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Zambia: Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Zambia

In the context of the sixth review under the three-year arrangement under the extended credit facility, requests for waiver of nonobservance of performance criterion, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on March 16, 2011 and April 15, 2011, with the officials of Zambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 6, 2011. 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 June 20, 2011 discussion of the staff report that completed the request and/or 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*

*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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ZAMBIA

Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review

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

Approved by Seán Nolan and Jan Kees Martijn

June 6, 2011

Discussions: March 3–16, 2011 in Lusaka, and April 14–15, 2011 in Washington. The staff team consisted of George Tsibouris (head), Nils Maehle, Alfredo Baldini, Perry Perone (Resident Representative) (all AFR), Elif Arbatli (FAD), and Kazuko Shirono (SPR). The mission met with the Minister of Finance and National Planning, Dr. Musokotwane; the Governor of the Bank of Zambia, Dr. Fundanga; other senior officials; and representatives of the business community, civil society, and Zambia's development partners.

IMF relations: Zambia joined the Fund on September 23, 1965, and has accepted the obligations of Article VIII, Sections 2, 3, and 4. The fifth review under the Extended Credit Facility (ECF) arrangement was concluded in December 2010. Zambia's current three-year ECF arrangement was approved in June 2008.

Exchange rate regime: Zambia maintains a floating exchange rate regime.

In the attached Letter of Intent (LoI) and Memorandum of Economic and Financial Policies (MEFP), the authorities review program implementation and outline their policies for the remainder of 2011.

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EXECUTIVE SUMMARY

Zambia's strong economic performance continues under the Extended Credit Facility (ECF) arrangement and staff recommends completion of the sixth review.

- *All but one of the end-December 2010 (and continuous) quantitative performance criteria for this review were met.* The performance criterion on net domestic financing (NDF), two indicative targets and two structural benchmarks were missed, and one structural benchmark was met with delay. These structural benchmarks are expected to be met in the near future.

- *Strong growth continues but inflation has trended up slightly in recent months*. Private sector credit has recovered to pre-crisis levels; the current account is in surplus; and international reserves are solid.

- *The economic outlook is positive, buoyed by a favorable outlook for copper.* The pace of growth is expected to remain strong, inflation to moderate further, the external current account to remain solidly in surplus, and the international reserve coverage to strengthen further.

With a broadly unchanged macroeconomic outlook, the medium-term policy stance remains appropriate, but vigilance is warranted when it comes to inflation.

- *Monetary policy has now been tightened*. The authorities aim at reducing inflation to 7 percent by year-end.

- *The fiscal program remains appropriate.* It targets a decline in net domestic financing from 2.8 percent of GDP in 2010 to 1.3 percent of GDP in 2011.

- *Private sector marketing capacity will be challenged by another record maize harvest expected in 2011; the government's active involvement in the maize market will have to continue this year.* Subject to Cabinet approval, planned medium-term maize market reforms aim at steadily shifting towards market pricing and the scaling-back of export and import controls, so as to allow for greater room for private sector marketing.

- *The authorities have announced their intention to launch their first international bond issue in the second half of 2011 to finance critical investment spending*. Zambia recently received a sovereign credit rating of "B+ Stable" from Fitch Ratings and Standard & Poor's, placing it on a par with Ghana, and Kenya.

I. Background: Continued Strong Performance under the ECF[1]

A. Recent Developments: Strong Growth and Moderate Inflation

1. **Economic conditions are favorable with robust growth, moderate inflation, and record copper prices:**

- *Growth has been strong and broad based.* Real GDP grew by 7.6 percent (by 6.8 percent excluding mining) in 2010.

- *Inflation declined in line with expectations in 2010*, but ticked up to 8.9 percent in May 2011 in part due to fuel price increases. Nonfood price inflation remains in the low double digits.

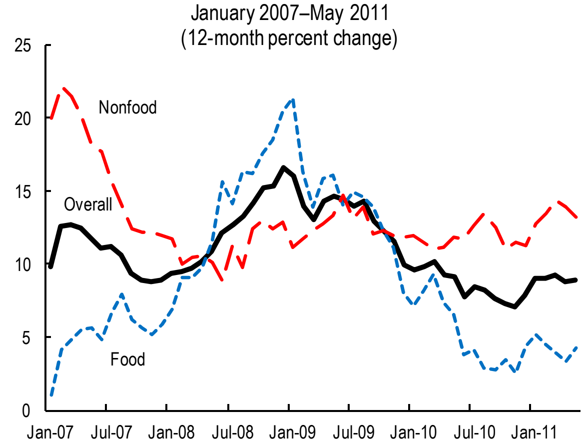
GDP Volume Growth
(Annual percentage change)

	2008	2009	2010	2011 proj.
GDP	5.7	6.4	7.6	6.8
Contribution from				
Agriculture, forestry, and fishing	0.3	0.9	0.8	0.3
Mining and quarrying	0.2	1.7	1.4	0.6
Manufacturing	0.2	0.2	0.4	0.3
Electricity, gas, and water	0.0	0.2	0.2	0.1
Construction	1.0	1.1	1.0	1.8
Services	4.0	2.4	3.8	3.7

Source: Zambia Central Statistical Office.

- *Reserve money growth slowed sharply to 10 percent (on an annual basis) through April 2011 as the Bank of Zambia (BoZ) mopped up excess liquidity to dampen inflationary pressures*. Money growth had been brisk in the second half of 2010—reserve money grew by almost 28 percent and broad money by almost 30 percent in the 12 months to December 2010, with central bank credit to government an important contributory factor. Private sector credit has recovered to pre-global financial crisis levels, nonperforming loans are starting to decline, while real lending rates remain high. Credit to the private sector increased by almost 14 percent in real terms between January 2010 (when it bottomed out) and January 2011.

Consumer Price Inflation
January 2007–May 2011
(12-month percent change)



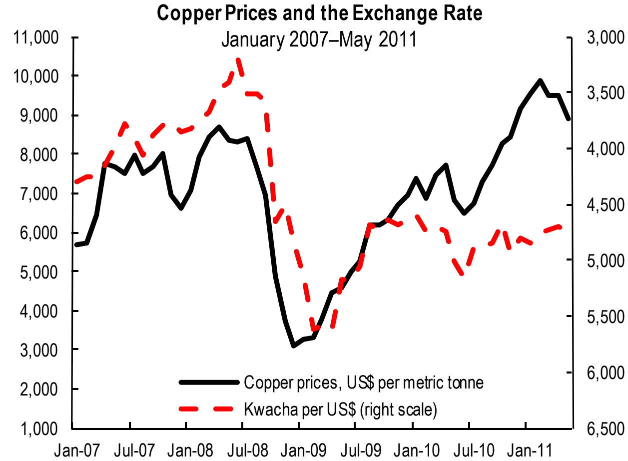
Source: Zambia Central Statistical Office, (CSO).

[1] "Zambia—Ex-Post Assessment of Longer-Term Program Engagement—Update," (www.imf.org) discusses Zambia's strong performance under the 2008-11 ECF arrangement.

- *The fiscal performance in 2010 was broadly in line with the program, but net domestic financing of the government was 0.3 percent of GDP higher than targeted.* Tax revenues were slightly higher than projected, but interest costs, net transfers to the Food Reserve Agency (FRA) for the purchase of last year's bumper harvest of maize, and outlays on the fertilizer support program, the census and voter registration were higher than programmed. Capital spending was 19 percent lower than programmed because of a shortfall in project grants, but domestically financed capital expenditures were broadly in line with the budget.

- *The balance of payments experienced a record-high current account surplus of US$615 million (3.8 percent of GDP).* Copper prices are near an all-time high, having increased by 31 percent in 2010. Nevertheless, the exchange rate remained relatively stable as the mining companies kept their profits offshore. International reserves remain relatively solid at about 3⅓ months of prospective imports as of end-April 2011.

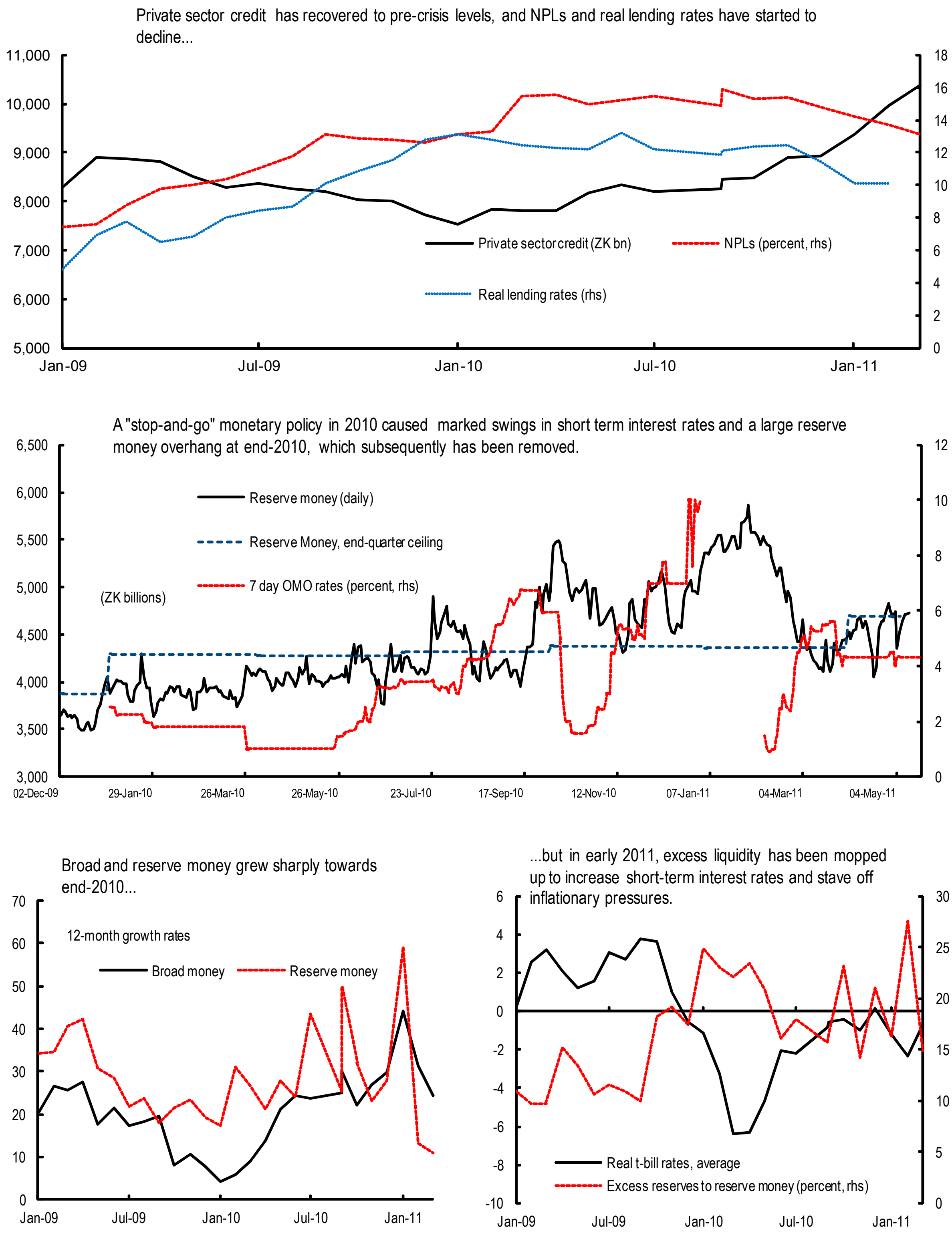
Copper Prices and the Exchange Rate
January 2007–May 2011



Source: International Financial Statistics, (IFS).

2. **The BoZ placed Finance Bank, the fifth largest bank in Zambia, under temporary administration in December 2010 due to serious breaches of the Banking and Financial Services Act (BFSA).** These included a much higher concentration of ownership than allowed by the BFSA, large nonperforming related-party loans, and poor governance. The BoZ is in the process of finding new private owners of Finance Bank, and has appointed agents to oversee the operations of the bank in the interim period. Overall, the banking sector remains adequately capitalized and liquid.

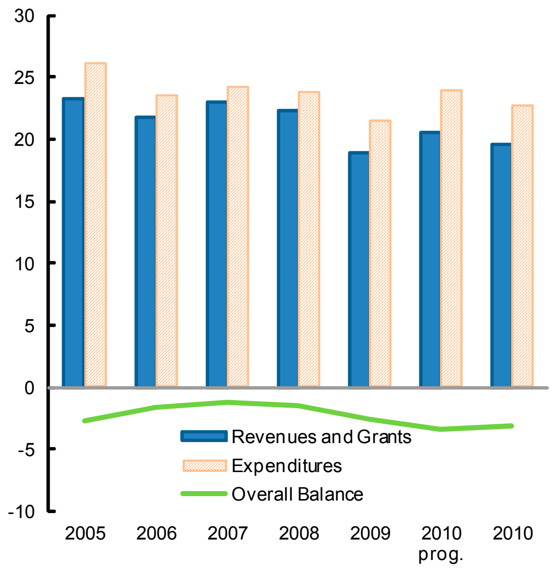
Figure 1. Zambia: Monetary and Credit Developments, January 2009–March 2011



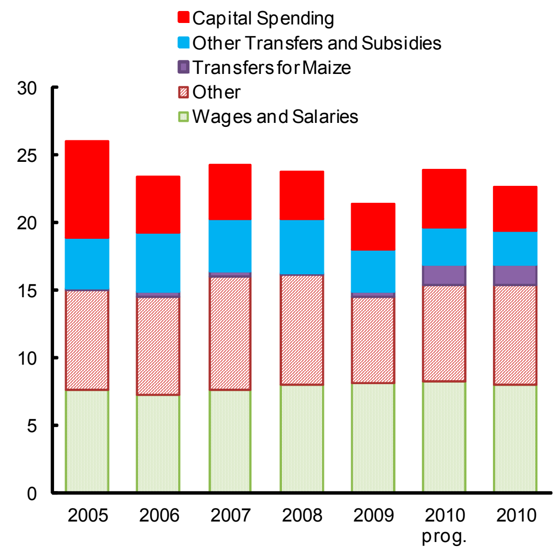
Sources: Bank of Zambia and IMF staff estimates.

Figure 2. Zambia: Fiscal Developments, 2005–10
(Percent of GDP)

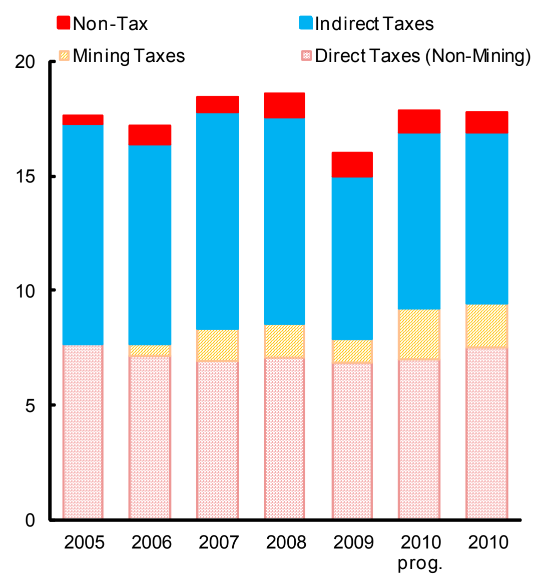
The overall fiscal deficit in 2010 widened...



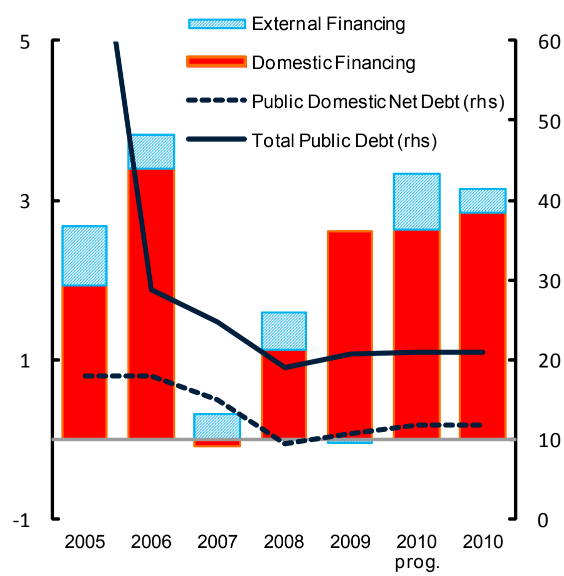
...as budgetary transfers to purchase the record maize surplus increased significanty, reaching 1.6 percent of GDP.



Revenue performance improved ,driven primarily by higher mining taxes receipts.



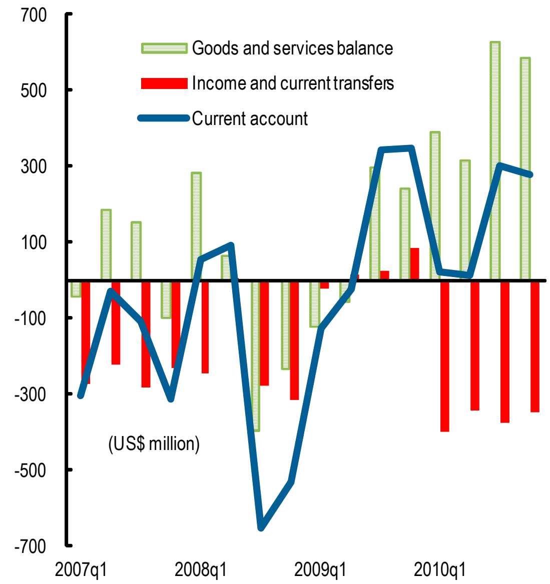
Despite increased net domestic financing, total public and domestic net debt have remained broadly stable in 2010.



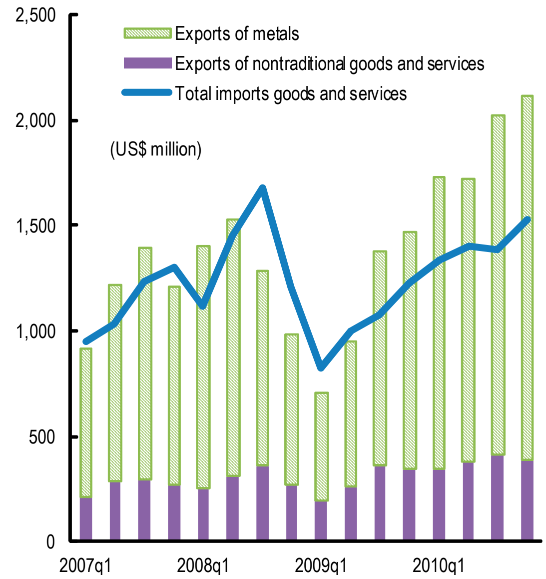
Sources: Zambian authorities and IMF staff estimates.

Figure 3. Zambia: Balance of Payments Developments
2007Q1–2010Q4

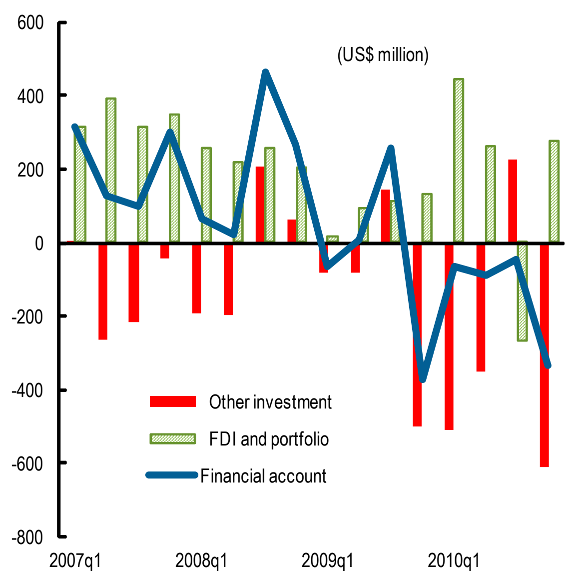
There was a large current account surplus in 2010, in conjunction with dividend outflows, due to...



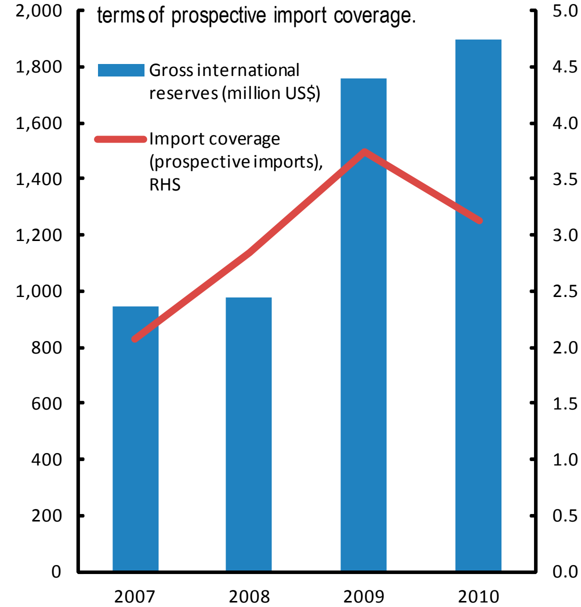
...record high metal exports, and a 32 percent growth in non-metal exports in 2010. Imports returned to pre-crisis levels.



The financial account deficit widened in 2010 because a larger portion of export earnings were kept abroad.



As a result, international reserve accumulation continued in 2010 in millions of US$, but declined in terms of prospective import coverage.



Sources: Zambian authorities and IMF staff estimates.

B. Program Performance

3. **Program performance was broadly satisfactory.**[2] All but one of the end-December 2010 quantitative performance criteria (QPC) were met—the target for net domestic financing was missed by 0.3 percent of GDP. The indicative targets on domestic arrears payments[3] and reserve money were also missed, as were the structural benchmarks relating to the Treasury Single Account[4] and, because of procedural delays, the submission of the Planning and Budgeting Bill to parliament. The structural benchmark on the lender of last resort and the financial sector contingency plan was implemented with some delay. The report on maize marketing policy was submitted for Cabinet consideration in March 2011 (MEFP ¶10).

4. **The authorities request a waiver for the missed quantitative performance criterion on NDF based on the strength of their macroeconomic policies and corrective actions taken.** Notwithstanding the missed end-2010 NDF target, the fiscal position remains sound and the program's economic objectives were by-and-large met. The March 2011 indicative NDF target was met by a large margin, and the authorities are strengthening budget implementation and monitoring, including through the implementation of IFMIS (MEFP ¶17).

II. Outlook and Policy Discussions

A. Economic Outlook: Promoting Poverty-Reducing Growth

5. **Prospects for the Zambian economy are good.** Copper prices are projected to remain high, driven by the ongoing expansion in Asia, FDI pledges have been strong, and substantial private sector investments, particularly in mining, are being rolled out or in the pipeline. The 2011 maize harvest is expected to be a record high: the weather has been favorable and the authorities have expanded the number of farmers covered by the agricultural input subsidy program by almost 70 percent.[5] For these reasons, real GDP growth is projected to remain strong at 6¾ percent in 2011. The external current account is expected to stay solidly in surplus, and the international reserve coverage is targeted to strengthen further to 3.4 months of prospective imports.

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[2] See Tables 1and 3 of the attached Memorandum of Economic and Financial Policies.

[3] Arrears payments were below target because of the need to properly screen claims before payment could be made, to avoid fraudulent claims.

[4] The authorities expect to reach the program target of 60 percent expenditure coverage by end-June 2011.

[5] The 2011 maize harvest is expected to be 8 percent above the historically high harvest in 2010.

6. **Over the medium term, the authorities aim to accelerate growth further and make it more inclusive and pro-poor.** Based on available but incomplete information, urban poverty appears to have declined markedly over the last decade, while rural poverty declined little. Concerned about the persistently high rural poverty levels, the authorities' new Sixth National Development Plan aims at accelerating development in the rural areas, particularly with regard to labor-intensive agriculture, where many Zambians find employment. This will require substantial increased investment in infrastructure and relevant human capital. The authorities are well aware of the importance of achieving inclusive broad-based growth in order to make a more impactful dent on poverty and unemployment.

Zambia: Selected Poverty and Income Indicators

	1998	2006	2009	2010
Incidence of extreme poverty	58	51		
Rural	71	67		
Urban	36	20		
Primary school enrollment (%)[1]	69	94	97	
Mortality rate, under-5 (per 1,000)[1]	166	155	141	
Unemployment (% of labor force)[2]		16	15	
Rural			6	
Urban			33	
Informal sector employment (% of total)			90	
Rural			96	
Urban			75	
Real income per capita (US$, 2010 prices)				
Gross domestic product	845	992	1027	1221
Gross national income	791	884	994	1079

Sources: Zambia CSO, World Bank WDI, and IMF staff calculations.

[1] 2000, 2005, and 2009 respectively.

[2] 2005 and 2008 respectively.

B. Policy Discussions: Unwinding the Fiscal and Monetary Easing

7. **Against this positive outlook, the medium-term policy stance remains appropriate, but vigilance is warranted when it comes to inflation.** Monetary policy should remain tight to help anchor inflation expectations and reduce interest rate spreads. The fiscal program remains appropriate as it targets a significant decline in net domestic financing and a stable domestic debt-to-GDP ratio.

Fiscal policies: expanding infrastructure investments

8. **The fiscal program, and the targeted decline in net domestic financing from 2.8 percent of GDP in 2010 to 1.3 percent of GDP in 2011, remains appropriate**. Revenues could exceed the 2011 budget projections by about 1 percent of GDP, because of higher growth and the agreement reached between government and the mining companies on the tax regime and a payment schedule for outstanding tax arrears. The revenue increase will help cover additional outlays expected on domestic interest payments, the upcoming elections in 2011Q3, domestic arrears payments, and transfers to the FRA. Overall, relative to 2010, the expenditure mix is set to shift toward social and capital spending, with staff recommending that any additional tax revenues be earmarked for these priority areas.

9. **Containing pressure on current spending, including with regard to wages and FRA transfers, is critical to safeguard the NDF target and priority investment spending.** To contain wage expenditures, the authorities have agreed with the unions on a 10 percent

wage rate increase for 2011 and are limiting new hiring to police, health, and education. The authorities are also committed to maintaining full cost-recovery petroleum pricing (MEFP ¶25). Staff stressed the importance of pushing ahead with civil service reforms in the period ahead.

10. **With another record maize crop, the government's active involvement in the maize market will have to continue in 2011, because of private sector capacity constraints** (MEFP ¶24). The FRA floor price has been set at the same level as in 2010; the government expects to purchase a similar share of the market surplus as occurred in 2010. The 2011 maize operation will be financed by rolling-over proceeds from sales of the 2010 crop, some additional FRA commercial borrowing (largely collateralized), and a modest reallocation of resources within the approved 2011 budget envelope. Subject to Cabinet approval, the government intends, over the medium term, to encourage a greater role for marketing by the private sector by shifting steadily towards market pricing, scaling-back export and import controls, and diversifying within the agricultural sector.

11. **With limited concessional resources, the Zambian government will increasingly have to rely on nonconcessional financing, including a planned first international bond issue in the second half of 2011, to finance growth-critical investment spending.** Zambia recently received a sovereign credit rating of "B+ Stable" from Fitch Ratings and Standard & Poor's, placing it on a par with Ghana and Kenya. The proceeds from the bond issue will be used largely for roads and power-generation projects, starting in 2012. In line with the 2010 DSA update, the planned level of nonconcessional financing should have no material impact on debt dynamics, and the risk of debt distress should remain low—all debt indicators should stay below the critical thresholds. Staff emphasized the importance of taking appropriate measures for a successful bond issuance, including the selection of financial and legal advisors, use of collective action clauses, and only using nonconcessional financing for growth-critical spending that will provide the highest possible economic return.

12. **The authorities are strengthening their debt management and project appraisal capacities** (MEFP ¶27, 28). Staff noted that further capacity enhancements are needed over the medium term, including with regard to management of maturity and exchange rate risks and the debt sustainability and cash flow implications of their planned borrowing.

Monetary policy: reducing inflation further

13. **The BoZ has taken measures to bring inflation back down towards their 7 percent end-2011 target** (MEFP ¶14). It has removed the end-2010 monetary overhang and brought reserve money in line with the March 2011 indicative target. Broad money demand is projected to expand in line with nominal GDP. The money multiplier should increase towards earlier levels as excess reserves are drained. Consequently, reserve money is targeted to grow only modestly during the rest of 2011. The monetary program still leaves

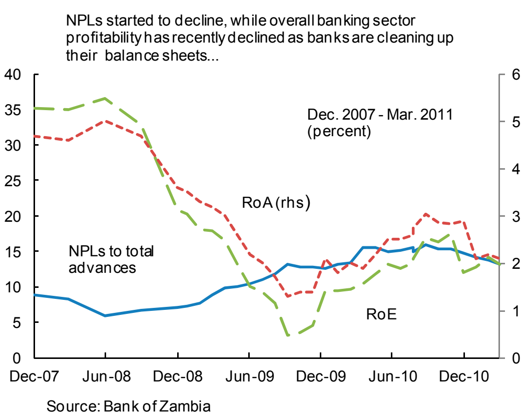
ample room for a further expansion of private sector credit, which is projected to increase by 18 percent in 2011.

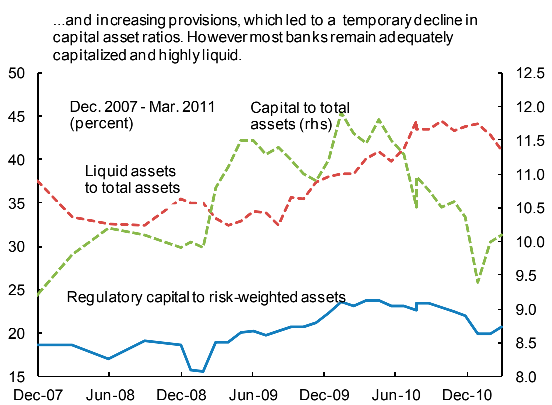
14. **The BoZ needs to stand ready to tighten monetary policy further if inflation deviates from the desired path.** Although the lowering of FRA's domestic maize sale price in early March and the expectation of another excellent harvest could continue to dampen food-price inflation in the near term, international non-food commodity prices are on the rise, which could put pressure on underlying inflation. The BoZ should let real short-term interest rates rise and return to positive levels. The high real bank lending rates should come down when inflation expectations, nonperforming loans and associated risks, and operating costs are reduced.

15. **To maintain persistently low and stable inflation, monetary policy should be forward-looking and pay closer attention to underlying inflation developments.** Inflation has been somewhat volatile in Zambia over the last number of years, with several episodes of marked declines in food price inflation masking increases in nonfood inflation. Staff recommended that the authorities develop measures of underlying, or core, inflation, in order to effectively gauge the monetary stance and enhance monetary policy formulation and communication.

Financial sector policies: safeguarding stability and improving access

16. **The BoZ is strengthening the financial crisis resolution framework** (MEFP ¶19-23). Staff stressed the importance of moving swiftly on this front, and having clear and well-established facilities and procedures in place—including an emergency liquidity assistance facility and a deposit insurance system—for handling incidences of financial sector distress. Strengthened financial sector monitoring, including through routine stress testing, is also critical. The financial system remains sound. Local banks are predominantly funded by domestic deposits and their net foreign exchange exposure is moderate at around 6 percent of bank capital (Box 1). However, following the global financial crisis, NPLs have increased and banks' profits declined after making provisions for large losses. Liquidity remains ample and most banks' capital-ratios are solid.





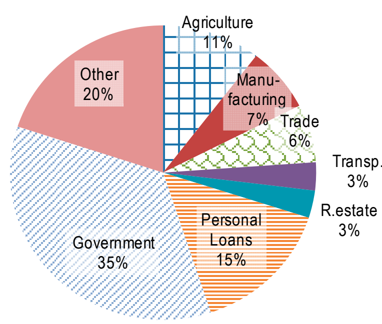
Box 1. The Zambian Financial Sector

Zambia's financial sector has been reasonably stable, but remains relatively concentrated, with relatively high financial dollarization, and a low level of financial inclusion**.** The financial sector includes 18 commercial banks (predominantly foreign-owned), and a nonbank sector comprising 4 public pension funds, 240 private pension funds, and 24 microfinance institutions. The bank sector accounts for around 80 percent of total financial assets.

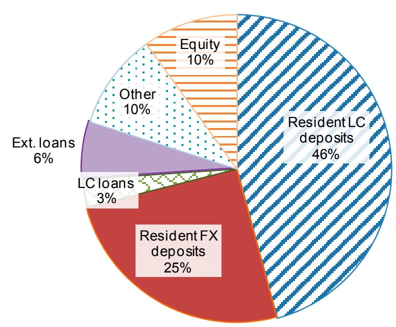
The sector weathered the 2008 global crisis reasonably well, despite a doubling of NPLs and a sharp currency depreciation. Increased NPLs (coming primarily from personal loans and agriculture) and less risk appetite led to a sharp decline in credit supply to the private sector. Most banks remain financially solid, although profits and capital-ratios have declined.

To lower risks and help weather potential future financial shocks, in line with 2009 FSAP update recommendations, the authorities are encouraged to: (i) monitor closely banks' risk management practices, lending standards, and funding situations; (ii) finalize the implementation of the new crisis resolution framework (a structural benchmark under the ECF program); and (iii) further develop the BoZ's macroprudential analysis with the aim to publish a financial stability report in the medium term.

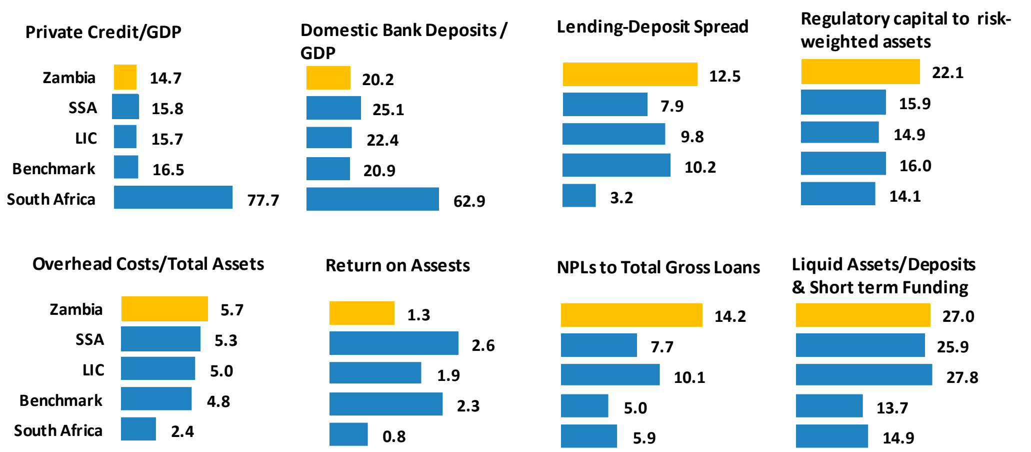
Distribution of Commercial Bank Credit, 2010



Commercial Bank Funding Structure 2010



Selected Financial Soundness Indicators, 2010[1]



Sources: Bank of Zambia, IFS, GFSR, and Bankscope - Bureau Van Dijk.

[1] Data for Zambia refers to end-2010, others to 2009. Benchmark comparison refers to Ghana, Kenya, Mozambique, Tanzania and Uganda; Region is Sub-Saharan Africa; LIC refers to Low Income Countries.

17. **Lowering costs and improving access to financial services remains a challenge.** Interest rate spreads and overhead costs remain high in Zambia compared to benchmark groups, partly reflecting high NPLs and a lack of economies-of-scale. Access to financial services remains among the lowest in surveyed SSA countries. Only 37 percent of the adult population in 2009 had access to some form of financial services, although personal loans (mainly to salaried workers) have grown by more than 400 percent since end-2006. Staff concurs with the BoZ's priorities, as formulated in phase II of the Financial Sector Development Plan (MEFP ¶19), and urges its rapid implementation.

Other

18. **The authorities continue to make efforts to settle arrears to external private creditors stemming from the past imposition of exchange controls.** Settlement terms similar to those provided by the Paris Club were offered to commercial creditors with outstanding arrears. The authorities are continuing to verify outstanding claims to private entities and individuals. The exchange restrictions evidenced by the accumulation of these external payments arrears are subject to Fund approval under Article VIII.

19. **The authorities expressed interest in further program engagement once the ECF arrangement expires in June 2011**(MEFP ¶29). They believe the ECF arrangement has played an important role in helping them to consolidate macroeconomic stability and containing the impact of the global economic and financial crisis. Staff emphasized that an eventual follow-up arrangement should have a strong focus on promoting inclusive growth and poverty reduction based on a well-articulated medium-term economic program.

III. Staff Appraisal

20. **Program performance was broadly satisfactory. All but one of the end-December 2010 quantitative performance criteria were met**, but two indicative targets were missed. Structural reforms are progressing, although the implementation of the TSA was slower than targeted, the submission of the Planning-Budgeting Act continues to be delayed because of the constitutional review process, and the benchmark on the lender of last resort and financial sector contingency planning was implemented with some delay.

21. **The Zambian economy continues to gather strength.** The strong growth during the first part of the three-year ECF arrangement accelerated further in 2010 and is becoming more pro-poor, but poverty remains high. Private sector credit has recovered to pre-global financial crisis levels; the current account is in surplus; and international reserves are solid.

22. **Strong economic growth prospects provide an opportunity for more rapid poverty reduction and employment creation**. Enhanced economic diversification, and a more pro-poor inclusive growth pattern, will require creating fiscal space for infrastructure, developing the financial sector, and reducing costs of doing business. Enhanced access to social and economic facilities—including health and safe water, transportation, markets, and

financial services—are needed in rural areas where poverty is high and inroads in its reduction have been modest.

23. **The fiscal program for 2011 remains appropriate.** The expenditure mix is set to shift toward social and capital spending. With the strengthened economic outlook, the need for fiscal stimulus is receding rapidly, and the NDF target for 2011 remains consistent with this. Containing current spending pressure, including with regard to wages and FRA transfers, is critical to safeguard priority poverty-related and investment spending. Any additional tax revenue in 2011 should be earmarked for priority social and capital spending. The authorities should push ahead with civil service reforms in the period ahead.

24. **As the authorities move to tap the sovereign bond market, it will be important to strengthen debt and liquidity management capacity**. Staff welcomes the authorities' commitment to consider carefully the maturity and exchange rate risks, and the debt sustainability and cash flow implications of any nonconcessional external borrowing. The ongoing and future steps to strengthen project appraisal capacity should help ensure that expensive nonconcessional loans are only used for projects that are growth-critical and provide the highest possible economic return.

25. **Staff welcomes the BoZ's monetary policy tightening**. The BoZ should let real short-term interest rates return to positive levels and needs to stand ready to tighten monetary policy further if inflation deviates from the desired path. The authorities' target of lowering inflation to 7 percent by year-end is appropriately ambitious. Bank lending rates should come down when inflation expectations, nonperforming loans, and operating costs are reduced, and NPL risk concerns ease. Keeping inflation low and stable requires closer attention to underlying, or core, inflation developments.

26. **Reforming the pricing and marketing system for maize remains critical.** Sequential bumper crops have brought to the fore the capacity limitations of private sector marketing. At the same time, the government needs to modulate its marketing role to minimize distortions, contain fiscal risks, and provide the right incentives for the development of the private sector in this area. The implementation of a medium-term reform plan aimed at addressing these issues should be undertaken as soon as practicable.

27. **Staff recommends the completion of the sixth review under the ECF arrangement and the financing assurances review.** It supports the request for a waiver of the missed end-2010 ceiling on NDF. The non-observance of the QPC was modest and did not jeopardize the program's main objectives. The authorities are strengthening budget implementation and monitoring, and the NDF was brought back in line with the program (with a large margin) by March 2011.

Table 1. Zambia: Selected Economic Indicators

	2009	2010		2011		2012	2013
		Prog.	Est.	Prog.	Rev. Proj.	Proj.	Proj.
		CR /10/383		CR /10/383			
	(Percent changes; unless otherwise indicated)						
National account and prices							
GDP growth at constant prices	6.4	6.6	7.6	6.4	6.8	7.4	7.8
Mining		…	15.2	…	6.3	13.4	10.3
Non-mining		…	6.8	…	6.9	6.7	7.5
GDP deflator	10.7	10.3	11.7	7.6	9.8	5.7	4.7
GDP at market prices (Billions of kwacha)	64,616	76,015	77,673	87,014	91,055	103,368	116,652
GDP per capita (US$)	990	…	1,221	…	1,405	1,541	…
Gross national income per capita (US$)	958	…	1,079	…	1,199	1,310	…
Consumer prices							
Consumer prices (average)	13.4	8.6	8.5	8.8	9.0	6.5	5.5
Consumer prices (end of period)	9.9	8.0	7.9	7.0	7.0	6.0	5.0
External sector							
Terms of trade (deterioration -)	-16.4	30.1	35.0	-3.1	21.1	-1.8	-6.3
Average exchange rate (kwacha per U.S. dollar)	5,046	…	4,797	…	…	…	…
(percentage change; depreciation -)	-34.7	…	4.9	…	…	…	…
Real effective exchange rate (depreciation -)[1]	-13.9	…	5.8	…	…	…	…
Money and credit (end of period, unless otherwise specified)							
Domestic credit to the private sector	-5.7	14.0	15.4	18.3	18.2	13.9	16.8
Reserve money (end of period)	19.3	8.0	27.8	11.7	-5.6	13.3	12.5
Broad Money (M3)	7.7	23.5	29.9	15.0	9.3	13.3	12.5
	(Percent of GDP; unless otherwise indicated)						
National accounts							
Gross investment	20.2	22.5	22.5	22.8	22.8	24.2	22.2
Government	3.7	4.2	4.5	6.3	6.6	10.8	9.5
Private	16.5	18.3	18.0	16.5	16.2	13.4	12.7
National savings	24.4	20.9	26.3	19.3	28.7	27.2	24.8
Net lending(+)/net borrowing(-)	4.2	-1.6	3.8	-3.5	5.9	3.0	2.6
Central government budget							
Revenue	18.9	17.8	17.8	18.4	19.3	19.2	19.5
Tax	18.1	16.8	16.9	17.6	18.6	18.4	18.7
Nontax	0.8	1.0	0.9	0.8	0.8	0.8	0.8
Grants	4.1	2.8	1.8	1.8	1.8	2.0	1.8
Total expenditure	23.9	23.9	22.7	23.4	24.1	26.9	25.0
Current expenditures	18.8	19.4	17.9	16.7	17.0	15.8	15.2
Capital expenditure	4.0	4.2	4.5	6.3	6.6	10.8	9.5
Domestic arrears payments	1.2	0.4	0.3	0.4	0.4	0.3	0.3
Overall balance[2]	-0.9	-3.3	-3.1	-3.2	-2.9	-5.7	-3.7
Excluding grants	-5.0	-6.1	-4.9	-5.0	-4.7	-7.7	-5.5
Financing	3.1	3.3	3.1	3.2	2.9	5.7	3.7
External financing (net)	0.5	0.7	0.3	1.8	1.6	4.5	2.7
Domestic (net)	2.6	2.6	2.8	1.4	1.3	1.2	1.0
External sector							
Current account balance	4.2	-1.6	3.8	-3.5	5.9	3.0	2.6
(excluding grants)	-9.4	-3.2	2.3	-4.5	5.0	2.2	1.9
Gross international reserves (months of prospective imports)	3.7	3.4	3.1	3.6	3.4	3.7	4.1
Public debt							
Total central government debt (end-period)	20.7	25.7	20.9	26.7	21.1	24.8	26.1
External	10.0	10.6	9.1	12.1	9.7	13.6	15.2
Stock of domestic debt, net	10.8	…	11.8	…	11.4	11.2	11.0
Stock of domestic government securities	14.7	15.1	12.8	14.6	…	…	…

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

[1] Excludes Zimbabwe.

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

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

	2009	2010		2011		2012	2013
		Prog.	Act.	Prog.	Proj.	Proj.	Proj.
		CR /10/383		CR /10/383			
Revenue and grants	12,182	15,651	15,198	17,563	19,242	21,913	24,824
Revenue	10,315	13,553	13,809	15,975	17,604	19,820	22,741
Tax	9,661	12,796	13,112	15,278	16,906	19,021	21,830
Income taxes	5,073	6,983	7,326	7,849	9,224	10,110	11,365
Value-added tax	2,475	3,154	3,160	3,999	4,187	4,851	5,702
Excise taxes	1,024	1,393	1,377	1,756	1,821	2,156	2,526
Customs duties	1,089	1,266	1,250	1,674	1,674	1,903	2,237
Nontax	654	758	697	697	697	800	911
Grants	1,867	2,098	1,389	1,588	1,638	2,093	2,083
Budget support	879	949	912	587	499	516	528
Project grants	988	1,149	477	1,001	1,139	1,576	1,555
Expenditures	13,847	18,188	17,634	20,330	21,917	27,803	29,150
Current expenditures	11,279	14,737	14,797	14,365	15,523	16,341	17,703
Wages and salaries	5,274	6,345	6,303	7,204	7,204	8,122	8,803
Goods and services[1]	2,781	3,982	3,960	3,383	3,525	4,303	4,448
Interest payments	1,033	1,161	1,370	1,250	1,422	1,605	1,890
Domestics	975	1,100	1,280	1,171	1,356	1,476	1,572
Foreign	58	60	90	79	66	129	318
Transfers and Subsidies	2,192	3,249	3,164	2,528	3,371	2,312	2,562
Subsidies	565	1,033	691	485	935	500	533
Of which: Fertilizer support program	565	430	591	485	635	500	533
Transfers	1,627	2,216	2,473	2,043	2,436	1,812	2,029
Of Which: Strategic Food Reserve (FRA)	209	1,137	1,206	323	653	100	100
Capital expenditure[1]	2,291	3,182	2,583	5,648	6,053	11,183	11,131
Of which: domestically financed	1,842	2,302	2,260	3,379	3,679	5,446	6,787
Domestic arrears payments	278	269	254	316	341	279	315
Discrepancy (-overfinancing)[2]	12	0	-9	0	0	0	0
Overall balance							
Including grants	-1,653	-2,537	-2,445	-2,766	-2,675	-5,890	-4,326
Excluding grants	-3,521	-4,634	-3,834	-4,354	-4,313	-7,983	-6,408
Financing	1,653	2,537	2,445	2,766	2,675	5,890	4,326
External financing (net)	-33	537	240	1,546	1,455	4,650	3,159
Of which: budget support	159	324	331	199	143	154	158
Of which: project loans	19	358	53	1,762	1,752	4,798	3,271
Domestic financing (net)	1,686	2,000	2,205	1,221	1,220	1,240	1,167
Bank financing	1,820	2,177	1,723	1,074	1,074	930	653
Nonbank financing	-133	-178	482	147	147	310	513
Memorandum items:							
Overall balance, excl. budget grants and mining taxes	-3,169	-5,150	-4,857	-5,261	-6,101	-9,180	-7,755
Primary balance	-621	-1,376	-1,074	-1,516	-1,253	-4,286	-2,436
Primary balance, excluding mining taxes	-1,257	-3,040	-2,575	-3,425	-4,179	-7,059	-5,337
Mining taxes	636	1,664	1,500	1,908	2,927	2,773	2,901
External budget support	1,038	1,273	1,243	785	643	671	686
Stock of domestic debt, net	6,950	…	9,155	…	10,375	11,616	12,782
Stock of domestic government securities	9,502	11,502	9,941	12,722	…	…	…

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

[1] Starting in 2011, financial restructuring is classified under capital expenditure. In previous years it was classified under good and services.

[2] The discrepancy largely reflects changes in the carryover of budgetary releases.

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

	2009	2010		2011		2012	2013
		Prog.	Act.	Prog.	Proj.	Proj.	Proj.
		CR /10/383		CR /10/383			
Revenue and grants	18.9	20.6	19.6	20.2	21.1	21.2	21.3
Revenue	16.0	17.8	17.8	18.4	19.3	19.2	19.5
Tax	15.0	16.8	16.9	17.6	18.6	18.4	18.7
Income taxes	7.9	9.2	9.4	9.0	10.1	9.8	9.7
Value-added tax	3.8	4.1	4.1	4.6	4.6	4.7	4.9
Excise taxes	1.6	1.8	1.8	2.0	2.0	2.1	2.2
Customs duties	1.7	1.7	1.6	1.9	1.8	1.8	1.9
Nontax	1.0	1.0	0.9	0.8	0.8	0.8	0.8
Grants	2.9	2.8	1.8	1.8	1.8	2.0	1.8
Budget support	1.4	1.2	1.2	0.7	0.5	0.5	0.5
Project grants	1.5	1.5	0.6	1.2	1.3	1.5	1.3
Expenditures	21.4	23.9	22.7	23.4	24.1	26.9	25.0
Current expenditures	17.5	19.4	19.1	16.5	17.0	15.8	15.2
Wages and salaries	8.2	8.3	8.1	8.3	7.9	7.9	7.5
Goods and services[1]	4.3	5.2	5.1	3.9	3.9	4.2	3.8
Interest payments	1.6	1.5	1.8	1.4	1.6	1.6	1.6
Transfers and Subsidies	3.4	4.3	4.1	2.9	3.7	2.2	2.2
Subsidies	0.9	1.4	0.9	0.6	1.0	0.5	0.5
Of which: Fertilizer support program	0.9	0.6	0.8	0.6	0.7	0.5	0.5
Transfers	2.5	2.9	3.2	2.3	2.7	1.8	1.7
Of Which: Strategic Food Reserve (FRA)	0.3	0.4	1.6	0.4	0.7	0.1	0.1
Capital expenditure[1]	3.5	4.2	3.3	6.5	6.6	10.8	9.5
Of which: domestically financed	2.9	3.0	2.9	3.9	4.0	5.3	5.8
Domestic arrears payments	0.4	0.4	0.3	0.4	0.4	0.3	0.3
Discrepancy (-overfinancing)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)							
Including grants	-2.6	-3.3	-3.1	-3.2	-2.9	-5.7	-3.7
Excluding grants	-5.4	-6.1	-4.9	-5.0	-4.7	-7.7	-5.5
Financing	2.6	3.3	3.1	3.2	2.9	5.7	3.7
External financing (net)	-0.1	0.7	0.3	1.8	1.6	4.5	2.7
Of which: budget support	0.2	0.4	0.4	0.2	0.2	0.1	0.1
Of which: project loans	0.0	0.5	0.1	2.0	1.9	4.6	2.8
Domestic financing (net)	2.6	2.6	2.8	1.4	1.3	1.2	1.0
Bank financing	2.8	2.9	2.2	1.2	1.2	0.9	0.6
Nonbank financing	-0.2	-0.2	0.6	0.2	0.2	0.3	0.4
Memorandum items:							
Overall balance, excl. budget grants and mining taxes	-4.9	-6.8	-6.3	-6.0	-6.7	-8.9	-6.6
Primary balance	-1.0	-1.8	-1.4	-1.7	-1.4	-4.1	-2.1
Primary balance, excluding mining taxes	-1.9	-4.0	-3.3	-3.9	-4.6	-6.8	-4.6
Mining taxes	1.0	2.2	1.9	2.2	3.2	2.7	2.5
External budget support	1.6	1.7	1.6	0.9	0.7	0.6	0.6
Stock of domestic debt, net	10.8		11.8	…	11.4	11.2	11.0
Stock of domestic government securities	14.7	15.1	12.8	14.6	…	…	…
Nominal GDP (in billions of kwacha)	64,616	76,015	77,673	87,014	91,055	103,368	116,652

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

[1] Starting in 2011, financial restructuring is classified under capital expenditure. In previous years it was classified under good and services.

[2] The discrepancy largely reflects changes in the carryover of budgetary releases.

Table 4. Zambia: Monetary Accounts[1]
(Billions of kwacha, unless otherwise indicated)

	2009	2010		2011		2012	2013
		Prog.	Est.	Prog.	Proj.	Proj.	Proj.
		CR /10/383		CR /10/383			
Monetary Survey							
Net foreign assets	5,178	6,257	6,690	7,336	7,534	9,362	11,706
Net domestic assets	8,619	10,775	11,226	12,246	12,049	12,823	13,258
Domestic Claims	11,711	14,761	14,683	17,455	17,381	19,776	22,445
Net Claims on Central Government	3,698	5,795	5,548	6,869	6,623	7,553	8,206
Claims on Other Sectors	8,013	8,967	9,135	10,586	10,758	12,223	14,239
Claims on Other Financial Corporations	58	50	76	50	76	76	76
Claims on State and Local Government	5	5	7	5	7	7	7
Claims on Public Non-financial Corporations	208	84	115	84	115	115	115
Claims on Private Sector	7,741	8,828	8,936	10,447	10,560	12,024	14,041
Other Items net	-3,092	-3,986	-3,456	-5,209	-5,332	-6,953	-9,187
Broad Money (M3)	13,797	17,032	17,917	19,582	19,583	22,184	24,964
Quasi money (M2)	8,818	11,127	11,714	12,734	12,721	14,411	16,217
Foreign exchange deposits	4,979	5,905	6,203	6,848	6,861	7,773	8,747
Monetary Authorities							
Net foreign assets	3,996	4,217	4,641	5,296	6,258	8,282	10,626
Asset	9,010	9,533	10,026	10,796	11,750	13,774	16,118
Liabilities	-5,013	-5,316	-5,385	-5,500	-5,492	-5,492	-5,492
Of which: IMF liabilities	-1,600	-1,868	-1,892	-2,052	-2,052	-2,052	-2,052
Net Domestic Assets	58	162	540	-405	-1,366	-2,741	-4,390
Net Domestic Claims	254	362	514	-205	-1,116	-2,491	-4,140
Net Claims on Central Government	861	956	2,233	956	1,343	1,343	1,343
Claims on Other Sectors	43	64	43	64	43	43	43
Other Items (Net)	-196	-200	26	-200	-250	-250	-250
Reserve money	4,054	4,379	5,181	4,891	4,891	5,541	6,235
Currency outside banks and cash in vaults	1,999	2,528	2,748	2,743	2,719	3,080	3,466
Other depository corporation reserves	2,034	1,832	2,412	2,124	2,149	2,435	2,740
Liabilities To Other Sectors	21	20	21	23	23	27	30
Memorandum items:							
Reserve money (end-of-period, annual percent change)	19.3	8.0	27.8	11.7	-5.6	13.3	12.5
Broad Money (M3) (annual percent change)	7.7	23.5	29.9	15.0	9.3	13.3	12.5
Credit to the private sector (annual percent change)	-5.7	14.0	15.4	18.3	18.2	13.9	16.8
Velocity (Nominal GDP/M3)	4.7	4.5	4.2	4.4	4.4	4.7	4.7
Money multiplier (M3/reserve money)	3.4	3.9	3.5	4.0	4.0	4.0	4.0
Credit to the private sector (percent of GDP)	12.0	11.6	11.5	12.0	11.6	11.6	12.0
Gross foreign exchange reserves of the Bank of Zambia (millions of U.S. dollars)	1,758	1,886	1,896	2,158	2,378	2,815	3,320
Exchange rate (kwacha per U.S. dollar, end period)	4,641	…	4,796	…	…	…	…

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

[1] End of period.

Table 5. Zambia: Balance of Payments[1]

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

	2009	2010		2011		2012	2013	2014	2015	2016
		CR /10/383	Est.	CR /10/383	Proj.					
Current account	538	-258	615	-659	1,120	638	621	138	-171	-104
Trade balance	906	2,117	2,704	1,152	4,294	4,314	4,205	3,469	3,052	3,398
Exports, f.o.b.	4,319	6,850	7,414	6,679	10,411	11,461	11,875	11,818	12,273	13,480
Of which: copper	3,179	5,455	5,768	5,232	8,393	9,256	9,244	8,756	8,678	9,315
Imports, f.o.b	-3,413	-4,733	-4,710	-5,527	-6,117	-7,147	-7,670	-8,349	-9,221	-10,083
Of which: oil	-536	-632	-618	-696	-960	-1,039	-1,094	-1,170	-1,307	-1,449
Services (net)	-464	-647	-628	-798	-778	-875	-885	-947	-1,013	-1,128
Income (net)	-419	-2,167	-1,893	-1,423	-2,793	-3,216	-3,120	-2,810	-2,646	-2,818
Of which: interest on public debt	-13	-10	-9.3	-12	-14	-28	-66	-98	-121	-148
Current transfers (net)	516	439	432	411	397	415	422	427	436	445
Budget support grants	198	156	148	118	105	107	107	106	110	113
Sector-wide approach grants	106	89	89	58	58	63	66	67	69	70
Private transfers	212	194	194	235	235	245	249	253	258	262
Capital and financial account	55	350	-425	897	-736	-190	-98	490	894	1,044
Capital account	237	150	150	181	181	265	249	221	217	235
Project grants	237	150	150	181	181	265	249	221	217	235
External debt cancellation	0	0	0	0	0	0	0	0	0	0
Financial account	-182	200	-575	716	-917	-455	-347	268	677	809
Foreign direct and portfolio investments	350	988	712	1,106	1,283	1,485	1,689	2,025	2,569	2,774
Other investments	-533	-788	-1,287	-390	-2,200	-1,939	-2,035	-1,756	-1,892	-1,965
Medium and long-term	-533	-788	-1,287	-390	-2,200	-1,939	-2,035	-1,756	-1,892	-1,965
Public sector (net)	61	119	39	416	355	1,015	689	557	480	468
Disbursements	104	162	113	507	447	1,078	744	597	521	503
Of which: budget support	33	67	69	40	30	32	32	36	36	37
Amortization due	-43	-43	-73	-91	-92	-63	-55	-40	-41	-34
Monetary authority[2]	627	0	0	0	0	0	0	0	0	0
Commercial banks (net)	-63	-39	-10	12	-158	-48	-5	-4	-4	0
Other sectors	-1,158	-867	-1,316	-818	-2,397	-2,907	-2,720	-2,309	-2,368	-2,433
Short-term	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-53	0	-106	0	0	0	0	0	0	0
Overall balance	540	92	83	239	383	448	523	628	723	941
Financing										
Central bank net reserves (- increase)	-540	-92	-83	-239	-383	-448	-523	-628	-723	-941
Of which: Gross reserve change	-782	-147	-138	-272	-418	-436	-505	-592	-655	-871
Of which: Use of Fund resources	242	55	55	34	35	-12	-18	-36	-68	-69
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account (percent of GDP)	4.2	-1.6	3.8	-3.5	5.9	3.0	2.6	0.5	-0.6	-0.3
Current account, excluding grants (percent of GDP)	1.8	-3.2	2.3	-4.5	5.0	2.2	1.9	-0.1	-1.2	-0.9
Change in copper export volume (percent)	14.8	11.2	24.4	10.1	11.0	10.8	5.3	6.1	5.4	7.3
Copper export price (U.S. dollars per tonne)	4,716	7,100	6,878	6,950	9,017	8,976	8,513	7,600	7,144	7,144
Total official grants (percent of GDP)	4.2	2.5	2.4	1.9	1.8	2.0	1.8	1.5	1.4	1.3
Gross international reserves[3]	1,758	1,886	1,896	2,158	2,378	2,815	3,320	3,912	4,567	5,438
In months of prospective imports	3.7	3.4	3.1	3.6	3.4	3.7	4.1	4.4	4.6	4.7
GDP (millions of U.S. dollars)	12,805	15,803	16,192	18,581	19,088	21,459	23,610	25,955	28,689	31,604

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

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

[2] SDR allocation, long term liability.

[3] Reserves are evaluated at market exchange rates.

Table 6. Zambia: Financial Soundness Indicators

(Percent, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011 Mar
Capital adequacy						
Regulatory capital to risk-weighted assets	20.4	18.6	18.6	22.3	22.1	20.7
Tier 1 regulatory capital to risk-weighted assets	18.0	15.9	15.7	18.9	19.1	17.9
Capital to total assets	9.1	9.2	9.9	11.2	10.4	10.1
Asset quality						
Past due advances (NPL) to total advances	11.3	8.8	7.2	12.6	14.8	13.1
Loan loss provisions to nonperforming loans	83.3	73.2	104.6	86.6	80.3	86.7
Bad debt provisions to advances	6.8	6.4	6.1	10.9	11.9	11.4
Loan concentration						
Households	16.1	15.5	30.1	30.9	32.2	27.1
Government and parastatals	6.2	9.1	1.9	3.1	4.6	4.5
Agriculture	23.9	18.4	16.0	19.0	17.6	16.4
Mining	4.4	4.1	5.0	4.0	3.2	3.6
Manufacturing	14.0	11.0	11.0	12.0	12.7	12.7
Construction	2.4	3.7	4.0	3.0	5.8	5.7
Services	9.8	13.3	9.0	8.0	7.0	11.1
Others	23.2	25.0	23.0	20.0	16.9	18.9
Earnings and profitability						
Return on average assets	5.1	4.7	3.6	2.1	2.9	2.1
Return on equity	30.6	35.1	20.8	9.4	12.1	13.1
Gross interest income to total gross income	60.2	63.1	66.6	65.1	58.6	61.5
Gross noninterest income to total gross income	39.8	36.9	33.4	34.9	41.4	38.5
Net spread	…	…	…	6.1	-0.5	4.6
Net interest margin	12.8	11.5	10.4	10.7	9.0	8.4
Liquidity						
Liquid assets to total assets	41.3	37.6	35.5	38.0	43.8	41.1
Liquid assets to total deposits	49.6	46.0	49.9	52.6	58.5	57.5
Advances to deposits ratio	49.0	57.4	66.3	60.1	53.1	57.5
Exposure to foreign currency						
Foreign currency loans to total gross loans	34.0	32.5	42.1	36.4	32.8	33.1
Foreign currency liabilities to total liabilities	61.2	27.1	35.8	38.0	39.6	39.1
Net open position in foreign exchange to capital	9.4	7.1	6.9	2.5	4.1	4.7

Source: Bank of Zambia.

Table 7. Zambia: Indicators of Capacity to Repay the Fund

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	3.3	7.7	11.7	23.1	43.4	48.0	43.6	39.6	28.3	7.4	0.0
Charges and interest	0.2	0.9	0.9	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.3
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Principal	3.3	7.7	11.7	23.1	43.4	49.9	47.3	43.3	31.9	11.0	1.8
Charges and interest	0.2	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.3
Total obligations based on existing and prospective credit											
In millions of SDRs	3.5	8.7	12.7	24.0	44.3	50.6	47.9	43.8	32.3	11.4	2.1
In millions of US$	5.5	13.5	19.7	37.4	69.0	78.8	74.7	68.2	50.3	17.7	3.3
In percent of exports of goods and services	0.1	0.1	0.2	0.3	0.5	0.6	0.5	0.4	0.3	0.1	0.0
In percent of debt service[1]	4.9	13.2	14.2	21.5	30.0	31.4	25.4	19.4	13.0	4.5	0.8
In percent of GDP	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0
In percent of Gross International Reserves	0.2	0.5	0.6	1.0	1.5	1.4	1.2	1.0	0.7	0.2	0.0
In percent of quota	0.7	1.8	2.6	4.9	9.1	10.3	9.8	9.0	6.6	2.3	0.4
Outstanding Fund credit											
In millions of SDRs	252.9	245.2	233.5	210.4	166.9	118.9	75.3	35.6	7.4	0.0	0.0
In millions of US$	395.9	383.0	364.2	327.8	260.1	185.3	117.3	55.5	11.5	0.0	0.0
In percent of exports of goods and services	3.7	3.2	3.0	2.7	2.0	1.3	0.7	0.3	0.1	0.0	0.0
In percent of debt service[1]	354.4	372.6	262.9	188.2	113.2	73.8	39.9	15.8	3.0	0.0	0.0
In percent of GDP	2.1	1.8	1.5	1.3	0.9	0.6	0.3	0.1	0.0	0.0	0.0
In percent of Gross International Reserves	16.6	13.6	11.0	8.4	5.7	3.4	2.0	0.8	0.2	0.0	0.0
In percent of quota	51.7	50.1	47.7	43.0	34.1	24.3	15.4	7.3	1.5	0.0	0.0
Net use of Fund credit (in millions of SDRs)	22.1	-7.7	-11.7	-23.1	-43.4	-44.4	-47.3	-43.3	-31.9	-9.2	-1.8
Disbursements	25.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-3.3	-7.7	-11.7	-23.1	-43.4	-44.4	-47.3	-43.3	-31.9	-9.2	-1.8
Memorandum items:											
Exports of goods and services (in millions of US$)	10,778	11,874	12,329	12,318	12,825	14,089	15,777	17,654	19,390	21,282	23,341
Debt service (in millions of US$)[1]	112	103	139	174	230	251	294	351	388	392	424
Nominal GDP (in millions of US$)	19,088	21,459	23,610	25,955	28,689	31,604	34,893	38,452	42,294	46,473	51,011
Gross International Reserves (in millions of US$)	2,378	2,815	3,320	3,912	4,567	5,438	6,001	6,798	7,465	8,257	8,972
Quota (millions of SDRs)	489	489	489	489	489	489	489	489	489	489	489

Source: IMF staff estimates and projections.

[1]Total central government external debt service; it includes IMF repayments.

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

Availability	Current: Millions of SDRs	Current: Percent of quota	Conditions for Disbursement
June 4, 2008	6.987	1.429	Board approval of the three-year ECF arrangement
November 30, 2008[2]	6.987	1.429	Board completion of the first review based on observance of performance criteria for June 30, 2008
May 1, 2009[2]	99.923	20.430	Board completion of the first and second review based on observance of performance criteria for June 30 and December 31, 2008
November 30, 2009	51.013	10.430	Board completion of the third review based on observance of performance criteria for June 30, 2009
June 30, 2010	18.395	3.761	Board completion of the fourth review based on observance of performance criteria for December 31, 2009
November 30, 2010	18.395	3.761	Board completion of the fifth review based on observance of performance criteria for June 30, 2010
May 15, 2011	18.395	3.761	Board completion of the sixth review based on observance of performance criteria for December 31, 2010
Total disbursements	220.095	45.0	

Source: IMF staff estimates.

[1]Original ECF 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 220.1 million (45 percent of quota) during 2008–11.

[2]Disbursement made available upon completion of the first and second reviews on May 1, 2009.

APPENDIX I. LETTER OF INTENT

3rd June 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington D.C. 20431
United States of America

Dear Mr. Lipsky,

The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and progress in implementing the Government of the Republic of Zambia's macroeconomic and structural programme under the Extended Credit Facility (ECF) arrangement, approved by the IMF Board on June 4, 2008. It also sets out macroeconomic policies and structural reforms that the Government will pursue for the remainder of 2011.

The Government requests that the seventh disbursement be made available upon completion of the sixth review by IMF Board. This is because programme performance attained in 2010 was on track and all performance criteria were met except for the NDF, for which the Government requests a waiver. The non observance of the NDF ceiling was on account of expenditure pressures to purchase the maize crop, and to conduct continuous voter registration and national census. The Government in 2011 immediately began taking corrective measures as evidenced by the over-performance in the first quarter of 2011.

With regard to indicative targets, two targets, reserve money and clearance of domestic arrears were missed. The latter was 5.7 percent below target. Despite availability of funds, payments to clear domestic arrears could not be effected because of the required procedure for screening claims before payment is made to avoid fraudulent claims.

Structural reforms also remained on track. The Government is on track with the rolling out of the Treasury Single Account by expenditure category with disbursements for wages, grant-financed outlays and external debt service being processed through the TSA system. By end June 2011, the Government intends to have 60 percent of expenditures being executed through the TSA. The implementation of the Financial Sector Contingency Plan is at an advanced stage with institutional and policy arrangements being largely in place while proposals for legislative changes have been made to the Banking and Financial Services Act and to the Bank of Zambia Act. These are being processed for legislation. Further, the Deposit Protection Bill has been finalized and is awaiting Cabinet approval. The remaining 2011 structural reform regarding the Treasury Single Account is broadly on track.

The Government remains committed to reforming the current maize marketing system. In this regard a report proposing changes to the current maize marketing system was prepared and submitted for Cabinet approval at the end of March 2011. The report proposes changes in the medium term. The structural benchmark on the draft Planning and Budgeting Bill was not met because the Bill could not be submitted to parliament for approval following the non approval of the draft constitution by the National Assembly in March 2011. Submission of the Bill to Parliament was contingent upon the approval of the new constitution.

During the period under review, the Government launched the 2011–2015 Sixth National Development Plan (SNDP). The plan's main areas of emphasis are the binding constraints to growth and poverty reduction in Zambia: inadequate infrastructure and human development. Investments in these areas will be increased in line with the Government's strategic objectives of accelerating economic diversification and meeting its Millennium Development Goals through inclusive growth to ensure job creation and poverty reduction.

With the assignment of a credit sovereign rating of "B+" by Fitch and Standard and Poor's in February 2011, the Government intends to enter the sovereign bond markets to raise finances to support the implementation of the Plan. The amount to be raised will take into account the need to maintain debt sustainability objectives.

The ECF arrangement has played an important role towards the consolidation of macroeconomic stability particularly during the global economic and financial crisis. It has also created a platform for accessing technical assistance from the IMF and other institutions and provided important signals on Zambia's economic performance and prospects. With the ending of the current programme in June 2011, the Government is discussing the way forward regarding further programme engagement with the Fund.

The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies and the related Staff Report, including placement of these on the IMF website subject to removal of market-sensitive information, following the IMF Executive Board's conclusion of the review.

/s/

Situmbeko Musokotwane, (Dr.), MP
Minister of Finance and National Planning

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This memorandum reviews economic developments in 2010 and outlines policies that the Government of the Republic of Zambia will pursue for the remainder of 2011.

2. **The ECF arrangement has supported the implementation of both the fifth and sixth National Development Plans.** The Sixth National Development Plan (SNDP) covers the period 2011 to 2015 and is in its first year of implementation. The areas of emphasis under the SNDP are the two main binding constraints to growth and poverty reduction in Zambia: inadequate infrastructure and human development. Investments in these areas will be increased in line with the government's strategic objectives of accelerating economic diversification and meeting its Millennium Development Goals. Our focus will be on inclusive growth so as to enhance job creation and make significant inroads on poverty reduction.

I. RECENT ECONOMIC DEVELOPMENTS

3. **Growth in the Zambian economy in 2010 was strong and broad based.** Initial estimates indicate that real GDP growth in 2010 was 7.6 percent on the back of strong performance in agriculture; mining; and transport, storage and communications. The macroeconomic environment was also favourable, with annual inflation closing the year at 7.9 percent, just below the end-year target of 8 percent. Lending rates declined to19.5 percent at end-December 2010 from 22.7 at end 2009. The exchange rate appreciated slightly against the major international currencies. The international reserves position rose to $1.9 billion at end-December 2010.

4. **Budget performance was broadly in line with projections.** However, higher than expected outlays on the census and on voter registration, and interest payments, led to a higher than programmed net domestic financing. In nominal terms, domestic revenues, however, over performed by 1.8 percent, while grants fell short by 34 percent. Of particular note were higher collections under income taxes, mainly due to collection of tax arrears from mining companies. Total expenditures were 3 percent lower than budgeted, exclusively due to foreign financed spending.

5. **Monetary policy towards the end of 2010 was more expansionary than programmed.** Broad money stood at K17,917 billion at end-December 2010, growing at 29.9 percent on a 12-month basis. The higher broad money growth reflects a recovery in domestic credit and increased net foreign assets of commercial banks consistent with the improvement in external sector performance. Domestic credit to the private sector continued to recover after the global financial crisis, posting a 15.4 percent growth in 2010 compared to a decline of 5.7 percent in 2009. Reserve money stood at K5,181 billion at end-December, growing at 27.8 percent on a 12-month basis. This was higher than the indicative target of K4,379 billion. The higher than projected growth in reserve money was on account of increased BoZ credit to the government to finance the purchase of surplus maize and the

build-up of international reserves. In response to concerns about potential inflationary pressure, the BoZ has undertaken a significant mopping up operation in the first quarter of 2011 that has brought reserve money levels in line with program target.

6. **The BoZ took possession of Finance Bank Zambia Limited (FBZL) on Friday 10th December 2010,** on account of unsafe and unsound banking practices perpetrated by shareholders, and senior management which threatened the viability of the bank. The taking possession was in accordance with the Banking and Financial Services Act. Overall, the BoZ possession of FBZL did not have any negative impact on the banking sector. The interbank market continues to operate with sufficient levels of liquidity.

7. **The BoZ has resolved to proceed with the restructuring/re-organization of the bank after determining that FBZL is solvent.** The restructuring of FBZL will entail a Purchase and Assumption Transaction in which the legal rights of depositors and creditors will be honoured.

8. **The overall balance of payments position remained favorable in 2010, with the current account surplus growing to 3.8 percent of GDP on account of improved terms of trade and stronger exports.** The current account surplus improved to $614.6 million in 2010 from $538.4 million in 2009. This was explained by increased copper and cobalt export earnings buoyed by increased export volumes and higher metal prices on the international market. Non-traditional exports also increased by 32 percent to reach $1,190 million during the year under review. However, a capital and financial account deficit of $425.3 million was recorded, compared to a surplus of $54.9 million in 2009, largely due to a rise in assets held abroad by the private sector.

9. **All performance criteria at end-December 2010 were met except for the NDF ceiling.** In addition indicative targets on reserve money and clearance of domestic arrears were also missed**.** The latter was 5.7 percent below target despite availability of funds, as payments could not be effected because of the required procedure for screening claims before payment is made to avoid fraudulent claims.

10. **There was some progress made with respect to the remaining structural benchmarks.** In line with the approach of rolling out the Treasury Single Account by expenditure category, disbursements for wages, grant-financed outlays and external debt service are being made using the TSA system, with about 42 percent of expenditures being executed through the TSA as of end-December 2010. The implementation of the Financial Sector Contingency Plan is at an advanced stage and the institutional and policy arrangements are largely in place. Proposals for legislative changes have been made to the Banking and Financial Services Act and to the Bank of Zambia Act whilst the Deposit Protection Bill has been finalized and submitted the Ministry of Finance and National Planning (MoFNP). The BoZ is engaging the MoFNP to agree on the outstanding issues concerning legislative arrangements. The maize report was submitted to Cabinet Office at

end-March. While a draft Planning and Budgeting Bill was prepared, submission to Parliament awaited the approval of the new constitution. However, following the nonapproval of the draft constitution by the National Assembly in March 2011, the draft constitution is expected to be resubmitted to Parliament after a period of six months in accordance with Parliamentary Rules and Procedures.

II. Economic objectives and Policies for 2011

11. **The government's macroeconomic objectives in 2011 are to sustain the high levels of growth in the economy, lower inflation and strengthen the economy against external shocks by building up gross international reserves.** Real GDP growth in 2011 has been revised upwards to 6.8 percent from an earlier projection of 6.4 percent. This is expected to be driven by the mining, construction and transport, storage and communication sectors. Inflation is projected to close the year at 7 percent, and Gross International Reserves are projected to rise to at least $2.4 billion, or 3.4 months of prospective imports. However, recent developments in both the global and domestic economy present downside risks. If oil prices remain high or continue rising, this has the potential to drive up inflationary pressures in oil importing countries and slow global growth. On the domestic front, the recovery in private sector credit, from the sharp contraction during the global financial crisis, needs to remain consistent with underlying demand in the economy to avoid fuelling inflationary pressures.

A. Fiscal Policy

12. **Fiscal policy for the remainder of 2011 will remain focused on creating fiscal space to facilitate spending on infrastructure and the social sectors.** On account of projected strong economic growth and improved metal prices, domestic revenues are projected at 19.3 percent of GDP. The increase in revenue will be driven by growth in income taxes, from 9.4 percent in 2010 to 10.1 percent of GDP. This is mainly on account of collections of mining taxes, including tax arrears. The government will continue to improve the performance of revenues by drawing on technical assistance from the Cooperating Partners. It will also conclude the audit of the mining sector. In the medium term, the focus will remain on undertaking a comprehensive reform of the tax policy and administration to improve the performance of customs and excise taxes, to ease the revenue burden on personal income taxpayers.

13. **Expenditures are projected at 24.1 percent of GDP, with 3.4 percent financed using foreign grants and loans.** The wage bill will decline slightly to 7.9 percent of GDP from 8.1 percent. Domestically financed expenditures or the social sectors and infrastructure development in the transport sector will increase to 50 percent of the budget compared to 35.7 percent in 2010. The budget outlay for maize purchases will be K653 billion, a reduction of 46 percent in 2011 (about 0.6 percent of GDP) compared to 2010. The overall fiscal deficit (including grants) is projected to decrease to 2.9 percent of GDP from

3.1 percent recorded in 2010. Domestic financing will be limited at 1.3 percent of GDP, which is 1.5 percentage points below the outturn in 2010.

B. Monetary and Exchange Rate Policies

14. **The government continues to aim at reducing inflation to 7 percent by the end of 2011.** Broad money is projected to expand by 9.3 percent, reflecting a marked tightening in monetary policy to address the strong expansion in liquidity experienced in the second half of 2010 and to contain underlying inflationary pressures. The money multiplier is expected to increase as excess reserves are being mopped up and the gradual trend decline in the ratio of currency in circulation to deposits continues. Consistent with this, reserve money is targeted to decline by 5.6 percent during 2011. Short-term interest rates are expected to return to positive real levels and the yield curve is expected to flatten.

15. **The current reserve money-based program will remain in place,** while at the same time efforts will continue to be made towards the use of interest rates as the main instrument to anchor inflation expectations.

16. **The government will continue to maintain a floating exchange rate regime.** Interventions in the foreign exchange market will be limited to smoothing excessive fluctuations, while allowing for a gradual build up of international reserves.

C. Structural Policies

Public Financial Management

17. **The government remains committed to improving the management of public finances.** The pilot implementation of the Integrated Financial Management System (IFMIS) has been successful in its first pilot site. IFMIS has been in use at the Ministry of Finance and National Planning since January 2010, with most financial transactions being processed through the new system. The rollout of IFMIS to the next seven MPSAs commenced in January 2011. These are: Ministry of Education; Ministry of Transport and Communications; Ministry of Foreign Affairs; Ministry of Works and Supply; the provincial administration in Eastern and North-Western provinces; and the Office of the Auditor General. By end 2011 we envisage rolling out IFMIS to another 8 MPSAs.

18. **Work is ongoing in implementing the Treasury Single Account (TSA) across expenditure categories.** As at end-January 2011, government attained 99.4 percent of the monthly wage bill and 100 percent of foreign debt service transacted through the TSA. This brings the total expenditure processed through the TSA to 40 percent. With regard to the remaining grants, capital and domestic debt expenditure, a plan has been drafted to consolidate domestic debt transactions into the TSA structure, whilst further consultations are underway with various stakeholders for capital transactions. It is expected that the remaining expenditure categories will be processed through the TSA by end-June, 2011 bringing total expenditure processed through the TSA to 60 percent.

Financial Sector Development

19. **The government continued making progress in the implementation of the second phase of the Financial Sector Development Plan (FSDP II).** The FSDP Phase II focuses on three main pillars, namely, (i) enhancing market infrastructure; (ii) increasing competition; and (iii) increasing access to finance. However, implementation of some of the programmes has been delayed due to continuing negotiations for the full financing of the programme.

20. **The BoZ approved the Lender of Last Resort policy in June 2010.** The policy has been aligned to internationally accepted standards to ensure its effectiveness and relevance.

21. **Work on the implementation of the Financial Sector Contingency Plan has largely been finalized.** Some of the institutional arrangements have been established and will be in place by May 2011, whilst the policy framework has been approved.

22. **Work on the legislative arrangement is currently underway and so far, the following has been done;** (1) Amendments have been proposed in the draft Bank of Zambia Act to include the provisions of the LOLR policy; (2) The Deposit Protection Bill has also been finalized and is with the Ministry of Finance and National Planning; (3) Proposals are underway to enhance crisis prevention by the inclusion of Prompt Corrective Actions in the draft Banking and Financial Services (BFSA) Act; (4) Proposals to broaden bank resolution options have also been included in the draft BFSA; and (5) Proposals to include provisions to facilitate cross-border sharing of supervisory information have also been included in the draft BFSA.

23. **The MoFNP is being engaged concerning the legal framework underpinning government's fiscal support** in the event of the failure of a systemically important financial institution or system-wide financial failure.

Maize

24. **The government is committed to address the inadequacies in the current maize marketing system.** A comprehensive review of the current structure of maize marketing has been undertaken and policy recommendations have been finalized and submitted to Cabinet Office. The policy recommendations include measures on maize marketing to be implemented in the short and medium-to-long terms. For the 2011 marketing season, the government expects to purchase a similar share of the market surplus as in 2010 and maintain the current subsidized price and marketing structure since the private sector alone is not yet able to absorb the purchase of the whole maize surplus. Targeting will continue to be undertaken by FRA, in that it will buy maize only from small-scale farmers. FRA will fund this year's maize operations through sales of last year's maize crop (at better prices), additional bank borrowing, and some budgetary reallocation within the existing ceilings for the 2011 budget. Starting in 2012 however, the proposed reform will include a steady shift to

market pricing, focus of the FRA on the purchase of maize for the strategic food reserve function, removal of export and import controls, and diversification within the agriculture sector. The implementation of the recommendations is contingent on Cabinet approval.

Energy Pricing

25. The government remains committed to full cost recovery petroleum pricing as well as moving towards full cost recovery in electricity tariffs.

Sovereign Bond

26. **In March 2011, Zambia was assigned a sovereign credit rating of B+ by Fitch and Standard and Poor's Ratings.** With this assignment, government intends to issue its debut sovereign bond in 2011. The bond issue will be used on infrastructure development, in particular roads and power projects. In this context, the government will carefully consider maturity and exchange rate risks, and the debt sustainability and cashflow implications. The government intends to take appropriate measures for a successful bond issue, which include the procurement of legal and financial advisors, and the use of collective action clauses, and will consider phased issuance.

Debt and Debt Management

27. **The government has been undertaking measures to improve the debt management capacity.** In this regard, a comprehensive strategic plan for the Ministry of Finance and National Planning has been developed that will pave way for the restructuring and re-organization of the Investment and Debt Management department while taking into account the rationalization of staff in the Ministry. The Investment and Debt Management department will be restructured following international best practice to have front, middle, and back offices to improve effectiveness and efficiency of operations. The plan has been submitted for approval by Cabinet Office. In addition, the Procedures and Operational Guidelines Manual for contraction and management of public debt has been developed and will be disseminated to guide effective debt management operations.

Project Appraisal

28. **The government has continued to enhance capacity in project appraisal to ensure value for money in project implementation**. Towards this goal, financing and technical assistance has been arranged from the Development Bank of Southern Africa (DBSA) that is providing capacity building in project appraisal through the DBSA's Vulindlela Academy. The capacity building provides funds for development of capacity across the public sector. The funds will provide experts to train local staff in project management and appraisal and send officers to the institute in cases deemed necessary. In the meantime, the government will continue relying on private sector experts in evaluating projects, carrying out feasibility studies and calculating economic rates of return for the other

sectors. This will compliment government's decision making process when choosing between competing priority projects in view of limited resources.

Successor Programme to the Current ECF Arrangement

29. **Zambia's current ECF arrangement comes to an end in June 2011**. The ECF arrangement has played an important role towards the consolidation of macroeconomic stability, meeting the challenges of the global economic and financial crisis, creating a platform for accessing technical assistance from the IMF and other institutions and provided important signals on Zambia's economic performance and prospects. With these benefits, government is studying the options available after June 2011, such as continuing with the ECF or migrating to other arrangements. In this context, we look forward to the results of the upcoming ex-post assessment exercise.

MEFP Table 1. Zambia: Quantitative Performance Criteria (PC) and Indicative Targets, 2010[1]

(Billions of kwacha, unless otherwise indicated)

	2009	2010											
		March 31			June 30			Sep 30			December 31		
	Prel.	Indicative	Act.	Status	Prog.	Act.	Status	Indicative	Act.	Status	Prog.	Act.	Status
		CR 10/17			CR 10/208	Prel.		CR 10/208			CR 10/383		
		(Cumulative from January 1st, 2010)											
Performance criteria:													
Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia[2,3]	58	405	80	Met	390	209	Met	33	-271	Met	105	-175	Met
Adjusted ceiling		429			576			311			132		
Ceiling on the cumulative increase in net domestic financing (NDF)[2]	6,950	321	60	Met	552	674	Met	1,386	644	Met	2,000	2,205	Not met
Adjusted ceiling		152			738			1,664			2,027		
Ceiling on new external payment arrears[5]	0	0	0	Met	0	0	Met	0	0	Met	0	0	Met
Floor on the cumulative increase in gross international reserves (GIR) of the Bank of Zambia (Millions of U.S. dollars)[2,4]	1,758	-2	-22	Not Met	40	-54	Met	214	217	Met	150	210	Met
Adjusted floor		-7			-76			99			144		
Ceiling on short-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, ZAMTEL, and Zambia Railways Limited (millions of U.S. dollar	…	0	0	Met	0	0	Met	0	0	Met	0	0	Met
Ceiling on medium- and long-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, ZAMTEL, and Zambia Railways Limited (millions of U.S. dollar	398	600	0	Met	600	0	Met	600	106	Met	600	378	Met
Project-specific													
Electricity[8] and road projects[9]	316	600	0	Met	600	0	Met	600	106	Met	600	n.a.	n.a.
Other sectors	82	0	0	Met	0	0	Met	0	0	Met	0	n.a.	n.a.
Sector-specific													
Electricity	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		200	116	Met
Road	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		400	262	Met
Others	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		0	0	Met
Indicative targets (cumulative):													
Floor on payment of domestic arrears of the government	278	59	71	Met	153	128	Not Met	157	167	Met	269	254	Not Met
Increase in reserve money	4,054	239	-134	Met	223	89	Met	264	319	Not Met	325	838	Not Met
Floor on social spending by the government of Zambia	…	930	971	Met	1875	2055	Met	2,838	3,270	Met	3,938	4,161	Met
Memorandum items:													
Cumulative budget support net of Central Government debt service (U.S. dollars)		61	98		204	117		235	120		200	195	
General budget support (Fiscal accounts)[10]		78	108		235	136		288	156		265	259	
Cumulative BoP support net of Central Government debt service (U.S. dollars)		61	56		162	75		194	78		159	153	
General BoP support		78	66		193	95		246	114		223	217	
Central Government debt service obligations (excl. IMF)	…	-17	-11		-31	-20		-52	-36		-64	-65	
Program exchange rate (Kwacha per U.S. dollar)[11]	4,832	4,622	n.a.		4,641	n.a.		4,641	n.a.		4,641	n.a.	

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

[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] Reserves are calculated at program exchange rates.
[5] Continuous performance criteria and cumulative from the beginning of 2010.
[6] Nonconcessional loans are those having a grant element of less than 35 percent.
[7] Up until the privatization of ZAMTEL on June 5, 2010.
[8] The electricity projects are: Kariba North bank extension, Itezhi-Tehzi power station, Kafue Gorge Lower;
[9] The road projects are: Mutanda-Chavuma Road, Choma-Chitongo-Namwala Road, Kasama-Luwingu Road.
[10] Includes US$ 41.8 mn of budget support from the EU (V-flex) received from the Bank of Zambia on December 31, 2009 (BOP recording) and disbursed to GRZ government in January 2010.
[11] This exchange rate is not a projection but a rate (fixed at the level of end-2009) that is used for the calculation of program targets, as specified in the Technical Memorandum of Understanding.

MEFP Table 2. Zambia: Targets, 2011[1]

(Billions of kwacha, unless otherwise indicated)

	2010	2011					
		March 31			June 30[2]	Sep 30[2]	Dec 31[2]
	Prel.	CR 10/383	Act.	Status	Target[2]	Target[2]	Target[2]
		(Cumulative from January 1st, 2011)					
Targets							
Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia[3,4]	540	-337	-700	Met	-504	-1,091	-1,906
Adjusted ceiling		-371					
Ceiling on the cumulative increase in net domestic financing (NDF)[3]	9,155	284	-10	Met	855	1,508	1,221
Adjusted ceiling		251					
Floor on the cumulative increase in gross international reserves (GIR) of the Bank of Zambia (Millions of U.S. dollars)[3,5]	1,968	42	-57	Not Met	74	228	418
Adjusted floor		49					
Ceiling on new external payment arrears[6]	0	0	…	…	0	0	0
Ceiling on short-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, and Zambia Railways Limited (millions of U.S. dollars)[6,7]	…	0	…	…	0	0	0
Ceiling on medium- and long-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, and Zambia Railways Limited (millions of U.S. dollars)[6,7]	…	800	…	…	800	800	800
Sector-specific							
Electricity	…	400	…	…	400	400	400
Road projects		400	…	…	400	400	400
Floor on payment of domestic arrears of the government	278	79	102	Met	170	262	341
Increase in reserve money (monthly average)	4,892	-21	-564	Met	-194	-68	-1
Floor on social spending by the government of Zambia	4,161	1,385	…	…	2,769	4,154	5,385
Memorandum items:							
Cumulative budget support net of Central Government debt service (U.S. dollars)	170	26	34		17	17	28
General budget support	217	49	42		56	93	135
Central Government debt service obligations (excl. IMF)	-48	-22	-9		-39	-76	-106
Program exchange rate (Kwacha per U.S. dollar)[8]	4,641	4,641	n.a.		4,641	4,641	4,641

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

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

[2] These targets are outside of the ECF arrangement period.

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

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

[5] Reserves are calculated at program exchange rates.

[6] Continuous performance criteria and cumulative from the beginning of 2011.

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

[8] This exchange rate is not a projection but a rate (fixed at the level of end-2009) that is used for the calculation of program targets, as specified in the Technical Memorandum of Understanding.

MEFP Table 3. Zambia: Structural Benchmarks for 2010-11

Measure	Timing	Macro Rationale	Status
Approval by Cabinet of the pay policy reform	End-June 2010	Strengthen payroll management, and increase productivity of the public sector.	Met
Establish a Lender-of-Last Resort Framework and draft legislation and procedures for a financial sector contingency plan in the event of a crisis.	End-June 2010	Strengthen the Central Bank's crisis preparedness.	Met with delay (May 31, 2011)
Submit to parliament the Planning and Budgeting Act.	End-June 2010	Strengthen public expenditure management and budget execution, including improving cash flow management and forecasts.	Reset to end-January 2011. Not Met
Raise the average electricity tariff in 2010 and publicly announce indicative tariffs for 2011 consistent with the policy to reach cost-reflective levels by 2011.	End-June 2010	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.	Met with delay (July 26, 2010)
Prepare a review of tax administration and policy	End-September 2010	Strenghten revenue performance	Met
Adoption of Treasury Single Account so as to cover 60 percent of budgetary expenditures.	End-December 2010	Strengthen public expenditure management and budget execution, including improving cash flow management and forecasts.	Not met. Expected to be met by end-June 2011.
Submit to Cabinet a report on maize pricing policy.	End-March 2011	Preserve macroeconomic stability and minimize disruptions to private sector trading of maize.	Met

Source: Zambian authorities and IMF staff estimates.

INTERNATIONAL MONETARY FUND

ZAMBIA

Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review—Informational Annex

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

June 6, 2011

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ZAMBIA: RELATIONS WITH THE FUND

(As of April 31, 2011)

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	469.14	100.0
Holdings	405.36	86.41

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
ECF arrangements	255.62	52.26

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [6]	06/04/2008	06/03/2011	220.10	183.31
ECF [1]	06/16/2004	09/30/2007	220.10	220.10
ECF [1]	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				
	2011	2012	2013	2014	2015
Principal	2.75	7.70	11.70	23.09	43.44
Charges/interest	0.24	0.97	0.95	0.92	0.84
Total	3.00	8.68	12.65	24.01	44.27

[6] Formerly PRGF.

VII. Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	Dec. 2000
Assistance committed (1999 NPV terms)[7]	
By all creditors (US$ million)	2,499.20
Of which: Fund assistance (US$ million)	602.00
(SDR equivalent in millions)	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[8]	39.47
Total disbursements	508.27

VIII. Implementation of MDRI Assistance

I. Total debt relief (SDR million)[9]		402.59
Of which:	MDRI	398.47
	HIPC	4.12

II. Debt relief by facility (SDR million)

Delivery date	GRA	PRGT	Total
January 2006	n/a	402.59	402.59

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

[8] 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.

[9] 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

Safeguards assessments of the Bank of Zambia (BoZ) were completed in June 2004, January 2009, and October 2010. The 2009 assessment concluded that the bank had adequate safeguards in several areas, but confirmed the existence of certain vulnerabilities in the BoZ's legal framework and financial reporting. The 2010 update report concluded that the BoZ had made progress in implementing safeguards recommendations. Staff noted improvements in the internal audit and internal control mechanisms. Weak statutory independence remains a substantive safeguards concern.

X. Exchange Rate Arrangement

The currency of Zambia is the kwacha. The exchange rate arrangement is a "float," with the kwacha exchange rate determined in the interbank market. The buying rate of the 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, Sections 2, 3, and 4 of the Articles of Agreement. However, the Fund urged the authorities to eliminate the exchange restriction shown 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 14, 2009.

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, 2002, 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
	July 2009	Debt Management Strategy
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
	April 2010	Government Finance Statistics
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
	April 2009	Public Financial Management
	November 2009	Tax Administration
	February 2010	Tax administration
	June 2010	Public Financial Management
	August 2010	Tax Policy
	September 2010	Public Financial Management
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. Perry Perone has been the Resident Representative since December 2009.

ZAMBIA: JOINT WORLD BANK-FUND WORK PROGRAM, 2011–12

Title	**Products**	**Expected Delivery Date**
World Bank work program in next 12 months	1. Pilot to implement small scale solutions to improve competitiveness in the cattle, tourism and mining industries.	July 2011
	2. Institutional review of the transport sector	July 2011
	3. Study on construction industry unit rates (road sector).	September 2011
	4. Zambia Poverty assessment.	December 2011
	5. Social Safety Net Review.	March 2012
	6. Study on Agricultural Competitiveness in Zambia	May 2012
IMF work program in next 12 months	1. Technical assistance: tax administration resident advisor Zambia revenue authority	January 2011
	2. Sixth ECF review	May 2011
	3. 2011 Article IV mission	Sept. 2011
	4. Eventual discussions on a successor program	Dec. 2011
Fund request to Bank		
Bank request to Fund	1. Medium-term macroeconomic framework	
Joint products in next 12 months	1. DSA	October 2011

ZAMBIA: STATISTICAL ISSUES

As of May 23, 2011

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Issues with source data and compilation affect most datasets, but are particularly problematic in the national accounts, balance of payments, and consumer prices.
National accounts: There is a high degree of uncertainty attached to estimates of the level and growth rate of real GDP, because 1994 is the latest benchmark year for value-added ratios to estimate GDP under the production approach. 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) no appropriate indicators exists. Data on total production and intermediate consumption of establishments are not available. On the expenditure side, no reliable indicators of household consumption exist and private final consumption expenditure is derived as a residual. Source data for estimating gross fixed capital formation and changes in stocks are incomplete. The situation largely reflects resource constraints and organizational weakness within the Central Statistical Office that have affected its ability to produce economic statistics on a timely basis.
Price statistics: 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 measurement of inflation is also subject to a high degree of uncertainty because the weights for Zambia's CPI are derived from the Household Budget Survey (HBS) of 1993/94 and thus are out-of-date. STA is providing technical assistance in this area.
Government finance statistics: Data provision is broadly adequate for surveillance purposes. The transactional coverage of these data is however limited to government operations and transactions in nonfinancial assets. Data on transactions in financial assets and liabilities are still unavailable. 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. STA is providing technical assistance in this area.
Monetary statistics: Data provision is broadly adequate for surveillance purposes. Since the 2005 monetary and financial statistics mission, 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.

Balance of payments statistics: Little progress had been made since the assessment by the 2004 Data 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. 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.	
External and domestic debt statistics: Data provision is broadly adequate for surveillance purposes. Recent efforts, facilitated by technical assistance, have led to an improvement in the consolidation of the debt databases, both in terms of external and domestic debt. Further work is underway in these areas.	
II. Data Standards and Quality	
Zambia has participated in the General Data Dissemination System (GDDS) since November 2002.	A Data ROSC Assessment was published in February 2005.

Zambia: Table of Common Indicators Required for Surveillance

As of May 23, 2011

	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	May 17, 2011	May 23, 2011	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	May 18, 2011	May 23, 2011	W	W	M		
Reserve/base money	May 18, 2011	May 23, 2011	W	W	F	LO, LO, LO, LO	LO, O, O, O, O
Broad money	Mar. 2011	May.16, 2011	M	M	M		
Central bank balance sheet	Mar. 2011	May.16, 2011	M	M	M		
Consolidated balance sheet of the banking system	Mar. 2011	May.16, 2011	M	M	M		
Interest rates[2]	May 19, 2011	May 23, 2011	W	W	F		
Consumer Price Index	Apr. 2011	Apr. 28, 2011	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	Mar. 2011	May. 18, 2011	M	M	M		
Stocks of central government and central government–guaranteed debt[5]	Dec. 31, 2010	Mar. 3, 2011	M	M	A		
External current account balance	Q4, 2010	May 9, 2011	Q	Q	A	LO, LNO, LNO, O	LNO, O, LNO, LO, LNO
Exports and imports of goods and services	Q4, 2010	May 9, 2011	Q	Q	A		
GDP/GNP	2010	Mar. 3, 2011	A	A	A	LO, LO, LO, LO	LNO, LO, LNO, LNO, LNO
Gross external debt	Dec. 31, 2010	Mar. 3, 2011	I	I	I		
International investment position[6]	NA	NA					

[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.

Press Release No. 11/244
FOR IMMEDIATE RELEASE
June 20, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Final Review Under the Extended Credit Facility Arrangement for Zambia and Approves US$29.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review of Zambia's economic performance supported under the Extended Credit Facility (ECF). The Board's decision will enable an immediate disbursement in an amount equivalent to SDR 18.395 million (US$29.3 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 220.095 million (US$350.4 million). In completing the review, the Executive Board approved a waiver for the nonobservance of a performance Criterion related to the net domestic financing.

Zambia's three-year ECF arrangement which was approved in June 2008 (see Press Release No. 08/134) comes to an end. The government is studying the options available for future IMF support.

Following the Executive Board's discussion on Zambia, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The Zambian economy continues to gather strength and performance under the ECF-supported program continues to be satisfactory. Growth accelerated further in 2010, private sector credit has recovered to pre-global financial crisis levels, the current account is in surplus, and international reserves are solid. Prospects of strong growth provide an opportunity for more rapid poverty reduction and employment creation. Enhanced access to social and economic facilities—including health and water, transportation, markets, and financial services—is needed, particularly in rural areas where poverty is still high.

"The fiscal program for 2011 is appropriate. The expenditure mix is set to shift toward social and capital spending. As the authorities tap the sovereign bond market to finance capital spending, it will be important to strengthen debt and liquidity management capacity. Containing spending pressures, including with regard to wages and maize purchases, is critical to safeguard priority poverty-related and investment spending. Sequential bumper crops have revealed the limitations of the current maize pricing and marketing system. The government needs to modulate its maize marketing role to minimize distortions, contain fiscal risks, and provide incentives for the private sector to develop.

“The authorities’ inflation target for 2011 is appropriate. Keeping inflation low and stable requires close attention to underlying inflation developments. As inflation expectations, nonperforming loans, and operating costs are reduced, and credit risk concerns ease, bank lending rates should come down.

“Inaccurate data on net domestic borrowing provided in June 2010 for the fourth review under the ECF resulted in a noncomplying disbursement. In view of corrective actions taken to bring domestic borrowing back in line with the program, and to improve data compilation and monitoring, the Board decided to waive the nonobservance of the performance criterion that gave rise to the noncomplying disbursement,” he added.

Statement by Moeketsi Majoro, Executive Director for Zambia
June 20, 2011

Introduction

This being the sixth and last review of the three-year Extended Credit Facility (ECF) arrangement with Zambia, my Zambian authorities take this opportunity to thank the Fund for the policy support, technical and financial assistance. This helped the country consolidate macroeconomic stability and quickly recover from the adverse impact of the global financial and economic crises. We are in broad agreement with staff assessment in their set of reports. We focus on the following for emphasis:

Report on noncomplying disbursement

My authorities request a waiver on the non-observance of the end-December 2009 performance criterion on net domestic financing (NDF). As explained in the letter from the authorities and staff report, the error arose as a consequence of a discrepancy in the stock of government securities that was lower by ZK25 billion at end-December 2008 and ZK298 billion at end-December 2009 than earlier reported to the Executive Board. The discrepancies were as a result of the end-month reconciliation of the stock of government securities held by the commercial banking sector, taking into account the treatment of repos as recommended by the monetary and financial statistics manual. The figure used in the end-December 2009 monetary survey was based on commercial banks aggregated balance sheet and not on the stock as reported by the Bank of Zambia. The usual way is to use commercial banks government securities stock as reported by Bank of Zambia and adjust for repos. As a result, the end-2009 NDF was reported as having been met when in fact not.

The authorities are cognizant of the importance of operating within program targets and reporting accurately on program performance, for which the authorities established a practice of reporting information to IMF staff on a weekly basis. In this regard, the authorities swiftly took corrective measures after the IMF staff identified these errors, and staff was provided with the corrected NDF figures. These revisions did not affect any other performance target apart from temporarily breaching the end-December 2009 NDF. In addition, the revised figures show that the end-March 2010 NDF indicative target was met with a wide margin as opposed to having been missed as earlier reported, while the end-June 2010 and end-September 2010 targets turned out to be over-performed with wider margins.

Evidently, the occurrence of these errors reveals that the data reconciliation processes are not as robust as the authorities would have liked them to be. In order to forestall re-occurrence of such errors, the system of compiling, checking, and storing of data has been overhauled, and put under strict surveillance and supervision. Further, the role of the Internal Audit Department at the Bank of Zambia shall be enhanced in order to oversee accuracy and reliability of the data.

Sixth review under the ECF

The authorities' economic program supported by the ECF was anchored on the country's Fifth National Development Plan which came to an end in 2010 and is now anchored on the successor Sixth National Development Plan (SNDP) that covers the period 2011-2015. The SNDP focuses on two pillars—improving infrastructure and human development—in order to achieve the strategic objectives of accelerating diversified economic growth, attaining the Millennium Development Goals, lowering inflation and strengthening the resilience of the economy against external shocks.

Economic performance

Economic growth performance has been robust and broad based with a preliminary outturn for 2010 being higher than earlier projected at 7.6 percent. This was as a result of continued strong performance of the agriculture, mining and transport sectors as well as supportive macroeconomic policies. Growth is expected to remain robust in the medium term, propelled by the same fundamentals. The fiscal deficit increased to 3.3 percent of GDP in 2010 due to the higher than expected salary increase, financing of surplus maize, and carrying out of the continuous voter registration exercise. Notwithstanding the revenue over performance on account of collections of mining tax arrears and under performance on spending due to substantially lower than budgeted donor inflows. Inflation was contained within the single digits and is projected to further decelerate moving forward. The international reserves position improved in the wake of strengthened balance of payments position. The financial system remained sound and well capitalized with credit to the private sector expanding and nonperforming loans declining.

Program performance

Program performance was broadly satisfactory with all end-December 2010 performance criteria being met with the exception of net domestic financing ceiling. This was on account of the expansionary budget pressure to purchase the surplus maize harvest and unexpected continuous voter registration exercise. The authorities request a waiver for the breach of the performance criterion. Already, authorities undertook corrective measures as witnessed by the over-performance in 2011Q1. Further, two indicative targets were not met with respect to reserve money and under performance on clearance of domestic arrears. The reserve money target was missed due to additional credit to government for the purchase of surplus maize and the build-up of additional international reserves. The under performance on clearance of domestic arrears was on account of the requisite screening of claims prior to payment. Again, the authorities promptly undertook mopping-up operations to avert inflationary pressures and bring reserve money in line by 2011Q1. Furthermore, progress continues to be registered in the context of structural benchmarks, including the rolling out of the treasury single account, implementation of the Financial Sector Contingency and second phase of the Financial Sector Development Plans, and maize marketing. The benchmark on planning and budgeting bill will be delayed following the non-approval of the new constitution by parliament on which the bill was contingent upon.

Fiscal policy

The fiscal policy objective aims at fiscal consolidation while creating space for priority infrastructure and social spending. This is based in the main, on improving collection of taxes including enhancement of mining tax through technical assistance from cooperating partners and the IMF which is in the process of stationing a Resident Advisor, collection of mining tax arrears and continued implementation of a comprehensive reform of tax policy. On the expenditure side, focus shall be on controlling the growth of the wage bill and enhancing domestically financed priority infrastructure and social spending. Overall fiscal deficit is projected to decline to 2.9 percent of GDP, of which only 1.3 percent in 2011 will be domestically financed.

Monetary and financial policies

The monetary policy objective is to maintain low and stable inflation at single digits without constraining growth and private sector credit expansion. Further, the authorities continue to monitor closely developments in the financial sector to ensure stability in the financial system and stand ready to tighten monetary policy should circumstances warrant. The current practice to base the monetary framework on reserve money targeting will continue while efforts to shift to interest rates as the main instrument to anchor inflation expectations are ongoing.

Structural policies

Progress in the implementation of the remaining structural reforms continues to be recorded. This includes rolling out the implementation of the treasury single account, the second phase of the Financial Sector Development Plan, lender of last resort, addressing inadequacies in maize marketing, ensuring cost recovery in energy pricing, and improving debt management capacity and project appraisal.

Ex-post assessment

The authorities welcomed the ex post assessment, which they consider to be timely and useful, particularly in relation to the four key priority areas—laying the groundwork to sustain low inflation, increasing effective investment in public infrastructure, mobilizing domestic revenues and developing the financial sector. My authorities are already addressing these areas and realize the need for further action.

Conclusion

My authorities seek waiver of the nonobservance of the end-December 2009 and 2010 NDF performance criteria, completion of the sixth review under the ECF and financing assurances review. On nonobservance of the end-December 2009 performance criterion, the request is based on the inadvertent and temporary nature of the breach, in addition to the corrective actions and measures taken. On nonobservance of the end-December 2010 performance criterion the request is based on the corrective actions undertaken. In the meantime, my authorities are discussing options for future Fund engagement, for which the ex-post assessment exercise will make a helpful input.