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Zambia: First and Second Reviews of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Augmentation of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director of Zambia

In the context of the first and second reviews of the three-year arrangement under the Poverty Reduction and Growth Facility, request for waivers of nonobservance of performance criteria, and augmentation of access for Zambia, the following documents have been released and are included in this package:

- The staff report for the First and Second Reviews of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Augmentation of Access prepared by a staff team of the IMF, following discussions that ended on March 4, 2009, with the officials of Zambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 14, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its May 1, 2009, discussion of the staff report that completed the review.

- A statement by the Executive Director for Zambia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Zambia*
Memorandum of Economic and Financial Policies by the authorities of Zambia*
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

ZAMBIA

First and Second Reviews of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Augmentation of Access

Prepared by the African Department
(In consultation with other departments)

Approved by Thomas Krueger and David Marston

April 14, 2009

Fund Relations. The Executive Board approved on June 4, 2008 the three-year PRGF arrangement in the amount of SDR 48.9 million (10 percent of quota).

Staff Team. Mr. Caramazza (head), Mr. Akatu, Mr. Mikkelsen, Ms. Randall (all AFR), Mr. Ding (FAD) and Mr. Palmason (SPR). The team was assisted by Mr. Arnason (resident representative).

Mission Dates. Discussions on the first review of the PRGF arrangement were initiated in September 2008 and completed during the mission of February 18–March 4, 2009.

Interlocutors. Dr. Situmbeko Musokotwane, Minister of Finance and National Planning; Dr. Caleb Fundanga, Governor of the Bank of Zambia; other senior officials; and representatives of civil society, donors, labor unions, and the business community.

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EXECUTIVE SUMMARY

Since the current arrangement was approved in June 2008, there have been several developments that profoundly affected Zambia's economic conditions. The surge in food and fuel prices in the first half of the year pushed inflation above the target. The transition in leadership—caused by the passing away of the President and subsequent elections—from early July to mid-November delayed policy decisions and consequently the completion of the first program review. Finally, the global financial crisis is significantly affecting Zambia through a precipitous fall in copper prices, which is compressing export proceeds and government revenue, and reducing capital inflows.

The program was broadly on track during the first half of 2008, but slippages occurred towards the end of the year mainly because of the mentioned shocks. The quantitative targets for net domestic assets, gross international reserves, and reserve money were not met for December 2008, but all structural performance criteria were observed.

Real GDP is projected to slow to 4 percent in 2009, from 6 percent in 2008. The risks may still be on the downside, however, and the strength of the recovery in 2010-11 will depend on how severely the mining sector will be affected by the decline in global demand. The program aims at reducing inflation to 10 percent in 2009 and single digits thereafter.

Fiscal policy in 2009 and the medium term will aim to safeguard macroeconomic stability, while prioritizing spending on infrastructure to encourage diversification of the economy. With the steep decline in copper exports, the anticipated improvement in public finances and increased fiscal space earlier envisaged will not materialize. The budget deficit is projected to widen somewhat in 2009, to allow for some increase in capital expenditures. Since the deterioration in the terms of trade is expected to be long lasting, and in the absence of an increase in external financing, Zambia has little choice but to adjust to the shock by scaling back previous spending plans.

The balance of payments position has weakened significantly with the decline in mining exports and foreign direct investment. These developments and uncertainty about the outlook have at times put considerable pressure on the exchange rate. In response, the Bank of Zambia has intervened to maintain orderly market conditions. The authorities however remain committed to maintaining a floating exchange rate. To maintain foreign exchange reserves in 2009, the authorities are requesting an augmentation of access under the PRGF arrangement equivalent to 35 percent of quota, bringing total access to 45 percent of quota.

The structural reform program will complement the medium-term macroeconomic framework. The program will focus on improving public financial management, strengthening monetary policy operations and deepening financial markets, and ensuring a reliable supply of electricity.

I. Background and Program Performance

1. Since the current PRGF arrangement was approved in June 2008, there have been a number of developments that have profoundly affected Zambia's economic conditions and prospects and program objectives:

- **Food and fuel price shocks.** The surge in global food and fuel prices in the first half of 2008, which in the case of food prices was subsequently exacerbated by a poor domestic harvest, put the inflation target of 7 percent for end-2008 well beyond reach. It also implied a greater-than-programmed monetary expansion to accommodate the first-round impact of the price shocks.

- **Political transition.** A leadership transition between early July and mid-November—following the illness and subsequent demise of President Mwanawasa until the election of President Banda at the end of October and the formation of a new cabinet—delayed decisions on the 2009 budget and structural measures central to the economic program. This has delayed completion of the first review of the PRGF arrangement.

- **Global financial crisis.** The global financial crisis is affecting Zambia most directly through the precipitous fall in copper prices, which is compressing export proceeds and government revenue, and reducing capital inflows. From their peak in mid-2008, copper prices have declined by about two-thirds. The reduced foreign exchange inflows from the mining sector and declining foreign demand for treasury bills and bonds have resulted in a steep depreciation of the Kwacha against the US dollar (see ¶10 below). Periodically, downward pressure on the Kwacha has been severe, and the Bank of Zambia has had to intervene to maintain investor confidence and orderly conditions in the foreign exchange market. While the banking sector has thus far weathered the crisis, nonperforming loans are expected to increase and banks have become more cautious in their lending. The slowdown in external demand and uncertainty about the global outlook have negatively affected growth prospects and the balance of payments and made the program targets for reserve accumulation unattainable. The Zambian authorities are therefore requesting an augmentation of the PRGF arrangement.

2. **The program was broadly on track during the first half of 2008, but slippages occurred towards the end of the year mainly because of the above mentioned shocks (Tables 1 and 2 in the Memorandum of Economic and Financial Policies(MEFP)).** All quantitative performance criteria and indicative targets for June and September were met, except for the indicative targets for reserve money and for payment of domestic arrears for September. However, the December quantitative performance criteria for NDA and international reserves were not met, nor were the indicative targets for reserve money and the payment of domestic arrears. The NDA target was not observed because of the accommodation, appropriately, of the first-round impact of the exogenous food and fuel price shocks, and because some budgetary releases were not spent until very late in the year. Efforts are underway to strengthen public expenditure management (MEFP ¶17-18), and

reserve money has been brought back onto a path consistent with the objective of reducing inflation to single digits by next year. The accumulation of international reserves was smaller than targeted due to declining foreign exchange inflows from the mining sector and Bank of Zambia sales of foreign exchange to maintain orderly market conditions in periods of intense pressure on the currency. In this respect, it should be noted that Zambia's floating exchange rate regime has facilitated the adjustment to the large terms of trade shock. All structural performance criteria were met, as were all the structural benchmarks except that on the supervisory regime for the secondary market in government securities, which requires more preparatory work.

II. Managing the Effects of the Global Financial Crisis

3. **As in many other sub-Saharan countries, Zambia's economic conditions and prospects are being profoundly affected by the global economic downturn (Table 1 and Figures 1 and 2).** The mining and mining-related sectors are being particularly hard hit: production is being scaled back, mines are closing, investment projects have been shelved, and exploration has essentially come to a halt. The situation would be even worse were it not for the coming on stream in December 2008 of a new mine, Africa's largest open pit copper mine, with relatively low unit costs of production and a pipeline of secured contracts. Other sectors will also be affected, including tourism, transportation, and construction. On the positive side, agriculture is expected to rebound from the relatively poor harvest in 2008, and electricity production should recover with the completion of the power rehabilitation project in the course of the year. Real GDP growth is projected to slow to 4 percent in 2009, from 6 percent in 2008. The risks are on the downside, however, and the strength of the recovery in 2010–11 will depend on how severely the mining sector and net capital inflows will be affected by the downturn in global demand.

Fiscal policy

4. **The overall fiscal deficit in 2008 was larger than programmed due to a sizeable shortfall in revenue (Table 2 and 3).** Total revenue is estimated to have fallen short of the program target by one percent of GDP for the year, reflecting markedly lower tax revenue from mining (1.7 percent of GDP).[1] Total expenditures were also lower than budgeted, but not by enough to offset the shortfall in revenue because of supplementary expenditures for a higher-than-budgeted wage bill, expanded fertilizer subsidies, the presidential elections, and a capital transfer to ZESCO—the public electric utility—to complete the rehabilitation of power stations. The overall fiscal deficit (including grants) in 2008 is estimated at 1.7 percent of GDP compared to a programmed deficit of 1.1 percent of GDP.

5. **Fiscal policy in 2009 and the medium term will aim to safeguard macroeconomic stability, while prioritizing spending on infrastructure to encourage diversification of the economy.** With copper prices projected to recover only gradually over the medium-term, mining taxes in 2009-10 would be about 7 percentage points of GDP lower than had earlier

[1] Difficulties in implementing the new fiscal regime for mining compounded the effect of lower copper prices in the second half of the year.

been expected under the program. The anticipated improvement in the public finances and increased fiscal space would, therefore, not materialize and the planned increase in capital expenditures over the medium-term would have to take place at a slower pace. The budget deficit is projected to widen somewhat in 2009 as the automatic stabilizers are allowed to operate. But since the deterioration in the terms of trade is expected to be long lasting, in the absence of an increase in external resources Zambia has little choice but to adjust to the shock.

6. **Given Zambia's relatively low level of public debt, there is some room for easing fiscal policy.** The scope for expansionary policies, however, is constrained by the ability to finance an increased government borrowing requirement without excessive monetary expansion. Revenue is projected to decline by 1.3 percentage points to 17.7 percent of GDP in 2009, with decreased mining taxes. Notwithstanding a decline in the dollar value of imports, trade-related taxes are expected to hold up well due to a sharp exchange rate depreciation. The tax projection includes the introduction of some tax measures in the 2009 budget—the principal being an increase in the threshold at which income tax is paid—which on net will reduce tax revenue by 0.2-0.3 percent of GDP. Expenditures would rise 0.9 percentage points to 25.3 percent of GDP, reflecting a 1.2 percentage point of GDP increase in capital spending. About half of the increase in capital spending depends on external financing and would be scaled back in the event of financing shortfalls.[2] The overall fiscal deficit (including grants) would thus widen by 0.9 percentage points to 2.6 percent of GDP. Domestic financing would rise by slightly less to 1.9 percent of GDP. This level of domestic financing would permit implementation of the monetary program.

7. **The 2009 budget removed the windfall tax on mining, but retained the other major changes to the fiscal regime for mining introduced in April 2008: the variable income tax and the increases in the corporate income tax rate and royalty.** The windfall tax made the marginal effective tax rate very high at high copper prices, particularly for high cost mines. While at the copper prices projected for 2009 and the medium term no windfall tax would be due, the authorities nevertheless thought it opportune to amend the mining tax regime to ensure that the right incentives are in place to attract mining investments when copper prices recover and to prevent existing operations being scaled down prematurely.

Monetary and exchange rate policies

8. **The challenge for monetary policy is to keep inflation on a downward path while providing needed support for growth.** Policy eased toward the end of 2008 to accommodate the first round effects of the food and fuel price shocks and because of a bunching of government spending, but it will need to tighten to contain any second round price increases (Figure 3). The goal is to reduce inflation to 10 percent by year end and single digits thereafter. Reserve money, the BoZ's operating target, would grow by 14 percent, which, given the government's domestic financing requirement, would allow for a moderate expansion in private sector credit (Table 4). The projected slowdown in the growth of bank credit to the private sector reflects heightened credit risks and the drying up of external

[2] Similarly for current expenditures on goods and services, part of which are tied to foreign-financed projects.

sources of finance. Banks' more cautious attitude to lending would likely increase their demand for government securities. However, with foreign investors eschewing government securities, further increases in interest rates may be unavoidable to ensure that policy stays adequately tight.

9. **The financial system has withstood the global financial crisis, but there is a need to remain vigilant against financial sector risks.** Banks remain adequately capitalized and liquid and their exposure to nonperforming foreign assets is negligible. However, the rapid credit expansion in recent years and the sizable share of dollar denominated assets and liabilities on banks' balance sheets may expose vulnerabilities. The Bank of Zambia is mindful of these risks and is monitoring developments closely.

10. **Exchange rate policy will continue to be based on a floating exchange rate.** Since mid-2008, the kwacha has depreciated steeply but broadly in line with changed market conditions, including the reduced foreign exchange inflows from the mining sector, especially since November, and outflows of portfolio capital. Between early June 2008 and end-February 2009, the kwacha depreciated by about 70 percent against the US dollar, in part reflecting dollar strength: on an effective basis it depreciated by 39 percent. Furthermore, reflecting the uncertainty about the outlook for the various factors affecting the value of the currency, the Kwacha has been volatile and at times has come under very strong downward pressure. While the Bank of Zambia has had to intervene to maintain orderly market conditions, the authorities have made clear their intention to maintain a flexible, market-determined exchange rate.

External sector

11. **Zambia's balance of payments position and outlook have weakened significantly with the decline in mining exports and foreign direct investment (Table 1 and 5).** While the trade balance remained in surplus in 2008, it is projected to swing to a sizable deficit (4.9 percent of GDP) in 2009 as the precipitous fall in the prices of Zambia's main mineral exports, copper and cobalt, leads to a 44 percent drop in the value of exports. The current account deficit (including grants), is projected to widen further to 7.1 percent of GDP (12.1 percent of GDP excluding grants) in 2009. Reserve accumulation fell short of the program target in 2008 and reserves stood at 2.1 months of imports at the end of the year—compared with 2.5 months at end-2007 and a program target of 3.2 months. Reserves declined further in the early months of 2009 as the Kwacha came under intense pressure, and stood at $750 million at mid-March compared to $1.3 billion at end-July 2008. With mineral prices and capital flows recovering only modestly, the balance of payments position is expected to remain weak in the medium term. The earlier program objective of increasing reserve coverage to around 5 months of imports by the end of 2010 is therefore well beyond reach. Instead, to shore up Zambia's vulnerability to possible further shocks, the program now targets an increase in reserves corresponding to about 3 months of imports in 2009-10. The Zambian authorities emphasized the importance of at least a moderate increase in the US dollar value of international reserves in 2009 to provide market confidence in the

Kwacha. Reflecting current commitments, total donor support (grants and loans) is expected to increase by around 10 percent in dollar terms to over 5 percent of GDP.[3]

12. **To help achieve the targeted increase in reserves in 2009, the authorities are requesting an augmentation of access under the PRGF arrangement equivalent to 35 percent of quota (Table 9).** This would bring Zambia's total access to 45 percent of quota. Given the already significant fiscal adjustment made by way of the scaling back of capital projects that were previously envisaged to be financed by much higher mining taxes, the augmentation would be appropriate to further support the maintenance of foreign exchange reserves, bolster market confidence, and support Zambia's efforts to diversify its economy and render it less vulnerable to fluctuations in copper prices. Without this augmentation reserves would likely decline in 2009. In view of the currently low level of reserves, a front-loaded disbursement would help to sustain confidence in the currency. Zambia's indicators on the capacity to repay the Fund remain favorable. Total debt service obligations to the Fund are projected to peak in 2015 at 1.5 percent of exports of goods and services and 0.4 percent of GDP, and to decline thereafter (Table 8).

13. **Zambia's debt sustainability outlook remains strong following HIPC and MDRI debt relief**. Zambia continues to be at a low risk of debt distress, as public sector debt is projected to remain stable over the medium- to long-term at around 20 percent GDP, about half of which is external debt.[4]

14. **The authorities are making good faith efforts to resolve external arrears to private creditors stemming from the past imposition of exchange controls**. Regarding arrears to commercial enterprises (about US$160 million), the authorities have offered payment terms that are on par with those provided by the Paris Club and in an earlier IDA-supported buy-back. The authorities are still seeking to verify the claims for arrears to private individuals (about US$10 million).

III. Key Structural Policies To Reach Sustained Economic Growth

15. **The structural components of the program complement the medium-term macroeconomic framework (MEFP, Table 4).** The government's structural reform agenda is articulated in a number of multiyear government programs, including the Public Expenditure Management and Financial Accountability (PEMFA) program, the Public Sector Management (PSM) program, the Financial Sector Development Program (FSDP), and the Private Sector Development Plan (FSDP). The PRGF arrangement will continue to focus on: (i) improving public financial management; (ii) strengthening monetary operations and supervision, and deepening the financial sector; and (iii) implementing policies to ensure an

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[3] Discussions between the authorities and the donor community confirmed that no additional support would be forthcoming in 2009.

[4] An updated debt sustainability analysis will be undertaken during the 2009 Article IV Consultation scheduled for September.

adequate and reliable supply of electricity.[5] Progress is being made in two other areas: tax administration and debt management. The modernization of the Zambia Revenue Authority is progressing well and the first phase of implementation has been completed with Fund technical assistance. Debt management will be strengthened by the recently-adopted debt management policy and strategy.

16. **Public financial management will be much improved by the introduction of a treasury single account (TSA) and strengthened procedures for the execution of capital projects.** A comprehensive strategy for phased introduction of a TSA is under preparation and the Public Finance Management Act will be amended as necessary. Already, the government has started to use the real time gross settlement system (RTGS) instead of checks for large transactions and begun to consolidate some of the main accounts used by the various spending agencies. Furthermore, to harmonize treasury functions, a treasury department will be established at the Ministry of Finance and National Planning. The execution of capital projects will benefit from the new Public Procurement Act, which recently came into force, and efforts to strengthen the three-year rolling budgets under the medium-term expenditure framework.

17. **Financial sector reforms focus on strengthening regulation and supervision, and enhancing the effectiveness of monetary policy.** Significant progress already has been made under the Financial Sector Development Program (FSDP), including most recently with the introduction at the beginning of the year of a risk-based supervisory framework. The authorities are stepping up monitoring of banks' risk management practices, lending standards, and funding situation. Also, the Bank of Zambia will integrate stress testing into the newly-adopted supervisory framework and establish formal communications with the supervisory authorities of parent banks of foreign-owned institutions on risks and crisis management issues. In addition, the authorities are enhancing contingency planning and lender of last resort mechanisms. In this, and other areas of financial sector reform, the authorities are benefiting from an ongoing FSAP Update and Fund technical assistance. In the nonbank financial sector, the National Pension Scheme Authority, the largest pension fund, which has since its inception been outside the supervisory mandate of the Pension Insurance Authority (PIA), will be brought under the operational supervision of the PIA. Amongst other things, this will require amendments to the Pension Scheme Regulatory Act and additional resources for the PIA.

18. **To allow for the further development of the money market, a flexible standing overnight facility will be introduced.** This could provide liquidity to the market which would be less restrictive and complex than the current, rarely used, rediscount facility. Further, this should foster a more stable interbank market and encourage commercial banks to hold lower levels of precautionary reserves. Furthermore, to stimulate the growth of the secondary market in government securities, the authorities will set up a supervisory regime for this market, including harmonizing regulations to govern trading.

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[5] The objectives of the structural program over the three-year PRGF arrangement are set out in greater detail in IMF Country Report No.08/187, June 2008.

19. **The development of the electricity sector is vital to sustained high growth.** The supply of electricity from power plants commissioned in the 1970s falls well short of demand because of strong economic growth in recent years. Although the completion of the power station rehabilitation project will restore generating capacity and reduce load shedding temporarily, new capacity is still urgently needed to meet increased demand over the medium-term. To address this challenge, the authorities have formulated a strategy to (i) raise electricity tariffs to reflect costs; (ii) attract private investment; (iii) improve the operational efficiency of ZESCO, the state-owned power utility; and (iv) reinforce the corporate governance and capitalization of ZESCO. A committee of ministers has been charged with implementing the strategy. Several measures are being taken to implement the strategy: (i) A revised electricity schedule that would bring tariffs to cost reflective levels by 2011 will be adopted. A significant increase in tariffs will take place in 2009. (ii) The rules and procedures for the operation and pricing of the transmission network will be set out in the legislation for the Zambia Grid Code. This should encourage private sector participation in the electricity sector. And (iii) the management of ZESCO will enter into a performance contract with the Government with the aim of improving the efficiency and corporate governance of the utility.

IV. Program Monitoring

20. **The program will be monitored semiannually.** Quantitative performance criteria and structural benchmarks have been set for June and December 2009 and indicative targets for September 2009 (MEFP, Table 3 and 4). In the structural area, reviews will be based on an assessment of progress under the authorities' reform program, in particular in the areas of PFM, as well as in the financial and electricity sectors, with a view to achieving the macroeconomic objectives described in Table 4 of the MEFP.

V. Staff Appraisal

21. **Following an extended period of robust expansion, economic growth in Zambia is slowing as a result of the global financial crisis.** The mining sector, the core of the Zambian economy, has been hard hit by the precipitous fall in the price of copper. Sectors with links to the copper industry are also being adversely affected, as are other sectors facing weaker external or domestic demand. The terms of trade have deteriorated sharply, bringing about a steep decline in gross national income and necessitating a large depreciation of the currency in real terms.

22. **The authorities are responding appropriately to the changed economic circumstances.** There is some scope for fiscal stimulus in 2009. Within the framework of a narrower fiscal space, due to reduced tax revenue, fiscal policy appropriately aims to increase spending on infrastructure (but on a much smaller scale than previously planned) to encourage diversification of the economy while safeguarding macroeconomic stability. To protect the domestically financed portion of capital spending, it will be critical to contain current spending, particularly on wages and benefits.

23. **Monetary policy should continue to aim at bringing inflation down to single digits by 2010.** The easing of inflation in the first three months of the year suggests that significant progress toward this objective should be possible this year. Liquidity management will nevertheless continue to be a challenge. With foreign exchange sales circumscribed by

the downward pressure on the currency from the decline in export revenue and the unwinding of portfolio investments, greater reliance will have to be placed on open market operations to sterilize the liquidity generated by increased government spending, with attendant upward pressure on domestic interest rates.

24. **The financial sector reforms of recent years have served the country well.** These reforms have focused on strengthening regulation and supervision, and included the introduction late last year of risk-based supervision. Although the banking system has coped well thus far, the authorities need to remain vigilant and prepared to deal with potential adverse developments in the financial sector. In this regard, staff welcome the authorities' stepped up monitoring and efforts to strengthen the framework for liquidity provision and contingency planning.

25. **The floating exchange rate continues to serve Zambia well by acting as a buffer in the face of fluctuations in commodity prices and capital flows.** Indeed, the depreciation of the Kwacha is part of the necessary adjustment to the deterioration in Zambia's terms of trade. The volatility of the Kwacha has underscored yet again, however, the importance of making sound investments in infrastructure and stepping up structural reforms to spur diversification of the economy and render it less vulnerable to future fluctuations in copper prices.

26. **The structural measures the authorities are undertaking under the program are critical to achieving the desired diversification of the economy.** Important measures include strengthening public financial management and the execution of capital expenditures, fostering financial sector development, and addressing supply shortages and inefficiencies in the electricity sector.

27. **Staff recommend that the first and second reviews of the PRGF arrangement and the financing assurances review be completed.** Staff further recommends that waivers for the nonobservance of two performance criteria for the third disbursement (end-December 2008 performance criteria) be granted in view of the shocks the country experienced, the corrective actions taken, and the authorities continued commitment to sound macroeconomic policies.

28. **Staff also recommend that the requested augmentation of access under the PRGF arrangement be granted.** This would help ease the adjustment to the severe external shock that Zambia has experienced and maintain a level of foreign exchange reserves that would sustain confidence in the currency. The augmentation is justified by the strength of Zambia's program, significant external vulnerabilities, the low current outstanding use of Fund resources (12.7 percent of quota as of end-2008), and a demonstrable capacity to repay the Fund.

Figure 1. Zambia: Selected Macroeconomic Indicators

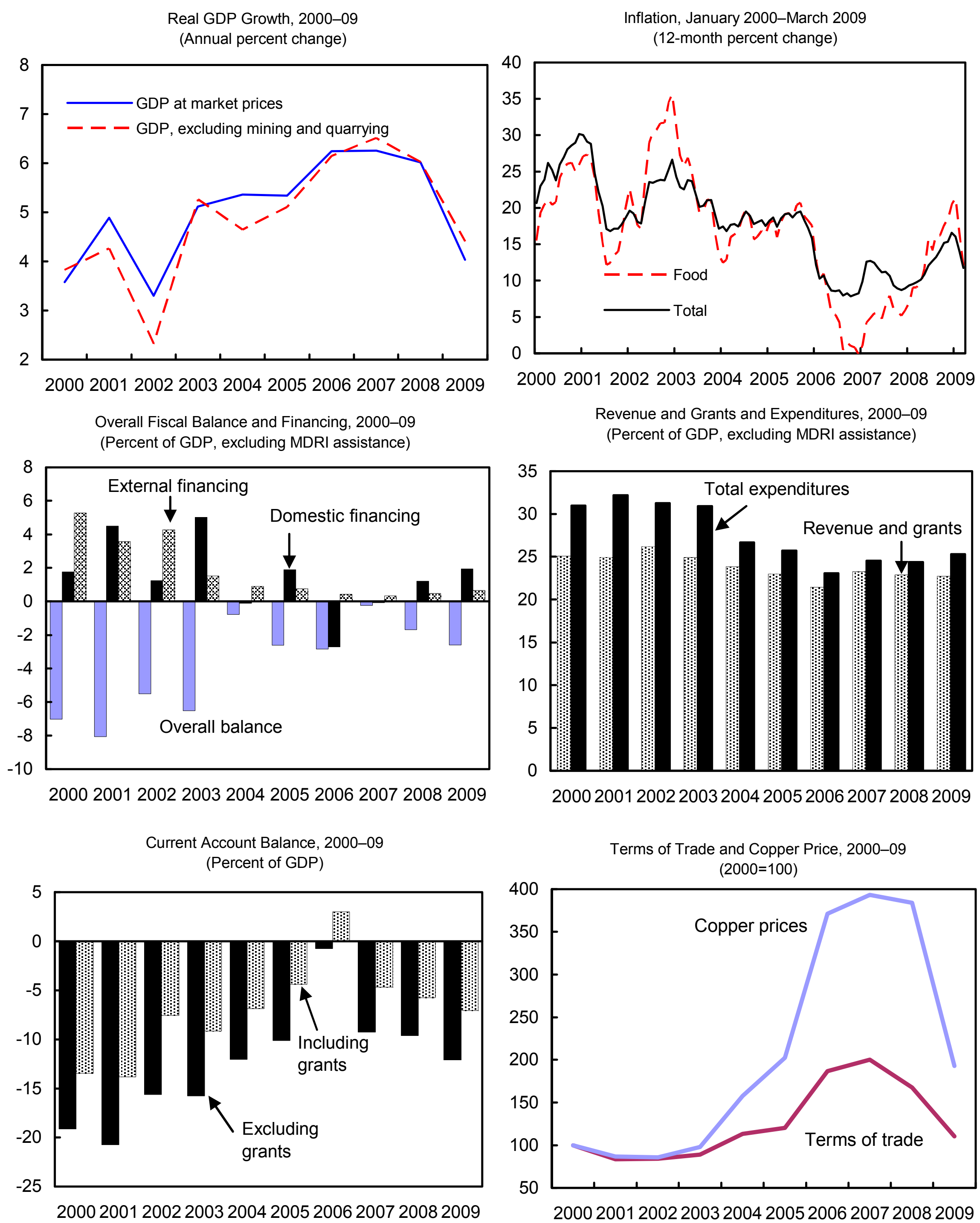
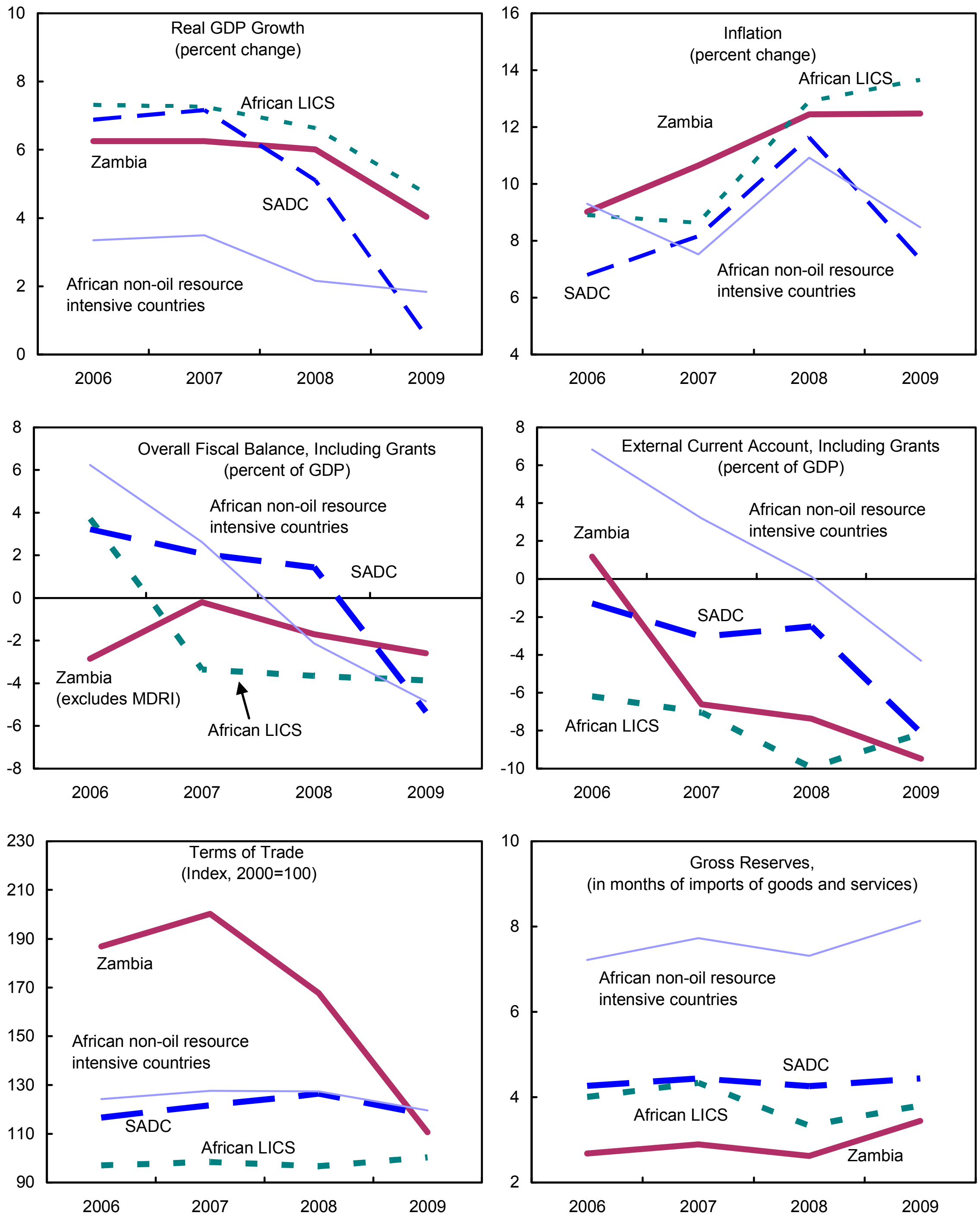


Figure 2. Zambia--Cross Country Comparison, 2006–09[12]



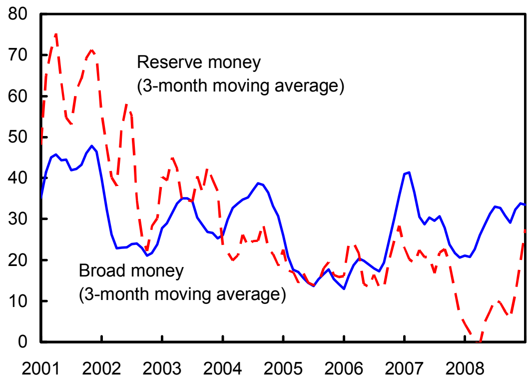
Sources: IMF, African Department database, March 20, 2009; and World Economic Outlook (WEO) database, March 20, 2009.

[1] African LICs include: Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia.

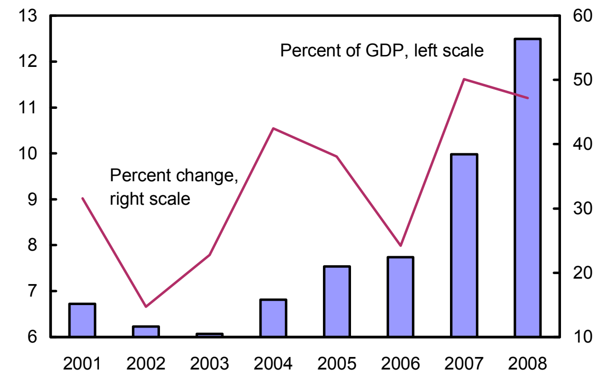
[2] African non-oil resource intensive countries include: Botswana, Côte d'Ivoire, Guinea, Namibia, São Tomé and Principe, Sierra Leone, and Zambia.

Figure 3. Zambia: Selected Financial Market Indicators

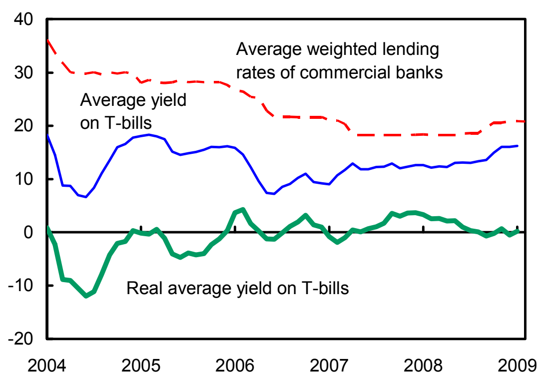
Money Growth (annual percent change)
January 2001–December 2008



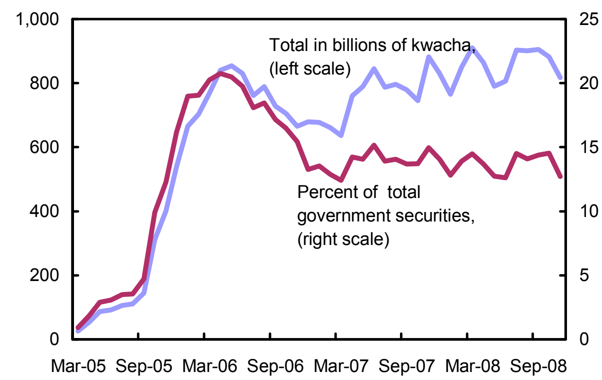
Private Sector Credit, 2001–08
(Annual average)



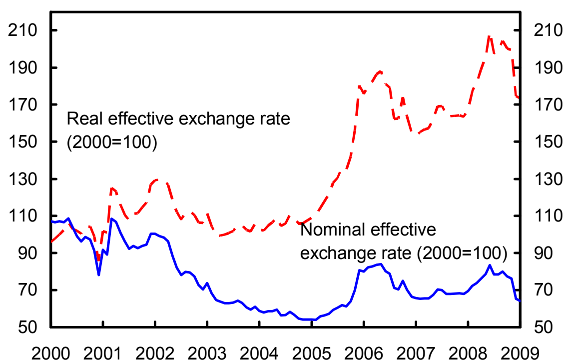
Interest Rates (Percent)
January 2004–February 2009



Foreign Investment in Government Securities
March 2005–December 2008



Effective Exchange Rates
January 2000–January 2009 1/



[1] Excludes Zimbabwe.

Exchange Rates
January 2004–February 2008

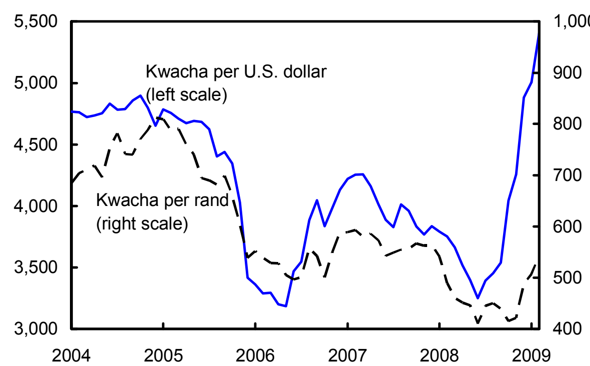


Table 1. Zambia: Selected Economic Indicators

	2006	2007	2008 Prog	2008 Est	2009 Proj	2010 Proj	2011 Proj
	(Percent changes; unless otherwise indicated)						
National account and prices							
GDP at constant prices	6.2	6.3	6.2	6.0	4.0	4.5	5.0
GDP deflator	13.7	9.6	5.0	10.9	7.8	8.9	6.2
GDP at market prices	39,223	45,669	50,716	53,706	60,232	68,593	76,525
(Billions of kwacha)							
Consumer prices (average)							
Headline	9.0	10.7	8.6	12.4	12.5	8.3	5.9
Underlying (excluding food)	13.6	16.3	9.2	11.1	11.4	7.9	5.9
Consumer prices (end of period)	8.2	8.9	7.0	16.6	10.0	7.0	5.0
External sector							
Terms of trade (deterioration -)	55.2	8.4	-8.7	-16.2	-34.0	4.5	1.8
Average exchange rate (kwacha per U.S. dollar)	3,601	4,002	3,954	3,754	…	…	…
(percentage change; depreciation -)	19.3	-11.1	1.2	6.2	…	…	…
Real effective exchange rate (depreciation -)[1]	-25.9	12.4	…	12.8	…	…	…
Money and credit (end of period)							
Domestic credit to the private sector	54.3	43.0	22.2	50.2	16.2	...	...
Reserve money[2]	22.6	1.6	11.5	28.4	14.0	…	…
M3	45.1	26.3	11.6	22.0	13.8	…	…
	(Percent of GDP; unless otherwise indicated)						
National accounts							
Gross investments	22.6	24.1	22.7	22.7	22.1	22.5	22.3
Government	4.1	4.0	5.2	3.6	5.2	5.2	5.1
Private	18.5	20.1	17.5	19.1	16.9	17.3	17.2
National savings	25.6	19.4	20.6	16.9	15.0	16.0	16.6
Gross foreign savings	-3.0	4.7	2.1	5.8	7.1	6.5	5.7
Central government budget							
Overall balance	18.6	-0.2	-1.1	-1.7	-2.6	-1.7	-1.6
(excluding grants)	-7.4	-4.8	-6.5	-5.6	-7.6	-6.1	-5.1
Revenue	16.9	18.7	21.2	19.0	17.7	17.9	18.1
Grants	26.0	4.6	5.3	3.9	5.0	4.4	3.5
Total expenditure[3]	24.3	23.5	27.6	24.6	25.3	24.0	23.2
External sector							
Current account balance							
(including current and capital grants)	3.0	-4.7	-2.1	-5.8	-7.1	-6.5	-5.7
(excluding grants)	-0.7	-9.3	-7.4	-9.6	-12.1	-10.9	-9.2
Gross international reserves (months of imports)[4]	2.2	2.5	3.2	2.1	3.1	3.1	3.2
Public debt							
Total central government debt	24.7	23.7	20.0	20.2	22.2	21.4	20.8
External	8.8	8.4	6.8	6.8	9.9	10.2	10.4
Domestic	15.9	15.3	13.2	13.4	12.3	11.2	10.4

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

[1]Excludes Zimbabwe.

[2]The projected reduction in reserve money for December 2007 reflects the lowering of statutory reserve requirements from 14 to 8 percent on October 1, 2007.

[3]Including discrepancy between the above-the-line balance and below-the-line financing.

[4]Imports in current year.

Table 2. Zambia: Fiscal Operations of the Central Government
(Billions of kwacha)

	2006	2007	Jun 2008 Prog.	Jun 2008 Act.	2008 Prog.	2008 Est.	2009 Proj.	2010 Proj.
Revenue and grants	16,825	10,626	6,012	6,112	13,444	12,293	13,681	15,264
Revenue	6,618	8,522	4,544	4,665	10,746	10,221	10,649	12,245
Tax	6,317	8,184	4,269	4,481	10,051	9,653	10,195	11,794
Income taxes	2,960	3,832	1,997	2,156	5,162	4,678	4,657	5,316
Value-added tax	1,792	2,231	1,074	1,047	2,397	2,201	2,448	2,828
Excise taxes	821	1,205	658	698	1,345	1,424	1,657	1,982
Customs duties	744	916	540	581	1,147	1,351	1,432	1,670
Nontax	301	338	275	184	695	567	454	450
Grants	10,207	2,104	1,468	1,447	2,698	2,073	3,032	3,019
Budget support	423	582	463	474	620	643	832	920
Project grants	1,374	1,522	1,005	973	2,079	1,430	2,200	2,100
Debt reduction (including MDRI)	8,410	0	0	0	0	0	0	0
Expenditures	9,051	11,209	6,560	6,508	13,906	13,101	15,248	16,437
Current expenditures	7,203	9,045	5,010	5,075	10,575	10,541	11,943	12,888
Wages and salaries	2,833	3,531	2,037	2,139	4,256	4,465	5,100	5,538
Goods and services	1,779	2,784	1,358	1,429	2,830	2,809	3,491	3,562
Interest payments	749	776	346	455	698	950	1,068	1,135
Other	1,842	1,955	1,268	1,051	2,791	2,316	2,284	2,653
Capital expenditure	1,601	1,842	1,253	1,117	2,662	1,967	2,953	3,549
Of which: domestically financed	599	1,083	720	662	1,560	1,271	1,828	2,498
Domestic arrears payments	247	322	297	316	669	593	352	0
Discrepancy (-overfinancing)[1]	-483	474	-389	762	-111	-101	0	0
Overall balance								
Including grants	7,291	-109	-937	366	-573	-910	-1,567	-1,173
Excluding grants	-2,916	-2,213	-2,404	-1,081	-3,271	-2,982	-4,600	-4,192
Financing	-7,291	109	937	-366	573	910	1,567	1,173
External financing (net)	-6,225	145	370	214	637	257	397	340
Of which: budget support	36	0	123	114	165	113	209	167
Of which: debt reduction (MDRI)	0	0	0	0	0	0	0	0
Domestic financing (net)	-1,066	-36	567	-580	-64	653	1,170	833
Bank financing	-1,806	-431	67	-792	-728	552	970	533
Of which: BoZ onlending of IMF MDRI relief	0	0	0	0	0	0	0	0
Nonbank financing	740	395	500	212	665	100	200	300
Memorandum items:								
Overall balance, excl. budget grants and mining taxes	6,649	-1,341	-1,519	-467	-2,832	-2,329	-2,726	-2,458
Primary balance	8,041	666	-590	821	125	40	-499	-38
Primary balance, excluding mining taxes	7,822	16	-709	462	-1,514	-736	-826	-403
Mining taxes	219	650	119	360	1,640	776	327	365
Mining revenue account balance[2]	…	…	75	75	917	54	0	0
External budget support	459	582	586	588	784	756	1,041	1,087
Stock of domestic arrears	1,028	753	456	…	249	249	0	0
Stock of domestic government securities	6,242	6,966	6,487	…	6,699	7,185	7,385	7,685

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

[1]Discrepancy largely reflects changes in the carryover of budgetary releases. In 2008, this line also includes kwacha 416 billion in offsetting expenditure measures.

[2]The mining resource account was established in 2008.

Table 3. Zambia: Fiscal Operations of the Central Government
(Percent of GDP)

	2006	2007	Jun 2008 Prog.	Jun 2008 Act.	2008 Prog.	2008 Est.	2009 Proj.	2010 Proj.
Revenue and grants	42.9	23.3	11.9	11.4	26.5	22.9	22.7	22.3
Revenue	16.9	18.7	9.0	8.7	21.2	19.0	17.7	17.9
Tax	16.1	17.9	8.4	8.3	19.8	18.0	16.9	17.2
Income taxes	7.5	8.4	3.9	4.0	10.2	8.7	7.7	7.7
Value-added tax	4.6	4.9	2.1	1.9	4.7	4.1	4.1	4.1
Excise taxes	2.1	2.6	1.3	1.3	2.7	2.7	2.8	2.9
Customs duties	1.9	2.0	1.1	1.1	2.3	2.5	2.4	2.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nontax	0.8	0.7	0.5	0.3	1.4	1.1	0.8	0.7
Grants	26.0	4.6	2.9	2.7	5.3	3.9	5.0	4.4
Budget support	1.1	1.3	0.9	0.9	1.2	1.2	1.4	1.3
Project grants	3.5	3.3	2.0	1.8	4.1	2.7	3.7	3.1
Debt reduction (including MDRI)	21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	23.1	24.5	12.9	12.1	27.4	24.4	25.3	24.0
Current expenditures	18.4	19.8	9.9	9.4	20.9	19.6	19.8	18.8
Wages and salaries	7.2	7.7	4.0	4.0	8.4	8.3	8.5	8.1
Goods and services	4.5	6.1	2.7	2.7	5.6	5.2	5.8	5.2
Interest payments	1.9	1.7	0.7	0.8	1.4	1.8	1.8	1.7
Other	4.7	4.3	2.5	2.0	5.5	4.3	3.8	3.9
Capital expenditure	4.1	4.0	2.5	2.1	5.2	3.7	4.9	5.2
Of which: domestically financed	1.5	2.4	1.4	1.2	3.1	2.4	3.0	3.6
Domestic arrears payments	0.6	0.7	0.6	0.6	1.3	1.1	0.6	0.0
Discrepancy (-overfinancing)[1]	-1.2	1.0	-0.8	1.4	-0.2	-0.2	0.0	0.0
Overall balance								
Including grants	18.6	-0.2	-1.8	0.7	-1.1	-1.7	-2.6	-1.7
Excluding grants	-7.4	-4.8	-4.7	-2.0	-6.5	-5.6	-7.6	-6.1
Financing	-18.6	0.2	1.8	-0.7	1.1	1.7	2.6	1.7
External financing (net)	-15.9	0.3	0.7	0.4	1.3	0.5	0.7	0.5
Of which: budget support	0.1	0.0	0.2	0.2	0.3	0.2	0.3	0.2
Of which: debt reduction (MDRI)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-2.7	-0.1	1.1	-1.1	-0.1	1.2	1.9	1.2
Bank financing	-4.6	-0.9	0.1	-1.5	-1.4	1.0	1.6	0.8
Of which: Onlending of IMF MDRI relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	1.9	0.9	1.0	0.4	1.3	0.2	0.3	0.4
Memorandum items:								
Overall balance, excl. budget grants and mining taxes	17.0	-2.9	-3.0	-0.9	-5.6	-4.3	-4.5	-3.6
Primary balance	20.5	1.5	-1.2	1.5	0.2	0.1	-0.8	-0.1
Primary balance, excluding mining taxes	19.9	0.0	-1.4	0.9	-3.0	-1.4	-1.4	-0.6
Mining taxes	0.6	1.4	0.2	0.7	3.2	1.4	0.5	0.5
Mining resource account balance[2]	…	…	…	0.1	1.8	0.1	0.0	0.0
External budget support	1.2	1.3	1.2	1.1	1.5	1.4	1.7	1.6
Stock of domestic arrears	2.6	1.6	0.9	…	0.2	0.5	0.0	0.0
Stock of domestic government securities	15.9	15.3	12.8	…	13.2	13.4	12.3	11.2
Nominal GDP (in billions of kwacha)	39,223	45,669	50,716	53,706	50,716	53,706	60,232	68,593

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

[1] Discrepancy largely reflects changes in the carryover of budgetary releases. In 2008, it includes kwacha 416 billion in offsetting expenditure measures.

[2] The mining resource account was established in 2008.

Table 4. Zambia: Monetary Accounts[1]

(Billions of kwacha; unless otherwise indicated)

	2006	2007	Jun 2008 Prog.	Jun 2008 Act.	2008 Prog.	2008 Act.	2009 Proj.
				I. Monetary Survey			
Net foreign assets	3,954	4,999	4,972	4,538	5,808	5,538	5,054
Net domestic assets	4,523	5,708	5,797	6,303	6,100	7,524	9,817
Claims on central government (net)	2,440	1,988	2,255	1,291	1,254	2,344	3,315
Claims on private sector	3,760	5,377	5,645	6,356	6,572	8,077	9,373
Claims on public enterprises	224	379	379	163	430	148	160
Other items (net)[2]	-1,901	-2,035	-2,482	-1,507	-2,156	-3,044	-3,030
Money and quasi-money (M3)	8,477	10,707	10,769	10,840	11,908	13,063	14,870
Broad money (M2)	5,763	6,801	6,840	7,362	7,564	8,691	9,894
Foreign exchange deposits	2,714	3,906	3,929	3,478	4,344	4,372	4,977
				II. Bank of Zambia			
Net foreign assets	2,808	3,743	3,972	3,845	4,808	4,660	4,154
Of which: IMF liabilities	-237	-361	-356	-355	-399	-503	-1,582
Net domestic assets	-348	-1,242	-1,450	-1,300	-2,019	-1,449	-493
Claims on central government (net)	1,945	1,944	100	1,950	-966	1,950	1,543
Claims on nongovernment	1,201	278	235	-722	244	805	2,073
Claims on private sector	47	56	56	53	56	45	65
Claims on public enterprises	0	0	0	0	0	0	0
Claims on other depository corporations (net)	1,154	222	179	-775	188	760	2,008
Other items (net)[2]	-3,494	-3,465	-1,785	-2,528	-1,296	-4,203	-4,108
Reserve money[3]	2,460	2,500	2,522	2,546	2,789	3,211	3,661
Currency outside banks and cash in vaults	1,224	1,513	1,527	1,608	1,925	1,932	…
Other depository corporation reserves	1,236	987	995	937	864	1,279	#VALUE!
Memorandum items:							
			(12-month percentage change; unless otherwise indicated)				
Reserve money	22.6	1.6	8.6	9.6	11.5	28.4	14.0
M3	45.1	26.3	25.8	26.7	11.6	22.0	13.8
Credit to the private sector	54.3	43.0	31.2	47.8	22.2	50.2	16.0
Velocity (M3/Nominal GDP)	4.6	4.3	4.7	5.0	4.3	4.1	4.1
Money multiplier (M3/reserve money)	3.4	4.3	4.3	4.3	4.3	4.1	4.1
Credit to the private sector (percent of GDP)	9.6	11.8	11.1	11.8	13.0	15.0	15.6
Gross foreign exchange reserves of the Bank of Zambia (millions of U.S. dollars)	595	947	1,101	1,026	1,329	976	1,076
Exchange rate (kwacha per U.S. dollar)	4,407	3,845	3,845	3,186	3,845	4,832	…

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

[1]End of period.

[2]Include valuation and HIPC Initiative Account (balances were K3,253 billion and K2,209 billion at end-2005 and end-2006, respectively).

[3]Figures reflect the lowering of statutory reserve requirements from 14 to 8 percent on October 1, 2007.

Table 5. Zambia: Balance of Payments[1]

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

	2005	2006	2007	2008 Est.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
Current account	-606	128	-755	-1,054	-1,102	-1,105	-1,011	-935
Trade balance	118	1,293	899	402	-568	-514	-399	-290
Exports, f.o.b.	2,278	3,929	4,510	4,957	2,791	3,058	3,341	3,662
Of which: copper	1,516	3,029	3,407	3,684	1,852	2,071	2,267	2,499
Imports, f.o.b	-2,161	-2,636	-3,611	-4,555	-3,359	-3,572	-3,740	-3,951
Of which: oil	-312	-454	-493	-816	-336	-416	-483	-547
Services (net)	-199	-358	-640	-618	-502	-560	-574	-595
Income (net)	-632	-1,169	-1,545	-1,399	-565	-560	-552	-549
Of which: interest on public debt	-110	-17	-13	-20	-19	-20	-24	-25
Current transfers (net)	107	362	530	560	534	529	513	499
Budget support grants	131	116	147	171	161	174	182	182
Sector-wide approach grants	0	92	156	150	145	139	123	119
Private transfers	-24	154	228	239	228	216	208	198
Capital and financial account	696	947	1,065	1,017	970	1,129	1,047	1,162
Capital account	287	2,600	223	230	279	257	201	186
Project grants	287	197	223	230	279	257	201	186
External debt cancellation	0	2,403	0	0	0	0	0	0
Financial account	409	-1,653	843	787	690	872	847	975
Foreign direct and portfolio investments	502	654	1,366	933	436	443	463	483
Other investments	-93	-2,307	-523	-146	254	429	384	492
Medium and long-term	-93	-2,307	-523	-146	254	429	384	492
Public sector (net)	-65	-1,779	34	68	77	64	57	37
Disbursements	160	91	83	111	154	127	125	93
Of which: budget support	24	9	0	32	40	32	32	32
Amortization due	-225	-1,870	-49	-43	-78	-63	-68	-56
Commercial banks (net)	83	-49	-67	143	11	0	0	0
Other sectors	-111	-480	-490	-356	167	364	326	455
Short-term	0	0	0	0	0	0	0	0
Errors and omissions	-219	-254	0	50	0	0	0	0
Overall balance	-129	821	310	13	-132	24	36	227
Financing								
Central bank net reserves (- increase)	-351	-821	-310	-13	132	-24	-36	-227
Of which: gross reserve change	-109	-264	-352	-29	-100	-78	-58	-215
Of which: Use of Fund loans	-236	-557	42	16	232	53	22	-12
Exceptional financing	480	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account, including capital grants (percent of GDP)	-4.4	3.0	-4.7	-5.8	-7.1	-6.5	-5.7	-4.7
Current account, excluding grants (percent of GDP)	-10.1	-0.7	-9.3	-9.6	-12.1	-10.9	-9.2	-7.8
Change in copper export volume (percent)	8.6	9.4	-0.2	2.0	0.0	3.0	4.0	5.0
Copper export price (U.S. dollars per tonne)	3,676	6,731	7,132	6,963	3,500	3,800	4,000	4,200
Total official grants	5.7	3.7	4.6	3.9	5.0	4.4	3.5	3.1
Gross international reserves	331	595	947	976	1,076	1,154	1,211	1,426
In months of imports[2]	1.5	2.2	2.5	2.1	3.1	3.1	3.2	3.5
GDP (millions of U.S. dollars)	7,271	10,893	11,411	14,306	11,624	12,955	14,284	15,754

Sources: Zambian authorities; and IMFstaff estimates and projections.

[1]Disbursements and imports related to possible future hydropower projects are not included.

[2]Imports in current year.

Table 6. Zambia: Macroeconomic Framework, 2006–12

	2006	2007	2008 Proj	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
National account and prices			(Percent changes)				
GDP at constant prices	6.2	6.3	6.0	4.0	4.5	5.0	5.9
Consumer prices (average)							
Headline	9.0	10.7	12.4	12.5	8.3	5.9	5.0
Underlying (excluding food)	13.6	16.3	11.1	11.4	7.9	5.9	5.0
Consumer prices (end of period)	8.2	8.9	16.6	10.0	7.0	5.0	5.0
			(Percent of GDP)				
Gross investments	22.6	24.1	22.7	22.1	22.5	22.3	22.2
Government	4.1	4.0	3.6	5.2	5.2	5.1	5.3
Private	18.5	20.1	19.1	16.9	17.3	17.2	16.9
National savings	23.8	17.5	15.3	12.6	14.0	15.2	16.3
Gross foreign savings	-1.2	6.6	7.4	9.5	8.5	7.1	5.9
Central government budget[1]							
Overall balance	18.6	-0.2	-1.7	-2.6	-1.7	-1.6	-1.6
(excluding grants)	-7.4	-4.8	-5.6	-7.6	-6.1	-5.1	-4.7
Revenue	16.9	18.7	19.0	17.7	17.9	18.1	18.4
Grants	26.0	4.6	3.9	5.0	4.4	3.5	3.1
Total expenditure[2]	24.3	23.5	24.6	25.3	24.0	23.2	23.1
Money and credit (end of period)			(Percent changes)				
Broad money (M3)	45.1	26.3	22.0	13.8	…	…	…
Domestic credit to the private sector	54.3	43.0	50.2	16.0	…	…	…
External sector			(Percent of GDP)				
Current account (including grants)	1.2	-6.6	-7.4	-9.5	-8.5	-7.1	-5.9
Current account (excluding grants)	-0.7	-9.3	-9.6	-12.1	-10.9	-9.2	-7.8
			(Percent of exports of goods and services)				
NPV of central government and Bank of Zambia external debt	6.0	5.0	5.4	5.6	5.8	5.9	5.6
			(Percent changes)				
Exports of goods and services	63.0	15.0	9.8	-42.3	9.7	9.3	9.7
Imports of goods and services	22.5	40.4	20.9	-25.0	7.3	4.8	5.7
Terms of trade (deterioration -)	55.2	8.4	-16.2	-34.0	4.5	1.8	0.9
Copper export price (U.S. dollars per pound)	83.1	5.9	-2.4	-49.7	8.6	5.3	5.0
			(Millions of U.S. dollars, unless otherwise indicated)				
Gross international reserves (US$ millions)	595	947	976	1,076	1,154	1,211	1,426
In months of imports	2.2	2.5	2.1	3.1	3.1	3.2	3.5

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

[1]Grants in 2006 include MDRI debt cancellation amounting to 21.4 percent of GDP.

[2]Including discrepancy between the above-the-line balance and below-the-line financing.

Table 7. Zambia: Financial Soundness Indicators

(Percent, unless otherwise indicated)

	2004	2005	2006	2007	2008	
	Dec	Dec	Dec	Dec	Jun	Dec
Capital adequacy						
Regulatory capital to risk-weighted assets	22.2	28.4	20.4	18.6	17.0	18.6
Tier 1 regulatory capital to risk-weighted assets	19.6	26.2	18.0	15.9	19.3	15.7
Capital to total assets	9.7	11.6	9.1	9.2	10.8	9.9
Asset quality						
Past due advances (NPL) to total advances	7.6	8.9	11.3	8.8	6.0	7.2
Loan loss provisions to nonperforming loans	102.8	90.7	83.3	73.2	103.2	104.6
Bad debt provisions to advances	7.8	5.4	6.8	6.4	5.2	6.1
Loan concentration						
Agriculture	30.3	27.0	23.9	18.4	16.0	16.0
Mining	4.5	4.0	4.4	4.12	5.0	5.0
Manufacturing	13.0	12.0	14	10.95	11.0	11.0
Construction	2.0	2.0	2.4	3.71	3.0	4.0
Services	8.1	7.0	9.8	13.3	9.0	9.0
Others	42.0	48.0	45.5	49.57	56.0	55.0
Earnings and profitability						
Return on average assets	3.1	6.5	5.1	4.7	5.0	3.6
Return on equity	29.8	46.4	30.6	35.1	36.6	20.8
Gross interest income to total gross income	78.2	60.9	60.2	63.1	63.6	66.6
Gross noninterest income to total gross income	46.3	39.1	39.8	36.9	36.4	33.4
Net interest margin	11.8	11.8	12.8	11.5	11.3	10.4
Liquidity [1]						
Liquid assets to total assets	66.6	41.0	41.3	37.6	32.6	35.5
Liquid assets to total deposits	73.7	51.0	49.6	46	47.6	49.9
Advances to deposits ratio	37.3	44.5	49	57.4	63.3	66.3
Exposure to foreign currency						
Foreign currency loans to total gross loans	41.2	36.2	34.0	32.5	35.4	42.1
Foreign currency liabilities to total liabilities	58.4	31.0	61.2	27.1	34.8	35.8
Net open position in foreign exchange to capital	10.0	2.1	9.4	7.1	6.1	6.9
Exposure to household debt						
Household debt to GDP	0.0	1.5	1.5	…	…	…

Source: Bank of Zambia.

[1] Liquid assets were redefined to exclude one-year Treasury bills beginning in 2005.

Table 8. Zambia: Proposed Schedule of Disbursements Under the PRGF Arrangement [1]

Availability	Current		Proposed		Conditions for Disbursement
	In millions of SDRs	In percent of quota	In millions of SDRs	In percent of quota	
June 4, 2008	6.987	1.43	6.987	1.43	Board approval of the three-year PRGF arrangement
November 30, 2008	6.987	1.43	6.987	1.43	Board completion of the first review based on observance of performance criteria for June 30, 2008
May 1, 2009	6.987	1.43	99.923	20.43	Board complettion of the second review based on observance of performance criteria for December 31, 2008
November 30, 2009	6.987	1.43	51.013	10.43	Board completion of the third review based on observance of performance criteria for June 30, 2009
May 30, 2010	6.987	1.43	18.395	3.76	Board completion of the fourth review based on observance of performance criteria for December 31, 2009
November 30, 2010	6.987	1.43	18.395	3.76	Board completion of the fifth review based on observance of performance criteria for June 30, 2010
May 30, 2011	6.988	1.43	18.395	3.76	Board complettion of the sixth review based on observance of performance criteria for December 31, 2010
Total disbursements	**48.910**	**10.00**	**220.095**	**45.00**	

Table 9. Zambia: Indicators of Capacity to Repay the Fund [1]

				Projection				
	2008	2009	2010	2011	2012	2013	2014	2015
Fund obligations based on existing credit								
(in millions of SDRs)								
Principal	0.0	0.0	0.6	3.3	7.7	11.7	12.4	11.9
Charges and interest	2.1	0.6	0.7	0.7	0.6	0.6	0.5	0.5
Fund obligations based on existing and prospective credit								
(in millions of SDRs)								
Principal	0.0	0.0	0.6	3.3	7.7	11.7	23.1	45.3
Charges and interest	2.1	0.9	1.5	1.7	1.7	1.7	1.6	1.4
Total obligations based on existing and prospective credit								
In millions of SDRs	2.1	0.9	2.1	5.0	9.4	13.4	24.7	46.7
In millions of US$	3.3	1.4	3.2	7.7	14.6	20.8	38.5	73.1
In percent of exports of goods and services	0.1	0.0	0.1	0.2	0.4	0.5	0.8	1.5
In percent of debt service [2]	5.2	1.5	3.8	7.9	15.7	21.4	32.1	46.0
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.4
In percent of Gross International Reserves	0.3	0.1	0.3	0.6	1.0	1.3	2.4	4.6
In percent of quota	0.4	0.2	0.4	1.0	1.9	2.7	5.0	9.5
Outstanding Fund credit								
In millions of SDRs	69.0	219.9	256.2	271.3	263.6	251.9	228.8	183.5
In millions of US$	109.1	337.2	394.1	418.8	408.3	391.5	356.8	287.1
In percent of exports of goods and services	2.1	11.1	11.8	11.5	10.2	9.0	7.8	6.0
In percent of debt service [2]	171.9	349.4	469.4	431.2	441.2	403.7	297.7	180.8
In percent of GDP	0.8	2.9	3.0	2.9	2.6	2.3	1.9	1.4
In percent of Gross International Reserves	11.2	31.3	34.2	34.6	28.6	23.9	22.4	18.0
In percent of quota	14.1	45.0	52.4	55.5	53.9	51.5	46.8	37.5
Net use of Fund credit (in millions of SDRs)	9.9	157.9	36.2	15.1	-7.7	-11.7	-23.1	-45.3
Disbursements	9.9	157.9	36.8	18.4	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.6	3.3	7.7	11.7	23.1	45.3
Memorandum items:								
Exports of goods and services (in millions of US$)	5,254	3,032	3,327	3,638	3,989	4,355	4,574	4,816
Debt service (in millions of US$) [2]	63	97	84	97	93	97	120	159
Nominal GDP (in millions of US$)	14,306	11,624	12,955	14,284	15,754	17,317	18,906	20,773
Gross International Reserves (in millions of US$)	976	1,076	1,154	1,211	1,426	1,636	1,592	1,596
Quota (millions of SDRs)	489	489	489	489	489	489	489	489

Sources: IMF staff estimates and projections.

[1] Original PRGF disbursements of SDR 48.91 million (10 percent of quota) during 2008-11; and augmentation of SDR 171.2 million (35 percent of quota) during 2009-11; in total, SDR 200.1 million (45 percent of quota) during 2008-11.

[2] Total debt service includes IMF repayments.

Appendix I—Letter of Intent

April 8, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C.
UNITED STATES OF AMERICA

Dear Mr. Strauss-Kahn,

The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and progress in implementing the PRGF-supported program during 2008 and sets out the macroeconomic policies and structural reforms that the Government will pursue in 2009 and the medium term.

Since the PRGF arrangement was approved by the IMF Executive Board in June 2008, Zambia has experienced a number of adverse developments that have affected economic conditions and prospects, as well as program performance. As a result, while all quantitative and structural performance criteria for end-June 2008 were met, slippages occurred towards the end of the year. Two developments in particular have had far-reaching effects:

First, the surge in global food and fuel prices through the fall of 2008, which came on top of a poor domestic agricultural harvest, put the achievement of the end-2008 target for inflation well beyond reach. The need to accommodate the first-round impact of the food and fuel price shocks made it impossible to observe the December 2008 target for net domestic assets (NDA) of the Bank of Zambia. Regrettably, a bunching of government spending late in the year also contributed to a greater-than-programmed expansion in reserve money. However, in the first quarter of 2009, reserve money has been brought back onto a path consistent with the objective of reducing inflation to close to single digits by the end of 2009.

Second, the global financial crisis and economic downturn is having a severe impact on mining and mining-related sectors, which are the mainstay of the Zambian economy. Government revenue has been compressed, narrowing the fiscal space necessary for increased investment in infrastructure. Furthermore, the sharp fall in copper prices has resulted in a large deterioration of the trade balance, reduced foreign direct investment, and led to an outflow of portfolio capital. The Kwacha has depreciated by about 40 percent against the US dollar since early October 2008. At times, pressure on the Kwacha has been intense, requiring the Bank of Zambia to intervene to maintain orderly conditions in the foreign exchange market and sustain confidence in the currency. Under these circumstances, it was not possible to accumulate the gross international reserves (GIR) expected under the program in 2008.

In light of the above, the Government requests waivers for the non-observance of the performance criteria for NDA and GIR, and that the second and third disbursements be made available upon completion of the first and second reviews by the Executive Board of the IMF. The Government also requests an augmentation of access under the PRGF arrangement of 35 percent of quota, bringing total access to 45 percent of quota. This would be critical in helping Zambia to adjust to the severe external shock it has experienced and in maintaining a level of foreign exchange reserves that would foster market confidence and support the Bank of Zambia's ability to maintain orderly conditions in the foreign exchange market.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the program objectives, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF on the adoption of these measures and in advance of revisions to policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government authorizes the IMF to make the staff report for the new PRGF arrangement and this letter and the attached memoranda available to the public, including placement of these documents on the IMF website, subject to the removal of market-sensitive information, following the IMF Executive Board's conclusion of the reviews.

Yours sincerely,

/s/

Dr. Situmbeko Musokotwane
Minister of Finance and National Planning

Attachments (2)

Appendix I Attachment 1—
Zambia: Memorandum of Economic and Financial Policies

1. This memorandum reviews recent economic developments and outlines the policies and targets the Government of the Republic of Zambia will pursue in 2009 and the medium-term under the Poverty Reduction and Growth Facility (PRGF) arrangement.

I. Recent Economic Developments

2. **The global financial crisis has profoundly affected economic conditions and prospects for Zambia.** It is doing so most directly through the sharp fall in copper prices, which is compressing export proceeds and government revenue, and reducing capital inflows. From their peak in mid-2008, copper prices have fallen by about two-thirds. The reduced foreign exchange inflows from the mining sector and declining foreign demand for government securities have resulted in a steep depreciation of the Kwacha against the US dollar since early October 2008, at times necessitating sizeable sales of foreign exchange by the Bank of Zambia (BoZ) to maintain orderly market conditions and sustain confidence in the currency. As a result, gross international reserves increased by only US$29 million during 2008. Intense foreign exchange market pressure during the first months of 2009 required further sizeable intervention.

3. **Economic growth remained strong at 6 percent in 2008 as the effect of the global financial crisis on economic activity began to be felt only late in the year.** However, the surge in food and fuel prices put the 7 percent inflation target for end-2008 well beyond reach. Annual inflation reached 16.6 percent in December 2008, up from 8.9 percent a year earlier. It has since declined to 14 percent in February 2009 as food and fuel prices moderated.

4. **The overall fiscal deficit in 2008 was larger than programmed due to a large shortfall in mining taxes.** Total revenue fell short of the program target by 1 percent of GDP, reflecting lower tax revenue from mining (1.7 percent of GDP) which were partly offset by higher collections of personal income taxes and customs duties. In addition to the decline in copper prices in the second half of 2008, difficulties in implementing the new fiscal regime for mining that came into effect in April also adversely affected revenues. Total expenditure was lower than budgeted, but not by enough to offset the shortfall in revenue because of supplementary expenditures for a higher-than-budgeted wage bill, expanded fertilizer subsidies, the presidential elections, and a capital transfer to ZESCO to complete the rehabilitation of power stations. The overall fiscal deficit (including grants) of 1.7 percent of GDP exceeded the program target by 0.6 percentage points of GDP.

5. **Monetary expansion was on target through June, but subsequently picked up strongly, in part because policy sought to accommodate the first-round effects of the food and fuel price shocks.** Reserve money expanded by about 28 percent in 2008 compared

to the programmed 11.5 percent. The reserve money expansion also reflected the bunching of government spending in the last few weeks of the year and declining demand for government securities, particularly from foreign investors. Bank credit to the private sector grew by about 50 percent in 2008; however, credit growth has slowed down in recent months as banks have become more cautious in their lending to businesses and households that are negatively affected by the weakening in mining activity.

6. **The program was broadly on track during the first half of 2008, but slippages occurred towards the end of the year (Tables 1 and 2).** All quantitative performance criteria and indicative targets for June and September were met, except for the indicative targets for reserve money for June and September and for payment of domestic arrears for September. However, the December quantitative performance criteria for NDA and international reserves were not met, nor were the indicative targets for reserve money and the payment of domestic arrears. The reserve money and NDA targets were not observed because of the accommodation of food and fuel price shocks and because a sizeable portion of budgetary releases was not spent until the last few weeks of the year. The accumulation of international reserves was much smaller than targeted due to declining foreign exchange inflows from the mining sector and Bank of Zambia sales of foreign exchange to maintain orderly market conditions in periods of excessive exchange rate volatility. All structural performance criteria were met, as were all but one of the structural benchmarks.

II. Medium-Term Macroeconomic Framework

7. **Economic prospects have been adversely affected by the global economic downturn.** Real GDP growth is projected to slow from 6 percent in 2008 to 4 percent in 2009. Mining and mining-related activity and investment will be particularly hard hit. Many expansion projects have been postponed and one mine has shut down, while other mines have begun to lay off workers and curtail production. Other sectors will also be affected, including tourism, transportation, and construction. On the positive side, agriculture is expected to rebound from the relatively poor harvest in 2008, and electricity production should recover with the completion of the power rehabilitation project in the course of this year. However, the risks may still be on the downside and the strength of the recovery in 2010-11 will depend on how severely the Zambian mining sector will be affected by the downturn in global demand.

8. **The anticipated fiscal space will not materialize due to the decline in mining revenue.** With copper prices expected to recover only moderately over the medium-term, mining taxes in 2009-11 would be significantly lower than had earlier been expected under the program. The planned increase in spending on infrastructure and the social sectors aimed at diversifying the economy will thus have to take place at a slower pace.

9. **The balance of payments will weaken considerably with the decline in mining exports and foreign direct investment.** The trade balance, which registered a narrow surplus in 2008, is projected to record a sizable deficit in 2009 and the medium term. The current account deficit (including grants) is projected to widen to 7.1 percent of GDP in 2009, from 5.8 percent of GDP in 2008, and only improve modestly in subsequent years.

Importantly, the earlier program objective of increasing reserve coverage to around 5 months of imports by the end of 2010 is now well beyond reach. Instead, the program will target an increase in gross international reserves of US$100 million in 2009 and US$78 million in 2010, which in view of the large fall in imports would correspond to about 3 months of imports in 2009-10. This assumes that the requested augmentation of access under the PRGF arrangement, amounting to about US$260 million for 2009-10, is approved. In the absence of such an augmentation, gross reserves would likely decline.

III. Policies For 2009

A. Fiscal Policies

10. **Within the framework of a narrower fiscal space, fiscal policy will aim to increase spending on infrastructure to encourage diversification of the economy while safeguarding macroeconomic stability and leaving room for private sector investment growth.** Revenue is projected to decline by 1.3 percentage points to 17.7 percent of GDP, mostly reflecting lower mining taxes and lower non-tax revenues (as the contribution of the one-time measures in 2008 wear off). This projection includes the introduction of some tax measures—the main one being an increase in the threshold at which personal income tax is paid—which on net will reduce tax revenue by 0.2 percentage points of GDP. Expenditures would rise by 0.9 percentage points to 25.3 percent of GDP, reflecting a 1.1 percentage point of GDP increase in spending financed by foreign grants and loans. Capital spending is budgeted to increase by 1.2 percentage points to 4.9 percent of GDP, while current spending remains fairly flat. The overall fiscal deficit (including grants) would widen by 0.9 percentage points to 2.6 percent of GDP, while domestic financing would rise somewhat less to 1.9 percent of GDP. This level of domestic financing would permit implementation of the monetary program with reasonable effort.

11. **The Government will amend the fiscal regime for the mining sector.** The changes, which are expected to become effective April 1, 2009, include the removal of the windfall tax and the restoration in the capital allowance for tax purposes to 100 percent. The variable income tax will be retained to ensure that Zambia will share in future windfalls. While these measures are expected to have little, if any, revenue impact in 2009, they would help to preserve Zambia's attractiveness for future investment in mining.

12. **Enhancing transparency in the mining sector is important to ensure that available public resources from the sector are realized and used effectively.** To this end, the Government is working towards formally adopting the Extractive Industries Transparency Initiative (EITI) in a participatory process, in line with EITI guidelines.

13. **The Government is committed to resolving the financial difficulties of the Public Service** Pension **Fund (PSPF).** The PSPF is a defined-benefit scheme that was closed to new entrants in 2000. The actuarial deficit is estimated at about 14 percent of GDP. With a rising number of pensioners, the annual cash-flow deficit is projected to increase in the medium-term before falling as the scheme winds down (the deficit is estimated at about ½ percent of GDP over the next few years). The long-term sustainability of the PSPF depends on

constitutional amendments that are required to redesign the defined benefit scheme. In the meantime, the 2009 and subsequent budgets will allocate sufficient resources to the PSPF to ensure that current pension obligations are met in full. The Government will also abstain from any measures that would accelerate the accumulation of unfunded liabilities of the public pension schemes, including the reopening of the PSPF for new entrants.

B. Monetary and Exchange Rate Policies

14. **The challenge for monetary policy is to ensure that inflation turns to a downward path while also leaving room for private sector credit growth.** While a greater-than-programmed monetary expansion was necessary to accommodate the first round effects of the food and fuel price shocks, monetary policy will stay firm enough to contain any second-round effects on inflation. The aim is to reduce inflation to 10 percent by end-2009. To achieve this, reserve money is targeted to grow by 14 percent, which, given the budget's domestic financing requirement, would allow for adequate expansion in credit to the private sector and a buildup of international reserves to 3.1 months of imports.

15. **Exchange rate policy will continue to be based on a market-determined floating exchange rate.** Since October 2008, the Kwacha has depreciated in keeping with the changed fundamental determinants of the exchange rate. However, persistent uncertainty about global economic prospects and their impact on the domestic economy, in a thin market with loosely held expectations, has resulted in an unusually volatile foreign exchange market. In these circumstances, the BoZ will continue to actively intervene, when necessary, to maintain orderly market conditions and to help anchor expectations.

C. Structural Policies

16. **The structural components of the program complement the medium-term macroeconomic framework.** The program will continue to focus on: (i) improving public financial management; (ii) strengthening monetary operations and supervision, and deepening the financial sector; and (iii) implementing policies to ensure an adequate and reliable supply of electricity.

Public Financial Management

17. **Stepped up implementation of public financial management reforms is critical for increasing the effectiveness and productivity of the public sector.** To this end, the Cabinet has adopted a proposal for the establishment of a Treasury single account (TSA). In the meantime, the Government has started to use the real time gross settlement system (RTGS) in place of checks for large transactions and will continue to consolidate multiple accounts operated by each ministry, province, and spending agency (MPSA). The MoFNP will prepare a comprehensive strategy for phased implementation of the establishment of the TSA by end-June 2009 (structural benchmark). The strategy will include a complete inventory of all existing government bank accounts; the type of accounts that will be functional under the TSA regime; the coverage and structure of the TSA (centralized or decentralized structure); and an outline of new receipt and payment circuits. Moreover,

Government will approve all necessary amendments to the Public Finance Management Act specifying the general principles of the TSA system by end-September 2009 (structural benchmark). To harmonize treasury functions, the MoFNP will establish a Treasury Department within the MoFNP by year end.

18. **Other public financial management reforms are underway.** The Government intends to complete the full rollout of IFMIS by the end of 2010. Furthermore, to improve execution of capital projects, the Government will strengthen the three-year rolling budgets for capital projects under the Medium-Term Expenditure Framework. The coming into force of the new Public Procurement Act should further accelerate the execution of capital projects.

Tax Administration

19. **The modernization of the Zambia Revenue Authority (ZRA) is progressing well and the first phase of implementation has been completed.** Most recently, the change to a headquarters functional structure was completed and a Large Taxpayer Office (LTO) was established. The ZRA will, supported by TA from the IMF, continue implementing the reform program to further strengthen the effectiveness of tax administration. Specifically, the ZRA will absorb the mining unit into the LTO, in collaboration with other government agencies. To address concerns about VAT performance, the ZRA will integrate the VAT improvement initiatives within the broader Domestic Tax Division (DTD) program, strengthen the import deferral mechanisms, and address other structural issues. The Government intends to request assistance from the IMF to improve the performance of the VAT.

Financial Sector Development

20. **Considerable progress has been made to date with the implementation of the Financial Sector Development Program (FSDP), but a number of important challenges still remain.** The focus of financial sector reforms is on strengthening regulation and supervision, contingency planning and crisis preparedness, enhancing the effectiveness of monetary policy, and promoting enhanced access to finance and financial inclusion. To strengthen the interbank money market and promote the establishment of a benchmark short-term interest rate, the BoZ will introduce a flexible standing overnight facility for providing liquidity to the market by end-September 2009 (structural benchmark). This instrument—which would supplement the present, rarely used, rediscount facility—would foster a more stable interbank market and encourage commercial banks to hold lower levels of precautionary reserves at the BoZ. Regarding the need to further strengthen the framework for liquidity provision and contingency planning, measures will be defined on the basis of the recommendations of the forthcoming IMF TA mission, including with respect to the establishment of a Lender of Last Resort Facility for banks and possibly nonbank financial institutions. The BoZ also intends to integrate stress-testing exercises into the newly adopted risk-based supervisory framework, and establish formal communications with the supervisory authorities of parent banks of foreign-owned institutions on risks and crisis management issues. To further stimulate the growth of the secondary market, the Government will set up a supervisory regime for the secondary market in government securities by end-June 2009

(structural benchmark). This will entail the issuance of harmonized regulations to govern trading.

21. **Steps are being taken to improve the reliability of the RTGS and ensure the timely completion of daily payments processing.** The BoZ is undertaking measures to strengthen the operational reliability of the RTGS system and its ability to meet agreed service level standards. In this regard, the BoZ has established a suitable dial-up line as a backup, and is further investigating the possibility of using the Direct Debit and Credit Clearing system as another backup in the event of complete failure of the RTGS. It is also undertaking an upgrade of its SWIFT financial messaging network infrastructure in an effort to enhance RTGS connectivity.

22. **There is an ongoing effort to address Zambia's low level of financial inclusion.** Financial institutions' usage of the Credit Reference Bureau (CRB) has now been mandated, through a BoZ directive under the Banking and Financial Services Act, in an effort to improve the credit information framework and reduce credit risk, and thereby reduce bank costs. In addition, the effectiveness of Statutory Instrument No. 183 of 1995, which regulates bank charges, is under review, with a view to requiring financial institutions to report their bank fees and charges, and any modifications thereof, to the BoZ. Building on the successful pilot programs launched by a handful of financial institutions within Zambia and the experiences of other developing countries, consideration is being given to the broad introduction of "basic accounts", with no (or low) minimum balance, no fees, and limited transactions.

23. **The pension sector is important for financial sector development, as one of the largest domestic investors in financial instruments and an engine for mobilizing savings.** Regarding the regulatory and legal framework of the pension sector, the National Pension Scheme Authority (NAPSA) remains outside the supervisory mandate of the Pension and Insurance Agency (PIA). Given the growing size of NAPSA and its importance for future pension benefits, the Government intends to place the operational supervision of NAPSA under the PIA by end-December 2009. This will require, among other things, amendment of the provision in the Pension Scheme Regulatory Act (PSRA) which exempts NAPSA from extended supervision; the transfer of additional resources to PIA; and the establishment of a multi-year re-capitalization plan for NAPSA that would bring the pension to full funding, as mandated by the PSRA. Moreover, the Government intends to amend the PSRA to make sure that pension schemes employ custodians. Currently, the Act stipulates that custodians licensed by PIA must be commercial banks that are at least 51 percent domestically owned, but domestic banks have been reluctant to invest in the technology and staffing needed for custodial procedures and services.

Energy

24. **The Government is cognizant of the current shortage of electric power and the risk it poses to sustained growth.** The supply of electricity from power plants commissioned in the 1970s falls well short of demand because of strong economic growth in recent years. Although the completion of the power station rehabilitation project will restore

generating capacity and reduce load shedding temporarily, new capacity is needed to meet increased demand over the medium term. Policies will be strengthened to ensure that sufficient electricity generation capacity is installed as quickly as possible. To this end, the Government has adopted a new electricity strategy with measures to (i) adjust electricity tariffs to reflect the cost of service; (ii) attract private investments and competition in the sector; (iii) increase the operational efficiency of ZESCO and strengthen its governance; and (iv) ensure that ZESCO has sufficient resources to implement the planned rehabilitation and new generation projects. Specifically, a revised electricity tariff schedule that will raise the average tariff significantly for 2009 will be adopted and a public announcement will be made of the indicative tariff levels for 2010-11 consistent with the policy to reach cost-reflective levels by 2011 (end-June 2009 structural benchmark). The announced indicative tariff levels will reflect the cost of the planned large-scale investment in new generation and other electricity structure, and take into account the tariff setting for the mining sector.

25. **To encourage more private sector participation in electricity generation,** the Government will submit the necessary legislation to Parliament for the Zambian Grid Code, which will set out rules and procedures for the operation and pricing of the transmission network by end-December 2009. Further, the management of ZESCO will, by June 2009, enter into a performance contract with the Government designed to improve the efficiency and corporate governance of ZESCO. The contract will stipulate a number of efficiency-enhancing and cost cutting measures with the purpose of reducing ZESCO’s operational expenditures, including on wages and salaries. It will also require ZESCO to submit semi-annual reports on its overall operations to the committee of Ministers tasked with implementing the electricity strategy, in order to monitor progress in implementing the agreed cost cutting measures.

26. **Implementation of the new projects to expand electricity generation will likely require borrowing on nonconcessional terms.** To this end, ZESCO and the Government are currently seeking financing to carry out two hydropower investment projects (the Kariba North Bank Extension and the Itezhi-Tezhi Power Station). Given the importance of raising electricity supply to achieve the medium-term growth objectives, as well as limited availability of grants or concessional financing, the Government and/or ZESCO may need to contract new nonconcessional external borrowing. Any nonconcessional borrowing for these projects would not exceed US$ 400 million in 2009.

Trade, Debt, and Aid

27. **The Government continues to pursue an open trade regime.** Zambia has fully implemented the tariff phase down commitment under the SADC Protocol and is actively participating in the harmonization of trade related agendas under SADC and COMESA. Further, Zambia has initialed the interim agreement on market access offer between Zambia and the European Union.

28. **The Government is committed to improving public debt management.** The main objective of the newly adopted debt management policy and strategy is to ensure a sustainable level of indebtedness (including contingent liabilities). In this regard, the strategy

seeks to: improve risk management; ensure that financial obligations are settled as scheduled; control contingent liabilities; minimize the cost of financing the budget; support the development and deepening of financial markets; and facilitate effective coordination between monetary, fiscal and debt management policies. In this context, the Government will continue working on enhancing and unifying the legal framework, enhancing the monitoring of public sector debt, including debt contracted by public enterprises, and strengthening institutional capacity to manage and monitor debt. Efforts in these areas will be supported by joint IMF-World Bank Medium-Term Debt Strategy (MTDS) technical assistance to enhance capacity and facilitate effective implementation.

29. **The Government will continue to strengthen the management of aid.** Priority will be given to further enhancing cooperation with the donor community, including with respect to the compilation of consistent and timely aid data. In an effort to reconcile data on grant financing across government ministries, it is necessary to facilitate a close dialogue between donors, the MoFNP, and the BoZ.

IV. Economic Statistics

30. **The Government is aware of the pressing need to strengthen Zambia's capacity to collect and timely disseminate economic data, especially the national accounts.** The Central Statistics Office (CSO) will boost efforts to complete the economic census without further delays. The census will provide important information about the structure of the Zambian economy and will be used to rebase the national accounts. The CSO is testing a new, rebased CPI, which will be published starting in June 2009. The Government will ensure that sufficient funding is available for CSO to purchase the necessary technology to compute and publish the new CPI on time.

V. Program Monitoring

31. **Semi-annual disbursements under the PRGF arrangement will be based on the observance of quantitative performance criteria.** Completion of the third and fourth reviews of the arrangement will be based on the observance of quantitative performance criteria through end-June 2009 and end-December 2009, respectively (Tables 3 and 4). The third review is expected to be completed by November 2009.

Table 1. Zambia: Quantitative Performance Criteria (PC) and Indicative Targets, 2008[1]

(Billions of kwacha, unless otherwise indicated)

	2007	2008								
	Dec	Jun			Sep			Dec		
	Stock	Program	Actual	Status	Indicative	Actual	Status	Program	Actual	Status
Performance criteria:										
Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia [2, 3]	-1243	-208			-512			-776		
Adjusted ceiling		-366	-674	Met	-139	-327	Met	83	492	Not Met
Ceiling on the cumulative increase in net domestic financing (NDF) [2]	4,638	567			534			-64		
Adjusted ceiling		408	-499	Met	906	-449	Met	795	653	Met
Floor on the cumulative increase in gross international reserves (GIR) of the Bank of Zambia (Millions of U.S. dollars) [2]	947	154	295	Met	267			382		
Adjusted floor		195			170	240	Met	158	120	Not Met
Ceiling on new external payment arrears [4]	…	0	0	Met	0	0	Met	0	0	Met
Ceiling on contracting or guaranteeing short-term external debt by the central government, BOZ, ZESCO, ZAMTEL and Zambia Railways Limited [4]	…	0	0	Met	0	0	Met	0	0	Met
Ceiling on contracting or guaranteeing medium- and long-term nonconcessional external debt by the central government, BOZ, ZESCO, ZAMTEL and Zambia Railways Limited (millions of U.S. dollars) [5]										
Electricity sector projects [6]	…	450	0	Met	450	0	Met	450	0	Met
Other sectors	…	0	0	Met	0	0	Met	0	0	Met
Indicative targets:										
Floor on the cumulative payment of domestic arrears of the government		297	316	Met	527	357	Not Met	669	594	Not Met
Cumulative increase in reserve money	2500	22	35	Not Met	155	255	Not Met	289	721	Not Met
Memorandum items:										
Cumulative net budget support (millions of U.S. dollars)	74	101	140		154	155		141	142	
General budget support	136	115	165		200	203		200	203	
Central Government debt service obligations (excluding IMF)	-62	-14	-26		-46	-48		-59	-61	
Shortfall (-)/Excess (+)			39			0			1	
Cumulative revenue from mining (billions of kwacha)		351	360		1,055	681		1,640	776	
Shortfall (-)/Excess (+)			9			-374			-863	
Program exchange rate	3,845									

[1] The definitions of the items in the quantitative program are contained in the Technical Memorandum of Understanding (TMU).

[2] Adjustors, including for general budget support, are defined in the TMU.

[3] The ceiling will be adjusted for changes in the legal reserve requirements as specified in the TMU.

[4] Continuous performance criteria.

[5] Nonconcessional loans are those having a grant element of less than 35 percent.

[6] The projects are Kariba North Extension, Itezhi-Tezhi, and the rehabilitation of Kafue Gorge and Kariba power stations.

Table 2. Zambia: Structural Conditionality for 2008

Measure	Timing	Status
Submit to Cabinet a proposal to establish a treasury single account.[1]	End-June 2008	Met
Submit to Cabinet a proposal to establish a Treasury Department.[2]	End-June 2008	Met
Establish a headquarters functional structure at the Zambia Revenue Authority.[2]	End-September 2008	Met
Establish a single large-taxpayer office at the Zambia Revenue Authority.[2]	End-December 2008	Met
The Ministry of Finance and National Planning and the Bank of Zambia will establish a formal mechanism for coordination with key line ministries on liquidity management.[2]	End-June 2008	Met
The Bank of Zambia will restructure the operations of its rediscount window.[2]	End-June 2008	Met with delay
Set up a supervisory regime for the secondary market in government securities.[2]	End-December 2008	Not met. Reset for end-June 2009
Introduce risk based bank supervision.[2]	End-December 2008	Met
Submit to Cabinet a debt management strategy.[2]	End-September 2008	Met
Submit to Cabinet a policy for the electricity sector with specific strategies to (i) gradually adjust electricity tariffs to the cost of service; (ii) attract private investment and competition in the sector; (iii) increase the operational efficiency of ZESCO; and (iv) ensure that ZESCO has sufficient resources to implement the planned rehabilitation and new generation projects.[1]	End-June 2008	Met

[1] Performance Criterion.

[2] Benchmark.

Table 3. Zambia: Quantitative Performance Criteria (PC) and Indicative Targets, 2009[1]

(Billions of kwacha, unless otherwise indicated)

	2008	2009		
	Dec	Jun	Sep	Dec
	Stock	Prog	Indicative	Prog
Performance criteria:				
Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia[2, 3]	-1449	397	642	996
Ceiling on the cumulative increase in net domestic financing (NDF)[2]	5,291	447	844	1,170
Floor on the cumulative increase in gross international reserves (GIR) of the Bank of Zambia (Millions of U.S. dollars)[2]	976	44	29	100
Ceiling on new external payment arrears[4]	…	0	0	0
Ceiling on contracting or guaranteeing short-term external debt by the central government, BOZ, ZESCO, ZAMTEL and Zambia Railways Limited[4]	…	0	0	0
Ceiling on contracting or guaranteeing medium- and long-term nonconcessional external debt by the central government, BOZ, ZESCO, ZAMTEL and Zambia Railways Limited (millions of U.S. dollars)[5]				
Electricity sector projects[6]	…	400	400	400
Other sectors	…	0	0	0
Indicative targets:				
Floor on the cumulative payment of domestic arrears of the government	…	161	264	352
Cumulative increase in reserve money	3211	-60	112	450
Memorandum items:				
Cumulative net budget support (millions of U.S. dollars)		141	126	106
General budget support		187	201	201
Central Government debt service obligations (excluding IMF)		-46	-75	-95
Program exchange rate	4,832	4,832	4,832	4,832

[1]The definitions of the items in the quantitative program are contained in the Technical Memorandum of Understanding (TMU).
[2]Adjustors, including for general budget support, are defined in the TMU.
[3]The ceiling will be adjusted for changes in the legal reserve requirements as specified in the TMU.
[4]Continuous performance criteria.
[5]Nonconcessional loans are those having a grant element of less than 35 percent.
[6]The projects are Kariba North Extension and Itezhi-Tezhi power station.

Table 4. Zambia: Structural Benchmarks for 2009

Measure	Timing	Macro Rationale
Prepare a comprehensive strategy for phased implementation of the establishment of the treasury single account system.	End-June 2009	Strengthen public expenditure management and budget execution. In particular, the measures will improve cash flow management and forecasts and thereby contribute to improved fiscal and monetary policy coordination.
Approval by Cabinet of all necessary amendments to the Public Finance Management Act specifying the general principles of the treasury single account system.	End-September 2009	
Set up a supervisory regime for the secondary market in government securities.	End-June 2009	Financial sector deepening which is vital to achieving the growth objectives of the program.
Bank of Zambia will introduce a new standing overnight lending facility.	End-September 2009	Strengthen liquidity management, reduce volatillity in the money market, and enhance the effectiveness of monetary policy.
Raise the average electricity tariff in 2009 and publicly announce indicative tariffs for 2010-11consistent with the policy to reach cost-reflective levels by 2011.	End-June 2009	To ensure an efficient and sustainable power supply. Solving the current problems in the energy sector is essential to achieving the growth objectives of the program.

Appendix I Attachment 2—

Technical Memorandum of Understanding for the 2008-10 Poverty Reduction and Growth Facility (PRGF) Arrangement

I. Introduction

1. This memorandum sets out the understandings between the Zambian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and indicative targets for the program supported by the PRGF arrangement, as well as the program adjusters and the related reporting requirements.

II. Quantitative Performance Criteria And Indicative Targets: Definitions and Data Sources

A. Net Domestic Assets (NDA) of the Bank of Zambia (BoZ)

2. Net domestic assets (NDA) of the BoZ are defined as the monthly average (based on daily data) of reserve money (as defined below) less net foreign assets of the BoZ calculated at kwacha 4,832.3 per U.S. dollar for 2009.[6] Net foreign assets of the BoZ are defined as gross international reserves (defined in paragraph 8) plus any other foreign assets, including US$109 million encumbered reserves at end-December 2008, minus foreign reserve liabilities (defined below). The kwacha values of net foreign assets are derived from the U.S. dollar values using the program exchange rate.

3. Foreign reserve liabilities are defined as short term (one year or less in original maturity) foreign currency-denominated liabilities of the BoZ to nonresidents and outstanding use of IMF credit.

B. Reserve Money

4. Reserve money (monthly average based on daily data) consists of currency issued, required reserves on kwacha deposits, required reserves on foreign currency deposits (at the

[6] Unless otherwise defined, program exchange rates for 2009 between the U.S. dollar and other (non-kwacha) currencies will be equal to the end-December 2008 values. The U.S. dollar/SDR rate for program purposes is 1.536 for 2009. All other assets (e.g. gold) would be revalued at their end-December 2008 market prices for 2009.

program exchange rate), positive current account balances of banks with the BoZ, and deposits in the BoZ of non-central government institutions.

5. Data on reserve money, including its components, will be reported by the BoZ on weekly and end-month basis.

C. Net Domestic Financing (NDF)

6. Net domestic financing (NDF) is defined as the Central Government's net borrowing from the banking and non-banking sectors (See Table 1).[7] All government-issued securities will be recorded at cost (face value less discount). NDF will comprise:

(a) the net position of the central Government with commercial banks, including: (i) Treasury bills; (ii) government bonds; (iii) loans and advances; less (iv) support to MBZ; and (v) central government deposits (defined to include account balances under the authority of controlling officers); plus

(b) BoZ holdings of: (i) Treasury bills; (ii) government bonds; (iii) kwacha bridge loan (overdraft facility); less (iv) the government's deposits at the BoZ; and (v) the donor suspense account; plus (vi) the outstanding amount of the long-term non-transferable security issued against the government's indebtedness to BoZ as at end-2002; plus

(c) Nonbank holdings of: Treasury bills; and government bonds.

7. The data source for NDF will be the "Net Domestic Financing" Table produced by the Economics Department of the BoZ. The Table will be submitted on a weekly basis, and will be reconciled with the monthly monetary survey.

D. Gross International Reserves of the BOZ

8. Unless otherwise noted here, gross international reserves of the BoZ will be defined as reserve assets of the BoZ (See Table 2). Reserve assets are defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS). They exclude, for example, foreign assets not readily available to or controlled by the monetary authorities, and foreign currency claims on Zambian residents.

9. Gross international reserves consist of: (i) monetary gold; (ii) foreign currency in cash; (iii) unencumbered foreign-currency deposits at non-resident banks; (iv) foreign

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[7] The Central Government includes all the administrations identified by the budget heads listed in the Yellow Book for 2009.

securities and deposits; and (v) SDR holdings and Zambia's reserve position with the IMF. Gross reserves exclude non-convertible currencies, any encumbered reserve assets including but not limited to reserve assets pledged, swapped or used as collateral or guarantee for third-party external liabilities, commercial bank reserve requirements on foreign currency deposits, and the US$25 million deposit in MBZ (in liquidation).

10. For the purpose of this target, as well as those for external debt and arrears, valuation will be in U.S. dollars at program exchange rates.

11. Data on gross international reserves, including its components, will be reported by the BoZ on a weekly and end-month basis.

E. External Payment Arrears

12. The performance criterion on the non-accumulation of new external payment arrears is continuous. Official external payment arrears are defined as unpaid debt service by the central Government and BoZ 30 days beyond the due date and/or the grace period. This definition excludes arrears on debt subject to rescheduling.

13. Data on arrears are compiled jointly by the Ministry of Finance and National Planning (MoFNP) and BoZ and will be reported by the MoFNP on a quarterly basis.

F. Official External Debt

14. Official medium- and long-term concessional external debt is defined as all forms of official debt with original maturity of more than one year contracted or guaranteed by the central Government, BoZ, ZESCO, ZAMTEL and Zambia Railways Limited having a grant element of no less than 35 percent. The grant element is to be calculated by using currency-specific commercial interest reference rates (CIRRs) reported by the DAC of the OECD. For maturities of less than 15 years, the grant element will be calculated based on six-month averages of CIRRs, and for maturities longer than 15 years, the grant element will be calculated based on 10-year averages. Lending from the IMF will be excluded.

15. This minimum grant element applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000; see Annex), but also to commitments contracted or guaranteed for which value has not been received.

16. Official external non-concessional debt is defined as the contracting or guaranteeing of external debt other than concessional debt as defined in paragraph 14, owed or guaranteed by the central Government, BoZ, ZESCO, ZAMTEL and Zambia Railways Limited.

17. The ceiling on contracting or guaranteeing of medium and long-term non-concessional external debt by the central government, BoZ, ZESCO, ZAMTEL and Zambia Railways Limited excludes: (i) non-concessional loans stemming from the rescheduling of external debt; and (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents.

18. Official external short-term debt is defined as the contracting or guaranteeing of external debt with original maturity of less than one year, and includes forward commodity sales but will exclude normal trade credit for imports.

19. The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000; see Annex).

20. Detailed data on all new external debt (concessional and non-concessional) contracted or guaranteed by the central government, BoZ, ZESCO, ZAMTEL and Zambia Railways Limited will be provided by the MoFNP on a monthly basis. Information will include (i) amounts contracted or guaranteed; (ii) currencies; and (iii) terms and conditions, including interest rate, maturity, grace period, payments per year, commissions and fees, and collaterals.

G. Domestic Arrears of Central Government

21. Domestic arrears are defined as: (i) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 30 days after the due date of payments; (ii) wage, salary and any other payment to government employees, including pension contributions and all forms of housing allowances, that were due to be paid in a given month but remained unpaid on the 15th of the following month; and (iii) interest or principal obligations which remain unpaid 30 days after the due date of payment.

22. Information regarding domestic arrears is to be compiled through audits of the accounts of spending Ministries and agencies, conducted by the Internal Audit division of the MoFNP**.** The audits will be completed and data submitted to IMF staff by the Secretary of the Treasury within six weeks of the end of each quarter.

III. Adjusters

23. The quantitative performance criteria specified under the program are subject to the following adjusters:

General budget support (GBS) net of debt service[8]

(i) The ceilings on NDA and NDF will be adjusted downward (upward) by the full amount of the excess (shortfall) in GBS net of debt service relative to the programmed levels specified in Table 1 of the MEFP.[9] [10]

(ii) The floors on GIR will be adjusted upward (downward) by the full amount of the excess (shortfall) in GBS net of debt service relative to the programmed levels (Table 1 of the MEFP).

(iii) The total adjustment for shortfalls will be limited to US$30 million for January-June and US$35 million for January-December 2009.

Change in reserve requirements

(iv) The ceiling on NDA will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirements on deposits in commercial banks. The adjuster will be calculated as the percent change in the reserve requirement multiplied by the actual amount of required reserves (kwacha and foreign-currency denominated) at the end of the previous calendar month.

IMF disbursement

(v) The floors on GIR will be adjusted upward (downward) for any excess (shortfall) in the disbursements from the IMF (US dollar value) relative to the programmed levels.

BoZ short-term debt

(vi) The floor on GIR will be adjusted upward for any increase in BoZ short-term debt denominated in foreign currency, (see definition of short-term debt above).

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[8] General budget support consists of grants and loans received by the central Government for financing its overall policy and budget priorities following Zambian budget procedures.

[9] For the purpose of adjusting the NDA ceiling, external disbursements will be treated as if they were received the first day of the month. The targeted NDA will be increased by the amount of the disbursement divided by the number of business days in the month multiplied by the number of business days from the beginning of the month to the day prior to the disbursement.

[10] For purpose of adjusting the NDF ceiling, the cumulative excess/shortfall will be converted to kwacha value using the program exchange rate.

Table 1. Net Domestic Financing
(Billion Kwacha)

	2008		2009
	End-December	End-December Program Base	
Total domestic financing (program)			
Adjustment			
Adjusted program financing			
Excess/shortfall (- = excess)			
Total domestic financing	5,290.6	5,290.6	
Bank financing	2,554.3		
Commercial banks	1,970.2		
Treasury bills[1]	1,195.7		
Bonds[1]	1,367.6		
Loans and advances	2,744.2		
less: Support to MBZ	-8.0		
less: Deposits	-587.5		
Bank of Zambia			
Treasury bills[1]			
Bonds[1]			
Kwacha bridging loan			
GRZ position			
Donor suspense balance			
GRZ long-term security IFO BoZ			
Other			
Nonbank financing			
Treasury bills[1]			
Bonds[1]			

Source: BoZ net domestic financing table.

[1]Measured at cost (face value less discount).

Table 2. Zambia: Gross International Reserves[1]
(Millions of U.S. dollars)

	2008			2009					
	December			June, December					
	12/13/2008 = Base			Current			31/12/09		
		Exchange rate			Exchange rate			Exchange rate	
	Amount	or price	U.S. dollars	Amount	or price	U.S. do	Amount	or price	U.S. dollars
Official reserve assets[2]									
Foreign currency reserves									
Securities									
in U.S. dollars									
in U.K. pounds									
in Euro									
Other currencies									
Deposits[3]									
in U.S. dollars									
in U.K. pounds									
in Euro									
Other currencies									
IMF reserve position									
SDR (excludes IMF interim assistance under the HIPC Initiative)									
Monetary gold									
Other reserve assets									
Memo: Other foreign currency assets[4]									
Predetermined short-term net drain[5]									
Liabilities to IMF									
Other foreign currency loans and securities									
in U.S. dollars									
in U.K. pounds									
in other currencies									
Aggregate short & long positions in forwards, futures and swaps									
Other									
Contingent short-term net drains									
Contingent liabilities									
Securities with embedded options									
Undrawn, unconditional credit lines									
Aggregates short & long term positions of options									
Memorandum items:									
Short-term domestic currency debt indexed to the exchange rate									
Financial instruments denominated in foreign currency settled by other means									
Pledged assets									
of which: Balance of IMF interim HIPC assistance									
Securities lent or on repo									
Financial derivatives (net, marked to market)									
Derivatives with residual maturity > 1 year, subject to margin call									

[1]As defined in the TMU or IMF, "Data Template on Intl'l Reserves and Foreign Currency Liquidity Operational Guidelines."
[2]Corresponds to gross international reserves for program performance.
[3]Excludes deposits at resident banks, unless assets held abroad by the bank are explicitly connected to the foreign exchange deposit of the BoZ.
[4]Includes foreign currency deposits are resident banks.
[5]The program target for gross international reserves will be adjusted as described in the TMU.

INTERNATIONAL MONETARY FUND

ZAMBIA

First and Second Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Augmentation of Access—Informational Annex

Prepared by the African Department
(In consultation with other department)

Approved by Tom Krueger and David Marston

April 14, 2009

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APPENDIX I. ZAMBIA: RELATIONS WITH THE FUND
(As of February 28, 2009)

I. **Membership Status:** Joined: September 23, 1965; Article VIII

II. **General Resources Account:**	**SDR Million**	**Percent Quota**
Quota	489.10	100.0
Fund holdings of currency	489.10	100.0
Reserve position in Fund	0.02	0.0

III. **SDR Department:**	**SDR Million**	**Percent Allocation**
Net cumulative allocation	68.30	100.0
Holdings	6.72	9.83

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent Quota**
PRGF arrangements	62.01	12.68

V. **Latest Financial Arrangements:**

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
PRGF	06/04/2008	06/03/2011	48.91	6.99
PRGF	06/16/2004	09/30/2007	220.10	220.10
PRGF	03/25/1999	03/28/2003	278.90	237.52

VI. **Projected Payments to the Fund**
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	…	0.55	3.30	7.70	11.70
Charges/interest	0.58	0.67	0.66	0.63	0.58
Total	0.58	1.22	3.96	8.33	12.29

VII. Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	Dec. 2000
Assistance committed (1999 NPV terms)[11]	
by all creditors (US$ million)	2,499.20
Of which: Fund assistance (US$ million)	602.00
(SDR equivalent in million)	468.80
Completion point date	April 2005
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to Zambia	468.80
Interim assistance	351.60
Completion point balance	117.20
Additional disbursements of interest income[12]	39.47
Total disbursements	508.27

VIII. Implementation of MDRI Assistance

I.	Total debt relief (SDR million)[13]	402.59
	Of which: MDRI	398.47
	HIPC	4.12
II.	Debt relief by facility (SDR million)	

Delivery Date	GRA	PRGF	Total
January 2006	N/A	402.59	402.59

[11] Net present value (NPV) terms at the decision point under the enhanced framework.

[12] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[13] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for assistance. The debt relief covers all debt owed to the Fund as of end-2004 that is outstanding at the time the member qualifies for the relief.

IX. Safeguards Assessment

In connection with the 2008 PRGF arrangement, an update safeguards assessment of the Bank of Zambia (BoZ) was completed on January 13, 2009. The assessment found that aspects of the BoZ safeguards framework have been strengthened since the previous assessment, completed in 2004. Specifically, the BoZ implemented IFRS in 2005 and recently strengthened foreign reserves management and oversight. Weak statutory independence, protracted external audit completion, and lack of or delayed publication of audited information remain safeguards concerns. To address these issues, the assessment recommended that the BoZ:

(i) put in place year-end closing and audit planning procedures to facilitate earlier completion of the annual external audit;

(ii) enact legal amendments that address all legal safeguards concerns raised in the 2004 safeguards report;

(iii) publish the annual audited financial statements and audit opinion on the BoZ's external website no later that one month after audit completion;

(iv) commission an external quality assurance review of the work practices of the internal audit function and the oversight exercised by the BoZ Audit Committee;

(v) mandate that the external audit firm, in coordination with the Internal Audit Department, verify unissued currency in vaults at year-end, and reconcile the confirmed balances to supporting documentation from the printing firms;

(vi) request that the MoFNP fill the vacant seat on the Board by appointing a person with professional experience in accounting and auditing, who should also serve on the Audit Committee; and

(vii) implement a review of all program data submitted to the Fund for accuracy, and for consistency with the technical memorandum of understanding (TMU), to be conducted by the BoZ's Internal Audit Department.

X. Exchange Rate Arrangement

The currency of Zambia is the kwacha. The exchange rate arrangement is an independent float, with the kwacha exchange rate determined in the interbank market. The buying rate of the Bank of Zambia (BoZ) is a simple average of the primary dealers' low bid rates and the BoZ's selling rate is the simple average of the primary dealers' high offer rates. On April 19, 2002, Zambia accepted the obligations of Article VIII, Section 2, 3, and 4 of the Articles of

Agreement. However, the Fund urged the authorities to eliminate the exchange restriction evidenced by the accumulation of external payments arrears, which is subject to Fund approval under Article VIII, as soon as possible.

XI. **Article IV Consultations**

Zambia is on the standard 24-month Article IV consultation cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002. The Executive Board concluded the last Article IV consultation on December 7, 2007.

XII. **FSAP Participation and ROSC**

Zambia has participated in the financial sector assessment program (FSAP); an FSAP mission from the Fund and the World Bank conducted a comprehensive external assessment of the financial system April 30-May 15 and July 15–26, 2002. A mission from the Fund and the World Bank conducted a follow up FSAP in November, 2008.

The fiscal transparency module of a Report on Observance of Standards and Codes (ROSC) assessing compliance with the IMF's Code of Good Practices on Fiscal Transparency—Declaration of Principles was issued to the Executive Board on October 31, 2001. A ROSC-data module was issued to the Executive Board on January 18, 2005.

XIII. **Technical Assistance (since 2003)**

Resident advisors

Department	**Dates**	**Position**
FAD	2002–03	Advisor on public expenditure management

Technical assistance missions

Department	**Dates**	**Purpose**
MFD	January and May 2003	Development of foreign exchange interbank market, monetary operations, and reform of the financial system
	September 2003	Monetary operations, reform of the financial system, government securities market, and payments system

	April–October 2004	Resolution of nonbank financial institutions (three missions)
	April–May 2005	Liquidity management operations
	March 2006	Liquidity management, monetary and exchange rate policies
MCM	March 2009	Contingency planning and lender of last resort
	September 2007	Institutional arrangements and operation of the foreign exchange market.
	September 2007	Foreign exchange market
	November 2007	Risk-based supervision
	July 2008	Bank Restructuring
STA	June 2004	Data ROSC
	April–May 2005	Monetary Statistics (GDDS)
	May 2005	Government Finance Statistics (GDDS)
	February 2006	Real Sector (GDDS)
	July 2006	Real Sector (GDDS)
	April 2008	Monetary and Financial Statistics
	January 2009	Consumer Price Index
FAD	July–August 2005	Regulations for the Public Finance Act
	November 2005	Fiscal regime for copper mining
	July 2006	Revenue administration
	August 2006	Follow up on fiscal arrangements for the mining sector
	October 2006	Review of tax policy
	June 2008	Tax administration
	November 2008	Tax administration
	January 2009	Tax administration
LEG	August 2004–February 2005	Assistance on amending legislation on nonbank financial institutions
	May 2005	Strengthening the regulatory framework for nonbank financial institutions

XIV. **Resident Representative**

A Fund Resident Representative first took up the position in Lusaka in June 1990. Mr. Birgir Arnason has been the Resident Representative since November 20

APPENDIX II. ZAMBIA: JOINT WORLD BANK-FUND WORK PROGRAM, 2009–10

Title	Products	Expected delivery date
World Bank work program in next 12 months	1. Investment Climate Assessment.	June 1, 2009
	2. Water Resources Assistance Strategy	Februrary 25, 2009
	3. EITI++ Scoping Study	March 2009
	4. Epidemiological Synthesis in Zambia	July 2009
	5. Fertilizer Support Program – Public Expenditure Tracking Study	June 2009
	6. Public Expenditure Review	December 2009
	7. Drivers of Growth Study	2010
	8. Transport Cost Analysis	2010
	9. Health Sector Assessment	2010
	10. Strategy for Post Basic Education	2010
	11. Zambia Business Survey	2010
IMF work program in next 12 months	1. Article IV Consultation and Third PRGF review	November 2009
	2. Fourth PRGF review	May 2010
	3. Technical assistance: lender of last resort instruments	April 2009 (and follow up)
	4. Technical assistance: single treasury account implementation	April 2009 (and follow up)
Fund request to Bank	1. Public Expenditure Review.	December 2009
	2. Review the Fertilizer Support Program (FSP). With significant increase in budget allocation, there is an urgent need to assess the FSP's poverty targeting goals.	June 2009
	3. Conduct electricity pricing study with the purpose of determining the average electricity tariff consistent with long run cost recovery.	June 2009
Bank request to Fund	1. Medium-term macroeconomic framework	
Joint products in next 12 months	1. DSA	August 2009
	2. FSAP follow up mission	March/April 2009

APPENDIX III. ZAMBIA: STATISTICAL ISSUES

1. Data provision is broadly adequate for surveillance. However, there are shortcomings in the national accounts, balance of payments, and consumer prices. The present arrangements for compiling macroeconomic statistics involve duplication of effort and insufficient coordination among the Bank of Zambia (BoZ), the Ministry of Finance and National Planning (MFNP), and the Central Statistical Office (CSO). The situation largely reflects resource constraints and organizational weakness within the CSO that have affected its ability to produce economic statistics on a timely basis.

2. Resource constraints have also hampered the capacity to absorb technical assistance (TA) in statistics. A STA mission visited Lusaka in October 2006 to discuss ways to enhance the effectiveness of technical assistance. Discussions with the authorities and donors focused on the need to implement outstanding data ROSC recommendations. Under a pilot project initiated by AFR to encourage countries to undertake the compilation of the Statistical Appendix to Article IV staff reports, STA participated in the Article IV consultation mission in September 2007 to provide assistance. The authorities expressed their willingness to compile and publish the Statistical Appendix but indicated the need for further technical assistance. The authorities are yet to post the Statistical Appendix for 2007 on the national website as had been indicated at the end of the mission.

3. As one of 22 countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Zambia has undertaken to use the GDDS as a framework for the development of its national statistical system. The country is participating in the national accounts and the GDDS/PRSP modules of the Anglophone Africa project (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata and to meet GDDS recommended statistical practices. The metadata were posted on the Dissemination Standards Bulletin Board on November 1, 2002 and partially updated in June 2006.

Real sector statistics

4. The national accounts estimates are compiled according to the conceptual guidelines of the *1968 SNA*, but a phased approach to the introduction of the *1993 SNA* is ongoing. For the production approach, 1994 is the latest benchmark year for value-added ratios. For many important industry areas, such as wholesale and retail trade, construction, business services and many other service industries, (consisting mainly of small-scale private service providers) there are no appropriate indicators. Data on total production and intermediate consumption of establishments are not available. On the expenditure side, there are no reliable indicators of household consumption and private final consumption expenditure is derived as a residual. Source data for estimating gross fixed capital formation and changes in stocks are incomplete.

5. A February 2006 IMF/DFID GDDS mission noted that the CSO had obtained data comprehensive enough to enable it to produce a new benchmark for 2003. A follow-up mission in July 2006, however, found little progress in producing one. The authorities have launched a comprehensive economic census to complete the rebasing of the national accounts in 2007.

6. A July 2008 DFID funded mission reviewed progress to date, and provided training and recommendations for further work to ensure the estimates are 1993 SNA compliant, including the incorporation of the forthcoming economic census data. If the tasks identified in the agreed action plan are completed, a further mission will be undertaken in March 2009. VAT data will be developed as a cross-check for the economic census data and future data sources.

7. Current price GDP estimates for both production and expenditure have been derived from the constant price indicators using wholesale price indices (WPIs) and consumer price indices (CPIs) as deflators. However, for the most recent period, the WPI were not available and the CPI components were used throughout the system.

8. The CPI broadly adheres to international methodological standards. The classification system used for compilation closely follows the Classification of Individual Consumption by Purpose. However, the frequency of the household budget surveys has been insufficient to capture changes in consumer expenditure structure on a timely basis. The current index has 1994 as base year with weights derived from the 1993/1994 household budget survey. The authorities plan to launch a new rebased CPI in 2008.

Government finance statistics

9. In 2007, the authorities made progress in improving reporting government finance statistics (GFS) for publication in the *GFSY*. They submitted a consistent time series of GFS data, covering only the budgetary central government, for 2001 through 2007, based on the *GFSM 2001* framework. The transactional coverage of these data is limited to government operations and transactions in nonfinancial assets. Data on transactions in financial assets and liabilities are still unavailable. No monthly or quarterly fiscal data are reported for publication in *International Financial Statistics (IFS)*. The authorities report monthly budget data to AFR for operational use in a timely manner, but the data are often subject to substantial revisions, and data on extra-budgetary institutions and local governments are not available.

10. An IMF/DFID GDDS mission in March 2003 provided technical assistance to the MFNP on government finance statistics and to advise on migration to the methodology of the *Government Finance Statistics Manual 2001 (GFSM2001).*

11. Another IMF/GDDS mission in May 2005 assessed the overall quality, coverage, and timeliness of fiscal data. The mission found that decentralization of government activities in earlier years had led to the creation of numerous extra-budgetary institutions. While the

majority of these entities follow international accounting practices, they are not obliged to report to the MFNP. Currently, an estimated 35 percent of government activities are not captured in the data. The mission also noted that the implementation of Integrated Financial Management and Information System (IFMIS) is a long-term project with an expected completion date of 2009.

Monetary and financial statistics

12. The April-May 2008 monetary and financial statistics (MFS) mission found that the BoZ had made substantial progress in implementing the key recommendations of the 2005 MFS mission. As a result, there has been a noticeable improvement in the quality of monetary accounts compiled and reported in accordance with the standardized report forms (SRFs) for the BoZ and other depository corporations (ODCs). However, the implementation of some recommendations pertaining to the ODCs accounts still has some way to go and in some instances the pace of implementation could have been accelerated.

13. The institutional coverage of other depository corporations has been expanded to include commercial banks (including three banks in liquidation), building societies, and the National Savings and Credit Bank. Data reported by commercial banks are considered generally adequate, but there are some problems in the sectorization of public sector deposits and the recording of repurchase agreements, which are treated as outright sales or purchases. In this context, the mission recommended that the BoZ (i) provide the ODCs with a comprehensive list of all government agencies, indicating whether each should be classified as central government, statutory bodies, local government, donors' funds, or a public nonfinancial corporation (parastatals); and (ii) that ODCs classify donors' funds as deposits of the central government, separately identify loans denominated in the national and foreign currencies, and establish procedures for collecting data on accrued interest and on financial derivatives. Deposits of three banks that are currently in the process of liquidation are classified as restricted deposits and excluded from broad money.

External sector statistics

14. Balance of payments statistics are compiled and disseminated by the BoZ in accordance with the fifth edition of the Balance of Payments Manual. However, the CSO is legally responsible for compiling all macroeconomic statistics. The most recent balance of payments data reported to STA are for 2007.

15. A technical assistance mission in January 2008, the most recent, found that little progress had been made since the assessment by the 2004 ROSC mission. Data sources remain poor (some items are estimated without reference to current source data) and compilation methods are inadequate. Resources available for balance of payments compilation have been increased, but are still inadequate, while coordination between the BoZ and CSO had improved.

16. As a result, significant gaps in data remain in many areas including reinvested earnings, trade in services, and the financial account (including export proceeds held abroad by mining and nontraditional exporters). While the source data are generally adequate in terms of timeliness, they fall short in terms of coverage. As a result the shortcomings in source data coverage, indirect estimation methods are used, some of which have remained unchanged for many years and are out of date. Source data on private sector foreign assets and liabilities are insufficient to compile an International Investment Position statement.

Zambia: Table of Common Indicators Required for Surveillance
As of August 13, 2008

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	Jul.. 2008	Aug. 08, 2008	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jun. 2008	Jul. 2008	W	W	M		
Reserve/Base Money	Jun. 2008	Aug. 8, 2008	W	W	F	LO, LO, LO, LO	LO, O, O, O, O
Broad Money	Jun. 2008	Aug. 8, 2008	M	M	M		
Central Bank Balance Sheet	Jun. 2008	Aug. 8, 2008	M	M	M		
Consolidated Balance Sheet of the Banking System	Jun. 2008	Aug. 8, 2008	M	M	M		
Interest Rates[2]	Jun. 2008	Aug. 8, 2008	W	W	F		
Consumer Price Index	Jun. 2008	Aug. 22, 2008	M	M	M	O, LO, O, LO	LNO, LO, LO, LNO, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA					LO, LNO, LNO, LO	LNO, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Jun. 2008	Aug. 8, 2008	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2005	Apr. 21, 2006	M	M	A		
External Current Account Balance	2007	Jun. 12, 2008	A	A	A	LO, LNO, LNO, O	LNO, O, LNO, LO, LNO
Exports and Imports of Goods and Services	2007	Jun. 12, 2008	Q	Q	A		
GDP/GNP	2006	Mar. 2007	A	A	A	LO, LO, LO, LO	LNO, LO, LNO, LNO, LNO
Gross External Debt	Sep. 2005	Mar. 2006	Q	I	I		
International Investment Position [6]							

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); or Not Available (NA).
[8] Reflects the assessment provided in the data ROSC, published February 1, 2005, and based on the findings of the mission that took place during May 18-June 3, 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
May 1, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First and Second Reviews under the PRGF Arrangement with Zambia and Approves US$ 256.4 Million Increase in Financial Support and US$ 160.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first and second reviews of Zambia's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The Executive Board also approved an increase in financial support under the program by SDR171.185 million (about US$256.4 million) to SDR220.095 million (about US$329.7 million) to help Zambia cope with the global economic slowdown and financial crisis. The completion of the combined reviews allows for the immediate disbursement of an amount equivalent to SDR 106.91 million (about US$ 160.1 million), bringing total disbursements to SDR113.897 million (about US$ 170.6 million).

The three-year PRGF arrangement for Zambia was originally approved in June 2008 (see Press Release No. 08/134)

Following the Executive Board's discussion, Mr. Takatoshi Kato Deputy Managing Director and Acting Chair, stated:

"Zambia's program implementation and recent economic performance have been adversely affected by a number of exogenous shocks. In particular, the international food and fuel price increases shocks in the first half of 2008 pushed inflation above the program target, while a steep fall in copper prices related to the current global economic and financial crisis has severely compressed export proceeds and government revenue. The Zambian authorities have responded appropriately to these shocks.

"Fiscal policy has struck the right balance between high-priority infrastructure spending to promote medium-term economic growth and diversification, and safeguarding short-term macroeconomic stability. The authorities have appropriately scaled back investment and recurrent spending, while protecting priority social spending. They are seeking to strengthen public expenditure management, particularly by establishing a treasury single account and improving the execution of capital projects," Mr. Kato said.

"The floating exchange rate has served Zambia well in helping the economy adjust to the external shocks. However, the volatility of the kwacha underscores the need to reduce Zambia's vulnerability to fluctuations in copper prices, through continued vigorous implementation of structural reforms to diversify the economy.

"The recent decline in inflation is welcome. The authorities plan to adhere to a firm monetary policy so as to reduce inflation to single digits by 2010. They have made progress in strengthening financial regulation and supervision and implementing the Financial Sector Development Plan. The banking sector overall remains adequately capitalized and liquid. Nevertheless, continued vigilance is needed in light of the global financial crisis and pressures on the exchange rate, particularly to safeguard against increased credit risk and adverse balance sheet effects. Intensification of contingency planning and crisis preparedness at the central bank will be important. The authorities are also seeking to enhance the population's access to financial services, including credit.

"Zambia's public debt sustainability outlook is favorable. The authorities have adopted a new public debt management policy and strategy to help ensure that the public debt remains sustainable. In this regard, caution will be needed in contracting new nonconcessional external debt.

"The authorities are also implementing a new electricity sector strategy to improve the reliability of the electricity supply, given the strategic importance of this sector. Determined implementation of the strategy will be essential to attract private investment and to improve the efficiency and governance of the state-owned power utility," Mr. Kato said.

Statement by Samuel Itam, the Executive Director for Zambia
May 1, 2009

The Zambian authorities wish to convey their gratitude to the Executive Board and Management for helpful policy guidance, and financial and technical assistance. They also extend their thanks to staff for the useful and candid policy engagement. The authorities are in general agreement with the staff report

The robust economic performance enjoyed by the country in recent years has been moderated by the global economic slowdown. Since the second half of 2008, the country has been affected by three external shocks in rapid succession — high global food and fuel prices, adverse weather, and the global financial crisis and economic slowdown. The slowdown in growth is threatening to reverse the gains made in reducing poverty, achieving the Millennium Developments Goals (MDGs), and making performance under the program difficult. It is with this background that, the authorities are requesting (i) waivers for the non-observance of the December 2008 Net Domestic Assets (NDA) and accumulation of international reserves performance criteria, and (ii) an augmentation of access under the Poverty Reduction and Growth Facility (PRGF) in order to help the country adjust to the external shocks and raise the level of international reserves to promote confidence and orderly conditions in the market.

Recent economic development

Zambia's strong economic growth, averaging 5.8 percent per year during 2004-2007, was supported by improved economic management, continued implementation of prudent macroeconomic policies and favorable external environment. Growth performance is estimated at 6 percent in 2008 but is projected to moderate to 4 percent in 2009 on account of the global economic slowdown. End-year inflation accelerated to 16.6 percent in 2008, largely on account of high food and fuel prices, but is projected to decelerate to 10 percent in 2009, given reduction in the prices for key commodities and imports. Already, inflation has declined to 13.1 percent in March 2009. The medium-term prospects for higher growth and single digit inflation remain favorable, as the economy responds to policy adjustments.

The fiscal deficit was broadly in line with the program, but accommodative in order to absorb the first round effects of the surge in food and fuel prices. Revenue declined by one percent of GDP in comparison to the program target in 2008 while expenditure also declined, but by a lesser margin than the revenue shortfall. The overall deficit after grants, estimated at 1.7 percent of GDP in 2008, is 0.6 percentage point larger than the program target because of large supplementary expenditures arising from mid-term presidential elections, expanded fertilizer subsidies, higher-than-budgeted wage bill, lower fuel taxes aimed at cushioning the effect of high fuel prices, and significantly lower-than-expected revenues from copper. The deficit is projected to widen to 2.6 percent in 2009, largely because of increased infrastructure and social services spending related to the objectives of diversifying the economy and enhancing competitiveness.

Money supply grew by 22 percent in 2008, but is projected to tighten to 14 percent in 2009 with the Bank of Zambia (BoZ) mopping up excess liquidity in the banking system. International reserves dropped to 2.1 months of imports in 2008 compared to 2.5 months in 2007. However, they are projected to rise to 3.1 months of imports in 2009. The exchange rate continues to be market determined and aligned with macroeconomic fundamentals. The real effective exchange rate has depreciated significantly in the recent period largely on account of weakening terms of trade.

Program performance

Program performance has been satisfactory. All end-June and end-December 2008 performance criteria were met with the exception of the December 2008 Net Domestic Assets (NDA) and accumulation of international reserves. The need to accommodate the then high fuel and food prices, compounded by bunching spending at the end of the year, explains the non-observance of NDA and expansion in reverse money above program target. However, reserve money has been brought into a consistent path for reducing inflation since the first quarter of 2009. The non-observance of the accumulation of international reserves was because of sales to maintain confidence and orderly conditions in the foreign exchange market in periods of excessive exchange rate volatility. The global crisis has had a severe impact on the mining sector—the major source of foreign exchange earnings—and related sectors. The fall in copper prices led to deterioration in the trade balance, reduced foreign direct investment, loss of confidence and portfolio outflows, thereby putting the kwacha under severe depreciation pressure.

Medium-term policy framework and structural reform

The main challenges in the period ahead include the need to maintain macroeconomic stability, ensure debt sustainability and contain inflation. Accordingly, the authorities remain committed to pursuing appropriate policies to address these challenges. These policies include structural measures contained in Public Expenditure Management and Financial Accountability (PEMFA) program, Public Sector Management (PSM) program, the Financial Sector Development Program (FSDP), and the Private Sector Development Plan (FSDP). The thrust of the reforms is to help achieve the objectives of restoring high economic growth by encouraging rapid diversification of the economy and safeguarding vital social services in order to cushion the impact of the financial crisis. Priority will be given to agricultural development, tourism infrastructure development, and promotion of manufacturing sector.

Fiscal policy

The fiscal deficit in 2009 is projected to widen in order to accommodate increased expenditure on infrastructure and social services, in line with the authorities' objectives of encouraging diversification and enhancing competitiveness. Recognizing the sharp decline in mining revenue as a consequence of the global slowdown, efforts are being made to mobilize other resources. Furthermore, the authorities have modified the mining tax regime in order to continue attracting investment in the sector by removing the windfall tax, allowing hedging income to be part of mining income for tax purpose, and increasing capital allowance to 100 percent.

Monetary policy and exchange rate policy

The monetary policy objective is to attain single digit inflation while allowing private sector credit expansion. In this regard, monetary policy aims at containing any second-round effects on inflation within the constraints of the domestic financing requirements of the budget and the need to ensure adequate credit expansion to the private sector and build up of international reserves. The exchange rate will continue to be market determined.

Structural reform

The authorities are committed to the structural reform agenda to complement the macroeconomic framework. The key elements include:

- Concerted efforts are being made to improve budget execution, particularly in the area of public procurement, in order to ensure value for money. There is now a new procurement Act and a comprehensive strategy for phased establishment of Treasury Single Account is being implemented.
- A debt strategy has been completed, approved by the cabinet, and is now being implemented.
- Preparation of the second phase of the financial sector development program is in progress. Monetary and supervisory policies are to be reviewed in light of the global financial crisis. The Bank of Zambia will closely monitor these developments and take appropriate measures in order to safeguard the domestic financial system, in addition to other measures.
- Efforts aimed at ensuring adequate supply of electricity continue. In this regard, agreement has been reached to move to a more sustainable tariff structure, reflective of production costs while ensuring efficiency in the operations of the utility company.

Conclusion

The Zambian authorities consider Fund support as crucial to help meet their developmental challenges in the backdrop of the global financial crisis and economic slowdown. The authorities are requesting the conclusion of the first and second reviews of the PRGF and an augmentation in order to help the country adjust to the external shocks, increase international reserves to promote confidence and orderly conditions in the market, and restore the growth momentum.