.	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.	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.	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
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.	Promotes transparency, builds trust, and ensures accountability in the pricing process.	End-March 2024	Met
Complete the transition to issue government bonds at par in the domestic securities market.	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.	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Ongoing – within 3 months of contract award	Not met (Published with some delay)
Publish a quarterly debt statistics bulletin.	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.		Quarterly (on an ongoing basis)	Met

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.	Enhance transparency and accountability in FRA and DMMU procurement processes.	Ongoing – within one month of the contract award	Not Met (Procurement did not take place)
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.	Increase transparency in fuel tendering process.	Ongoing – within one months of contract award	Not Met (Tender did not take place)
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	Increase transparency in fuel pricing	Monthly (Ongoing)	Met
Other Structural Benchmarks			
Financial Stability – Produce and publish the inaugural annual financial stability report	Support financial stability	End-June 2024	Met
Fiscal Risks - Expand the scope of the Fiscal Risk Statement to include key risks stemming from SOEs, local authorities, public pension schemes, PPPs and other obligations as well as the potential consequences of climate change. Establish standard methodologies and assumptions applied to quantifying risks. Assess risks in a forward-looking manner.	Quantify and mitigate fiscal risks related contingent liabilities.	End-June 2024	Met
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.	Improve cash flow management and government financial management	End-July 2024	Met
Publish at the Ministry of Energy (MoE) website 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.	Improve efficiency and transparency in pipeline tender procedures	End-August 2024	Not Met (proposed end-Dec 2024 SB)

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.	Establish a clear rule based and transparent monthly fuel pricing mechanism.	End-August 2024	Not Met, completed in November 2024
Submit to Parliament a 2025 draft budget consistent with the parameters of the program.	Enhance budget credibility	End-September 2024	Met
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.	Enhance competition	End-September 2024	Met
The Industrial Development Corporation will publish full audited financial statements for 2019-22.	Enhance transparency and accountability of SOEs.	End-October 2024	Met
Publish a State-Owned Enterprises Policy defining the different roles of line Ministries, the Industrial Development Corporation and the MoFNP.	Improve governance	End-October 2024	Met
Fifth ECF Review			
Proposed New Structural Benchmarks			
Publish at the Ministry of Energy (MoE) website 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.	Improve efficiency and transparency in pipeline tender procedures	End-December 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
Imports of diesel through the Tazama pipeline are done via open access at the full capacity of the Tazama pipeline. (MEFP ¶24)	Improve energy sector efficiency and transparency	End-April 2025	Publish the date of first delivery of low sulfur gas oil procured under the open access guidelines for the full capacity of the pipeline and summary of the underlying contract including the delivery commencement date and delivery

			volumes on the MoE website
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 ¶15)	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 ¶28)	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 ¶28)		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 ¶9)	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 ¶24)	Increase transparency in fuel tendering process.	Ongoing – within one month 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 ¶25)	Promotes transparency, builds trust, and ensures accountability in the pricing process.	Monthly (Ongoing)	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.
<u>Other Structural Benchmarks</u>			

Adopt the procedures manual for the Debt Management Office. (MEFP ¶30)	Improve debt management	End-December 2024, proposed to reset to end-March 2025	The procedures manual is published on the website of the MoFNP.
Submit to Parliament a comprehensive review of the Banking and Financial Services Act. (MEFP ¶43)	Strengthen financial regulation, supervision and resolution	End-December 2024, proposed to reset to end-March 2025	A draft bill on Banking and Financial Services Act is approved by the Cabinet and submitted to Parliament.
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 ¶12)	Improve fiscal transparency and revenue mobilization	End-December 2024	Full Report published on the MoF website,
Bring the 2016 Public Audit Act and the 2016 State Audit Commission Act into force by issuing the statutory instrument by the MoFNP. (MEFP ¶53)	Enhance institutional framework for public audits.	End-January 2025	Statutory instrument is issued
Implement a cash flow forecasting plan for 2025. (MEFP ¶19)	Improve cash flow management	End-December 2024, proposed to reset to end-March 2025	The cash flow forecasting plan is in line with government borrowing plans in 2025
Submit to Parliament a revised Anti-Corruption Bill in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption. (MEFP ¶51)	Improve governance	End-March 2025	Anti-Corruption Bill is submitted to parliament and published on the website of the National Assembly.
Sixth ECF Review			
Proposed New Structural Benchmarks			
The ZRA will establish a Compliance Risk Management Unit. (MEFP ¶12)	Improve tax administration and reduce the tax compliance gap	End-June 2025	The ZRA board will establish and staff a Compliance Risk Management Unit with clear roles and responsibilities.
Expand the 2026 Fiscal Risk Statement incorporating sensitivity analysis scenarios for the macro, quantifying the impact of those scenarios on fiscal variables, and including quantitative financial information about SOEs and signed PPPs to enhance the understanding of fiscal risks. (MEFP ¶21)	Quantify and mitigate fiscal risks related contingent liabilities.	End-September 2025	The 2026 FRS is published alongside the 2026 Draft Budget Documents

Submit to Cabinet a new bill on State-Owned Enterprises that incorporates the principles of the SOE policy and clearly defines the role of Ministry of Finance in monitoring SOEs. (MEFP ¶22)	Monitor and manage fiscal risks stemming from SOE-s	End-September 2025	Cabinet adopts new SOE act and submits it to Parliament
Publish FRA 2024 audited financial statements. (MEFP ¶9)	Improve transparency	End-September 2025	Final audit report published on FRA website.
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 ¶15)	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 ¶29)	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 ¶28)		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 ¶9)	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 ¶24)	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.	Promotes transparency, builds trust, and ensures accountability in the pricing process.	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 publishes it on 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 ¶9)	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.
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 agro-dealers/retailers vetting. (MEFP ¶15)	Improve the integrity and transparency of the FISP program.	End-December 2024, proposed to reset to end-September 2025	Audit conducted by an independent auditing firm and full 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

I. 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.

II. 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.

III. 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.

I. 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.

II. 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.

III. 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

I. 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.

II. 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.

III. 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.

IV. 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.

V. 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	D	BoZ	W	T15
and program exchange rates				
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				T30
behalf, with detailed information on the amounts, currencies,				
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

INTERNATIONAL MONETARY FUND

ZAMBIA

November 27, 2024

FOURTH REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
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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	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress, compared to the June 2024 assessment indicating Zambia's external and overall public debt as in debt distress, with unsustainable public debt. The analysis is based on a full post-restructuring macro-framework, incorporating the treatment of official bilateral claims agreed with Zambia's Official Creditor Committee (OCC), the completed Eurobond exchange, the agreements in principle (AIP) reached with some of the external commercial creditors, and under the assumption of treatment of the residual claims of other external commercial creditors in line with the authorities' restructuring strategy and consistent with program parameters and comparability of treatment principles. Under the baseline, there are remaining breaches of the overall and some external debt indicator thresholds.[1] Zambia's debt indicators are projected to improve, consistent with a moderate risk of external debt distress in the medium term. The present value of external debt-to-exports ratio is expected to decline below the 84 percent threshold indicating "substantial space to absorb shocks" by 2027 and the debt service-to-revenue ratio is projected to fall below the 14 percent threshold by 2025 and remain below this level on average over 2026–31. The DSA suggests that shocks to export and combined shocks of the economy would present downside risks to the debt outlook.

[1] Zambia's debt-carrying capacity is weak based on the composite indicator (CI). The composite indicator is calculated using data from the October 2024 WEO and the 2023 CPIA, the latest available.

PUBLIC DEBT COVERAGE

1. **As in the previous DSA, the coverage of Zambia's public and publicly guaranteed (PPG) debt for the purpose of the DSA includes the following :** i) central government domestic and external debt, including 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,are also included in the coverage.[3]

2. **The DSA also incorporates the non-guaranteed external debt of the Zambia Electricity Supply Company (ZESCO), including its domestic and external arrears**. In accordance with the LIC-DSF Guidance Note, given the significant fiscal risks posed by ZESCO, a fiscally important state-owned utility, its non-guaranteed external debt 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.[4] The authorities are taking steps to restore ZESCO's 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.

3. **Local governments and SOEs without government guarantees are excluded from the DSA coverage.** 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.

4. **Two financial public corporations have taken on new non-guaranteed external borrowing totaling US$ 50 million**. In September 2024, the authorities approved the external borrowing plans of two SOEs—Zambia National Building Society (ZNBS) and Zambia Industrial Commercial Bank of (ZICB)— totaling US$50 million, without issuing any government guarantees. As these are financial public corporations, this debt is excluded from the DSA coverage in line with the LIC DSA Guidance Note.[5]

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[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).

[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-2023.

[5] Both SOEs pose limited fiscal risk to the government as they: (a) are audited by reputable international firms (PwC and Grant Thornton) in compliance with IFRS and international auditing standards; (b) have maintained positive net operating balances over the past three years; and (c) pay taxes under the same standards as private firms. Furthermore, the BoZ's latest assessment shows ZICB's overall Capital, Asset Quality, Earnings, and Liquidity (CAEL) rating aligns with the industry average.

5. **The DSA is conducted on a residency basis**. In line with the LIC-DSF Guidance Note, non-resident (NR) holdings of domestic-currency debt (as recorded by the authorities) are treated as external debt for the purpose of this DSA, while recognizing the underlying measurement challenges. End-September 2024 data indicates the stock held by non-resident decreased to K 53.9 billion (US$2.04 billion or 23.9 percent of the outstanding domestic-currency government securities) from K 56.4 billion by end-2023. The authorities are restricting participation of NRs in the primary market given 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 2024Q1, the 5-percent limit on NRs' participation in the primary bond market had 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

Public debt coverage and the magnitude of the contingent liability tailored stress test
B. Please customize elements of the contingent liability tailored test, as applicable.

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt		
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	2.0	
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)		8.4	

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 assessed to be neglibible, a country team may reduce this to 0 percent.

BACKGROUND ON DEBT

6. **The June 2024 DSA assessed Zambia's debt risk as in debt distress.**[6] 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. The accumulation of external arrears in 2023 only relates to claims within the debt restructuring perimeter. To address debt sustainability challenges, the authorities requested a debt treatment under the G20 Common Framework (CF) in January 2021, which is now incorporated in the DSA given that agreements have been reached with most creditors, and good-faith negotiations are ongoing with the residual ones.

7. **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, signed by all OCC members, reflects the agreed debt treatment consistent with program parameters announced in June 2023. The preparation and signature of the bilateral

[6] IMF Country Report No. 24/190. The LIC DSF Guidance Note (footnote 2) calls for an assessment of 'in debt distress' when restructuring with most commercial creditors has not been completed.

agreements are ongoing. In parallel, the authorities completed the Eurobond exchange on June 11, 2024, aligning with program parameters and Comparability of Treatment (CoT) requirements set by the OCC. Furthermore, the authorities announced on September 27, 2024 agreements in principle (AIPs) reached with two major external commercial creditors—Industrial and Commercial Bank of China and China Development Bank—consistent with program parameters and CoT requirements established by the OCC. These agreements are considered sufficiently credible to be included in the baseline.

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 made requests to classify their claims backed by an official export-credit agency as commercial claims, in particular China requested to classify all Sinosure-backed commercial claims as private.[7] These claims are therefore 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.

9. Zambia's external public and publicly guaranteed (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 from 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. Expenditure arrears (fuel and contractors) owed to non-resident suppliers, together with ZESCO's arrears to external IPPs, were broadly unchanged at US$1.75 billion at end-2023. While further interest arrears of US$90 million accumulated on government guaranteed external debt, ZESCO's non-guaranteed external debt was fully amortized in 2023 as it generated sufficient revenues to continue servicing it. As a result, external PPG debt ended the year about US$639 million higher (see Text Table 2). However, NR holdings of domestic-currency debt declined in dollar terms to US$2.2 billion by end-2023 due to the exchange rate depreciation.

10. By end-September 2024, PPG external debt amounted to US$16.7 billion, excluding interest arrears, fuel and contractors' arrears, and ZESCO-related guarantees. Of this, US$15.3 billion, reflecting the haircut from the completed Eurobond exchange, was attributed to the central government and US$1.4 billion to guaranteed external obligations. NR holdings of domestic-currency debt declined by 6 percent in dollar terms (3.2 percent in kwacha terms) to US$2.0 billion, partly due to primary market purchase limits and exchange rate depreciation.

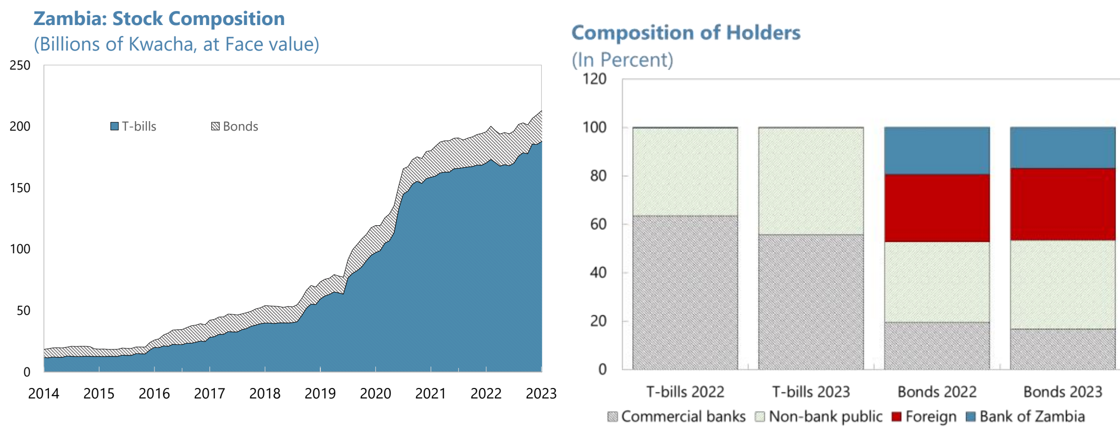
11. Zambia remains without access to international capital markets. After peaking at 6,954 basis points on March 20, 2023, weighted average spreads on Eurobonds narrowed to 559 bps by October 29, 2024. Reflecting lower uncertainty around the debt restructuring process, NR investors returned to the domestic debt market in 2023, notably in the bond market, with holdings

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

reaching 30 percent of total bonds issued by end-2023. Consequently, the share of NR holders of domestic debt increased to 24 percent at end-2023, up from about 22.5 percent at end-2022, though still lower than the peak of around 29 percent in 2022 (see Text Figure 1). NR holdings remained stable in 2024, with the end-September share of total standing at 24 percent.

Text Figure 1. Zambia: Central Government Domestically Issued Securities

(end-2023)



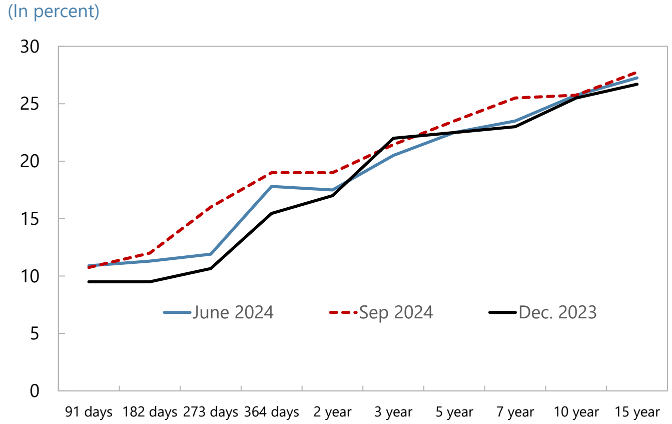
Sources: Zambian authorities and IMF staff estimates.

12. Outstanding domestically issued government securities have declined in 2024. Government securities stood at K 232 billion at end-2023 (42 percent of GDP), but domestic debt decreased by 3.3 percent by end-September 2024 due to financing constraints. As noted above, the stock of NR holdings declined by 3.2 percent in kwacha terms, from K55.7 billion at end-December 2023 to K53.9 billion at end-September 2024.

13. Yields on government securities increased in 2024 due to tight liquidity conditions (Text Figure 2). Successive monetary policy tightening in February and May, along with a 900-basis point increase in the Statutory Reserve Requirement (SRR) in February, pushed yields higher, particularly at the shorter end of the yield curve. The one-year yield increased by 355 basis points. In contrast, the increase for 10-year bonds was almost muted, at 25 basis points, reflecting improved market sentiment due to progress in debt restructuring and renewed demand from NR investors in the secondary market. Liquidity conditions improved after the Bank of Zambia

Text Figure 2. Zambia: Government T-Bill and Bond Rates

(In percent)



Sources: Bank of Zambia, IMF Staff Computation decided in June 2024 to allow banks to meet 40 percent of the kwacha-denominated SRR with government bonds via a non-competitive auction. As liquidity eased, demand for T-bills recovered and bond demand strengthened further.

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	144.1	2,548	3,894	9.8	12.7
External Foreign-Currency Debt	19,390	62.1	89.4	740	489	2.9	1.6
Multilateral creditors[4]	4,151	13.3	19.1	154	165	0.6	0.5
IMF	563	1.8	2.6				
World Bank	2,252	7.2	10.4				
ADB/AfDB/IADB	917	2.9	4.2				
Other Multilaterals	419	1.3	1.9				
o/w EIB	207	0.7	1.0				
o/w IFAD	132	0.4	0.6				
Bilateral creditors[5]	6,456	20.7	29.8	120	62	0.5	0.2
Paris Club	1,524	4.9	7.0	14	14	0.1	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	22.8	106	48	0.4	0.2
o/w: China	4,174	13.4	19.3				
o/w: India	345	1.1	1.6				
Eurobonds	3,715	11.9	17.1	441	237	1.7	0.8
Commercial creditors	3,313	10.6	15.3	25	25	0.1	0.1
Fuel arrears	897	2.9	4.1	n/a	n/a	n/a	n/a
Arrears to external contractors	757	2.4	3.5	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	54.7	1,808	3,405	7.0	11.1
Held by residents, total	6,855	21.9	31.6	1,553	3,106	6.0	10.1
Held by non-residents, total	2,192	7.0	10.1	247	299	1.0	1.0
T-Bills	1,747	5.6	8.1	498	1,052	1.9	3.4
Bonds	7,301	23.4	33.7	1,311	2,353	5.1	7.7
Loans	-	-	-				
Domestic budget arrears and ZESCO domestic IPP arrears	2,806	9.0	12.9				
Memorandum Items:							
Collateralized debt[6]	2,428	7.8	11.2				
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	7.2				
SOE non-guaranteed external debt (ZESCO)[8]	-	0.0	-				
Total external PPG debt[9]	21,583	69.1	99.5				
Nominal GDP	27,578			25940	30650		

1/ Debt stock based on end-December 2023 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/ Post-restructuring 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 Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

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.

MACROECONOMIC ASSUMPTIONS

The macroeconomic framework underpinning this DSA aligns with the baseline of the Fourth Review of the ECF program. Key changes from the previous DSA include a downward revision in real GDP growth, stronger fiscal adjustment in 2024, a slightly deteriorated external sector over the medium term, and a less depreciated exchange rate.

14. Recent developments. Economic activity has slowed due to the impact of the drought, with real GDP growth revised down to 1.2 percent from 2.3 percent during the Third Review. Fiscal performance in 2024 has been constrained by domestic financing, leading to stronger-than-envisaged fiscal balances. The end-June 2024 primary balance (cash basis) exceeded the program target, reaching a surplus of 3.4 percent of GDP as tight domestic financing reduced investment and spending on goods and services.

15. Growth. Medium-term growth assumptions for 2024-33 are broadly unchanged on average from the previous DSA, despite a worsened near-term outlook due to the drought in 2024. Mopani Copper Mines and Konkola Copper Mines have become operational and are expected to raise production in the coming years, boosting copper and cobalt output. Copper production is expected to ramp up in 2026-28, relative to the previous DSA, as expansion projects yield results and support medium-term growth. Growth is expected to average around 4.9 percent over 2024-33. Structural, fiscal, and institutional reforms are expected to lay the foundation for sustained long-term growth driven by a competitive private sector. The implementation of ZESCO's turnaround plan, introducing a five-year electricity tariff schedule, and the October emergency tariff increase should bring financial sustainability to the power sector and attract investment in new generation capacity, in line with the Ministry of Energy's Integrated Resource Plan approved in November 2023. The Comprehensive Agricultural Transformation Support Program should help boost agricultural productivity and build climate resilience. Redirecting expenditure away from inefficient subsidies to education, health, and social protection will help build human capital.

16. Inflation. Near-term Inflation projections have been revised upwards compared to the previous DSA, reflecting inflationary pressures arising from supply shocks in 2024. In August, the BoZ kept the policy rate at 13.5 percent, citing the drought's impact, earlier cumulative rate hikes totaling 250 bps, higher reserve requirements set in February, and relative Kwacha stability. In 2024, inflation is expected to peak at 16.4 percent by the end-year, before returning to the BoZ's target band during 2025, broadly unchanged from the previous DSA.

17. External. The medium-term outlook for the external position has slightly deteriorated compared to the previous DSA. The current account is projected to remain broadly on balance in 2024, at 0.1 percent of GDP. Export growth was lower than projected on account of weaker copper production and lower non-mining exports due to the drought. Drought-related higher imports of petroleum and electricity, coupled with lower exports, will worsen the trade balance in 2024 relative to previous update. However, the ramp-up in copper production during 2026–28 is expected to support the current account. FDI flows are projected to remain broadly in line with previous update.

The BoZ increased gross reserves and met the end-September 2024 NIR indicative 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 fiscal deficit, improve business confidence, and attract further foreign direct investment. The (non-interest) current account balance is expected to register an average of 7.1 percent of GDP surplus for the period 2024-33, broadly in line with the previous DSA. The global green energy transition should boost long-term demand for Zambia's critical mineral resources. The improved current and financial accounts are expected to support the build-up of FX reserves to five months of prospective imports by end-2025.

Text Table 3. Zambia: Macro and Debt Assumptions

	2021	2022	2023	2024	2025	2026	2027	2028
				(Annual percentage change)				
Real GDP Growth								
June DSA	6.2	5.2	5.4	2.3	6.6	5.9	5.6	5.1
Current DSA	6.2	5.2	5.4	1.2	6.2	6.6	6.2	5.1
Inflation								
June DSA	22.0	11.0	10.9	14.6	12.1	7.0	7.0	7.0
Current DSA	22.0	11.0	10.9	14.9	12.8	7.0	7.0	7.0
GDP Deflator								
June DSA	25.1	6.1	9.3	20.2	9.9	5.0	5.9	6.6
Current DSA	25.2	6.1	7.1	19.2	9.7	5.2	6.4	7.0
				(Percent of GDP)				
Primary Balance (on Commitment Basis)								
June DSA	-5.8	0.8	1.5	2.9	3.3	3.0	2.6	2.1
Current DSA	-5.8	0.8	1.5	2.5	3.3	3.1	2.9	2.7
Primary Balance (on Cash Basis)								
June DSA	-2.1	-1.6	0.6	-0.7	2.1	1.9	1.7	1.6
Current DSA	-2.1	-1.6	0.6	0.5	1.9	1.8	1.7	1.7
Non-Interest Current Account Balance								
June DSA	19.1	8.7	1.4	3.3	9.5	7.5	7.8	7.5
Current DSA	19.1	8.7	1.3	2.8	6.6	6.3	8.6	8.7
Net FDI Inflows								
June DSA	3.1	0.6	-0.1	3.8	3.8	4.5	4.3	4.3
Current DSA	3.1	0.7	-0.1	3.7	3.7	4.5	4.3	4.3
				(In Percent)				
Average nominal interest rate on external debt								
June DSA	5.2	6.4	4.2	2.6	2.8	2.6	2.5	2.6
Current DSA	5.2	6.4	4.2	2.5	2.7	2.6	2.4	2.5
				(Millions of dollars)				
Project Loan Disbursements								
June DSA	571	438	296	464	640	298	255	197
Current DSA	571	438	296	426	412	443	249	219

Source: IMF staff projections.

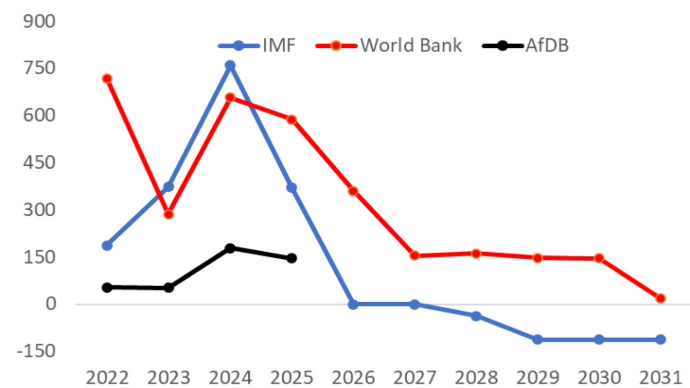
18. Fiscal. The authorities remain committed to fiscal consolidation despite drought-related spending pressures. A stronger-than-targeted fiscal consolidation is expected in 2024, with a primary surplus (cash basis) of 0.5 percent of GDP (against a targeted deficit of 0.7 percent), driven by sharp spending rationalization amid domestic market liquidity constraints in 2024H1. This consolidation is projected to continue in 2025, with a primary surplus target of 1.9 percent of GDP. The authorities are advancing the fuel arrears liability management operation and will clear arrears according to their strategy. Building on consolidation achievements since 2022, the primary balance on a commitment basis is expected to improve to 3.3 percent in 2025, from 2.5 percent in 2024.

Revenue excluding grants (adjusted for the VAT backlog) is projected to rise to 22.1 percent of GDP by 2025, up from 19.6 percent in 2019, supported by measures such as eliminating fuel tax expenditures worth 1.2 percent of GDP and broadening the tax base. Overall, these efforts aim for a cumulative improvement in the primary balance on a commitment basis of 9.1 percent of GDP and 3.9 percent on a cash basis over the program period.

19. Financing. Financing assumptions are guided by the debt conditionality under the ECF program.

- **External financing**: Concessional borrowing—primarily from the IMF, the World Bank and the African Development Bank—will comprise an important part of the financing mix (Text Figure 3). Over the program period of 2022-25, external financing will comprise disbursements of US$1.8 billion on contracted but undisbursed priority project loans, about US$2.5 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.[8] The AfDB is assumed to disburse US$100 million in 2024 and US$150 million in 2025. The World Bank is assumed to disburse US$1.15 billion over 2025–26, compared to US$1 billion in the previous DSA. 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 NR participation in the domestic debt market is expected to remain limited, as the authorities will continue to limit their participation in new issuances to safeguard external debt sustainability.

Text Figure 3. Zambia: Net Financing from IFIs, 2022–31
(US$ million)



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

[8] 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. Actual performance-based allocations (PBA) will be determined annually and will depend on (a) total IDA resources available; (b) the number of IDA-eligible countries; (c) the country's performance rating, per-capita gross national income, and population; (d) implementation of IDA's Sustainable Development Finance Policy (SDFP); and (e) the performance and other allocation parameters for IDA borrowers. IDA allocations and terms could significantly change because of adjustments to the IDA Grant Allocation Framework in new IDA cycles.

- **Domestic financing**: Domestic borrowing will remain a key source of financing. In 2024H1, tight liquidity reduced demand for T-bills, with subscription rates dropping to 57 percent from over 100 percent in 2023, as banks limited rollovers in response to the BoZ's liquidity tightening. Conversely, bond demand remained stable, with subscription rates rising marginally to 91 percent from 88 percent in 2023, alongside a special bond issuance of K 8.5 billion for reserves compliance in June 2024. Non-bank investors in bonds, such as NAPSA, offset banks' reduced exposure in T-bills, while NR holders reached the 5-percent annual limit on bond purchases by end-March 2024. Despite improved subscription rates for both T-bills and bonds in 2024H2, net domestic financing remained negative as of end-September 2024 due to T-bill redemptions exceeding bond receipts. In 2025, authorities aim to raise K 15.4 billion in net domestic financing. Over the medium term, average real interest rates are projected to remain at around 1.1 percent for T-bills and 5.5 percent for bonds, with nominal rates expected to decline as inflation returns to target. Consequently, net issuance of domestic debt is anticipated to be slightly negative in the coming years, indicating that the government is containing its domestic financing needs.[9] However, the domestic debt-to-GDP ratio is projected to converge with the median LIC level only by 2032 (Figure 6).

20. Compared to the previous DSA update, the baseline now incorporates the authorities' comprehensive debt restructuring agreements under a weak debt-carrying capacity. As of end-October, restructuring agreements covering [88.2] percent of claims within the restructuring perimeter have been completed.

- **Official Creditors**: Official creditors, represented by the G20 CF OCC, agreed on a debt treatment consistent with the financing assurances provided in June 2022. Embedded in a MoU, all parties signed. 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, 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, Zambia's economic performance and policy making warrants an upgrade to a medium DCC, the upside treatment will be triggered, with 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.

- **Eurobond**: The Eurobond exchange agreement completed on June 11, 2024, similar to the OCC treatment, features an upside scenario activated by a dual trigger linked to Zambia's DCC and/or

[9] Net domestic debt issuance is estimated as public gross financing need minus gross external financing, asset drawdowns, adjustments, and domestic debt amortization, excluding short-term debt issued and matured within the same year.

the 3-year moving average of exports and fiscal revenues in U.S. dollars, relative to IMF staff projections from the second ECF review.[10] The state-contingent clause will be assessed from January 2026 to December 2028. One note includes a state-contingent clause; if triggered, it accelerates payments and increases coupon rates. The upside treatment is anchored in the LIC DSF and meets DSA sustainability targets at medium DCC, as does the OCC treatment. In the base case, where Zambia remains at weak DCC, bondholders will receive two new notes in exchange for Eurobonds, involving a 20-percent nominal haircut and substantial cash debt relief over the program period.

- **Commercial Creditors:** In September 2024, the authorities announced agreements in principle with two of the major commercial creditors—Industrial and Commercial Bank of China and China Development Bank—on terms that are in line with program parameters and CoT principle. Similar to the OCC treatment, the agreement outlines a two-stage approach, including a state-contingent treatment triggered by Zambia's DCC. In the base case, where Zambia remains classified with a weak DCC, creditors will extend claim maturities and lower interest costs in line with the ECF arrangement. The state-contingent clause will be assessed on June 30, 2026. If Zambia's economic performance and policymaking then justify an upgrade to a medium DCC, the upside treatment will be activated, leading to accelerated principal payments and higher interest payments.

- **Other commercial creditors:** Consistent with the IMF's Lending into Arrears policy, the authorities are making good faith efforts to reach a debt restructuring agreement with the residual external commercial creditors, on terms that are in line with program parameters and the CoT principle. The outstanding debt to these residual external creditors is US$1.6 billion, 11.8 percent of pre-restructuring total public debt. The authorities remain committed to deliver a treatment consistent with the DSA parameters and on comparable terms with the OCC. The residual arrears with these creditors can be considered as treated on comparable terms and deemed away for the purpose of the DSA (in line with LIC DSF Guidance Note).

21. Similar to the previous DSA update, the baseline includes the authorities' strategy for clearing arrears, particularly fuel arrears to external suppliers. The authorities announced a liability management operation to achieve net present value gains on these arrears, which totaled US$897 million at end-2023, with only 48 percent as principal and the rest as accrued interest and penalties. The operation will be financed through a dollar-denominated loan from domestic banks, sourced from their assets held abroad. Besides achieving net present value gains, the operation shifts external liabilities to domestic FX liabilities for the government mitigating external debt sustainability risks caused by the drought shock.

22. 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 by the central

[10] IMF Country Report No. 23/439.

government 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.

Text Table 4. Zambia: Projected Borrowing Plan[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 millior	Percent	USD millior	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

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 NRs.
Sources: IMF staff calculations based on authorities' reported data.

23. Downside risks to the outlook. Uncertainties around the outlook for copper prices and production are a key risks. Rainfall variability also remains a key risk to Zambia's sustainable growth, affecting critical sectors such as agriculture, electricity, and mining, and potentially aggravating external vulnerabilities. Rising temperatures and uncertain precipitation patterns, likely driven by human-induced climate change, could increase the risk of drought in Zambia.[11,12] Although the

[11] In a plausible worst-case scenario, hotter and drier climate models aligned with SSP2-4.5/SSP3-7.0 suggest a likely decrease in precipitation and worsening annual variability.
https://climateknowledgeportal.worldbank.org/country/zambia

[12] A World Bank Group Country Climate and Development report is currently in preparation, which would provide more detailed insights into the macro-economic impacts of climate change through long-term climate modeling.

authorities' reform agenda aims to mitigate these risks over time, their materialization would increase debt vulnerabilities.

24. 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.

25. 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.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

26. Zambia's debt-carrying capacity under the Composite Indicator (CI) rating is assessed as weak, unchanged from the previous DSA.[13] The latest CI score of 2.62 ([October 2024]) 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.

27. The DSA includes stress tests that follow standardized settings. 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. Unlike the previous DSA, a standard contingent liabilities shock now replaces the customized shock for the government's exposure to ZCCM-Investment Holdings' debt to Glencore, reflecting the selection of the United Arab Emirates' International Resources Holdings (IRH) as the new strategic investor in Mopani and the transfer and write-down of Glencore's debt to IRH.[14] The other components of the contingency liability shock are kept at their default settings.

[13] The composite indicator is calculated using data from the April 2024 WEO and the 2023 CPIA, the latest available.

[14] For details, see ZCCM-IH-PROPOSED-ENTRY-OF-STRATEGIC-EQUITY-PARTNER-IN-MOPANI-COPPERMINESPLC-02.02.2024.

Text Table 5. Zambia: Composite Indicator and Thresholds

Debt Carrying Capacity and Thresholds

Country	Zambia
Country Code	**754**
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	2.62	2.57

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 %	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	3

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	3.198	1.23	47%
Real growth rate (in percent)	2.719	4.099	0.11	4%
Import coverage of reserves (in percent)	4.052	30.254	1.23	47%
Import coverage of reserves^2 (in percent)	-3.990	9.153	-0.37	-14%
Remittances (in percent)	2.022	0.883	0.02	1%
World economic growth (in percent)	13.520	2.967	0.40	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	

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

28. Three external debt indicators breach their respective thresholds under the baseline, signaling a high risk of external debt distress. The external debt service breaches its respective thresholds relative to exports in 2024 and to revenues in 2024 and 2026 and again in 2031. The present value (PV) of external debt-to-exports is projected to decline below the 84 percent "substantial space to absorb shocks" level by 2027. The debt service-to-revenue ratio is expected to fall under the 14 percent level by 2025, averaging under 14 percent between 2026 and 2031 (Table 1). The PV of PPG external debt-to-GDP indicator remains above its threshold through 2031. The measurement of this indicator is, however, complicated by the fact that the authorities are currently working on the rebasing of GDP series. At the same time, the external debt service-to-exports ratio is expected to remain well below its threshold throughout the whole forecast horizon, averaging 6.5 percent over 2025-31.

29. The thresholds for all four external debt indicators are breached by large margins under stress tests (Figure 1). The standardized exports shock is the most extreme for all external debt indicators, except for 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 298 percent in 2026 and remains well above the threshold throughout the long term. The market financing tool does not signal debt vulnerabilities in Zambia, but its relevance is limited as Zambia has currently no access to international capital markets.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

30. The PV of total PPG debt-to-GDP ratio remains above its benchmark through the medium and long term (Figure 2). While on a declining trajectory, the ratio remains elevated— averaging over 60 percent over 2024-33—before falling below the 35-percent threshold in 2036. The elevated domestic debt vulnerabilities contribute to the breaches of the total PPG debt-to-GDP ratio (Figure 6). The most extreme shock scenario for this indicator is the one on exports, whereas the growth shock would impact the total debt service-to-revenue indicator the most.

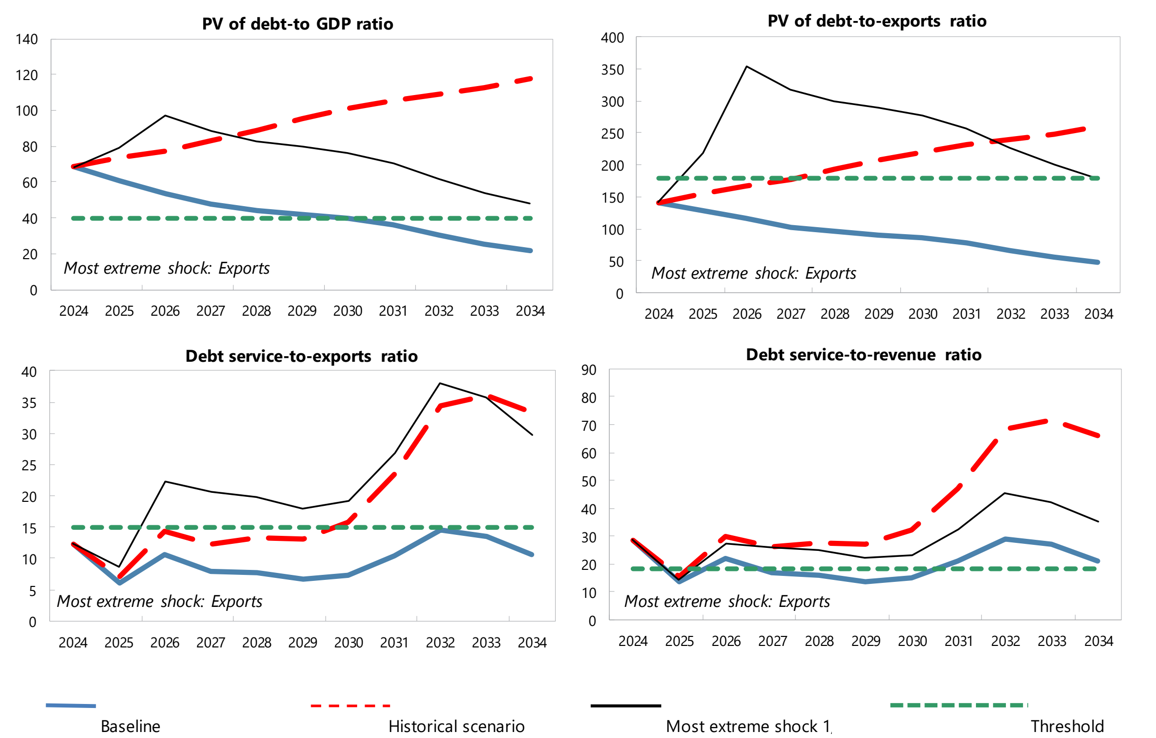
RISK RATING AND VULNERABILITIES

31. Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress. Under the baseline, there are remaining breaches of the overall and some external debt indicator thresholds. Zambia's debt indicators are, however, projected to improve and reach the targets identified in Zambia's 2022 ECF Request as being consistent with achieving a moderate risk of external debt distress in the medium term.

32. The medium-term assessment is supported by the authorities' strong commitment to restore debt sustainability. The government remains dedicated to maintaining a primary surplus over the medium term, including through additional revenue mobilization. Key measures include indexing excise taxes to inflation, refraining from introducing new tax expenditures—except for customs duties on maize imports—and harmonizing corporate income tax rates across sectors by increasing rates for specific industries. Ongoing efforts to strengthen tax policies and enhance tax administration through technological advancements will bolster domestic revenue mobilization. Initiatives to reduce informality will support efforts to broaden the tax base. Furthermore, underscoring the government's strong commitment to fiscal consolidation and debt sustainability, the authorities are advancing debt management and transparency initiatives. These include publishing a quarterly debt bulletin and a medium-term debt management strategy for 2024–26, updating annual borrowing plans, and establishing a Debt Management Office expected to be fully operational by 2025.

33. In an alternative scenario where Zambia's debt-carrying capacity is upgraded to medium, the upside treatment agreed with the OCC and private commercial creditors, with higher debt service, is activated. That treatment was assessed as meeting the corresponding DSA thresholds at medium DCC consistent with the restructuring targets set at program approval – i.e., as discussed in the First Review of the ECF, that the PV of debt to exports would reach 108 percent by 2027 and that external debt service-to-revenues would average 18 percent 2026-2031. Keeping the baseline macro framework unchanged, the evolution of the debt profile under this scenario is illustrated in Text Figure 4 which confirms the steady decline in the PV of external debt-to-exports, which falls below the "substantial space to absorb shocks" threshold of 108 percent by 2027 and that the external debt service-to-revenue ratio stabilizes at an average of about 17.3 percent over 2026-31, below the threshold of 18 percent. This helps offset the significant and prolonged breach of the PV of PPG external debt-to-GDP ratio, which averages around 44.8 percent from 2024 to 2033 and only drops below the 40-percent threshold in 2030. The external debt service-to-exports ratio also remains well within safe limits, averaging 8.5 percent over 2026-31. The temporary breaches beyond 2031 of the external debt service-to-revenues threshold are judged to be distant and are mitigated by the fact that, in the event of an upgrade, the current macro baseline does not account for the likely improvement in economic conditions under this scenario. Overall, while the outlook under these conditions is still uncertain, all external debt burden indicators improve to levels that should be broadly aligned with Zambia reaching a moderate risk of external debt distress over the medium term, even if that might imply the need to use judgement (see Text Figure 4). That assessment will only be confirmed if this state of the world materializes.

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.

34. 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 August 2021.

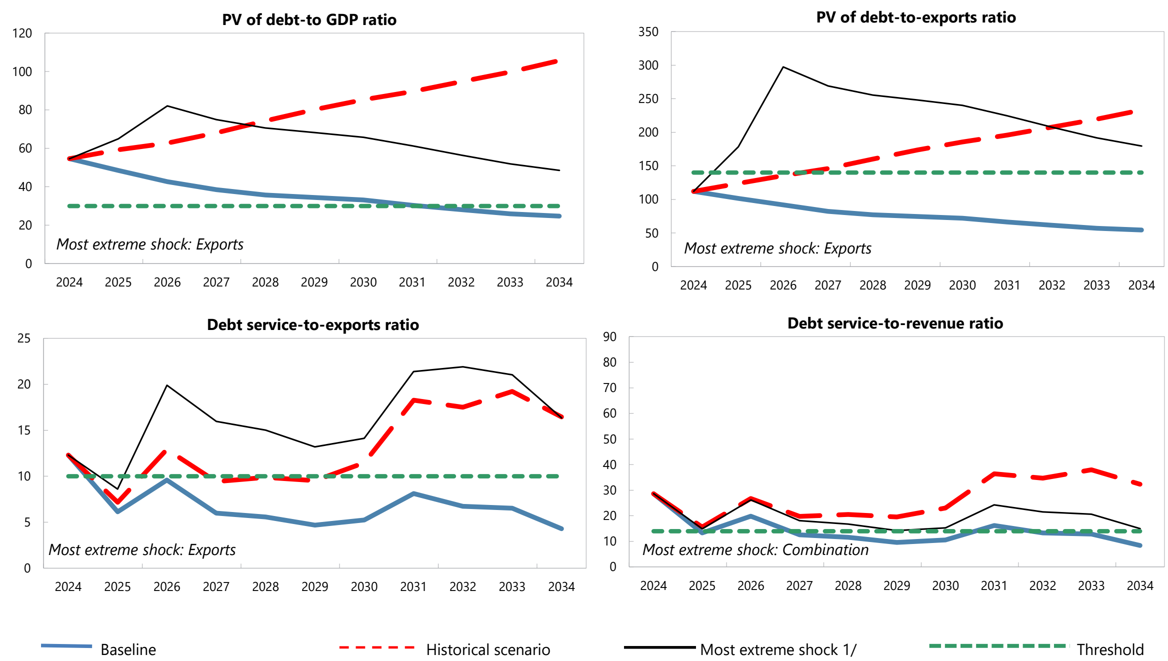
35. Other reforms to support debt sustainability following the debt restructuring are also underway and further mitigate risks. To strengthen the institutional framework, the authorities adopted a new Public Debt Management Act in August 2022.[15] This provides greater oversight on the contracting of 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.

AUTHORITIES' VIEWS

36. The authorities shared staff's assessment of debt sustainability and reaffirmed their commitment to restoring debt sustainability through sustained reforms and completing the external debt restructuring in line with DSA and IMF program parameters. They concur with the need for sustained reforms to restore debt sustainability and are committed to implementing credible steps to achieve this and support economic growth. They noted significant progress in finalizing bilateral agreements with official creditors. The authorities also emphasized their commitment to reaching agreements with other external creditors on comparable terms and consistent with IMF program parameters. The authorities agreed that implementing these agreements would restore debt sustainability.

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

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	No	
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	3.9%	3.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

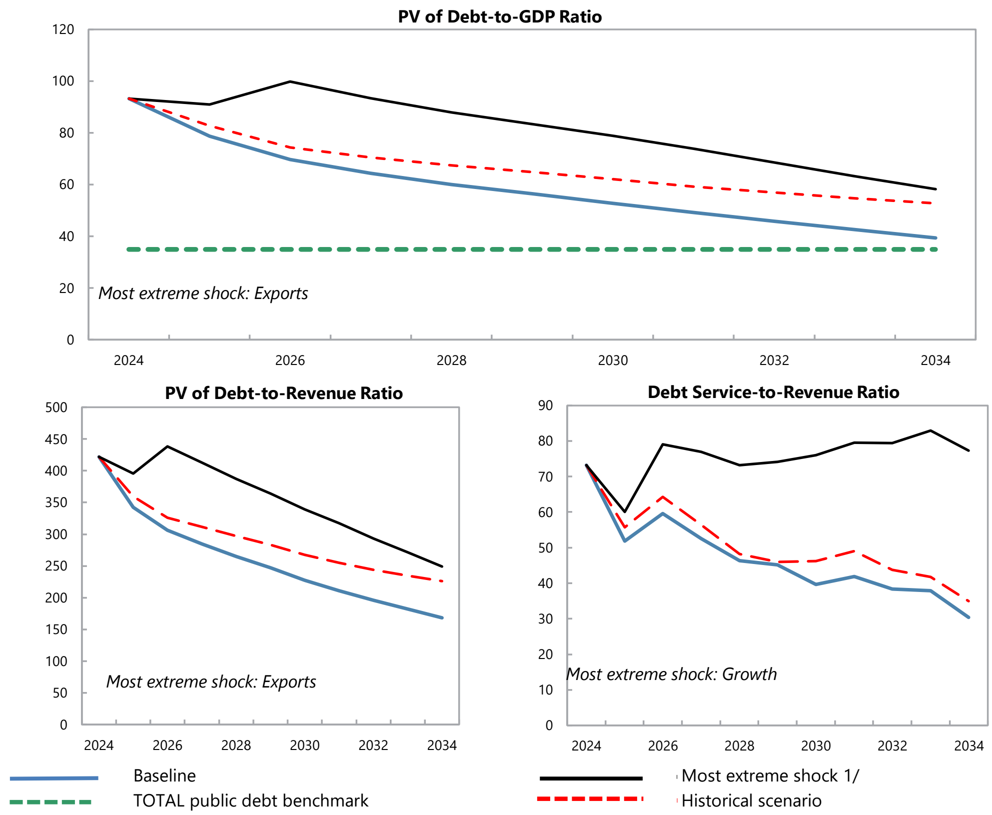
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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	31%	31%
Domestic medium and long-term	31%	31%
Domestic short-term	38%	38%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
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%

*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.

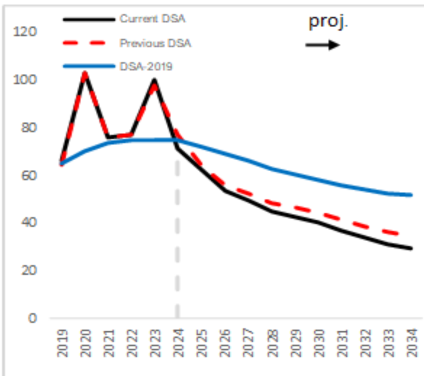
Sources: Country authorities; and staff estimates and projections.

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.

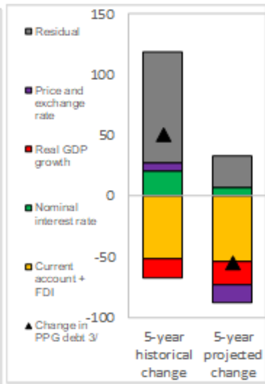
Figure 3. Zambia: Drivers of Debt Dynamics – Baseline Scenario

External Debt

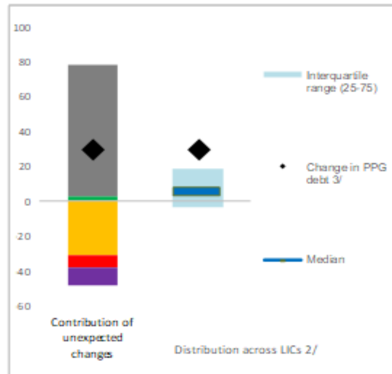
Gross Nominal PPG External Debt
(In Percent of GDP; DSA vintages)



Debt-creating flows
(In Percent of GDP)

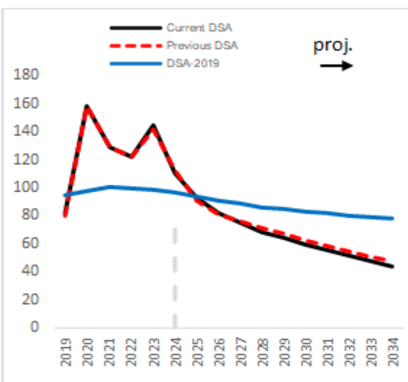


Unexpected Changes in Debt 1/
(In Percent of GDP, past 5 years)

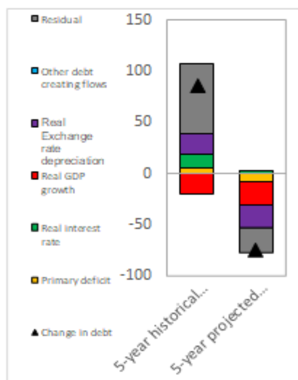


Public Debt

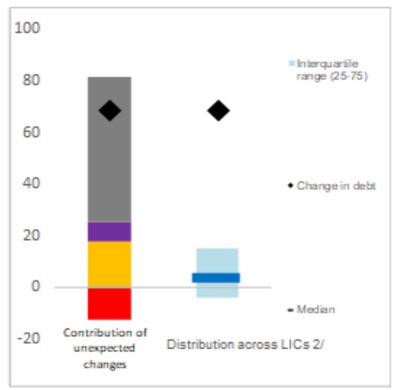
Gross Nominal Public Debt
(In Percent of GDP; DSA vintages)



Debt-creating flows
(In Percent of GDP)



Unexpected Changes in Debt 1/
(In Percent of GDP, past 5 years)



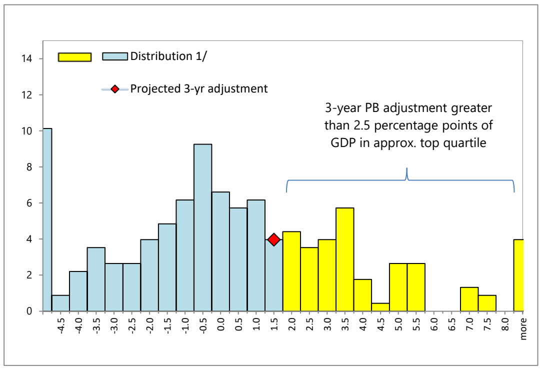
1/ Difference between anticipated and actual contributions on debt ratios.

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.

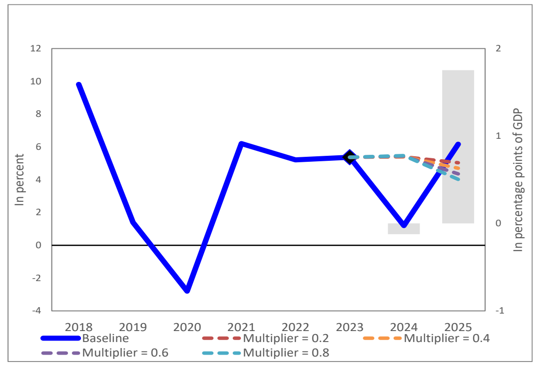
Figure 4. Zambia: Realism Tools

3-Year Adjustment in Primary Balance
(In Percent of GDP)



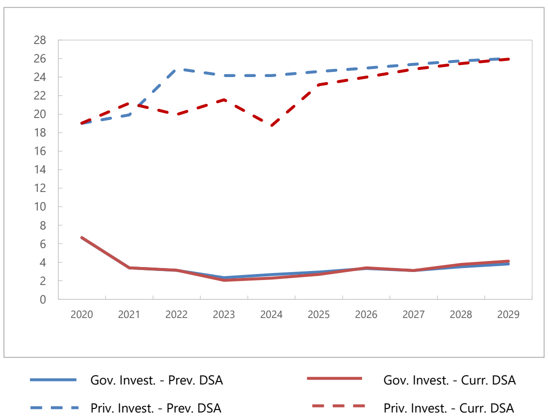
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

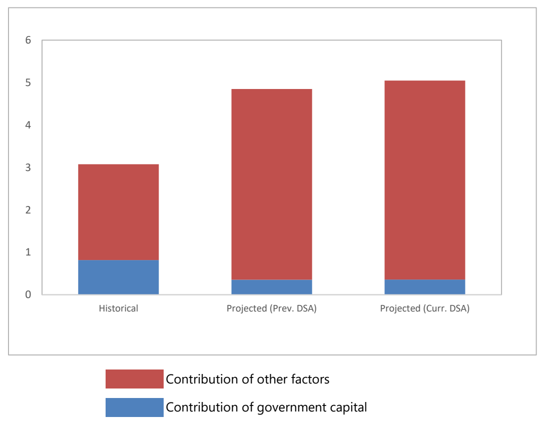


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(In Percent of GDP)



Contribution to Real GDP growth
(In Percent, 5-year average)

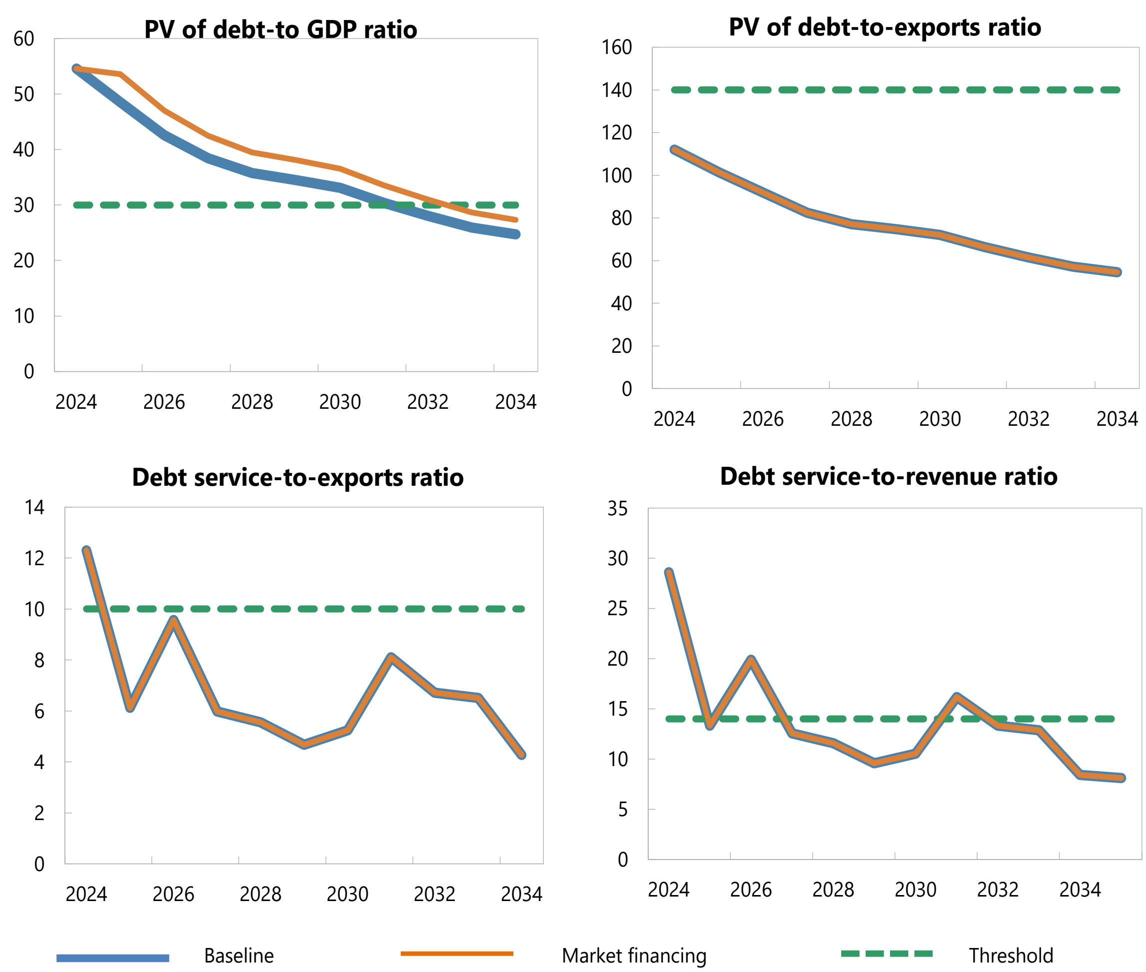


Source: IMF staff estimates

Figure 5. Zambia: Market-Financing Risk Indicators

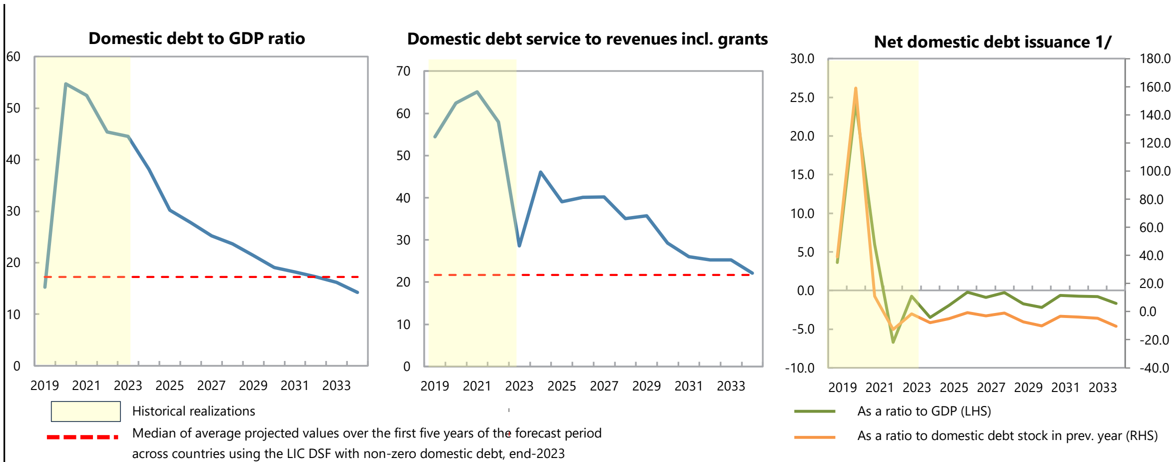
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	12	559
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

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.

Figure 6. Zambia: Indicators of Domestic Public Debt, 2019-2033



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	45%
Short-term	55%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	5.5%
Avg. maturity (incl. grace period)	6
Avg. grace period	5
Domestic short-term debt	
Avg. real interest rate	1.1%

Sources: Country authorities; and staff estimates and projections.

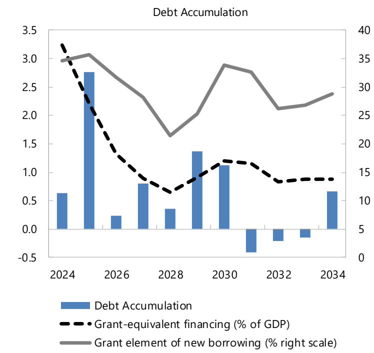
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

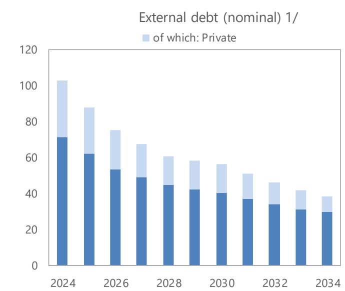
Table 1. Zambia: External Debt Sustainability Framework, Baseline Scenario, 2021–39

(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**	**129.8**	**102.7**	**87.9**	**75.1**	**67.5**	**60.9**	**58.4**	**38.4**	**40.6**	**94.9**	**62.4**
of which: public and publicly guaranteed (PPG)	**75.9**	**76.7**	**99.5**	**71.4**	**62.2**	**53.4**	**49.1**	**44.8**	**42.4**	**29.5**	**19.8**	**60.9**	**45.0**
Change in external debt	-36.5	-7.7	24.1	-27.1	-14.8	-12.9	-7.6	-6.6	-2.5	-3.3	-0.5		
Identified net debt-creating flows	**-42.2**	**-29.9**	**6.5**	**-6.1**	**-14.1**	**-14.4**	**-15.8**	**-15.1**	**-14.2**	**-13.0**	**-11.0**	**-6.6**	**-13.2**
Non-interest current account deficit	**-19.1**	**-8.7**	**-1.3**	**-2.8**	**-6.6**	**-6.3**	**-8.6**	**-8.7**	**-8.2**	**-7.5**	**-6.5**	**-4.6**	**-7.1**
Deficit in balance of goods and services	-18.3	-8.3	-2.2	-5.2	-10.1	-11.0	-13.1	-13.3	-12.7	-12.1	-9.7	**-1.9**	**-11.5**
Exports	53.1	42.7	41.5	48.7	47.8	46.3	46.7	46.4	46.2	45.3	35.9		
Imports	34.8	34.4	39.4	43.5	37.8	35.3	33.5	33.1	33.4	33.2	26.2		
Net current transfers (negative = inflow)	-1.4	-1.0	-0.9	-2.1	-1.9	-1.0	-0.8	-0.9	-0.9	-0.8	-0.7	**-1.1**	**-1.1**
of which: official	0.0	0.0	-0.5	-1.4	-1.3	-0.5	-0.3	-0.4	-0.4	-0.3	-0.3		
Other current account flows (negative = net inflow)	0.5	0.6	1.8	4.5	5.3	5.8	5.4	5.5	5.4	5.4	3.9	**-1.6**	**5.4**
Net FDI (negative = inflow)	**-3.1**	**-0.7**	**0.1**	**-3.7**	**-3.7**	**-4.5**	**-4.3**	**-4.3**	**-4.3**	**-4.3**	**-3.4**	**-3.1**	**-4.2**
Endogenous debt dynamics 2/	**-20.0**	**-20.6**	**7.7**	**0.4**	**-3.7**	**-3.7**	**-2.9**	**-2.0**	**-1.7**	**-1.2**	**-1.0**		
Contribution from nominal interest rate	7.2	4.9	3.4	2.1	1.6	1.4	1.2	1.1	1.0	0.6	0.8		
Contribution from real GDP growth	-7.6	-4.5	-6.0	-1.7	-5.4	-5.1	-4.1	-3.2	-2.7	-1.8	-1.8		
Contribution from price and exchange rate changes	-19.6	-21.0	10.3	...	...	...	...	...	...	...	...		
Residual 3/	**5.7**	**22.2**	**17.6**	**-21.0**	**-0.7**	**1.5**	**8.2**	**8.4**	**11.7**	**9.7**	**10.5**	**17.5**	**4.9**
of which: exceptional financing	-10.1	-8.0	-5.4	-14.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**50.7**	**54.6**	**48.5**	**42.6**	**38.5**	**35.8**	**34.5**	**24.7**	**16.9**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**122.1**	**112.1**	**101.5**	**92.0**	**82.4**	**77.1**	**74.7**	**54.6**	**47.0**		
PPG debt service-to-exports ratio	**25.9**	**28.8**	**19.3**	**12.3**	**6.1**	**9.6**	**6.0**	**5.6**	**4.7**	**4.3**	**6.3**		
PPG debt service-to-revenue ratio	**63.1**	**61.6**	**38.4**	**28.6**	**13.3**	**19.9**	**12.5**	**11.6**	**9.6**	**8.4**	**9.9**		
Gross external financing need (Million of U.S. dollars)	-697.6	1338.4	2613.5	628.4	-1387.3	-1243.9	-2967.9	-3388.4	-4427.1	-4961.5	-8736.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.2	5.2	5.4	1.2	6.2	6.6	6.2	5.1	4.8	4.7	4.8	**3.7**	**4.9**
GDP deflator in US dollar terms (change in percent)	14.7	25.3	-10.1	-7.1	11.3	7.4	6.3	3.3	2.7	2.8	2.9	**-2.5**	**3.4**
Effective interest rate (percent) 4/	5.9	5.7	3.1	1.5	1.9	1.8	1.8	1.8	1.8	1.6	2.1	**3.1**	**1.7**
Growth of exports of G&S (US dollar terms, in percent)	37.0	6.1	-8.0	10.3	16.0	10.8	13.8	7.8	7.2	7.3	0.0	**1.4**	**9.3**
Growth of imports of G&S (US dollar terms, in percent)	-4.3	30.3	8.3	3.9	2.6	6.9	7.4	7.0	8.9	7.2	0.0	**2.9**	**6.7**
Grant element of new public sector borrowing (in percent)	...	...	...	34.6	35.7	31.7	28.2	21.5	25.4	28.8	26.7	**...**	**29.6**
Government revenues (excluding grants, in percent of GDP)	21.8	20.0	20.8	20.9	22.0	22.3	22.3	22.3	22.5	23.0	23.0	**19.4**	**22.5**
Aid flows (in Million of US dollars) 5/	262.5	226.4	373.2	689.0	772.2	709.6	546.4	352.7	614.4	722.7	809.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.2	2.2	1.3	0.9	0.7	0.9	0.9	0.7	**...**	**1.3**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	44.8	49.5	41.7	39.2	41.5	36.5	40.0	41.4	**...**	**41.0**
Nominal GDP (Million of US dollars)	22,096	29,122	27,578	25,940	30,650	35,075	39,597	42,977	46,290	66,713	97,127		
Nominal dollar GDP growth	21.8	31.8	-5.3	-5.9	18.2	14.4	12.9	8.5	7.7	7.6	7.9	**1.4**	**8.5**
Memorandum items:													
PV of external debt 7/	...	...	81.0	86.0	74.3	64.3	56.8	51.9	50.4	33.6	37.7		
In percent of exports	...	...	195.0	176.5	155.2	138.8	121.7	111.8	109.3	74.2	105.0		
Total external debt service-to-exports ratio	35.9	32.6	25.7	18.3	12.2	15.5	11.5	11.1	6.4	9.7	2.7		
PV of PPG external debt (in Million of US dollars)			13983.9	14160.3	14875.9	14945.5	15227.8	15371.0	15962.1	16499.2	16413.9		
(PVt-PVt-1)/GDPt-1 (in percent)				0.6	2.8	0.2	0.8	0.4	1.4	0.7	-0.4		
Non-interest current account deficit that stabilizes debt ratio	17.4	-1.0	-25.4	24.3	8.2	6.6	-1.0	-2.1	-5.7	-4.2	-6.0		

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.

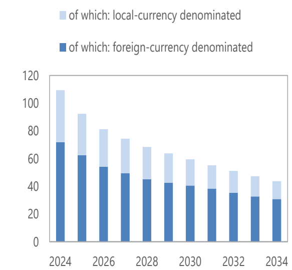
Table 2. Zambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–39

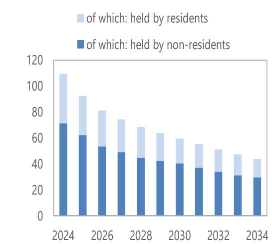
(In Percent of GDP, unless otherwise indicated)

	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	144.1	109.5	92.4	81.2	74.3	68.5	63.8	43.7	29.4	**86.1**	**67.9**
of which: external debt	75.9	76.7	99.5	71.4	62.2	53.4	49.1	44.8	42.4	29.5	19.8	**60.9**	**45.0**
Change in public sector debt	-29.2	-6.4	22.0	-34.6	-17.1	-11.2	-6.9	-5.9	-4.6	-3.7	-2.3		
Identified debt-creating flows	-42.7	0.6	19.5	-18.2	-14.2	-9.2	-5.0	-4.3	-3.5	-3.3	-2.3	**3.4**	**-6.4**
Primary deficit (cash basis)	3.6	1.6	-0.6	-0.5	-2.2	-2.1	-1.9	-1.8	-1.7	-1.6	-1.0	**1.1**	**-1.6**
Revenue and grants	22.4	20.4	21.9	22.1	22.6	22.4	22.3	22.4	22.6	23.2	23.2	**19.8**	**22.7**
of which: grants	0.6	0.4	1.1	1.1	1.0	0.5	0.3	0.4	0.4	0.3	0.3		
Primary (noninterest) expenditure	24.4	22.0	21.3	21.6	20.7	20.6	20.7	20.9	21.2	21.8	22.3	**20.8**	**21.4**
Automatic debt dynamics	-46.3	-1.0	20.1	-17.7	-12.0	-7.0	-3.1	-2.5	-1.9	-1.7	-1.3		
Contribution from interest rate/growth differential	-11.5	-3.6	-3.1	-5.9	-5.7	-3.3	-2.8	-1.9	-1.6	-1.5	-1.1		
of which: contribution from average real interest rate	-2.3	2.7	3.1	-4.2	0.6	2.5	1.9	1.7	1.6	0.6	0.3		
of which: contribution from real GDP growth	-9.2	-6.4	-6.2	-1.7	-6.4	-5.7	-4.7	-3.6	-3.2	-2.1	-1.5		
Contribution from real exchange rate depreciation	-34.7	2.6	23.2	...	...	...	...	...	...	...	...		
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	-28.3	-9.1	-5.8	-2.2	-2.2	-1.3	-0.6	-0.2	**9.0**	**-4.9**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	109.1	93.1	78.6	69.7	64.4	60.1	56.5	39.4	26.8		
PV of public debt-to-revenue and grants ratio	...	...	497.9	422.0	342.2	306.0	284.6	264.7	246.8	168.5	114.9		
Debt service-to-revenue and grants ratio 3/	126.6	118.4	65.1	73.2	51.9	59.5	52.5	46.4	45.1	30.4	24.8		
Gross financing need 4/	30.4	25.7	13.7	8.1	10.0	11.6	10.1	8.9	8.7	5.5	4.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.2	5.2	5.4	1.2	6.2	6.6	6.2	5.1	4.8	4.7	4.8	**3.7**	**4.9**
Average nominal interest rate on external debt (in percent)	5.2	6.4	4.2	2.5	2.7	2.6	2.4	2.5	2.5	2.2	2.5	**5.0**	**2.5**
Average real interest rate on domestic debt (in percent)	-10.7	0.1	3.6	-8.8	0.5	7.7	6.8	6.2	6.2	4.3	2.8	**8.2**	**4.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	-36.4	4.1	35.8	...	...	...	...	...	...	...	...	**11.0**	**...**
Inflation rate (GDP deflator, in percent)	25.2	6.1	7.1	19.1	9.8	5.2	6.4	7.0	6.4	6.4	6.6	**10.1**	**7.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	25.4	-5.3	2.1	2.5	2.0	6.0	6.6	6.2	6.2	4.0	5.0	**6.2**	**5.1**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	32.8	7.9	-22.6	34.1	14.8	9.1	5.0	4.1	2.9	2.1	1.3	**-11.3**	**7.5**
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	**55**	**49**	**43**	**38**	**36**	**34**	**33**	**30**	28	26	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**55**	**59**	**63**	**68**	**74**	**80**	**85**	**90**	**95**	**100**	**106**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**55**	**49**	**44**	**40**	**37**	**36**	**35**	**33**	**31**	29	27
B. Bound Tests											
B1. Real GDP growth	**55**	**53**	**52**	**47**	**44**	**42**	**40**	**37**	**34**	**32**	**30**
B2. Primary balance	**55**	**52**	**49**	**45**	**42**	**41**	**40**	**37**	**35**	**33**	**32**
B3. Exports	**55**	**65**	**82**	**75**	**71**	**68**	**66**	**61**	**56**	**52**	**49**
B4. Other flows 3/	**55**	**53**	**51**	**46**	**43**	**42**	**40**	**37**	**34**	**32**	30
B5. Depreciation	**55**	**57**	**51**	**46**	**43**	**41**	**40**	**36**	**34**	**31**	30
B6. Combination of B1-B5	**55**	**67**	**69**	**62**	**58**	**56**	**54**	**50**	**46**	**42**	**40**
C. Tailored Tests											
C1. Combined contingent liabilities	**55**	**53**	**47**	**43**	**41**	**39**	**38**	**36**	**34**	**32**	**31**
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	**55**	**53**	**52**	**48**	**46**	**46**	**45**	**43**	**40**	**38**	**37**
C4. Market Financing	**55**										
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	112	101	92	82	77.1	74.7	72.0	66	61.57	57	55
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	112	124	135	**146**	**160**	**174**	**186**	**196**	**208**	**220**	**233**
A2. Alternative Scenario : Contingent Liabilities + FX debt	112	103	94	85	80	78	76	71	67	63	61
B. Bound Tests											
B1. Real GDP growth	112	101	92	82	77	75	72	66	62	57	55
B2. Primary balance	112	108	105	96	91	88	86	81	77	73	70
B3. Exports	112	**178**	**297**	**269**	**255**	**248**	**240**	**225**	**208**	**192**	**180**
B4. Other flows 3/	112	111	111	99	94	91	88	81	75	70	66
B5. Depreciation	112	97	89	80	75	72	70	64	60	55	53
B6. Combination of B1-B5	112	**157**	123	**168**	**158**	**154**	**149**	138	127	118	111
C. Tailored Tests											
C1. Combined contingent liabilities	112	110	102	93	87	85	83	79	75	71	68
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	112	121	120	109	104	102	100	94	89	85	83
C4. Market Financing	112										
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**12**	6	10	6	6	5	5	8	7	7	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**12**	7	**13**	9	10	10	**11**	**18**	**18**	**19**	**16**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**12**	6	10	6	6	5	5	8	7	7	5
B. Bound Tests											
B1. Real GDP growth	**12**	6	10	6	6	5	5	8	7	7	4
B2. Primary balance	**12**	6	10	7	6	5	6	9	8	8	5
B3. Exports	**12**	9	**20**	**16**	**15**	**13**	**14**	**21**	**22**	**21**	**16**
B4. Other flows 3/	**12**	6	10	7	6	5	6	9	8	8	6
B5. Depreciation	**12**	6	9	6	5	5	5	8	7	6	4
B6. Combination of B1-B5	**12**	8	**16**	**11**	**10**	9	10	**15**	**14**	**13**	10
C. Tailored Tests											
C1. Combined contingent liabilities	**12**	6	10	6	6	5	6	9	7	7	5
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	**12**	7	**11**	7	7	6	6	**10**	9	9	6
C4. Market Financing											
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**28.6**	13.3	**19.9**	12.5	11.6	9.6	10.5	**16.2**	13.3	12.9	8.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**29**	**16**	**27**	**20**	**21**	**20**	**23**	**36**	**35**	**38**	**32**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**29**	13	**20**	13	12	10	11	**17**	14	14	9
B. Bound Tests											
B1. Real GDP growth	**29**	**15**	**24**	**15**	**14**	12	13	**20**	**16**	**16**	10
B2. Primary balance	**29**	14	**21**	14	13	11	12	**18**	**16**	**15**	11
B3. Exports	**29**	**14**	**25**	**20**	**19**	**16**	**17**	**25**	**26**	**25**	**19**
B4. Other flows 3/	**29**	13	**21**	**14**	13	11	12	**18**	**16**	**15**	11
B5. Depreciation	**29**	**16**	**24**	**15**	**14**	12	13	**19**	**16**	**15**	10
B6. Combination of B1-B5	**29**	**15**	**26**	**18**	**17**	**14**	**15**	**24**	**21**	**21**	**15**
C. Tailored Tests											
C1. Combined contingent liabilities	**29**	14	**21**	13	12	10	11	**17**	**14**	14	9
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	**29**	**15**	**23**	**16**	**15**	12	13	**20**	**18**	**17**	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	**93**	**79**	**70**	**64**	**60**	**57**	**53**	**49**	**46**	**43**	**39**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**93**	**83**	**74**	**70**	**67**	**65**	**62**	**59**	**57**	**55**	**53**
B. Bound Tests											
B1. Real GDP growth	**93**	**88**	**91**	**89**	**88**	**88**	**88**	**88**	**89**	**90**	**91**
B2. Primary balance	**93**	**83**	**78**	**73**	**68**	**64**	**61**	**57**	**54**	**51**	**48**
B3. Exports	**93**	**91**	**100**	**93**	**88**	**83**	**79**	**74**	**68**	**63**	**58**
B4. Other flows 3/	**93**	**83**	**78**	**72**	**68**	**64**	**60**	**56**	**52**	**48**	**45**
B5. Depreciation	**93**	**91**	**79**	**71**	**66**	**61**	**56**	**50**	**46**	**42**	**38**
B6. Combination of B1-B5	**93**	**82**	**79**	**75**	**72**	**69**	**67**	**64**	**62**	**60**	**59**
C. Tailored Tests											
C1. Combined contingent liabilities	**93**	**86**	**76**	**70**	**66**	**62**	**58**	**55**	**52**	**49**	**46**
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	**93**	**83**	**77**	**76**	**76**	**77**	**78**	**79**	**80**	**81**	**82**
C4. Market Financing	**93**										
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
						PV of Debt-to-Revenue Ratio					
Baseline	422	342	306	285	265	247	227	211	196	182	168
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	422	360	326	312	297	283	268	255	244	235	226
B. Bound Tests											
B1. Real GDP growth	422	382	397	390	385	383	379	379	381	384	386
B2. Primary balance	422	359	344	321	300	282	262	246	231	218	204
B3. Exports	422	396	438	412	387	364	339	317	293	271	249
B4. Other flows 3/	422	362	343	320	299	280	259	240	223	207	191
B5. Depreciation	422	399	346	317	290	266	239	217	197	179	161
B6. Combination of B1-B5	422	356	347	330	315	302	287	276	267	259	250
C. Tailored Tests											
C1. Combined contingent liabilities	422	374	333	310	289	271	252	236	222	208	195
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	422	386	363	362	355	350	342	338	342	347	351
C4. Market Financing	422										
						Debt Service-to-Revenue Ratio					
Baseline	73	52	60	53	46	45	40	42	38	38	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	73	56	64	56	48	46	46	49	44	42	35
B. Bound Tests											
B1. Real GDP growth	73	60	79	77	73	74	76	80	79	83	77
B2. Primary balance	73	55	70	67	56	52	51	54	52	49	40
B3. Exports	73	52	62	58	51	50	44	48	48	47	39
B4. Other flows 3/	73	52	60	54	48	46	41	44	41	40	33
B5. Depreciation	73	54	63	55	49	46	46	47	42	41	32
B6. Combination of B1-B5	73	55	66	60	57	57	57	57	53	54	47
C. Tailored Tests											
C1. Combined contingent liabilities	73	55	76	61	53	50	49	54	48	45	37
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	73	60	66	63	65	66	67	67	67	73	70
C4. Market Financing											

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.

Statement by Mr. Adriano Isaias Ubisse and
Ms. Linda Motsumi on Zambia
December 16, 2024

Introduction

1. Our Zambian authorities appreciate the constructive engagement with Fund staff and authorities broadly concur with the staff analysis and the assessment of key policy priorities.

2. The Zambia authorities managed to place the economy on a positive growth trajectory, with growth, averaging 4.5 percent between 2021 and 2024. However, the economy was hit by the severe drought caused by El Niño weather conditions in the 2023/2024 rainy season, affecting agriculture, water, and energy sectors throughout 2024. The effects of the drought were harder than anticipated; with severe impact on the livelihoods of citizens; threats to food security; reduced water levels; and lower electricity generation. The drought-response efforts put in place during the course of the year, including the 30 percent augmentation of the access under the IMF Extended Credit Facility (ECF) approved in June 2024, have provided fiscal space for meaningful assistance to affected citizens and sectors. To this end, the authorities scaled up the social protection program, including the scale of coverage. The authorities are steadfastly implementing recovery and resilience interventions to mitigate the impact of climate change and place the economy on a sustainable growth path.

3. The authorities remain strongly committed to transforming the economy through the reform agenda underpinned by the ECF arrangement. They continue to make strides towards achieving the objectives of the home-grown reform agenda targeted at restoring macroeconomic stability, attaining debt sustainability, enhancing human development, and improving the good governance environment, as contained in the Eighth National Development Plan (2021-2026). They have made significant progress in implementing the debt treatment plan in line with the program parameters and comparability of

treatment as defined by the Official Creditors Committee (OCC). The authorities are making good progress towards reaching bilateral agreements with the OCC and other creditors. They have also successfully restructured and launched the exchange of the Eurobonds. To this end, the servicing of some of the external debt which was defaulted on, in 2020, has commenced to restore the country's credibility in the international markets.

Program Performance

4. The performance of the program remains satisfactory with all end-June 2024 quantitative performance criteria (QPCs) and all end-June and end-September indicative targets (ITs) met, except for the end-June IT on expenditure arrears clearance, and the end-September IT on social spending, which were missed by narrow margins. Out of 15 structural benchmarks (SBs), 10 were achieved, with two completed with minor delays. The June Farmer Input Support Program (FISP) contracts were published with delays, but the July and August contracts were timely published. The statutory instrument to define elements of the fuel price formula and institutionalize the review process was approved by Cabinet in November 2024. The revised Tazama pipeline open-access tender guidelines to guarantee transparency will be published by end-2024. The publications of Tazama open access tender results and the information on procurement of contracts related to maize imports were not met because the procurement process did not take place due to the emergency situation.

Recent Economic Developments and Outlook

5. Real GDP growth slowed from 5.4 percent in 2023 to 1.9 percent in the first half of 2024, reflecting a contraction in agriculture and electricity sectors, which were fully offset by growth in information and communication, and financial sectors. Growth is projected to decelerate to 1.2 percent in 2024 owing to the worse-than-anticipated impact of drought and its ripple effects across economic activities. Looking forward, growth is projected to rebound to 6.2 percent both in 2025 and 2026, supported by an expansion in mining production and recovery in the agricultural sector. The medium-term outlook is subject to downside risks from commodity price volatility, a slowdown in global growth, high food and energy prices amid regional conflict and trade disputes, and climate shocks.

6. Inflationary pressures have persisted, with average inflation rising from 14.6 percent in the second quarter of 2024 to 15.5 percent in the third quarter. In October, inflation rose to 15.7 percent, driven by higher food and energy prices; and the depreciation of the Kwacha. Inflation is projected to rise to 16.4 percent by end-2024 before moderating to 9.0 percent in 2025. The current account is expected to switch from a deficit of 1.8

percent of GDP in 2023 to a surplus of 0.7 percent in 2024, on account of higher net exports and secondary income. The gross international reserves position, measured by months of import cover, increased from 3.4 months in 2023 to 4.3 months in October 2024, and is projected at 5.0 months in 2025.

Fiscal Policy and Debt Management

7. Notwithstanding constrained domestic financing, the authorities remain firmly committed to a multi-year fiscal consolidation path to put debt on a sustainable path while upscaling social spending to support the most vulnerable and securing investment expenditure. Despite challenges, a primary surplus, instead of the envisaged deficit, was achieved as at end-June 2024, raising similar prospects for end-2024 outcomes.

8. To raise financing for development spending, while creating space for building buffers, the authorities have placed high emphasis on strengthening tax policies and leveraging on technology to enhance tax administration and improve tax compliance. To this end, the authorities adopted additional measures to mobilize revenue in the 2025 Budget, including harmonization of CIT rates, raising property tax transfers, excise indexations, increasing customs duties and international trade taxes, among others. To enable the implementation of these measures in the 2025 National Budget, Cabinet approved, for publication and introduction in Parliament, the following legislative matters in October 2024, (i) The Income Tax (Amendment) Bill, 2024; (ii) The Value Added Tax (Amendment) Bill, 2024; (iii) The Customs and Excise (Amendment) Bill, 2024; (iv) The Mobile Money Transaction Levy Bill, 2024; (v) The Zambia Revenue Authority (Amendment) Bill, 2024; and (vi) The Property Transfer Tax (Amendment) Bill, 2024. Regarding compliance, the Zambia Revenue Authority (ZRA) has implemented compliance initiatives obligating all VAT registered taxpayers to migrate to Smart Invoicing System (SIS) by July 2024, with the objective to limit input VAT deductions to transactions with SIS-issued invoices in 2025. The measure was underpinned by the October 2024 Cabinet approval of The Insurance Premium Levy (Amendment) Bill, 2024. The ZRA established a corporate compliance risk management team to monitor tax compliance, and a dedicated unit is envisaged to become operational by mid-2025. The project on customs electronic data exchanges with neighbouring countries is on track. As of September 2024, the pace of VAT refunds increased, and to enhance the pace, risk-based audits will be conducted.

9. The authorities will continue to calibrate spending towards programs and projects that have a positive impact on growth and the citizens of Zambia. To allow this, primary spending has been reduced through delaying new hirings, reducing intergovernmental transfers, and preventing an increase in the stock of fuel arrears and VAT refunds. That

said, the social protection programs have been scaled up with improved targeting and selection mechanisms. To complement the social support efforts amid the current challenging economic environment, the adjustment on the price of domestically mobilized maize to reflect cost recovery has not been fully effected.

10. The authorities acknowledge that implementing public finance management (PFM) reforms is critical in improving spending efficiency. To control spending and commitment, all 61 Ministries, Provinces and Agencies are using the Integrated Financial Management Information System (IFMIS). Over the course of 2024, the authorities extended its use to 10 provincial offices of the Ministry of Education, and to the education board of 10 districts. In July 2024, IFMIS has been rolled out to the provincial offices of the Auditor General, that have also been linked to the Treasury Single Account. Significant progress has been made in extending IFMIS to the regional offices of the Ministry of Agriculture and the Ministry of Livestock and Fisheries. The authorities have stepped-up efforts to strengthen the public investment management and the public-private partnership (PPPs) frameworks. To this end, they have published the 2024-2026 public investment strategy, while the public investment plan is envisaged to be published once Parliament approves. The authorities have made progress in improving cash management, including through mobilizing idle balances to the Treasury's Single Account and the establishment of the cash management unit and committee. To improve the transparency of State-Owned-Enterprise (SOEs), the Industrial Development Corporation (IDC) published the audited financial statements of 2019-2021 in October 2024. The performance contracts with SOEs will also be signed by end-January 2025 to enhance their performance. These measures are underpinned by the SOE policy adopted by Cabinet, in October 2024. The fiscal risk management framework was developed and has been expanded to include risks stemming from SOEs, local authorities, public pension schemes, and PPPs.

11. The authorities are advancing in restoring debt sustainability and moving towards "moderate" risk of debt distress. To ensure this, the authorities will continue to limit external debt contracts to highly concessional loans, confine borrowing to finance projects in priority sectors, leverage alternative financing mechanisms to reduce the strain on the Treasury, and streamline expenditure by realigning the allocation of public resources to areas where government is the primary provider of goods and services. The new Debt Management Office will be fully operational by the end of 2024. In June 2024, the authorities revised the strategy to dismantle domestic arrears accumulated between end-2021 and end-March 2024, and the repayment of some high-cost fuel arrears has resumed.

12. Significant progress has been made in restructuring external debt. Following the signing of a Memorandum of Understanding (MoU) in October 2023, the authorities signed the first bilateral agreement on December 8, 2024, with an official creditor. The Eurobonds were successfully restructured and issued in June 2024, and the debt servicing on these bonds has commenced, with the first payment made still in June. The authorities have also concluded negotiations, in line with the program parameters and comparability of treatment (CoT), with Paramount, Huawei Technologies and ZTE Corporation and have since executed the agreements and commenced debt service on these facilities. Further, Agreements in Principle (AIPs) have been reached with the Industrial and Commercial Bank of China, and the China Development Bank. The authorities are confident these developments would positively influence Zambia's credit rating, further improve investor confidence, and increase fiscal space for developmental projects and social spending.

Monetary and Exchange rate Policies

13. The Bank of Zambia (BoZ) remains committed to price stability with the aim of steering inflation back towards the target band and anchoring inflation expectations. Given the recent high inflation outcomes and the projected inflation, the Monetary Policy Committee decided to increase the policy rate by 50 basis points to 14.0 percent in November 2024. The decision considered complementary liquidity management measures that were under consideration, the foreign exchange market reforms underway, the fragility of the economy in the wake of the severe impact of the recent drought; and stability of the financial system. That said, the BoZ will continue to rely on a forward-looking monetary policy framework to guide monetary policy stance and stands ready to use all instruments at its disposal to fight inflation.

14. The BoZ continues to be committed to maintaining the flexible exchange rate policy consistent with its objective of building international reserves. Consultations with stakeholders to remove multiple currency practices by October 2025 are ongoing. Efforts to modernize the monetary policy framework are ongoing, including through continuous assessment of the opportunity to move from daily reserve compliance requirement to reserve averaging, the finalization of the adoption of the International Swaps and Deliverable Association (ISDA) documentation by banks before the end of 2024[1], and recalibrating parameters for the Quarterly Projection Model (QPM) to enhance forecasting and policy analysis.

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[1] Eight banks have fully signed up, five are in the process of completing the signup and one has not expressed interest.

Financial Sector Policies

15. The BoZ is committed to preserving the stability of the financial sector while mitigating the impact of the drought including the resultant electricity shortage. The banks' capital buffers remain high, reinforcing the resilience of the financial system and ability to absorb shocks, including unexpected losses. The above notwithstanding, the financial sector remain vulnerable to the electricity supply deficit, low financial intermediation, sovereign-bank nexus, concentration of banks' loans and deposits, dollarization of loans, as well as maturity mismatches. The BoZ will continue to monitor the developments, conduct stress testing, and stand to act to preserve financial stability. To this end, the BoZ established the Stability and Resilience Facility (SRF) to provide affordable credit targeted at businesses in the agricultural sector and those affected by the current electricity shortages to enhance food production and improve electricity generation.

    To further strengthen prudential regulation and supervision, the BoZ issued a regulation on countercyclical capital and conversation buffers in December 2024, while the regulation on liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) is expected by end-March 2025. Regarding efforts to improve cyber risk management, the BoZ conducted two on-site examinations as of end-September 2024 with an additional two examinations to be concluded by end- December 2024.

16. The BoZ is reviewing the Banking and Financial Services Act (BFSA) with a focus on ownership changes, auditing, prudential requirements, and consolidated supervision, among other areas. The BoZ is drafting a legal framework for deposit insurance with the aim of adopting it, consistent with the Core Principles for Effective Deposit Insurance Systems and Basel Supervision Principles by end-April 2025. To promote financial inclusion and support micro, small and medium enterprises, the authorities have, in the 2025 Budget, proposed higher allocation to the Zambia Credit Guarantee Scheme, while the BoZ has completed the design of the Small Business Growth Initiative (SBGI) to be launched by end-2024. The authorities plan to undertake a FinScope Survey to assess the progress on financial inclusion targets under the National Financial Inclusion Strategy 2024-28 in 2025.

Structural and Governance Reforms

17. The authorities place high value on promoting growth in selective industries. In agriculture, the expansion of e-vouchers and the implementation of the Comprehensive Agricultural Transformation Program (CATSP) to mitigate the impact of drought is ongoing. In addition, the National Crop Diversification Strategy was launched in September 2024 to support agro-business and food security. To enhance the regulatory

oversight in mining, the Bill to operationalize the Minerals Regulation Commission presented to Parliament was deferred to 2025, subject to further consultation.

18. The authorities are committed to implementing open access to the Tazama pipeline by April 2025. The new guidelines for Tazama's open access to improve cost efficiency and transparency are expected to be approved by end-2024. The authorities are committed to enhancing transparency in the pricing of domestic fuel through monthly publication of retail and wholesale pricing structures. To this end, a rule-based framework for fuel prices was approved in November 2024.

19. The Climate Bill to tackle climate-induced challenges, including through establishing the Climate Change Fund, was approved by Cabinet in October 2024, and has been submitted to Parliament. The Climate Public Investment Management Assessment (C-PIMA) and a Country Climate and Development Report (CCDR) are expected to be finalized by mid-2025.

20. The governance and transparency reforms continue to remain essential to improving the business climate. To this end, the Statutory Instrument to enact Access to Information (ATI) Act was issued in June 2024. The revision of the Anti-Corruption Act to clarify the mandate of anti-corruption institutions and to strengthen the autonomy of the Anti-Corruption Commission is on track for submission to Parliament by end-March 2025. The Public Audit Act of 2016 and the State Audit Commission Act of 2016 will be enacted in January-2025 to enhance oversight of the Auditor General's office.

Conclusion

21. The authorities reiterate their strong commitment to prudent macroeconomic policies and transformation reforms under the ECF arrangement to sustain economic stability and boost medium-term growth. They remain pleased with the constructive deliberations with the IMF staff team and the progress made to overcome the challenges facing the economy of Zambia. **In view of the authorities' satisfactory program performance, their commitment to reforms and to the program objectives, we would appreciate Executive Directors' favorable conclusion of the fourth review under the Extended Credit Facility.**