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

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

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 20, 2023, consideration of the Staff Report on issues related to the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 20, 2023, following discussions that ended on November 8, 2023, 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 December 6, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Zambia.

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

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IMF Executive Board Completes Second Review Under the Extended Credit Facility for Zambia and Approves US$187 Million Disbursement

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the second review under the 38-month Extended Credit Facility (ECF) Arrangement with Zambia, providing the country with immediate access to about US$187 million.*
- *Program performance has been satisfactory despite a challenging domestic and global environment. All but one quantitative performance criteria for the second review were met, and most structural conditionality completed.*
- *The authorities continue to advance on policies and reforms to restore fiscal and debt sustainability, raising and safeguarding social spending, preserving financial stability, and intensifying structural and governance reforms to unlock Zambia's growth potential.*

Washington, DC – **December 20, 2023:** The Executive Board of the International Monetary Fund (IMF) completed today the second review of the 38-month Extended Credit Facility (ECF) Arrangement for Zambia. The completion of the second review of the ECF arrangement allows for an immediate disbursement of SDR 139.88 million (about US$187 million), bringing Zambia's total disbursement under the ECF to SDR 419.64 million (about US$561 million).

Zambia's ECF Arrangement was adopted on August 31, 2022, for a total of SDR978.2 million (100 percent of quota, about US$1.3 billion). It supports Zambia's homegrown 8th National Development Plan that seeks to entrench macroeconomic stability, attain debt and fiscal sustainability, foster inclusive growth, and improve the livelihood of the Zambian people, especially the vulnerable (see Press Release No: 22/297).

The Zambian authorities agreed on a Memorandum of Understanding (MoU) with the Official Creditor Committee (OCC) on October 14, 2023, that reflects the June 2023 debt treatment agreement, in line with the IMF program parameters. The authorities remain committed to reaching an agreement with private external creditors that respects the comparability of treatment (CoT) requirements as defined by the OCC and is consistent with IMF program parameters.

Program performance has been satisfactory despite a challenging domestic and global environment. All but one quantitative performance criteria for the second review were met. The authorities requested a waiver of nonobservance for missing the end-June 2023 net international reserve target as they have put in place corrective measures. Four out of seven structural benchmarks were met, with two others completed with minor delays.

Economic performance has proven resilient despite recurrent shocks and delays in debt restructuring. Growth was revised upwards to 4.3 percent in 2023 thanks to strong performance in the non-agricultural and non-mining sectors, despite weakened mining production. The authorities continue taking steps to restore fiscal and debt sustainability, raise and safeguard social spending, preserve financial stability, and intensify structural and governance reforms to unlock Zambia's growth potential.

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

"The authorities have maintained their efforts to stabilize the economy despite recurrent external shocks. Continuing to take measures to restore fiscal and debt sustainability, including advancing with the debt restructuring, and implementing reforms are critical to safeguard macroeconomic stability and foster durable and inclusive growth.

"Zambia's performance under its Fund-supported program has remained satisfactory, including continued fiscal consolidation—despite lower mining revenues—and structural reform implementation. Sustaining the fiscal consolidation remains crucial. In particular, scaling up efforts to mobilize revenues, including by broadening the tax base and removing exemptions, would help preserve social spending, clear domestic arrears, and address development needs. Public financial management reforms are critical to enhance budget execution and the quality of government spending. The authorities are also making efforts to enhance governance and transparency in public debt management.

"The agreed memorandum of understanding (MoU) with official bilateral creditors, formalizing the agreement on a debt treatment consistent with the program's parameters reached in June 2023, and the authorities' good faith efforts with private creditors to reach an agreement consistent with the program's parameters and comparability of treatment (as defined by the Official Creditor Committee) are welcome. Prompt implementation of the MoU, together with reaching agreement with private creditors on comparable terms and in line with the program's parameters, is critical to restore debt sustainability over the medium term.

"The Bank of Zambia stands ready to tighten monetary policy further to ensure that inflation falls within the monetary policy band. The central bank is also committed to maintaining exchange rate flexibility and to step up the pace of reserve accumulation to strengthen external resilience. The authorities' financial sector reforms will help promote financial stability and inclusion.

"Governance and structural reforms are key to promoting private sector development and economic diversification. Efforts to enhance procurement, disclose beneficiary ownership, enhance access to public information, and combat corruption will provide a more conducive environment for private investment and inclusive growth. The authorities also plan to integrate climate mitigation and adaptation strategies into national policies."

Zambia: Selected Economic Indicators, 2021–25

	2021	2022	2023 Proj.	2024 Proj.	2025 Proj.
Output					
Real GDP growth (%)	6.2	5.2	4.3	4.7	4.8
Prices					
Inflation annual average (%)	22.0	11.0	11.0	11.4	7.8
Inflation end-of-year (%)	16.4	9.9	13.0	8.6	7.0
Central government finances					
Revenue (% GDP)	22.4	20.4	20.9	21.2	21.9
Expenditure (% GDP)	30.5	28.2	27.7	27.4	27.3
Fiscal balance (cash basis, % GDP)	-8.1	-7.8	-6.8	-6.1	-5.4
Fiscal balance (commitment basis, % GDP)	-13.9	-5.4	-6.4	-3.8	-3.3
Public debt (% GDP)	112.1	110.9	…	…	…
Money and Credit					
Broad money (% change)	3.7	24.5	18.4	15.6	13.0
Credit to private sector (% change)	-7.8	34.2	31.4	26.8	22.6
3-month Treasury bill interest rate (%)	12.8	9.6	…	…	…
Balance of payments					
Current account (% GDP)	9.7	3.7	-1.8	3.7	5.2
FDI (% GDP)	3.1	1.2	1.3	2.0	2.9
Reserves (in months of imports)	3.3	3.4	3.4	4.0	5.0
Exchange rate					
REER (% change)	5.0	30.3	…	…	…

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

INTERNATIONAL MONETARY FUND

ZAMBIA

December 6, 2023

SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A QUANTITATIVE PERFORMANCE CRITERION, MODIFICATIONS OF THE MONETARY POLICY CONSULTATION CLAUSE AND OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Despite considerable challenges, the Zambian economy is showing resilience driven by non-mining and non-agricultural growth. The government continues to work with its external creditors to restructure its debt in line with program parameters. External and domestic conditions have put pressure on the external balance and the exchange rate, raising inflation. Fiscal consolidation will remain a pivotal focus to restore debt sustainability. Concurrently, economic policies will be directed toward increasing and safeguarding essential social spending, preserving financial stability, and intensifying structural and governance reforms to unlock Zambia's growth potential.

Program status. In August 2022, the IMF's Executive Board approved a 38-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to 100 percent of quota (SDR 978.2 million). The arrangement supports Zambia's efforts to restore sustainability through fiscal adjustment and debt restructuring; create fiscal space for social spending; and strengthen governance and reduce corruption vulnerabilities, including by improving public financial management. Approval of this review will grant access to about US$184 million, bringing the IMF financial support under the arrangement to SDR 419.6 million (about US$555.7 million).

Program performance. Program performance has been satisfactory despite a challenging domestic and global environment. All but one quantitative performance criteria for the second review were met. The authorities request a waiver of nonobservance for missing the end-June reserve target as they have put in place corrective measures that subsequently led to meeting the end-September target. Four out of seven structural benchmarks were met, with two others completed with minor delays.

Outlook and risks: A resolution of the debt crisis and program reforms should foster a recovery in the medium term. Key downside risks include weather-related shocks and weaker copper revenues, slippages in program execution, delays in restructuring debt, and a deterioration in the external environment.

Approved By
Costas Christou (AFR) and Jarkko Turunen (SPR)

An IMF team consisting of Mmes. Vera Martin (head) and Spahia and Messrs. Gurara, Lautier (Resident Representative), Mwansa (local economist) and Ree (all AFR), Ms. Balta (SPR), and Messrs. Roy (MCM) and Tumino (FAD) visited Lusaka October 25 to November 8, 2023. Discussions were led by Minister of Finance and National Planning Musokotwane, Governor Kalyalya, Secretary to the Treasury Nkulukusa, Deputy Governor Chipimo, and other senior officials. Ms. Motsumi (OED) participated in the discussions. Ms. Bravo and Mr. Guzman assisted in the preparation of the report.

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CONTEXT

1. **The review takes place against the backdrop of a sustained economic rebound and progress in the debt restructuring.** The growth rebound is stronger than initially envisaged as new estimates show that the economy grew 6.2 percent and 5 percent in 2021 and 2022 respectively, and non-mining non-agricultural growth is more than compensating for weak agricultural and mining production in 2023. The authorities and the official creditors agreed on a Memorandum of Understanding (MoU) in October, and the authorities made progress in discussions with private creditors, announcing an Agreement in Principle (AIP) with the restricted committee of bondholders in November. However, this AIP and a revised proposal did not meet comparability of treatment (CoT) as defined by the official bilateral creditors, and which is a requirement by official bilateral creditors to conclude the OCC agreement. The authorities remain committed to reaching an agreement with other creditors on terms consistent with program parameters and CoT.

RECENT ECONOMIC DEVELOPMENTS

2. **Economic performance is stronger than anticipated at the time of the First Review, despite weaker mining production (Figures 1-5).**

- **Growth reached 4.7 percent (y/y) in 2023H1 despite lower mining and agriculture production.** Copper production declined 12 percent in the first semester (y/y), due to continued difficulties at KCM and Mopani, two of the largest copper mines, lower grades of copper, and flooding at other operations. Agriculture contracted by 5.8 percent in 2023H1. Non-mining, non-agricultural growth reached 7.1 percent in 2023H1, driven by communication, education, and transportation.

- **Inflation has picked up.** Driven by exchange rate depreciation and higher cereal and fuel prices, headline inflation accelerated to 12.6 percent y-o-y in October from 9.4 percent in January.[1] The Bank of Zambia (BoZ) increased its benchmark rate by 100 basis points (bps) to 11 percent on November 22, following a 50-bps hike in August and another two 25-bps hikes in February and May.

- **The Kwacha has continued to depreciate,** by 26 percent vis-à-vis the U.S. dollar during July–October 2023. It has depreciated by 4.5 and 2.9 percent in nominal and real effective terms, respectively, by end-September 2023. The Bank of Zambia (BoZ)'s net sales amounted to US$791million in the first three quarters of 2023 but lowered net FX net sales from an average of about US$350 million per quarter in 2023H1 to US$88 million in 2023Q3, to build

[1] The increase is broad-based as both food and non-food inflation increased. Surges in food prices, mostly driven by maize prices, have accounted for approximately two-thirds of overall inflation so far this year. Increased fuel prices and strong demand for motor vehicles were the key drivers for the non-food basket.

reserves.[2] Excess liquidity increased from 1.8 percent of banks' assets at end- 2022 to 3.9 percent at end-September 2023. To mitigate persistent FX market pressures and to rein in inflation, the BoZ increased the reserve requirements on both Kwacha and foreign currency deposits by 5 ½ percentage points, to 17 percent, in November.

- **The inter-bank FX market has dried up**. Currently, inter-bank FX operations represent less than 10 percent of total FX transactions, highlighting a shift in market dynamics (see Figure 1).

- **The external position deteriorated in 2023H1 (Text Table 1).** The current account recorded a deficit of 3 percent of GDP, compared to a surplus of 6.5 percent of GDP in 2022H1, due to lower exports (by 12 percent y/y) and robust growth in imports (22 percent y/y). The deteriorating current account balance was partially compensated by a stronger financial account. As a result, gross reserves declined by US$300 million to US$2.7 billion (equivalent to 3.0 months of import cover) at end-June 2023, but recovered to US$2.9 billion by end-September 2023.

Text Table 1. Zambia: Preliminary External Outturn, 2023H1

	2022H1	2023H1	2022H1	2023H1
	(in US$ millions)		(in percent of GDP)	
Current Account Balance	**896.4**	**-386.7**	**6.5**	**-3.0**
Trade balance	2,121.4	595.0	15.3	4.6
Exports	5,955.7	5,240.9	43.0	40.5
Imports	3,834.3	4,645.9	27.7	35.9
Service balance	-483.5	-462.7	-3.5	-3.6
Primary income balance	-885.0	-645.5	-6.4	-5.0
Secondary income balance	143.5	126.5	1.0	1.0
Capital Account	**37.6**	**38.4**	**0.3**	**0.3**
Financial Account**	**1,228.0**	**553.5**	**8.9**	**4.3**
FDI, net	-54.8	-138.9	-0.4	-1.1
Portfolio, net	245.5	168.7	1.8	1.3
Financial derivatives, net	17.0	14.1	0.1	0.1
Other investment, net	1,020.4	509.6	7.4	3.9
Net Errors and Omissions	**74.7**	**-79.7**	**0.5**	**-0.6**
Overall Balance**	**219.3**	**-981.5**	**1.6**	**-7.6**
Reserves and Related Items	**-219.3**	**981.5**	**-1.6**	**7.6**
Reserve assets	297.3	-585.9	2.1	-4.5
Credit and loans from the IMF	0.0	0.0	0.0	0.0
Exceptional financing*	516.6	395.7	3.7	3.1

*Exceptional financing includes budget support grants.
**A positive number refers to a deficit.
Source: Bank of Zambia

- **Fiscal consolidation continues in 2023, despite lower mining revenues.** The end-June primary fiscal surplus (cash basis) reached K 2.2 billion, in line with the performance criteria under the program. A shortfall in mining-related revenue (of 0.8 percent of GDP in 2023H1 versus the budget) has been compensated by non-mining revenues, including one-offs (i.e., tax amnesty, fees from selling mobile licenses) and contained primary spending.
The authorities used the remaining half of the 2021 SDR allocation for budget financing in 2023H1.[3]

- **Financing conditions remain tight amid improving investor appetite in the domestic market.** After peaking at 6,954 basis points (bps) on March 20, 2023, weighted-average spreads on Eurobonds narrowed to 1,957 bps on November 14, 2023. External disbursements have been lower than envisaged, warranting continued reliance on domestic financing.

[2] Since July 2020, mining companies pay tax obligations in U.S. dollars through the BoZ, who then provides FX through bilateral sales.

[3] The authorities already used half of the 2021 SDR general allocation for budget support in 2022.

Investors' appetite for domestic government securities improved since June, led by non-resident holders (NRHs), with the average bond auction cover increasing from 43 percent during January-May 2023 to 130 percent during June-October 2023. Cumulative NRHs purchases (cost value) in the primary market during January-August 2023 amounted to K 3.2 billion.[4] Yields on bonds remain elevated (Figure 5).

- **Zambia continues to accumulate external arrears on claims under the debt restructuring perimeter.** As of end-September 2023, the arrears on external public and publicly guaranteed debt (principal and interest) amounted to US$5.3 billion, increasing by US$1.2 billion relative to end-December 2022, with this increase solely pertaining to claims under the debt restructuring perimeter.[5] All arrears with international financial institutions (IFIs) have been cleared. There has not been any increase in the stock of arrears to external supplier and contractor nor in ZESCO's other external payables relative to end-2022.

- **The banking sector continues to show improved regulatory capital and loan quality.** At end-September 2023, income on government securities boosted regulatory capital. Gross non-performing loans (NPLs) decreased during the same period.[6] The NPL coverage ratio, above 90 percent, suggests strong capacity to absorb potential loan losses. In September 2023, the BOZ announced the unwinding of the remaining forbearance measure for restructured facilities by end-2023. The financial health of non-banking financial institutions (NBFIs) remained satisfactory.[7]

- **Private sector credit growth remained robust and broad-based.** Commercial bank loans grew by 27 percent between end-December 2022 and end-September 2023 led by local currency credit and supported by lower banks' exposure to the sovereign. Private sector credit, however, remained subdued, at 10.2 percent of GDP in 2022, down from an average of 12.1 percent during 2018-20, as lending rates remained high.

PROGRAM PERFORMANCE

3. Program performance is satisfactory despite small delays in implementing structural benchmarks (MEFP, Tables 1-2).

[4] NRHs increased by K 10 billion, to K 56.0 billion (US$2.6 billion) between May and October 2023, with net purchases from the secondary market accounting for one-third of the increase.

[5] External arrears at end-December 2022 amounted to US$4.2 billion – US$1.4 billion due to official bilateral creditors, US$1.3 billion due to Eurobond holders, US$1.5 billion to other external private creditors, and an additional US$1.7 billion to external suppliers (fuel and contractor arrears, ZESCO external IPP import arrears).

[6] Notwithstanding a contraction of aggregate NPLs in 2023, NPLs from the retail and wholesale trade sector increased more than three-fold, to 17 percent of total NPLs.

[7] Barring two institutions possessed by the BoZ in July, including the Development Bank of Zambia, to be restructured as a new development bank.

- All but one end-June 2023 quantitative performance criteria (QPCs) were met; the net international reserves (NIR) target was missed due to lower-than-expected mining tax revenues and one-off FX pressures related to the Tazama Pipeline. The end-September 2023 NIR IT was met as BoZ reduced foreign exchange (FX) sales.

- All but one end-June ITs were met. The IT on clearance of expenditure and VAT refund arrears was missed, as VAT claims outstripped the pace of clearance. Preliminary data show that all but one of the end-September ITs were met. The IT on refunding VAT arrears was missed as accumulation continued.

- Four out of the seven structural benchmarks (SBs) were met, with two others been completed with minor delays (MEFP, Table 2). The Access to Information Bill was submitted to Parliament on November 7, 2023 **(end-October 2023 SB)**, and the expected rollout of the Integrated Financial Management Information System (IFMIS) by end**-**August faced delays in three out of the 59 institutions **(end-August 2023 SB)**.[8] The full e-voucher migration was implemented in 17 out of the 33 planned districts **(end-September 2023 SB)**.

OUTLOOK AND RISKS

4. A solid near-term outlook is sustained by robust growth in the non-mining non-agricultural sectors. Growth in 2023 has been revised up to 4.3 percent and is projected to accelerate to 4.7 percent in 2024 driven by a projected recovery in mining production as delayed investments come into place, and to 5 percent over the medium term (Text Table 2).[9] Inflation is projected to peak at 13 percent y/y around end-2023—before moderating in 2024-25. The 2023 current account is expected to swing to a surplus in 2024, as mining production expands over the medium term.

Text Table 2. Zambia: Medium-Term Macroeconomic Framework, 2022–28

	2022	2023		2024		2025	2026	2027	2028
		CR No.		CR No.					
	Prel.	23/256	Est.	23/256	Proj.		Projections		
Real GDP (percent change)	5.2	3.6	4.3	4.3	4.7	4.8	4.8	4.9	5.0
of which: extractive	-3.7	4.9	-4.4	9.0	9.3	11.0	10.5	10.5	7.5
GDP deflator (percent change)	6.1	12.1	10.2	9.9	10.6	7.6	6.6	6.7	6.6
CPI inflation, average (percent)	11.0	10.6	11.0	9.6	11.4	7.8	7.0	7.0	7.0
CPI inflation, eop (percent)	9.9	11.4	13.0	7.9	8.6	7.0	7.0	7.0	7.0
Overall fiscal balance (% GDP), commitment basis	-5.4	-4.2	-6.4	-3.0	-3.8	-3.3	-4.8	-3.6	-3.2
External public debt (% GDP)	58.8	69.6	72.9	65.9	69.2	66.5	63.0	59.7	57.1
Current account balance (% GDP)	3.7	3.8	-1.8	7.1	3.7	5.2	6.9	9.0	8.7
Gross international reserves (months of prospective imports)	3.4	3.5	3.4	4.2	4.0	5.0	5.0	5.0	5.0

Sources: Zambian authorities and IMF staff estimates and projections.

[8] As of November, IFMIS covered 59 agencies; a review verifying that all invoices, commitments, and transaction are conducted in the IFMIS system has not been done.

[9] The authorities recently announced KCM return to private investors, committing US$1.2 billion in investment over the medium term and identified a new strategic equity partner in Mopani Copper Mines on December 1, 2023. New investments were announced by NFCA (US$1 billion) and Barrick (US$2 billion).

5. **The outlook is subject to elevated downside risks (Annex I).** Commodity price volatility and an abrupt global slowdown or recession could generate external and fiscal imbalances and undermine investment. An escalation of the conflict in Gaza and Israel, and Russia's war in Ukraine, could result in trade disruptions, increasing food and energy prices, and raise food insecurity. Domestically, prolonged subdued mining production, weather-related shocks and increasing social discontent due to real income losses could challenge the recovery and worsen inequality and growth prospects. Delays in completing the debt restructuring could intensify financing pressures. On the upside, its swift completion and renewed mining investments could lead to positive confidence effects that support growth.

6. **The authorities agree on the outlook and risks**. They acknowledge commodity price volatility as a major risk, especially from copper and fuel, which would add pressures to the exchange rate and inflation. They noted rising food and energy prices have reduced purchasing power, and further increases could worsen economic strain and exacerbate inequality. However, they expect a prompt resolution of debt restructuring with private creditors and are optimistic about mining investment prospects.

7. **Enterprise risks are limited.** Financial risks to the Fund arise reflecting the stressed debt situation and outlook, though these are mitigated by program design and debt relief prospects. As the program helps catalyze donor and creditor support and provides a policy anchor for significant adjustment and reforms, not completing the review would raise IMF's reputational and member engagement risks. Business risks associated with data accuracy mainly relate to the monetary data, for which the BoZ has established a working group to document procedures for compiling and reviewing program monetary data.

POLICY DISCUSSIONS

A. Continued Fiscal Consolidation to Restore Debt Sustainability

8. **Despite headwinds, a sizeable fiscal adjustment is expected in 2023 (MEFP, ¶8).** The primary balance (cash basis) is projected to improve by 1.8 percent of GDP compared to 2022, mostly driven by lower primary spending (1.2 percent of GDP), both in investment from foreign-financed projects (0.8 percent of GDP) and contained current spending (0.4 percent of GDP). Compared to 2022, improved revenues mask a sharp shortfall in mining revenue, which is offset by higher non-mining and one-off revenues.[10] The authorities are ready to curtail spending in goods and services further to meet the 2023 primary surplus target. The primary balance on a commitment basis in 2023 would narrow to 0.6 percent of GDP, below the envisaged 2 percent of GDP at the time of the First Review, due to accumulated VAT claims. Despite timely payments to clear legacy VAT arrears, the flow of new refund claims outstripped refunds.

[10] Compared to the First Review, 2023 revenues excluding grants are expected 0.5 percent of GDP lower due to the mining revenue shortfall (1.4 percent of GDP). Non-mining tax revenues have performed better-than-expected (by 0.6 percent of GDP), but cannot fully compensate for the shortfall, hence expenditure restraint is needed.

9. Fiscal consolidation will continue in 2024, but at a slower pace than-previously envisaged due to lower mining revenues (Text Table 3, MEFP, ¶9). Consistent with the 2024 draft budget, the authorities are committed to a primary balance of K 5.57 billion (0.8 percent of GDP) with a proposed revised end-June QPC of K 2.16 billion. Compared to the First Review, this implies a higher fiscal effort (the non-mining primary balance increases by 0.9 percent of GDP) including revenue measures (see Text Table 3). Primary expenditures will only marginally change from the level of the First Review, but the authorities would contain them should revenue not materialize as anticipated. Any upside on revenues should be saved or used to clear arrears, including VAT refunds.

Text Table 3. Zambia: Main Proposed Tax Measures in the 2024 Draft Budget

	Kwacha million	Percent of GDP
Income Taxes	**1,618**	**0.25**
Adjusting upward PAYE bands, and lowering the rate for the top band	-640	-0.10
Applying withholding tax to income from discount on government bonds	1,158	0.15
Excess Profit fees for Tazama fuel pipeline*	1,100	0.17
Excises	**297**	**0.05**
Increasing excise for cigarettes (K400/'000 from K361/'000)	20	0.00
Removing exemption for government cars	190	0.03
Other excise measures, net	87	0.01
Custom Duties	**235**	**0.04**
Removing exemption for government cars	229	0.03
Other custom measures, net	6	0.00
Non-tax revenue	**745**	**0.11**
Introducing a Mobile Transaction Levy	545	0.08
Adjusting Fee units	200	0.03
Total	**2,894**	**0.44**

Sources: MoFNP and IMF staff estimates.

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

10. The authorities remain committed to medium-term fiscal consolidation (MEFP, ¶10). The medium-term framework aims at improving the primary balance, increasing revenue mobilization, and containing spending pressures and financing needs. The authorities agreed to submit to Parliament a 2025 draft budget consistent with the parameters of the program (**proposed end-September 2024 SB**).

11. Continued revenue mobilization remains a pillar for providing needed space for development needs and preserving fiscal sustainability (MEFP, ¶11). Specifically,

- **Widening the tax base and removing exemptions.** The authorities proposed to expand the base for the withholding tax by including the discounts on government bonds paid at maturity. They will also rescind the exemption of government cars from import duties and registration tax and introduce a modest levy on mobile money transactions and adjust upwards fees and fines. To protect the tax base from inflation erosion, the authorities have indexed excises for cigarettes and sugary drinks.

- **However, not all revenue measures go in the right direction.** While the higher threshold for personal income tax will protect low-wage earners from rising cost of living, the reduced top rate for high earners, by 0.5 ppt to 37 percent, hampers tax progressivity. The use of excises and custom duties to protect domestic manufacturing or tax incentives (i.e., reduced CIT rates or tax holidays) to promote investment in selected activities are unlikely to yield expected results, create loopholes in the tax system and complicate tax administration. Instead, cost-based measures are better at targeting business investment and economic growth. While mobilizing revenues predictably, the levy on mobile transactions could have a negative effect on financial inclusion.

- **Improving tax compliance.** A narrow tax base—with 0.3 percent of registered taxpayers contributing 80 percent of revenues—makes revenues vulnerable to a few sectors and companies. To improve compliance, the authorities established a specialized mining unit focused on small and medium-sized mines.[11] They are progressing towards establishing a unified Large Taxpayer Office **(end-March 2024 SB)** and will merge the units dealing with direct and indirect taxes.

- **Modernizing and enforcing revenue collection**. The authorities have engaged in efforts to improve tax administration via better data processing and integration among government systems (such as IFMIS and the land registration database ZILAS). A new system, developed with the Ministry of Mines, tracks mining exports and road movements of minerals to tackle under-declaration and mis-invoicing, especially for precious minerals.

- **An effective VAT functioning requires timely refund payments**. The authorities will apply the new e-invoice system in 2024Q1 to better capture VAT transactions and a new VAT control model to improve compliance. They also want to extend VAT to cross-border services with a simplified regime. In parallel, the authorities should clear legacy VAT arrears and promptly refund all validated VAT claims (IT).

- **Amnesty program**. Active during October 2022-June 2023, the amnesty—waiving interest and penalties— yielded 0.7 percent of GDP. However, tax debt amounted to 19 percent of GDP at end-2022, of which K 63 billion related to principal.

12. Carefully calibrating spending and PFM reforms are critical to improve spending efficiency and prioritization (MEFP, ¶12).

- **Expenditure control/measures.** The three remaining institutions have been integrated in the IFMIS system, including all ministry-level spending units. Further actions are needed to expand the system among spending agencies and to register multi-year commitments and arrears (MEFP, ¶17).

[11] About 80 percent of mining revenues are collected from ten out of 2,600 licensed mines; not all report mining activity to the Ministry of Mines.

- **Social spending.** The authorities have upscaled social support despite the fiscal consolidation. Efforts have been made in the areas of health and education, with the hiring of new teachers and health personnel (MEFP, ¶13). The cash transfer scheme remains the most important safety net program, aiming to reach 1.4 million households in 2024.

- **Improving cash management could reduce financing needs substantially**. Budget implementation is done through quarterly releases, which double as cash plans, with no active management once funds leave the TSA account. With accounts outside the TSA, limited visibility and no claw-back provisions, deposits in commercial bank accounts are sizeable—at end-September, they stood at 1.5 percent of GDP. Staff called for developing plans to consolidate accounts and consider claw-back arrangements for idle balances. To this end, the authorities will prepare an action plan to rationalize banking arrangements and to reduce account balances at commercial banks (**end-March 2024 SB,** MEFP, ¶19).

- **Effective decentralization requires building capacity at local governments (LGs).** The central government transferred functions to LGs alongside resources, but efforts are needed to boost LGs' PFM capacity and to improve the oversight role of central government over LGs and their fiscal risks. In parallel, the Constituency Development Fund (CDF) acts as hybrid mechanism.[12] Despite being well-funded (0.8 percent of GDP in the 2023), absorption remains low—at an average 50 percent as of end-August—and uneven among constituencies., The government delegated decision-making to the provinces to accelerate execution, which should not, however, dilute PFM and reporting rules (MEFP, ¶15).

- **Fiscal Risks**. A fiscal risk statement (FRS) will accompany the 2025 budget, evaluating risks stemming from State-Owned Enterprises (SOEs), Public-Private Partnerships (PPPs), local governments, public pension schemes and other obligations, including climate change risks (**end-June 2024 SB,** MEFP, ¶21).

    - The authorities adopted a supervisory and performance framework to enhance SOE monitoring and are working toward a consolidated SOE financial report for 2021. [13] The government will develop an SOE policy to enhance shareholder oversight and define the institutional responsibilities to monitor and manage fiscal risks stemming from SOEs (**proposed end-October 2024 SB,** MEFP, ¶22).

    - The government has signed eight PPPs, amounting to 6.4 percent of 2023 GDP, most concessions for roads and border posts. The FRS should clearly describe the financial commitments and any associated government contingent liabilities.

[12] The CDF is a new government flagship program that supports community-oriented infrastructure, skill development, and youth and women empowerment.

[13] Out of 49 SOEs, 37 are managed by the Industrial Development Corporation, a holding company; the rest are managed by the Ministry of Finance and National Planning. Reporting lines are unclear and information on financial results is also partial.

Refraining from singing new PPPs until the new PPP Act becomes operational would help strengthen competitive selection and oversight of PPPs (MEFP, ¶18).

- The new public investment management guidelines set standardized procedures for project identification, development, appraisal, and monitoring. Only projects approved consistent with these guidelines will be included in the budget. The MoFNP maintains and publishes an inventory of all existing projects, with information on their timelines and execution, contract value, financing, and contractor information. From 2025, the authorities will include this list in the budget (MEFP, ¶18).

- While the National Pension Scheme Authority (NAPSA) does not seem to pose significant fiscal risks, its supervision and operations need strengthening. NAPSA is an important institutional investor (with assets amounting to 13 percent of GDP and holdings of government domestic debt at 20 percent of total).[14] It also invests in infrastructure, real estate, and other projects. A law in 2023, allowing contributors to liquidate part of their retirement benefit, strained liquidity and diminished its ability to participate in government securities auctions.[15] NAPSA needs to improve contribution collection and secure a sound investment strategy that avoids quasi-fiscal activities.

13. The issuance framework and strategy for government securities requires greater flexibility to support debt sustainability and improve debt management, while safeguarding debt portfolio risks. Bond issuances currently involve an average discount of around 40 percent, especially for the longer tenors. A switch to issuing bonds at par provides a more transparent measure of financing costs and an efficient yield curve, while also facilitating broader capital market development and enabling a more effective and efficient taxation regime. The authorities agreed to transition their issuance strategy to par bonds in 2024 (proposed end-March 2024SB). Staff urged the authorities to undertake adequate market consultation before the switch to par issuance framework. Steps to align the 2024 issuance calendar with the annual borrowing requirements would be welcome. The stock of NRHs has increased more than expected at the time of the First Review and could pose debt sustainability risks. In June 2023, the authorities limited the non-residents participation to 5 percent of total primary issuances in 2023 (in cash terms), and will further limit non-residents participation to 5 percent of total bonds issuances (at face value) in the primary market in 2024-25.[16] This measure constitutes a residency-based capital inflow measure under the Fund's institutional view and should be removed as conditions allow. The authorities will closely monitor NRHs while reviewing the issuance mix to moderate rollover risks (MEFP, ¶31).

[14] Pensioners count for only 2 percent of active contributors. These, defined as those that have made at least one contribution in the last year, amount to one million, about one-third of all contributors.

[15] As of September 2023, NAPSA paid out K 9.9 billion (representing almost 90 percent of eligible contributions to withdraw) to about 425,000 participants. Withdrawals have now stabilized.

[16] NRH access to the secondary market remains unrestricted.

14. The authorities are strengthening governance and transparency in public debt management. The MoFNP publishes the Debt Statistical Bulletin to cover external and domestic debt developments including loans contracted and guarantees issued on a quarterly basis (**recurrent end-quarter SB**). Following the 2022 Public Debt Management Act, regulations that will govern management of the sinking fund, clarify the nature and scope of guarantees and indemnities, establish the general provisions of the debt management office (DMO), define the credit risk assessment framework, and set the framework for regulating SOEs borrowing will be in place by end-June 2024. The organization for the new DMO based on a clearly separated front, back, and middle office functions, and aligned with best international practices, is expected to be approved by the Cabinet by end-2023 (**end-December 2023 SB**, MEFP, ¶30) The authorities will adopt and publish the procedure manual of the DMO by end-2024 (**proposed end-November 2024 SB**).

B. Fostering Price and External Stability

15. The monetary policy stance is geared toward steering inflation back to target (MEFP, ¶32). The BoZ remains focused on price stability. With inflation at an 18-month high in October and the need to further strengthen reserve accumulation, the BoZ has appropriately tightened its policy stance since August by significantly raising both the policy rate and statutory reserve requirements. The BoZ should stand ready to further tighten policy to counter persistent inflation. Its policy adjustments should remain anchored around the monetary policy rate (its main instrument of policy communication), be data dependent, and incorporate forward-looking analysis.

16. Reserve accumulation is critical in the context of recurrent shocks (MEFP, ¶35). In 2024, the BoZ will accumulate reserves, including by ensuring exchange rate flexibility as the first response to emerging external pressures, and complementing this strategy with further monetary tightening as needed. To this end, the BoZ proposes revising the end-June 2024 NIR QPC target to US$2,150 million and setting the end-December 2024 NIR target at US$2,235 million, supported by the government's commitment to transfer all FX disbursements related to budget support to the BoZ. The BoZ plans to review its FX market rules and policies to reflect market developments and promote price discovery, transparency, and a well-functioning FX market. In developing its FX strategy, the BoZ needs to consider steps toward a rule-based FX intervention policy to counter any disorderly market conditions.[17] BoZ plans to strengthen e-BOP monitoring system by requiring all export proceeds to be first brought to domestic bank accounts for statistical purposes (MEFP ¶60).[18]

[17] One option would be an arrangement of "discretion under constraint", under which BoZ would consider intervening if exchange rate fluctuations exceed a certain threshold but retains discretion not to intervene.

[18] As of mid-November 2023, the central bank is considering introducing a tracking framework for exports that would require repatriating all export earnings to a bank domiciled in Zambia. Based on available information, staff assessed this as a capital flow measure that would be deemed appropriate under the IMF's institutional view. Going forward, BoZ needs to seek less intrusive measures to address data monitoring issues, to reduce compliance costs to business.

17. Strengthening the monetary policy framework will improve liquidity management and monetary policy effectiveness (MEFP, ¶36). The upcoming renewed MPC (first time including external members) and the inaugural monetary policy report (MPR) will strengthen transparency and accountability of monetary policy.[19] The BoZ will need to advance towards adopting a well-established interest rate corridor, reserve averaging, and an open market operation framework closely aligned with it.[20] Given that an active interbank market is key, BoZ plans to facilitate a functionable repo market.[21]

C. Strengthening Financial Policies and Safeguards

18. Upgrading the prudential financial framework will enhance monitoring of systemic risks and help build resilience in the banking sector (MEFP, ¶36). The banking sector continues to exhibit potential systemic vulnerabilities from the sovereign-bank nexus, high dollarization, and concentration of banks' balance sheets.[22]

- **Macroprudential.** The BoZ has developed a macro-prudential toolkit aimed at mitigating the buildup in excessive credit growth and leverage, maturity mismatches, market liquidity and concentration risks, and moral hazard; is working on establishing an inter-agency Financial Stability Committee (FSC); and will publish its maiden financial stability report by end-June 2024 (**end-June 2024 SB**). Guidelines on capital and liquidity risk management will become operational by 2024. Staff called for enhancing monitoring on banks' balances with foreign institutions, especially parent banks.[23]

- **Microprudential.** The Cyber and Information Risk Management Guidelines were issued in May 2023. In 2024, the BOZ will review the Banking and Financial Services Act (MEFP, ¶39) to address emerging regulatory and governance gaps, suit different institutional needs, and strengthen coordination with other regulators, with a view to submit a draft bill aligned with international standards to the Parliament by end-2024 (**proposed end-December 2024 SB**).[24]

[19] The BoZ is expected to prepare its inaugural MPR in line with MCM's recent TA recommendations and to communicate monetary policy decisions to the public shortly after the MPC meetings.

[20] To this end, it will be important to reintroduce reserve averaging over a sufficiently long period of reserve maintenance and ensure consistency between the OMO frequency and reserve compliance period.

[21] This would require adopting the Global Master Repo Agreement (GMRA), which transfers ownership for collateral securities in the event of default on repo trading—thus eliminating counterparty risks. BoZ's intends to facilitate the signatures of ISDA and GMRA between commercial banks in 2024 (MEFP, ¶36).

[22] The share of FX loans and deposits was 39 percent of total respectively at end-September 2023. Concentration risk, measured by the ratio of the twenty largest loans to total loans, reached 62 percent, 127 percent of total industry regulatory capital.

[23] At end-September 2023, banks' balances with foreign institutions accounted for 42 percent of total liquid assets while government securities comprised 37 percent.

[24] The review identified areas to improve, including reviewing exemptions, strengthening banks' disclosure and transparency, and revising the definition and disclosure of beneficiary ownership. The bill will also address gaps identified in the Diagnostic Report on Governance and Corruption.

19. The BoZ is strengthening its crisis management and the resolution framework. An industry-wide crisis simulation exercise was undertaken in May 2023, with World Bank support. The upcoming FSC will internalize the crisis management and resolution framework within its mandate. The BoZ will also implement a deposit protection scheme in 2024 (MEFP, ¶41); its institutional setup will be operational by end-December 2023 under the Bank Supervision Department.[25] Staff called for the scheme to be operationally independent, well-governed, transparent, accountable, and insulated from external interference.[26]

20. The authorities remain committed to promote financial inclusion. Mobile money transactions have increased as part of the ongoing "Go Cashless" campaign. The Government will launch the second National Financial Inclusion Strategy 2024-28 by end-2023. To this end, the authorities allocated K 386 million in the 2024 draft Budget to the Credit Guarantee Scheme to support access to affordable credit for micro, small and medium enterprises (MSMEs). Complementarily, the BoZ will introduce, a pilot credit guarantee fund, which will leverage private sector participation, to provide affordable credit to MSMEs (MEFP, ¶42).

21. The BoZ is progressing with implementing recommendations from the 2022 safeguards assessment (MEFP, ¶45). It has strengthened quality controls over accounting and financial reporting processes, including through closer oversight by the Audit and Finance Committee (AFC) of the external auditor's performance, and enhanced disclosures in the audited FY2022 financial statements. A new Board Charter (approved in September 2023) now precludes the Ministry of Finance representative from being a member of the AFC, while specific Board committee charters will be revised by March 2024. A bank-wide assessment to update the risk profile has been conducted, and the internal audit function is providing assurance on the program monetary data while reinforcing its capacity. The legal opinion from the Attorney General on legal compliance of the statutory limit on credit to government and the rollover of government securities is still pending (MEFP, ¶45).[27]

22. The BoZ remains committed to strengthen AML/CFT/CPF supervision.[28] The BoZ will establish a dedicated AML/CFT/CPF supervisory unit by end-2023, to address the deficiencies identified in the 2019 ESAAMLG Mutual Evaluation, 2022 Enhanced Follow-Up Report, and Zambia's 2016 National Risk Assessment.[29] In the interim, risk-based AML/CFT on-site

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[25] The scheme will also provide deposit protection of up to the maximum amount that will be stipulated in the regulations and conform to the International Association of Deposit Insurers (IADI) Core Principles.

[26] In line with the Core Principles for Effective Deposit Insurance Systems (CP3). Establishing an independent board for the scheme would be advisable.

[27] To minimize risk of non-compliance and safeguard the financial autonomy of BoZ, IMF staff recommended the BoZ to obtain a legal opinion from the Attorney General on the statutory limit in Section 50 of the BoZ Act, specifically on the legal treatment of: (i) accrued interest; (ii) securitized accrued interest (i.e., Consolidated Bond No. 3); and (iii) whether roll-overs of government securities are, and under what terms, consistent with applicable laws and regulations.

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

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

inspections have helped monitor compliance and implement remedial actions. The unit will support the BoZ's risk-based approach to AML/CFT/CPF supervision and the effective application of sanctions, including for identified high-risk entities and politically exposed persons. Full implementation of the planned electronic balance of payments system will also help support AML/CFT supervision (MEFP, ¶56).

D. Advancing Structural Reforms to Build Resilience and Unlock Growth

23. Zambia has significant potential for inclusive and climate smart growth, particularly in the agriculture and energy sectors.

- **Agriculture.** The Comprehensive Agriculture Transformation Program (CATP), by end-December 2023 (MEFP, ¶48), is expected to cover extension service support, access to finance, irrigation development, increased value-added and logistics. The government also intends to accelerate the farm blocks for large-scale commercial farming. Predictable market access, free from trade restrictions, especially on staple grains, is essential to boost production and support food security. The Farmer Input Support Program (FISP) reform will advance to 73 districts to the e-voucher system for the 2024-25 farming season (**proposed end-September 2024 SB**).

- **Energy.** Zambia's potential for renewable energy generation is impeded, among other factors, by ZESCO's financial weaknesses. However, the recently operationalized open grid framework provides an outlet for Independent Power Producers (IPPs) to sell electricity directly to buyers. Migrating to fully cost-reflective tariffs and clearing arrears are key to restore ZESCO's financial sustainability. To safeguard the fuel subsidy reform, the authorities commit to maintaining monthly fuel pricing adjustment (MEFP, ¶24) and publish the wholesale and retail price structures in the monthly price updates (**proposed end-March 2024 SB,** MEFP ¶24).

24. Structural reforms remain key to improving the business climate and mobilize investment. Dialogue with the private sector, including through the Public-Private Dialogue Forum, helps identify obstacles to private sector development and provides a structured platform for private sector participation in policy formulation (MEFP, ¶47). Consistent and predictable implementation of the 2022 Investment Act, which updates on business licensing, investment incentives, and special economic zones, will help improve the business climate. An improved and automated mining licensing system will boost investor confidence and support the government achieve its ambitious objective of mining production by 2030 (MEFP, ¶52).

25. Proactive climate policy is critical for building resilience and tapping Zambia's potential to contribute to global carbon reduction. The government plans to introduce a climate change bill that provides a legal framework for the country's climate actions, ensuring that both mitigation and adaptation strategies are integrated into national policies. (MEFP, ¶53) Furthermore, the bill will regulate a climate change fund and the carbon market in Zambia.

26. Strengthening governance remains paramount to lift potential growth.[30]
Work is ongoing in developing an asset management framework, seeking a more efficient and transparent management of recovered assets, introducing a PIM framework that proposed projects to be appraised and funded; and establishing the board for the Financial Intelligence Centre. Work is now progressing towards submitting to Parliament a revised Anti-Corruption Act, consistent with IMF advice (**proposed end-March 2025 SB, MEFP ¶56**). Legislative revisions also include amending the asset declaration system for senior officials, revising the Public Interest Disclosure Act, and integrating the procurement system with IFMIS. Supported by IMF technical assistance, the authorities are working to develop an effective framework for collecting and disclosing beneficial ownership (BO) information and operationalizing PACRA's BO register. The authorities also need to continually enhance independence, autonomy and resources of anti-corruption agencies and further ongoing judicial reforms.

PROGRAM ISSUES AND FINANCING ASSURANCES

27. The authorities request a waiver of nonobservance for the end-June 2023 NIR QPC and modifications to quantitative targets. They have taken corrective actions, including reducing FX sales, which have helped meet the September IT, further tightening monetary policy and committed to further reduce FX sales to support reserve accumulation. The authorities also request modifications to the end-December 2023 MPCC, and to the end-June 2024 QPC, consistent with the updated macroeconomic outlook (MEFP Table 1).

28. Other program modalities remain unchanged. QPCs and ITs have been extended to December 2024 in line with latest macro-framework projections (MEFP Table 1). Half of the ECF program financing will continue to be used for budget support.

29. Consistent with their goal on poverty reduction, and in line with the objectives of the ECF arrangement, the authorities have shared their National Development Plan.
The Eight National Development Plan 2022-26), has been adopted by the Cabinet on August 31, 2022, and is organized around four main pillars (see Annex II). Staff assess the 8NDP in line with the ECF arrangement.

30. New structural benchmarks have been set to reinforce the goals of the ECF program (MEFP, Table 3). These include submitting the revised Anti-Corruption Act to Parliament; publishing a state-owned enterprises policy and the details of retail and wholesale fuel price structures in the monthly announcements; transitioning to issuing government securities at par in the domestic market and adopting a procedural manual for the Debt Management Office. Furthermore, the submission of a 2025 draft budget consistent with the ECF program to Parliament and the shift to an e-voucher system from direct agricultural input supply will bolster

[30] Box 2 of Zambia 2023 Staff Report for the Article IV Consultation and First Review under the ECF Arrangement summarizes the Governance Diagnostic Report recommendations, identifying key governance vulnerabilities and reform priorities.

budget credibility and sustain fiscal consolidation. Lastly, submitting a comprehensive review of the Banking and Financial Services Act will strengthen financial regulation and supervision.

31. Adequate financing assurances are in place. The program is fully financed, with firm commitments in place for the next 12 months and good prospects of adequate financing for the remainder of the program (Text Table 4). Over the program period, approximately 74 percent (or US$7.9 billion) of the residual balance of payments (BOP) financing gap is expected to be covered by debt restructuring.

Text Table 4. Zambia: Proposed Program Financing

(In US$ Million)

	2022	2023	2024	2025	Total
Financing Gap	**3059**	**2311**	**3077**	**2402**	**10849**
Official Financing	737	612	803	860	3012
IMF ECF	187	376	376	376	1315
World Bank 1/	550	236	277	333	1397
AfDB	0	0	150	150	300
Financing from External Debt Restructuring 2/	**2322**	**1700**	**2273**	**1542**	**7837**

Source: IMF staff estimates and projections.

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

2/ In 2022, the accumulated arrears on restructurable debt served to cover the financing gap. The pre-restructuring baseline operates under the working assumption that these debt arrears would be cleared over a period of 5 years. However, this assumption was not applied to the arrears accumulated in 2022 on restructurable debt to avoid the issue of double counting.

32. Staff assesses that the debt restructuring process will restore debt sustainability over the medium term.

- This assessment is supported by Zambia's agreement on an MoU with the OCC in October 2023. The agreed MoU codified the agreement in principle reached in June 2023 on a debt treatment consistent with the program's parameters and the objective of restoring Zambia's debt sustainability over the medium term. After signature, its implementation requires bilateral agreements with each member of the OCC. As the OCC is adequately representative and includes representatives of Paris Club creditors, arrears to other official bilateral creditors can be deemed away under the Lending into Official Arrears (LIOA) Policy.

- Once the MoU is implemented and comparable restructuring agreements are reached with other creditors, Zambia's debt would be sustainable on a forward-looking basis, with a moderate risk of debt distress (DSA, Text Figure 3). Nevertheless, in the absence of all those elements and as Zambia remains in arrears, Zambia formally remains in debt distress (see DSA, Text Figure 1).

33. In line with the Fund's Lending into Arrears (LIA) policy, the authorities are making a good faith effort to reach a restructuring agreement with external private creditors on

comparable terms and consistent with program parameters. Staff also assesses that prompt Fund support is considered essential for the successful implementation of Zambia's adjustment program. Relevant non-confidential information has been shared with all private creditors through presentations, webinars, and the regular publication of the debt statistics bulletin. The authorities are also in the process of signing non-disclosure agreements with most non-bonded commercial creditors such that confidential information can be further disclosed. There have been several rounds of discussions with Eurobond holders, and while significant progress has been achieved, with two proposals discussed in November 2023, some adjustments still need to be made until both program parameters and the OCC CoT, as required by official bilateral creditors to conclude the OCC agreement, are met. Staff supports the completion of the financing assurance review under the LIA on the basis that adequate safeguards remain in place for the further use of the Fund's resources in Zambia's circumstances and that Zambia's adjustment efforts have not been undermined by developments in the relations between Zambia and its external private creditors.

34. Zambia's capacity to repay the Fund is adequate but subject to risk (Table 8). With a disbursement of 100 percent of quota, outstanding credit is projected to peak in 2025 at 4.1 percent of GDP or 8.7 percent of exports. Annual repayments are expected to peak at 0.5 percent of GDP and 1.1 percent of exports in 2031. Risks, most significantly from delays in the debt restructuring are, however, mitigated by significant fiscal consolidation, progress in debt restructuring with official creditors and the catalytic role of the program.

STAFF APPRAISAL

35. Zambia continues to advance in correcting macroeconomic imbalances. The authorities continue taking steps to restore fiscal and debt sustainability, raise social spending, and strengthen governance. The ambitious reform agenda will help set an environment conducive for private sector development, economic diversification, and more inclusive growth.

36. Economic performance has proven resilient despite recurrent shocks and delays in the debt restructuring. Growth was revised upwards for 2022-23, to 4.3 percent in 2023 due to strong performance in non-agricultural, non-mining sectors. The positive medium-term outlook hinges on the implementation of the debt restructuring and the advancement of structural reforms that promote private sector development, though it is subject to significant downside risks.

37. Albeit a challenging environment, program performance has remained satisfactory. All but one of the quantitative performance criteria for end-June 2023 and four out of six structural benchmarks were met, with the remaining two being met with minor delays. All but two of the indicative targets for the test dates were met.

38. Renewed fiscal consolidation efforts appropriately balance containing spending pressures with scaled-up efforts to mobilize revenues. Sustaining fiscal consolidation is critical, given financing constraints and the need to restore debt sustainability. Efforts to mobilize revenues, including by broadening the tax base, will help address social spending pressures and arrears repayment. PFM reforms, especially through a well-functioning TSA, are critical to enhance budget execution and improve the quality of government spending.

39. Careful calibration of monetary policy is warranted to address inflationary pressures and reserve accumulation in the context of recurrent shocks. The BoZ should remain vigilant to ensure inflation falls to within the monetary policy band during the program period. In the event of heightened pressures, maintaining exchange rate flexibility should remain the first response, with FX intervention geared toward addressing disorderly exchange rate volatility. Enhancing the monetary policy framework would improve the effectiveness of monetary policy while establishing an FX strategy that promotes price discovery and a well-functioning market will support reserve accumulation efforts.

40. Strengthening financial supervision will help build financial resilience and improve financial intermediation and inclusion. Upgrading the macro- and micro-prudential frameworks will help improve risk monitoring and build resilience. The steps taken to strengthen the crisis management and resolution framework are crucial in limiting contagion risks and minimizing fiscal costs. Such efforts need to be accompanied with reforms to improve access to finance.

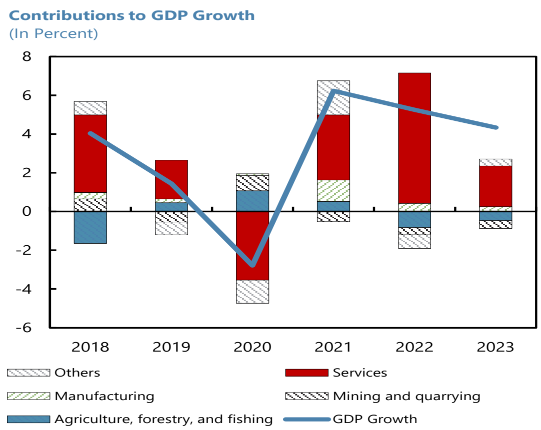
41. Governance and structural reforms are key to promote private sector development, facilitate economic diversification, and ensure inclusive growth. Continued efforts to enhance procurement, disclose beneficiary ownership, and combat corruption will improve the business environment. The passage of the Access to Information bill will enhance transparency and accountability. Improving statistical capacity will help enhance policy design and accuracy and timeliness of data provision.

42. Staff supports the authorities' requests for completing the second review under the ECF-supported arrangement, for the waiver on the nonobservance of the end-June NIR QPC, and for modifications of the monetary policy consultation clause and of QPCs. Staff also supports the completion of the financing assurances review. Strong commitments to restoring fiscal and debt sustainability, implementing prudent macro policies, and advancing structural reforms, along with continued capacity building, will support the authorities in meeting program objectives.

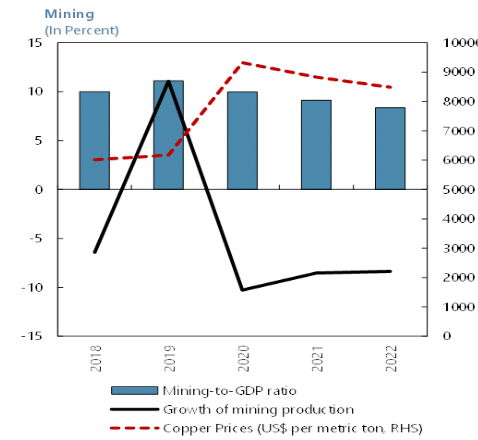
Figure 1. Zambia. Real Sector Developments

(In Percent, unless otherwise specified)

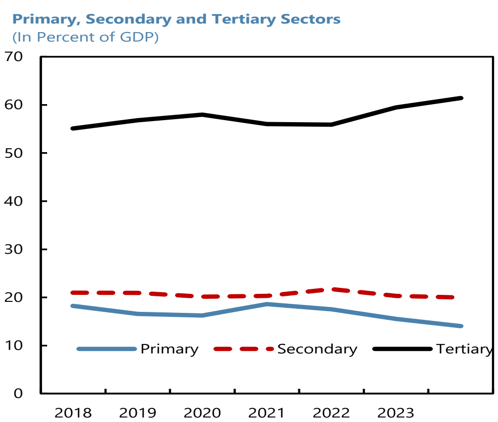
Growth is expected to remain sustained in 2023…



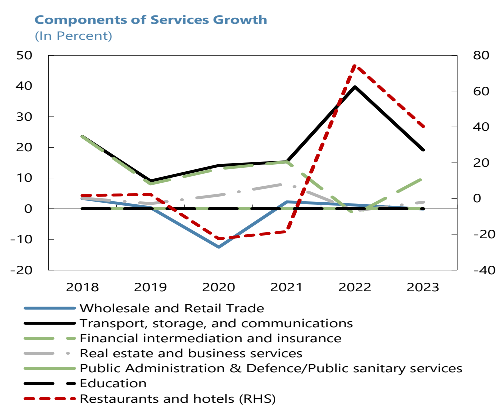
Mining's share in GDP has been declining since



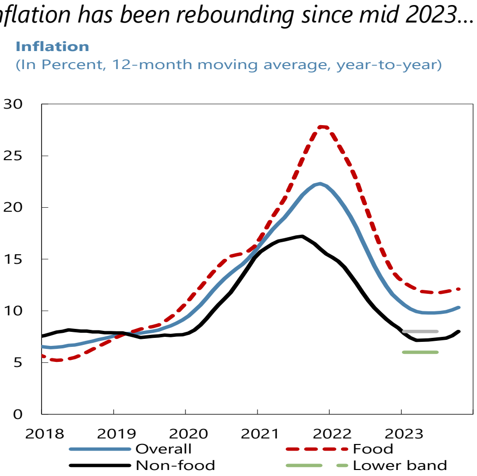
While the share of services has done up….



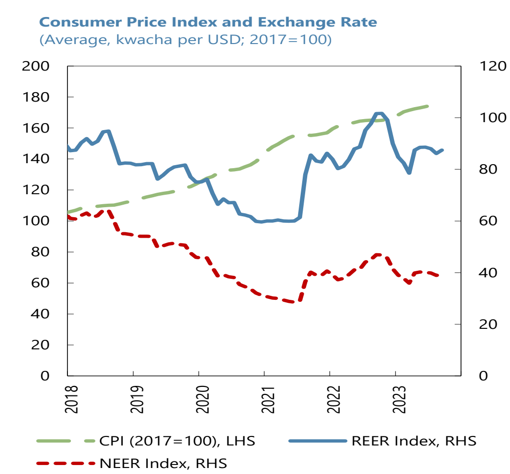
Led by ICT, transport and hospitality sectors….



Inflation has been rebounding since mid 2023…



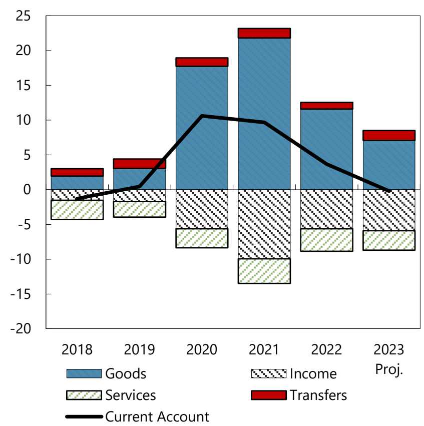
…amid continued exchange rate pressures.



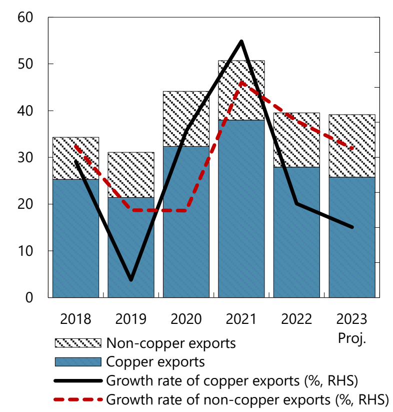
Sources: Zamstats, Ministry of Finance, Bank of Zambia and IMF staff forecasts.

Figure 2. Zambia: External Sector Developments, 2018–23
(In Percent of GDP, unless otherwise specified)

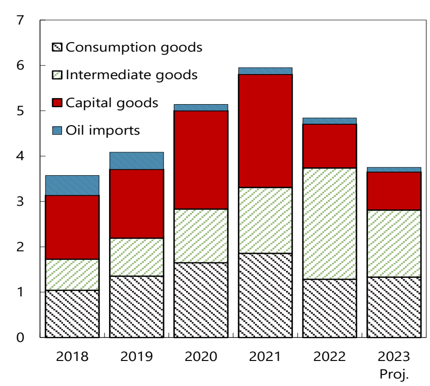
Current account is projected to shift to deficit in 2023…



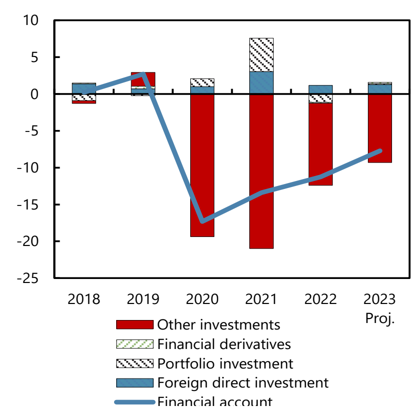
Led by sharp contraction in copper export…



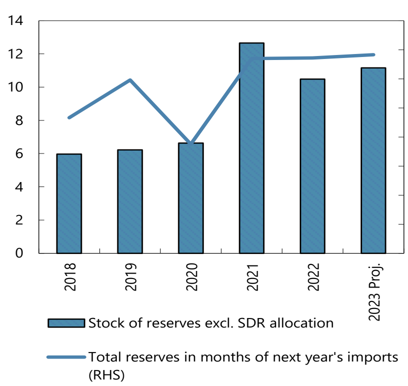
…as well as sustained increase in imports



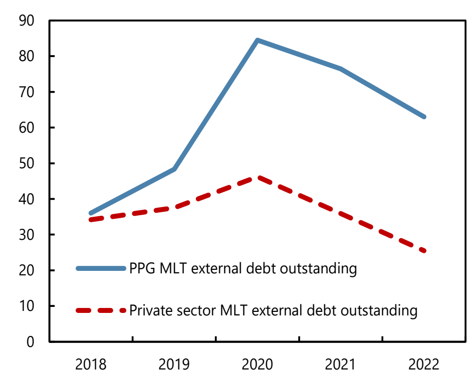
However financial account deficits are expected to decrease as outflows decline…



Reserves are expected to hold up….



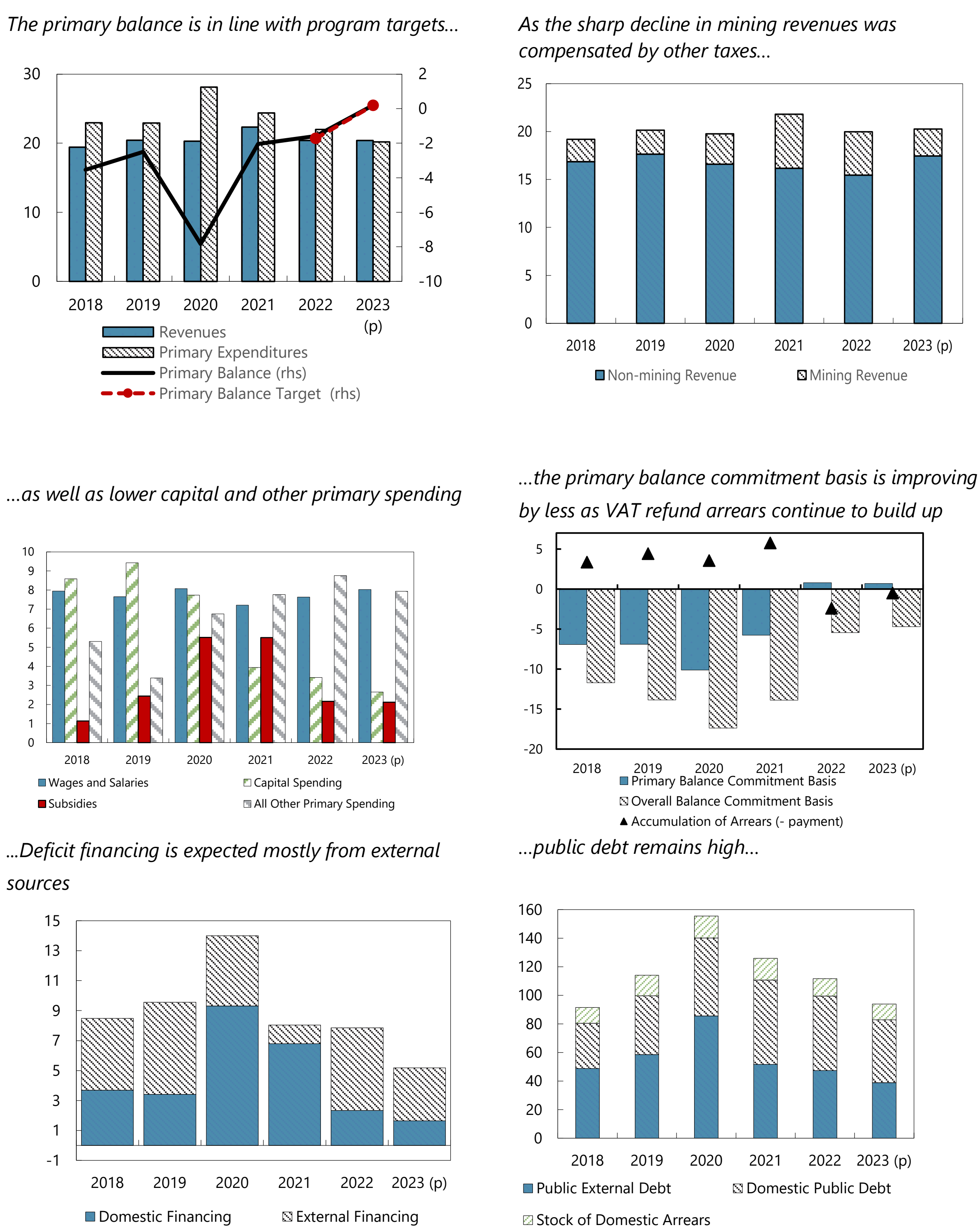
Public external debt continued to remain at elevated levels…



Sources: Bank of Zambia and IMF staff projections.

Figure 3. Zambia: Fiscal Developments, 2018–23

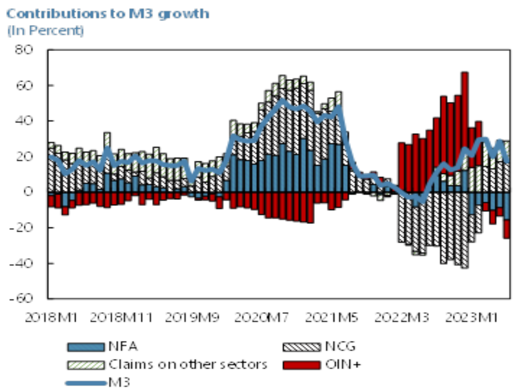
(Percent of GDP, unless otherwise specified)



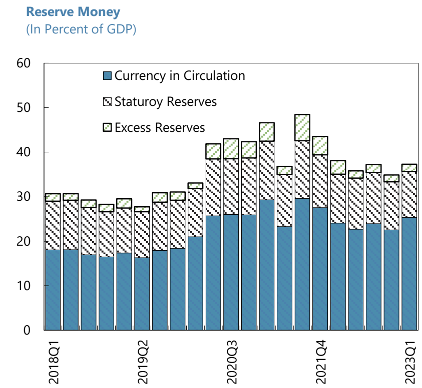
Sources: Zambia Ministry of Finance and National Planning, IMF Staff projections.

Figure 4. Zambia: Monetary & Financial Developments, 2018–23

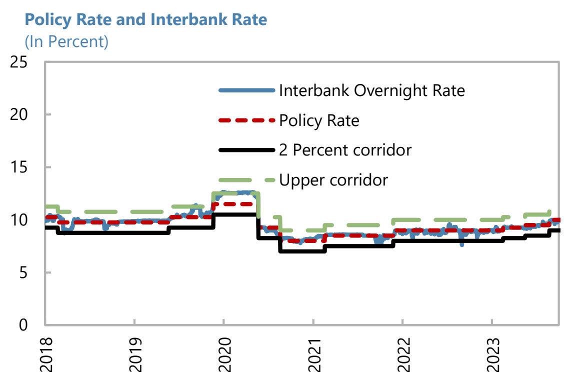
M3 growth has rebounded since late 2022…



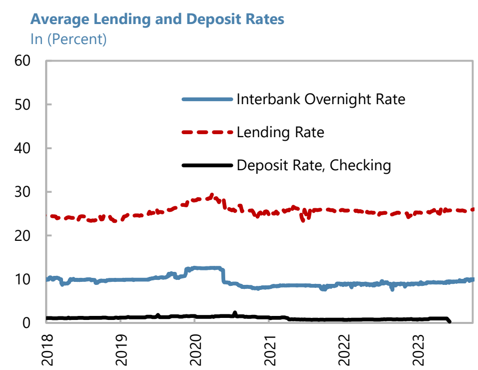
Fueled by liquidity generated from the use of SDR for fiscal financing…



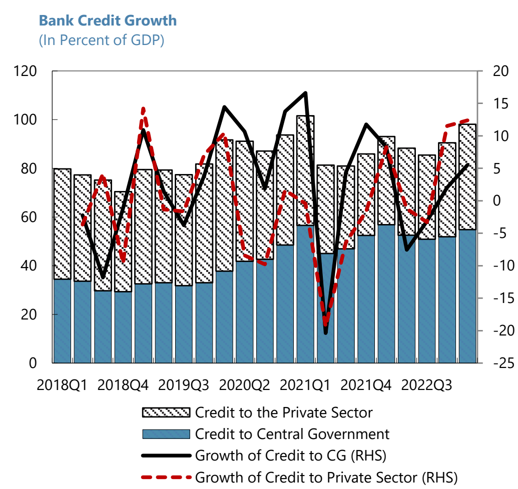
BoZ has raised policy rate by 100 basis points in 2023…



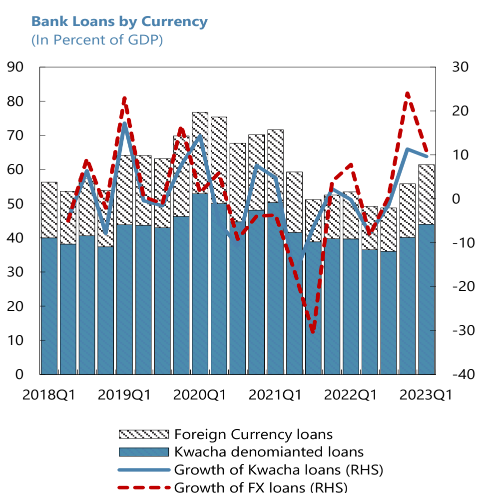
Despite relatively weak transmission mechanism…



Relatively lower government exposures led private sector credit to recover…



On both kwacha and FX loans…

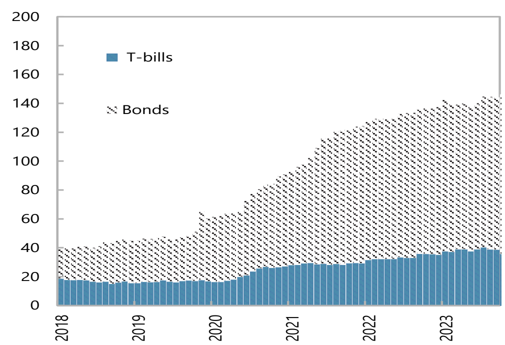


Sources: Bank of Zambia and IMF staff projections.

Figure 5. Zambia: Financial Sector Developments, 2018–23

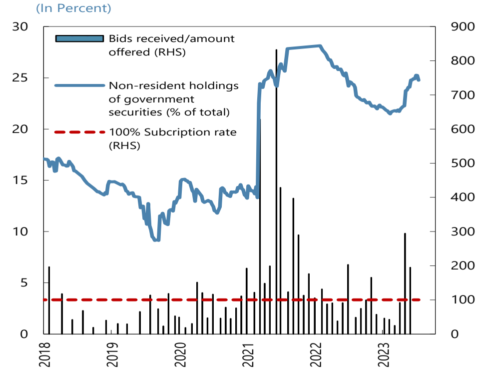
Both net financing needs and high discounts on new issuances have kept government securities outstanding at high levels...

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



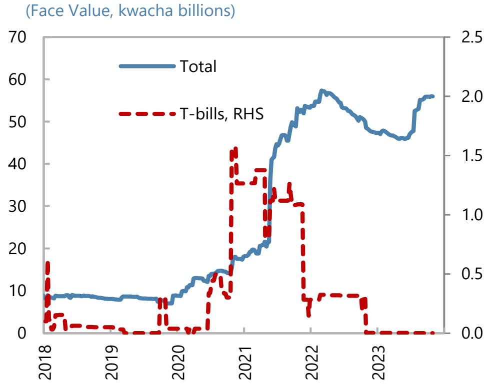
With demand for government bonds showing signs of recovery led by a return of non-residents....

Non-Resident Holdings of Bond Auction Performance
(In Percent)



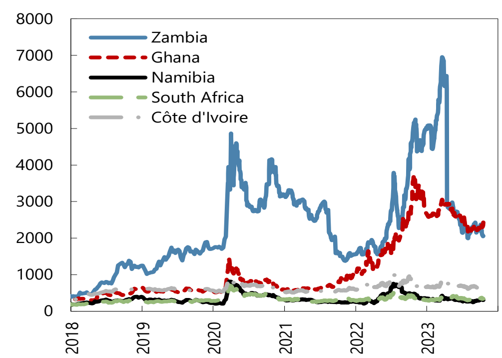
Cumulative allocation to non-residents was double the target amount of bond issuance in 2023...

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



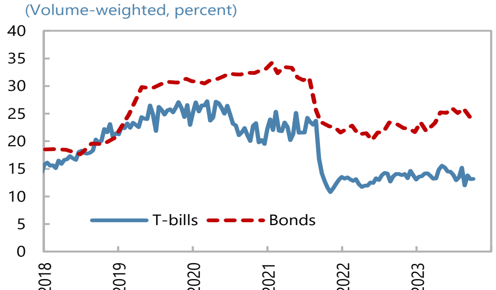
Sovereign spreads declined significantly in response to OCC's agreement on debt treatment....

Weighted Average Spread
(Basis Points)



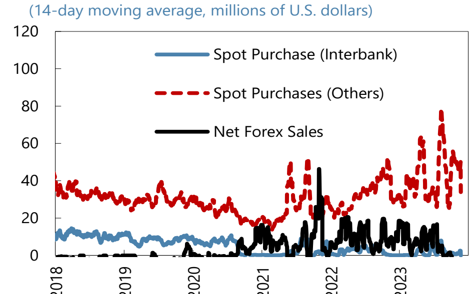
Domestic yield curve remains steep with real bond yields continuing elevated...

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



Interbank fx liquidity have largely dried up.

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



Sources: Bank of Zambia and IMF staff projections.

Table 1. Zambia: Selected Economic Indicators, 2020–28
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
			Prel.	CR No. 23/256	Est.	CR No. 23/256	Proj.	Projections			
National Accounts and Prices											
GDP growth at constant prices (in percent)	-2.8	6.2	5.2	3.6	4.3	4.3	4.7	4.8	4.8	4.9	5.0
Agriculture (in percent)	17.2	6.9	-11.0	-0.2	-7.4	3.8	5.8	3.1	3.9	4.0	4.0
Mining (in percent)	8.0	-4.7	-3.7	4.9	-4.4	9.0	9.3	11.0	10.5	10.5	7.5
Non-mining, non-agricultural (in percent)	-5.6	7.7	7.8	3.7	6.2	3.8	4.2	4.3	4.2	4.4	4.7
GDP deflator (in percent)	13.9	25.1	6.1	12.1	10.2	9.9	10.6	7.6	6.6	6.7	6.6
GDP at market prices (billions of kwacha)	332.7	442.3	494.0	585.4	567.8	671.3	657.8	742.3	829.3	928.8	1,039.6
Consumer prices											
Consumer prices (average)	15.7	22.0	11.0	10.6	11.0	9.6	11.4	7.8	7.0	7.0	7.0
Consumer prices (end of period)	19.2	16.4	9.9	11.4	13.0	7.9	8.6	7.0	7.0	7.0	7.0
External Sector											
Current account balance	10.6	9.7	3.7	3.8	-1.8	7.1	3.7	5.2	6.9	9.0	8.7
Average exchange rate (kwacha per U.S. dollar)	18.3	20.0	17.0	19.8	20.0	21.6	22.0	22.9	23.6	24.4	25.2
(percentage change; depreciation +)	42.3	9.1	-15.3	16.9	17.9	9.1	10.2	4.0	3.3	3.3	3.3
End-of-period exchange rate (kwacha per U.S. dollar)	21.2	16.7	18.1	21.2	21.5	22.1	22.5	23.3	24.0	24.8	25.6
Terms of trade (deterioration -)	14.0	22.6	-7.2	5.8	0.2	-0.2	-5.1	0.9	0.9	0.6	2.5
Financial Account balance	-17.3	-13.4	-11.2	-19.5	-7.8	-25.2	-13.4	-10.1	-12.5	-14.0	-9.0
Gross international reserves (months of prospective imports)	1.9	3.3	3.4	3.5	3.4	4.2	4.0	5.0	5.0	5.0	5.0
Money and Credit											
Reserve money (end of period)	57.0	8.5	12.0	17.2	18.4	12.5	15.6	13.0	12.7	12.3	12.1
Money supply (M3, percentage change)	46.4	3.7	24.5	17.2	18.4	12.5	15.6	13.0	12.7	12.3	12.1
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	15.2	11.7	16.7	12.8	13.9	14.5	14.6	14.6
Credit to the private sector growth	8.5	-7.8	34.2	75.5	31.4	26.2	26.8	22.6	16.1	13.0	12.3
National Accounts											
Gross investment	32.2	28.5	31.9	31.6	31.2	31.8	31.5	31.8	32.2	31.9	32.3
Public	7.7	3.9	3.4	3.1	2.7	3.2	3.0	3.3	3.7	3.4	3.8
Private	24.5	24.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5
National savings	42.8	38.1	35.6	36.4	29.4	39.1	35.3	37.0	39.1	40.9	41.0
Central Government Budget											
Revenues	20.3	22.4	20.4	21.2	20.9	22.0	21.2	21.9	21.9	22.0	22.6
Taxes	15.7	16.1	16.1	17.5	16.6	17.8	16.8	17.0	17.2	17.4	18.1
Grants	0.5	0.6	0.4	0.4	0.7	0.7	0.5	0.7	0.4	0.3	0.3
Other revenues	4.1	5.7	3.9	3.4	3.7	3.5	3.9	4.2	4.3	4.2	4.2
Expenditures	34.0	30.5	28.2	27.2	27.7	26.6	27.4	27.3	28.5	26.6	26.4
Expenses	26.3	26.6	24.8	24.1	25.1	23.4	24.3	23.9	24.8	23.2	22.6
Net acquisition of nonfinancial assets	7.7	3.9	3.4	3.1	2.7	3.2	3.0	3.3	3.7	3.4	3.8
Net lending/borrowing (cash basis)	-13.8	-8.1	-7.8	-6.0	-6.8	-4.6	-6.1	-5.4	-6.6	-4.7	-3.8
Net lending/borrowing (commitment basis)[1]	-17.3	-13.9	-5.4	-4.2	-6.4	-3.0	-3.8	-3.3	-4.8	-3.6	-3.2
Primary balance (cash basis, program target)	-7.8	-2.1	-1.6	0.2	0.2	1.3	0.8	1.6	0.8	1.6	2.0
Non-mining primary balance	-11.0	-7.7	-6.1	-4.0	-2.6	-3.1	-2.3	-2.0	-3.0	-2.2	-2.0
Public Debt											
Total public debt (gross, end-of-period)[2,3]	150.3	112.1	110.9	110.2	119.4	100.8	109.3	101.7	96.0	90.5	85.3
External	95.8	57.8	58.8	69.6	72.9	65.9	69.2	66.5	63.0	59.7	57.1
Domestic	54.5	54.4	52.1	40.6	46.5	34.9	40.1	35.2	33.0	30.8	28.2

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

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

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

3 Including arrears.

Table 2a. Zambia: Balance of Payments, 2020–28
(Millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2025	2026	2027	2028
				CR No.		CR No.		CR No.				
			Prel.	23/256	Est.	23/256	Proj.	23/256		Projections		
Current Account	1,922	2,138	1,067	1,113	-506	2,192	1,119	2,823	1,691	2,404	3,414	3,604
Trade balance	3,216	4,816	3,368	3,519	2,004	4,621	3,597	5,358	4,299	5,297	6,168	6,645
Exports, f.o.b.	8,003	11,202	11,505	12,304	11,123	13,615	12,834	14,832	14,022	15,638	17,366	18,740
Of which: Copper	5,868	8,396	8,129	8,729	7,321	9,746	7,881	10,699	8,902	10,308	11,805	12,798
Imports, f.o.b	-4,787	-6,386	-8,137	-8,785	-9,119	-8,994	-9,237	-9,474	-9,723	-10,341	-11,199	-12,094
Services (net)	-494	-779	-946	-795	-792	-836	-828	-953	-945	-1,002	-1,079	-1,199
Income (net)	-1,021	-2,201	-1,639	-1,897	-1,999	-1,894	-1,945	-1,907	-1,982	-2,238	-2,051	-2,250
Of which: Interest on public debt	-635	-736	-906	-836	-721	-738	-933	-649	-961	-1,212	-1,025	-1,136
Current transfers (net)	221	301	285	286	281	300	295	324	320	346	376	407
o/w Grants from MDBs	0	0	0	0	0	0	0	0	0	0	0	0
Other official grants				34	68	103	98	110	105	80	56	65
Private transfers	221	301	285	252	212	197	197	215	216	266	320	342
								0				
Capital and Financial Account	-3,058	-2,882	-3,198	-3,751	-2,156	-4,859	-3,951	-4,475	-3,215	-4,320	-5,252	-3,642
Capital account	80	77	76	68	67	64	63	62	62	60	59	57
Project grants	80	77	76	68	67	64	63	62	62	60	59	57
External debt cancellation	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	-3,138	-2,959	-3,274	-3,819	-2,222	-4,924	-4,015	-4,537	-3,276	-4,380	-5,311	-3,699
Foreign direct investment (net)	181	674	338	631	370	875	601	1,244	952	1,330	1,510	1,637
Portfolio investment (net)	194	1,002	-332	-103	30	-122	-93	-129	-106	6	52	8
Financial derivatives (net)	-10	-26	-31	52	52	104	104	212	213	230	250	271
Other investments (net)	-3,503	-4,609	-3,249	-4,399	-2,674	-5,780	-4,627	-5,865	-4,336	-5,946	-7,123	-5,615
Public sector (net)	-2	-1,346	-1,021	-1,766	-1,650	-2,798	-2,784	-2,185	-2,059	-2,423	-2,161	-389
Disbursements	1,424	571	914	493	530	346	372	243	365	96	84	560
Amortization due	-1,426	-1,917	-1,935	-2,258	-2,180	-3,144	-3,155	-2,428	-2,424	-2,519	-2,245	-949
Monetary Authority (SDR Allocation)	0	1,328	0	0	0	0	0	0	0	0	0	0
Commercial banks (net)	-413	-205	-411	20	67	54	-183	165	-128	-90	-63	-44
Other sectors	-3,088	-4,387	-1,817	-2,653	-1,091	-3,036	-1,660	-3,845	-2,149	-3,433	-4,899	-5,181
Errors and Omissions	-419	122	-120	0	0	0	0	0	0	0	0	0
Overall Balance	-1,555	-623	-2,251	-2,638	-2,661	-2,668	-2,832	-1,652	-1,524	-1,916	-1,838	-38
Financing	1,555	623	2,251	2,638	2,661	2,668	2,832	1,652	1,524	1,916	1,838	38
Central bank net reserves (- increase)	233	-1,607	-71	267	261	-475	-333	-719	-966	-431	-468	-559
Of which: Change in gross reserves	248	-1,604	-258	-109	-114	-851	-709	-1,095	-1,343	-431	-468	-502
Of which: Use of Fund resources	-15	-3	187	376	376	376	376	376	376	0	0	-57
New MDB financing				389	236	407	427	368	483	528	524	254
WB loans				314	111	159	230	113	214	266	205	185
WB grants				75	125	98	47	105	119	62	69	69
AfDB loans				0	0	150	150	150	150	200	250	0
Exceptional financing (accumulation of arrears)	1,322	2,230	2,322	1,982	2,164	2,736	2,738	2,002	2,007	1,819	1,783	343
Financing Gap	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum Items:												
Current account (percent of GDP)	10.6	9.7	3.7	3.8	-1.8	7.1	3.7	8.4	5.2	6.9	9.0	8.7
Total official grants (percent of GDP)	0.4	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3
Exports of goods and services	8,558	11,728	12,444	13,267	12,119	14,628	13,902	15,874	15,117	16,823	18,651	20,133
Change in copper export volume (percent)	14.4	-5.2	2.2	6.6	-6.5	6.5	10.5	6.5	12.0	14.9	14.0	7.5
Copper export price (US dollars per tonne)	6,174.6	9,317.4	8,828.9	9,012.9	8,502.9	8,984.6	8,287.0	8,925.7	8,355.7	8,418.5	8,454.1	8,454.1
Crude oil price (US dollars per barrel)	41.8	69.2	96.4	81.3	80.5	76.8	79.9	72.7	76.0	72.7	69.9	67.5
Gross international reserves	1,203.4	2,795.5	3,054.0	3,162.5	3,168.4	4,014.0	3,877.0	5,109.1	5,219.7	5,651.1	6,119.3	6,621.2
In months of prospective imports	1.9	3.3	3.4	3.5	3.4	4.2	4.0	5.0	5.0	5.0	5.0	5.0
GDP (billions of U.S. dollars)	18.1	22.1	29.1	29.5	28.4	31.0	29.9	33.5	32.4	35.1	38.0	41.2

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

Table 2b. Zambia: Balance of Payments, 2020–28
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
			Prel.	CR No. 23/256	Est.	CR No. 23/256	Proj.	Projections			
Current Account	10.6	9.7	3.7	3.8	-1.8	7.1	3.7	5.2	6.9	9.0	8.7
Trade balance	17.7	21.8	11.6	11.9	7.1	14.9	12.0	13.3	15.1	16.2	16.1
Exports, f.o.b.	44.1	50.7	39.5	41.7	39.2	43.9	43.0	43.3	44.6	45.7	45.4
Of which: Copper	32.4	38.0	27.9	29.6	25.8	31.4	26.4	27.5	29.4	31.0	31.0
Imports, f.o.b	-26.4	-28.9	-27.9	-29.7	-32.1	-29.0	-30.9	-30.0	-29.5	-29.4	-29.3
Services (net)	-2.7	-3.5	-3.2	-2.7	-2.8	-2.7	-2.8	-2.9	-2.9	-2.8	-2.9
Income (net)	-5.6	-10.0	-5.6	-6.4	-7.0	-6.1	-6.5	-6.1	-6.4	-5.4	-5.5
Of which: Interest on public debt	-3.5	-3.3	-3.1	-2.8	-2.5	-2.4	-3.1	-3.0	-3.5	-2.7	-2.8
Current transfers (net)	1.2	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
o/w Grants from MDBs	0.0	0.0	0.0		0.0		0.0	0.0	0.0	0.0	0.0
Other official grants	0.0	0.0	0.0		0.2		0.3	0.3	0.2	0.1	0.2
Private transfers	1.2	1.4	1.0		0.7		0.7	0.7	0.8	0.8	0.8
Capital and Financial Account	-16.9	-13.0	-11.0	-12.7	-7.6	-15.7	-13.2	-9.9	-12.3	-13.8	-8.8
Capital account	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Project grants	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Financial account	-17.3	-13.4	-11.2	-12.9	-7.8	-15.9	-13.4	-10.1	-12.5	-14.0	-9.0
Foreign direct investment (net)	1.0	3.1	1.2	2.1	1.3	2.8	2.0	2.9	3.8	4.0	4.0
Portfolio investment (net)	1.1	4.5	-1.1	-0.3	0.1	-0.4	-0.3	-0.3	0.0	0.1	0.0
Financial derivatives (net)	-0.1	-0.1	-0.1	0.2	0.2	0.3	0.3	0.7	0.7	0.7	0.7
Other investments (net)	-19.3	-20.9	-11.2	-14.9	-9.4	-18.6	-15.5	-13.4	-17.0	-18.7	-13.6
Public sector (net)	0.0	-6.1	-3.5	-6.0	-5.8	-9.0	-9.3	-6.4	-6.9	-5.7	-0.9
Disbursements	7.9	2.6	3.1	1.7	1.9	1.1	1.2	1.1	0.3	0.2	1.4
Amortization due	-7.9	-8.7	-6.6	-7.6	-7.7	-10.1	-10.6	-7.5	-7.2	-5.9	-2.3
Monetary Authority (SDR Allocation)	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	-2.3	-0.9	-1.4	0.1	0.2	0.2	-0.6	-0.4	-0.3	-0.2	-0.1
Other sectors	-17.0	-19.9	-6.2	-9.0	-3.8	-9.8	-5.6	-6.6	-9.8	-12.9	-12.6
Errors and Omissions	-2.3	0.6	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-8.6	-2.8	-7.7	-8.9	-9.4	-8.6	-9.5	-4.7	-5.5	-4.8	-0.1
Financing	8.6	2.8	7.7	8.9	9.4	8.6	9.5	4.7	5.5	4.8	0.1
Central bank net reserves (- increase)	1.3	-7.3	-0.2	0.9	0.9	-1.5	-1.1	-3.0	-1.2	-1.2	-1.4
Of which: Change in gross reserves	1.4	-7.3	-0.9	-0.4	-0.4	-2.7	-2.4	-4.1	-1.2	-1.2	-1.2
Of which: Use of Fund resources	-0.1	0.0	0.6	1.3	1.3	1.2	1.3	1.2	0.0	0.0	-0.1
New MDB financing	0.0	0.0	0.0	1.3	0.8	1.3	1.4	1.5	1.5	1.4	0.6
Exceptional financing (accumulation of arrears)	7.3	10.1	8.0	1.1	7.6	0.5	9.2	6.2	5.2	4.7	0.8
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Current account (percent of GDP)	10.6	9.7	3.7	3.8	-1.8	7.1	3.7	5.2	6.9	9.0	8.7
Financial Account (percent of GDP w/o FDI)	-18.3	-16.4	-12.4	-15.1	-9.1	-18.7	-15.5	-13.0	-16.3	-17.9	-12.9
Total official grants (percent of GDP)	0.4	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.3	0.3
Exports of goods and services (millions of US dollars)	8,558.5	11,727.5	12,443.7	13,267.3	12,119.4	14,628.0	13,902.2	15,116.9	16,822.9	18,651.4	20,132.5
Change in copper export volume (percent)	14.4	-5.2	2.2	6.6	-6.5	6.5	10.5	12.0	14.9	14.0	7.5
Copper export price (US dollars per tonne)	6,174.6	9,317.4	8,828.9	9,012.9	8,502.9	8,984.6	…	…	…	…	…
Crude oil price (US dollars per barrel)	41.8	69.2	96.4	81.3	80.5	76.8	…	…	…	…	…
Gross international reserves	1,203.4	2,795.5	3,054.0	3,162.5	3,168.4	4,014.0	3,877.0	5,219.7	5,651.1	6,119.3	6,621.2
In months of prospective imports	1.9	3.3	3.4	3.5	3.4	4.2	4.0	5.0	5.0	5.0	5.0
GDP (billions of U.S. dollars)	18.1	22.1	29.1	29.5	28.4	31.0	29.9	32.4	35.1	38.0	41.2

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

Table 3a. Zambia: Fiscal Operations of the Central Government, 2020–28

(Millions of Kwacha)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
				CR No. 23/256	Est.	CR No. 23/256	Proj.	Projections			
Revenues	67,437	98,945	100,684	124,000	118,902	147,391	139,601	162,298	181,684	204,147	234,847
Revenues excluding grants	65,722	96,463	98,702	121,840	115,036	143,027	136,395	157,172	178,327	201,109	231,467
Revenues excluding grants adjusted by the backlog of VAT refunds[1]	64,163	94,547	96,861	124,282	109,527	145,469	140,824	161,602	182,757	205,538	231,467
Tax	52,182	71,151	79,492	102,190	94,009	119,521	110,707	126,341	142,895	161,972	187,817
Income tax	19,831	22,815	26,890	32,525	29,362	37,297	34,530	38,970	43,533	48,758	54,578
Profit tax	9,513	19,242	21,020	25,501	18,346	30,316	22,983	27,352	31,629	36,668	42,608
Mining	5,300	12,702	11,958	14,963	7,928	18,232	10,916	13,733	16,415	19,409	23,289
Non-mining	4,213	6,540	9,062	10,538	10,417	12,084	12,067	13,619	15,214	17,260	19,319
Value-added tax	14,639	19,516	20,816	29,901	31,955	35,581	36,199	41,000	46,498	52,509	63,479
Excise taxes	4,661	4,327	5,190	7,252	7,029	8,508	8,614	9,859	11,186	12,802	14,626
Taxes on international trade	3,538	5,250	5,577	7,010	7,318	7,820	8,382	9,161	10,049	11,235	12,526
Other revenues[2]	13,540	25,312	19,210	19,650	21,027	23,506	25,687	30,831	35,432	39,137	43,650
Of which: Mining royalties	5,241	12,268	10,445	9,424	8,054	11,480	9,551	12,620	15,088	16,351	18,145
Grants	1,715	2,481	1,981	2,160	3,866	4,364	3,207	5,126	3,357	3,038	3,380
Expenditure	113,227	134,929	139,315	159,062	157,518	178,438	179,999	202,322	236,563	247,362	274,055
Expense	87,478	117,477	122,446	140,913	142,450	156,955	159,999	177,781	205,880	215,783	234,549
Compensation of employees	26,881	31,881	37,699	46,538	45,580	52,813	51,945	57,446	63,434	71,707	79,791
Use of goods and services	10,330	15,094	13,084	18,738	15,318	21,748	16,151	19,319	25,895	28,934	32,090
Interest	19,762	26,910	30,797	36,120	39,752	39,827	45,971	51,777	61,820	58,310	59,887
Domestic	14,525	24,929	30,057	26,678	30,236	31,391	35,080	38,761	46,963	41,418	41,131
Foreign	5,237	1,980	739	9,442	9,517	8,435	10,891	13,017	14,858	16,892	18,756
Subsidies	18,368	24,345	10,715	12,081	12,064	11,911	11,666	13,989	14,976	15,507	16,660
Of which: Agricultural (FISP and FRA)	11,748	11,845	8,526	10,242	10,702	9,882	10,241	9,933	10,751	11,101	12,062
Of which: Energy (fuel and electricity)[3]	5,099	10,610	1,840	1,430	1,000	1,560	1,032	3,614	3,732	3,853	3,978
Intergovernmental transfers	7,487	8,799	15,382	15,023	15,312	17,299	17,925	18,207	20,537	23,035	25,771
Social protection	2,468	5,538	7,424	8,096	7,673	8,849	9,597	10,974	13,441	15,582	17,441
Other	2,183	4,911	7,346	4,317	6,750	4,510	6,744	6,069	5,777	2,709	2,909
Net acquisition of nonfinancial assets	25,749	17,451	16,870	18,149	15,068	21,483	20,000	24,541	30,683	31,579	39,506
Of which: Domestically-financed	4,901	9,296	10,828	8,100	9,656	12,245	9,791	13,271	22,580	25,323	20,392
Of which: Foreign-financed	20,848	8,155	6,041	10,049	5,412	9,238	10,209	11,270	8,103	6,256	19,114
Primary Balance (Cash Basis)	-26,027	-9,074	-7,835	1,058	1,136	8,779	5,574	11,754	6,942	15,095	20,678
Net Lending/Borrowing (Overall Balance, Cash Basis)	-45,789	-35,984	-38,632	-35,062	-38,616	-31,048	-40,397	-40,024	-54,878	-43,215	-39,209
Expenditure arrears (- payments)	6,008	14,525	-13,642	-8,039	-7,650	-8,406	-10,874	-11,022	-10,746	-4,981	-6,077
Backlog of VAT refunds (flow)	1,558	1,916	1,841	-2,442	5,510	-2,442	-4,430	-4,430	-4,430	-4,430	0
Arrears on external interest (flow)	4,327	9,120	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	-45,789	-35,984	-38,632	-35,062	-38,616	-31,048	-40,397	-40,024	-54,878	-43,215	-39,209
Overall balance (commitment basis)[4]	-57,682	-61,546	-26,831	-24,582	-36,476	-20,199	-25,094	-24,572	-39,703	-33,804	-33,132
Primary balance (commitment basis)[4]	-33,594	-25,516	3,966	11,538	3,276	19,627	20,877	27,205	22,117	24,506	26,755
Financing	45,789	35,984	38,632	35,062	38,616	31,048	40,397	40,024	54,878	43,215	39,209
Net acquisition of financial assets (+ drawdown, - accumulation)	-816	-2,674	-4,874	0	-7,372	0	7,318	0	0	0	0
Net incurrence of liabilities	47,323	38,292	6,580	-4,230	2,730	-28,121	-27,202	-5,937	11,852	-316	30,553
Domestic	31,754	32,774	12,968	7,911	12,503	7,587	16,300	24,145	47,044	44,535	30,166
Foreign	15,568	5,518	-6,388	-12,141	-9,774	-35,708	-43,502	-30,083	-35,192	-44,851	387
Exceptional financing	0	0	37,233	39,293	43,259	59,169	60,281	45,961	43,026	43,531	8,656
Statistical discrepancy (overfinancing -/underfinancing +)	-717	366	-308	0	0	0	0	0	0	0	0
Memorandum items:											
Primary expenditure (cash basis)	93,464	108,019	108,519	122,942	117,766	138,612	134,027	150,545	174,742	189,052	214,168
Primary expenditure (commitment basis)	99,472	122,544	94,876	114,903	110,116	130,205	123,154	139,522	163,997	184,071	208,092
Net domestic financing	32,571	35,447	17,842	7,911	19,876	7,587	8,982	24,145	47,044	44,535	30,166
Net external financing	1,555	623	2,251		319		-17	-684	-167	-133	-520
Mining revenues (in millions of US$)	575	1,247	1,321		800		930	1,151	1,332	1,464	1,643
Non-mining primary balance (cash basis)	-36,568	-34,045	-30,239	-23,329	-14,847	-20,933	-14,893	-14,599	-24,562	-20,665	-20,756
Stock of VAT refunds	8,451	10,368	12,209	9,767	17,719	7,325	13,289	8,859	4,430	0	0
Stock of expenditure arrears	42,506	57,031	47,659	44,202	48,579	37,008	39,348	31,133	23,169	20,938	17,576

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

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

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

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

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

Table 3b. Zambia Fiscal Operations of the Central Government, 2020–28
(Percent of GDP)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
				CR No. 23/256	Proj.	CR No. 23/256	Proj.	Projections			
Revenues	20.3	22.4	20.4	21.2	20.9	22.0	21.2	21.9	21.9	22.0	22.6
Revenues excluding grants	19.8	21.8	20.0	20.8	20.3	21.3	20.7	21.2	21.5	21.7	22.3
Revenues excluding grants adjusted by the backlog of VAT refunds[1]	19.3	21.4	19.6	21.2	19.3	21.7	21.4	21.8	22.0	22.1	22.3
Tax	15.7	16.1	16.1	17.5	16.6	17.8	16.8	17.0	17.2	17.4	18.1
Income Tax	6.0	5.2	5.4	5.6	5.2	5.6	5.2	5.2	5.2	5.2	5.2
Profit Tax	2.9	4.4	4.3	4.4	3.2	4.5	3.5	3.7	3.8	3.9	4.1
Mining	1.6	2.9	2.4	2.6	1.4	2.7	1.7	1.9	2.0	2.1	2.2
Non-mining	1.3	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9
Value-added tax	4.4	4.4	4.2	5.1	5.6	5.3	5.5	5.5	5.6	5.7	6.1
Excise taxes	1.4	1.0	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4
Taxes on international trade	1.1	1.2	1.1	1.2	1.3	1.2	1.3	1.2	1.2	1.2	1.2
Other revenues[2]	4.1	5.7	3.9	3.4	3.7	3.5	3.9	4.2	4.3	4.2	4.2
Of which: Mineral royalties	1.6	2.8	2.1	1.6	1.4	1.7	1.5	1.7	1.8	1.8	1.7
Grants	0.5	0.6	0.4	0.4	0.7	0.7	0.5	0.7	0.4	0.3	0.3
Expenditures	34.0	30.5	28.2	27.2	27.7	26.6	27.4	27.3	28.5	26.6	26.4
Expenses	26.3	26.6	24.8	24.1	25.1	23.4	24.3	23.9	24.8	23.2	22.6
Compensation of employees	8.1	7.2	7.6	7.9	8.0	7.9	7.9	7.7	7.6	7.7	7.7
Use of goods and services	3.1	3.4	2.6	3.2	2.7	3.2	2.5	2.6	3.1	3.1	3.1
Interest	5.9	6.1	6.2	6.2	7.0	5.9	7.0	7.0	7.5	6.3	5.8
Domestic	4.4	5.6	6.1	4.6	5.3	4.7	5.3	5.2	5.7	4.5	4.0
Foreign	1.6	0.4	0.1	1.6	1.7	1.3	1.7	1.8	1.8	1.8	1.8
Subsidies	5.5	5.5	2.2	2.1	2.1	1.8	1.8	1.9	1.8	1.7	1.6
Of which: Agricultural (FISP and FRA)	3.5	2.7	1.7	1.7	1.9	1.5	1.6	1.3	1.3	1.2	1.2
Of which: Energy (fuel and electricity)[3]	1.5	2.4	0.4	0.2	0.2	0.2	0.2	0.5	0.4	0.4	0.4
Intergovernmental transfers	2.3	2.0	3.1	2.6	2.7	2.6	2.7	2.5	2.5	2.5	2.5
Social protection	0.7	1.3	1.5	1.4	1.4	1.3	1.5	1.5	1.6	1.7	1.7
Other	0.7	1.1	1.5	0.7	1.2	0.7	1.0	0.8	0.7	0.3	0.3
Net acquisition of nonfinancial assets	7.7	3.9	3.4	3.1	2.7	3.2	3.0	3.3	3.7	3.4	3.8
Of which: Domestically-financed	1.5	2.1	2.2	1.4	1.7	1.8	1.5	1.8	…	…	…
Of which: Foreign-financed	6.3	1.8	1.2	1.7	1.0	1.4	1.6	1.5	…	…	…
Primary Balance (Cash Basis)	-7.8	-2.1	-1.6	0.2	0.2	1.3	0.8	1.6	0.8	1.6	2.0
Net Lending/Borrowing (Overall Balance, Cash Basis)	-13.8	-8.1	-7.8	-6.0	-6.8	-4.6	-6.1	-5.4	-6.6	-4.7	-3.8
Expenditure arrears (- payments)	1.8	3.3	-2.8	-1.4	-1.3	-1.3	-1.7	-1.5	-1.3	-0.5	-0.6
Backlog of VAT refunds (flow)	0.5	0.4	0.4	-0.4	1.0	-0.4	-0.7	-0.6	-0.5	-0.5	0.0
Arrears on external interest (flow)	1.3	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-13.8	-8.1	-7.8	-6.0	-6.8	-4.6	-6.1	-5.4	-6.6	-4.7	-3.8
Overall balance (commitment basis)[4]	-17.3	-13.9	-5.4	-4.2	-6.4	-3.0	-3.8	-3.3	-4.8	-3.6	-3.2
Primary balance (commitment basis)[4]	-10.1	-5.8	0.8	2.0	0.6	2.9	3.2	3.7	2.7	2.6	2.6
Financing	13.8	8.1	7.8	6.0	6.8	4.6	6.1	5.4	6.6	4.7	3.8
Net acquisition of financial assets (+ drawdown, - accumulation)	-0.2	-0.6	-1.0	0.0	-1.3	0.0	1.1	0.0	0.0	0.0	0.0
Domestic	0.2	0.6	0.3	0.0	1.1	0.0	-1.1	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	14.2	8.7	1.3	-0.7	0.5	-4.2	-4.1	-0.8	1.4	0.0	2.9
Domestic	9.5	7.4	2.6	1.4	2.2	1.1	2.5	3.3	5.7	4.8	2.9
Foreign	4.7	1.2	-1.3	-2.1	-1.7	-5.3	-6.6	-4.1	-4.2	-4.8	0.0
Exceptional financing	0.0	0.0	7.5	6.7	7.6	8.8	9.2	6.2	5.2	4.7	0.8
Statistical discrepancy (overfinancing -/underfinancing +)	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Primary expenditure (cash basis)	28.1	24.4	22.0	21.0	20.7	20.6	20.4	20.3	21.1	20.4	20.6
Primary expenditure (commitment basis)	29.9	27.7	19.2	19.6	19.4	19.4	18.7	18.8	19.8	19.8	20.0
Net domestic financing	9.8	8.0	3.6	1.4	3.5	1.1	1.4	3.3	5.7	4.8	2.9
Net external financing	0.5	0.1	0.5	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	-0.1
Mining revenues	3.2	5.6	4.5	0.0	2.8	0.0	3.1	3.5	3.8	3.9	4.0
Non-mining primary balance (cash basis)	-11.0	-7.7	-6.1	-4.0	-2.6	-3.1	-2.3	-2.0	-3.0	-2.2	-2.0
Backlog of VAT refunds (stock)	2.5	2.3	2.5	1.7	3.1	1.1	2.0	1.2	0.5	0.0	0.0
Stock of expenditure arrears	12.8	12.9	9.6	7.6	8.6	5.5	6.0	4.2	2.8	2.3	1.7
Nominal GDP (billions of kwacha)	332.7	442.3	494.0	585.4	567.8	671.3	657.8	742.3	829.3	928.8	1,039.6

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

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

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

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

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

Table 4. Zambia: Monetary Survey, 2020–28
(Millions of Kwacha, unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
				CR No. 23/256	Proj.	CR No. 23/256	Proj.		Projections		
						Depository corporations survey:					
Net Foreign Assets	38,980	37,624	50,562	87,090	51,919	86,706	57,588	64,271	69,348	79,808	91,710
Net Domestic Assets	64,848	70,002	83,437	69,889	106,742	89,845	125,866	143,117	164,310	182,679	202,645
Domestic claims	102,655	103,414	99,282	105,973	125,060	129,862	140,094	158,186	172,220	184,015	197,324
Net claims on central government	60,446	64,641	46,798	15,757	59,246	16,242	60,348	62,948	67,486	72,190	75,551
Claims on other sectors	42,209	38,773	52,484	90,216	65,815	113,621	79,746	95,238	104,735	111,825	121,773
Claims on other financial corporations	168	189	521	273	626	363	833	833	833	833	833
Claims on state and local government	51	41	41	77	48	105	65	69	69	69	69
Claims on public non-financial corporations	1,148	871	1,358	1,126	3,165	1,126	3,165	3,165	3,165	3,165	3,165
Claims on private sector	40,842	37,672	50,563	88,740	66,460	112,027	84,258	103,269	119,924	135,485	152,090
Other items net	-37,806	-33,412	-15,845	-27,719	-22,801	-29,235	-22,801	-27,165	-27,165	-29,062	-29,062
Broad Money (M3)	103,829	107,626	133,998	156,979	158,662	176,551	183,455	207,388	233,659	262,487	294,355
						Bank of Zambia:					
Net Foreign Assets	10,921	12,127	15,472	58,435	13,783	66,474	16,750	32,803	51,216	63,403	77,164
Asset	26,230	47,101	55,945	67,947	61,621	85,040	76,213	102,704	123,392	137,927	154,113
Liabilities	-15,309	-34,974	-40,472	-9,511	-47,838	-18,566	-59,463	-69,901	-72,176	-74,524	-76,949
Claims on Non-residents											
Liabilities to Non-residents											
Net Domestic Assets	15,856	16,939	17,094	-20,283	24,777	-23,565	27,837	17,600	5,571	391	-5,625
Net domestic claims	33,862	28,710	8,217	-3,639	15,901	-6,089	18,960	8,724	-3,305	-8,486	-14,501
Net claims on other depository corporations	5,383	6,984	2,441	25,781	-1,183	23,105	1,828	-8,409	-20,438	-26,018	-32,434
Net claims on central government	28,389	21,631	5,667	-29,561	16,978	-29,400	16,978	16,978	16,978	17,378	17,778
Claims on other sectors	90	95	110	141	106	206	155	155	155	155	155
Other items (net)	-18,007	-11,771	8,877	-16,644	8,877	-17,476	8,877	8,877	8,877	8,877	8,877
Reserve Money	26,777	29,066	32,567	38,152	38,561	42,909	44,586	50,403	56,788	63,794	71,539
Currency outside banks and cash in vaults	12,389	13,550	14,740	22,819	14,907	31,009	17,557	18,783	23,845	29,693	31,841
Other depository corporation reserves	14,304	15,426	17,732	6,837	28,006	971	35,452	43,546	52,009	61,617	73,847
Liabilities to other sectors	84	90	95	130	131	146	151	171	189	209	234
Memorandum Items:											
Reserve money (end-of-period, percentage change)	57.0	8.5	12.0	17.2	18.4	12.5	15.6	13.0	12.7	12.3	12.1
Broad Money (M3) (percentage change)	46.4	3.7	24.5	17.2	18.4	12.5	15.6	13.0	12.7	12.3	12.1
Credit to the private sector (percentage change)	8.5	-7.8	34.2	75.5	31.4	26.2	26.8	22.6	16.1	13.0	12.3
Velocity (nominal GDP/M3)	3.2	4.1	3.7	3.7	3.6	3.8	3.6	3.6	3.5	3.5	3.5
Money multiplier (M3/reserve money)	3.9	3.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	15.2	11.7	16.7	12.8	13.9	14.5	14.6	14.6
Nominal GDP (billion kwacha)	332.7	442.3	494.0	585.4	567.8	671.3	657.8	742.3	829.3	928.8	1,039.6

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

Table 5. Zambia: Financial Soundness Indicators, 2020–23
(Percent, unless otherwise indicated)

	2020	2021	2022	2023		
				Mar	Jun	Sep
Capital Adequacy						
Regulatory capital to risk-weighted assets	20.1	24.7	22.8	22.8	25.5	24.1
Tier 1 regulatory capital to risk-weighted assets	17.8	23.3	21.9	22.0	24.9	23.4
Capital to total assets	8.4	10.9	10.6	10.6	12.1	11.9
Asset Quality						
NPLs to gross loans	11.6	5.8	5.0	5.2	4.5	4.4
Loan loss provisions to non-performing loans	75.9	102.8	93.4	85.4	96.0	95.2
Non-performing loans	8.8	6.0	4.4	4.2	4.0	3.9
Loan Concentration						
Of Which						
Households	20.4	18.8	18.3	18.4	19.7	18.1
Government and parastatals	20.0	30.1	17.6	14.9	14.2	13.6
Sectoral Breakdown						
Agriculture	16.3	10.7	9.5	9.3	9.2	10.0
Mining	6.2	4.0	7.2	7.9	7.3	7.5
Manufacturing	1.7	1.3	18.3	18.4	18.4	19.3
Construction	1.7	1.3	1.3	1.6	0.9	0.8
Services	1.9	1.3	1.6	1.9	2.1	2.0
Others	72.1	72.5	26.2	27.6	28.2	28.7
Earnings and Profitability						
Return on average assets	2.1	5.2	5.0	5.2	5.5	5.7
Return on equity	12.9	35.1	29.9	30.2	32.2	33.2
Gross interest income to total gross income	72.6	71.9	72.9	72.6	71.2	71.1
Gross noninterest income to total gross income	27.4	28.1	27.1	27.4	28.8	28.9
Net interest margin	9.4	9.9	9.4	2.5	5.4	8.1
Liquidity						
Liquid assets to total assets	48.6	46.6	50.7	51.2	48.1	46.2
Liquid assets to total deposits	57.4	56.3	67.6	68.1	64.5	61.9
Deposits/Loans	41.0	39.4	35.7	35.2	37.2	40.4
Exposure to Foreign Currency						
Foreign currency loans to total gross loans	47.1	33.7	40.9	41.5	36.2	38.8
Foreign currency liabilities to total liabilities	52.2	41.9	41.7	45.3	39.1	42.7
Net open position in foreign exchange to capital	1.1	0.2	5.6	1.8	2.0	0.9

Source: Bank of Zambia.

Table 6. Zambia: External Financing Needs and Sources, 2020–28
(In Millions of U.S. dollars unless otherwise indicated)

	2020	2021	2022	2023 CR No. 23/256	2023	2024 CR No. 23/256	2024	2025	2026	2027	2028
I. Total Requirement	**2,594**	**5,619**	**3,299**	**3,613**	**3,719**	**4,436**	**4,393**	**4,042**	**3,697**	**3,829**	**2,661**
Current Account Deficit, excluding Official Transfers	-1,922	-2,138	-1,067	-1,004	574	-1,990	-982	-1,541	-2,278	-3,306	-3,486
Public Sector Debt Amortization	1,426	1,917	1,935	2,258	2,180	3,144	3,155	2,424	2,519	2,245	949
Gross Reserves Accumulation, incl SDR allocation	-248	1,604	258	109	114	851	709	1,343	431	468	502
Repayments to the Fund	15	3	0	0	0	0	0	0	0	0	57.07
Other Capital Flows 1/	3,322	4,233	2,173	2,250	850	2,430	1,511	1,817	3,025	4,422	4,640
II. Total Sources	**1,272**	**3,389**	**240**	**866**	**943**	**917**	**852**	**1,176**	**1,350**	**1,523**	**2,064**
Official Transfers (Current and Capital)	80	77	76	177	135	266	200	212	186	167	175
BoZ Liabilities, incl. SDR allocation	0	1,328	0	0	0	0	0	0	0	0	0
Foreign Direct Investment, net	181	674	338	631	370	875	601	952	1,330	1,510	1,637
Private Sector Loans, net	-608	-263	-206	-331	-122	-448	-228	-247	-268	-290	-315
Loan Disbursements to Public Sector	1,424	571	364	493	530	346	372	365	96	84	560
Portfolio Investment, net	194	1,002	-332	-103	30	-122	-93	-106	6	52	8
III. Financing Gap (I-II)	**1,322**	**2,230**	**3,059**	**2,747**	**2,776**	**3,519**	**3,541**	**2,866**	**2,347**	**2,306**	**597**
IV. Expected Sources of Financing	**1,322**	**2,230**	**3,059**	**2,747**	**2,776**	**3,519**	**3,541**	**2,866**	**2,347**	**2,306**	**597**
New AfDB/WB financing	0	0	550	389	236	407	427	483	528	524	254
WB			550	389	236	257	277	333	328	274	254
WB loans			550	314	111	159	230	214	266	205	185
WB grants			0	75	125	98	47	119	62	69	69
AfDB			0	0	0	150	150	150	200	250	0
Exceptional Financing (Accumulation of arrears)	1,322	2,230	2,322	1,982	2,164	2,736	2,738	2,007	1,819	1,783	343
IMF ECF Arrangement		0	187	376	376	376	376	376	0	0	0
Memorandum Items											
Gross International Reserves (GIR), total	1,203	2,796	3,054	3,163	3,168	4,014	3,877	5,220	5,651	6,119	6,621
o/w unencumbered reserves	812	1,000	2,150	2,531	2,537	3,661	3,524	4,849	5,262	5,711	6,192
Debt Service After Restructuring (principal + Interest)			519	-871	-1,427	-1,590	-1,387	-628	92		
Financing Gap (percent of GDP)	7	10	11	9	10	11	12	9	7	6	1
In months of perspective imports	1.9	3.3	3.4	3.5	3.4	4.2	4.0	5.0	5.0	5.0	5.0
o/w unencumbered reserves	1.3	1.2	2.4	2.8	2.7	3.8	3.6	4.6	4.7	4.7	4.7

1/ Includes financial derivatives (net), errors and omissions, and other sectors from Table 4a.

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

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

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

Table 8. Zambia: Indicators of Capacity to Repay the Fund, 2023–34

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund Obligations Based on Existing Credit (millions of SDRs)												
Principal	0.0	0.0	0.0	0.0	0.0	28.0	56.0	56.0	56.0	56.0	28.0	0.0
Charges and interest	0.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)												
Principal	0.0	0.0	0.0	0.0	0.0	28.0	97.9	153.9	195.6	195.6	167.7	97.7
Charges and interest	0.0	2.9	2.8	2.9	2.9	2.9	2.8	2.9	2.9	2.9	2.8	2.9
Total Obligations Based on Existing and Prospective Credit												
Millions of SDRs	0.0	2.9	2.8	2.9	2.9	30.8	100.8	156.7	198.5	198.5	170.5	100.6
Millions of U.S. dollars	0.0	3.8	3.8	3.9	3.9	41.8	136.6	212.4	269.1	269.1	231.1	136.3
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.2	0.6	0.9	1.1	1.0	0.8	0.4
Percent of debt service	0.0	0.1	0.1	0.1	0.1	1.7	5.5	8.5	8.9	12.0	14.1	9.5
Percent of quota	0.0	0.3	0.3	0.3	0.3	3.2	10.3	16.0	20.3	20.3	17.4	10.3
Percent of gross international reserves	0.0	0.1	0.1	0.1	0.1	0.6	1.9	2.8	3.3	3.4	3.0	1.7
percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.5	0.5	0.4	0.2
Outstanding Fund Credit Based on Existing and Prospective Credit												
Millions of SDRs	419.6	699.4	978.2	978.2	978.2	950.2	852.3	698.4	502.8	307.2	139.5	41.8
Millions of U.S. dollars	561.4	939.7	1321.4	1324.3	1328.1	1290.1	1157.2	948.3	682.7	417.0	189.4	56.7
Percent of exports of goods and services	4.6	6.8	8.7	7.9	7.1	6.4	5.3	4.1	2.7	1.5	0.7	0.2
Percent of debt service	11.1	13.8	24.5	23.9	26.3	53.1	46.7	37.8	22.6	18.7	11.6	3.9
Percent of quota	42.9	71.5	100.0	100.0	100.0	97.1	87.1	71.4	51.4	31.4	14.3	4.3
Percent of gross international reserves	17.7	24.2	25.3	23.4	21.7	19.5	16.2	12.3	8.3	5.3	2.5	0.7
percent of GDP	2.0	3.1	4.1	3.8	3.5	3.1	2.6	2.0	1.3	0.7	0.3	0.1
Net Use of Fund Credit (millions of SDRs)	279.8	279.8	278.8	0.0	0.0	-28.0	-97.9	-153.9	-195.6	-195.6	-167.7	-97.7
Memorandum Items:												
Exports of goods and services (millions of U.S. dollars)	12,119	13,902	15,117	16,823	18,651	20,133	21,703	23,329	25,145	27,028	29,069	31,281
External Debt service (millions of U.S. dollars)[1]	5,065	6,826	5,392	5,551	5,054	2,429	2,476	2,512	3,016	2,234	1,639	1,441
Gross international reserves (millions of U.S. dollars)	3,168	3,877	5,220	5,651	6,119	6,621	7,157	7,698	8,273	7,916	7,649	8,161
Quota (millions of SDRs)	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2
Nominal GDP (millions of U.S. dollars)	28,406	29,872	32,410	35,064	38,035	41,233	44,601	48,197	52,093	56,261	60,796	65,730

Sources: IMF staff estimates and projections.

[1]Total debt service includes IMF repayments.

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Further delays in debt restructuring negotiations.	M	**L.** Exchange rate pressures could intensify while domestic yields may increase, partly due to exiting non-resident domestic debt holders. Additional external arrears could increase uncertainty in restoring debt sustainability, dampening the growth outlook.	Further expedite fiscal adjustment and identify extra financing sources. Further expedite PIM (Public Investment Management) reform and growth-enhancing structural reforms to boost confidence and promote FDI. Further strengthen financial sector surveillance along with contingency planning.
Social discontent. Supply shocks, high inflation (including due to electricity tariff increases), and spillovers from crises in other countries worsen inequality and trigger social unrest.	L	**M.** Social unrest could weaken political impetus for economic adjustment and reform, dent investor confidence, and lead to rising financing pressures and capital flight, growth slowdown, and higher inflation.	Take measures to strengthen governance and anti-corruption frameworks. Implement orderly fiscal adjustment, notably by increasing domestic revenue and reducing capital expenditures. Boost spending on social assistance. Maintain exchange rate flexibility to cushion balance-of-payments pressures while keeping monetary policy focused on price stability.
Extreme climate events, damaging key infrastructure and loss of human lives and livelihoods, causing water and food shortages, and amplifying supply chain disruptions.	M	**H.** Higher food prices, reduced agricultural production would require higher social spending and agricultural subsidies and could lead to higher inflationary pressures, and reduce medium-term growth. Additionally, a negative impact on hydropower generation and open-pit mining would lead to downward pressures on growth.	Provide effective support to vulnerable households. Diversify food crops to varieties better aligned to shortened rainy seasons. Consider medium-term strategies to help regulate water flows. Maintain exchange rate flexibility to cushion external shocks, while ensuring monetary policy remains focused on price stability.
Financial instability caused by a rise in non-performing loans.	L	**M.** Deteriorating bank balance sheets could lead to a contraction in credit to the private sector and dampen economic activity.	Closely monitor the buildup of vulnerabilities on financial sector balance sheets and implement swift and decisive prudential corrective actions if required. Strengthen contingency planning.

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

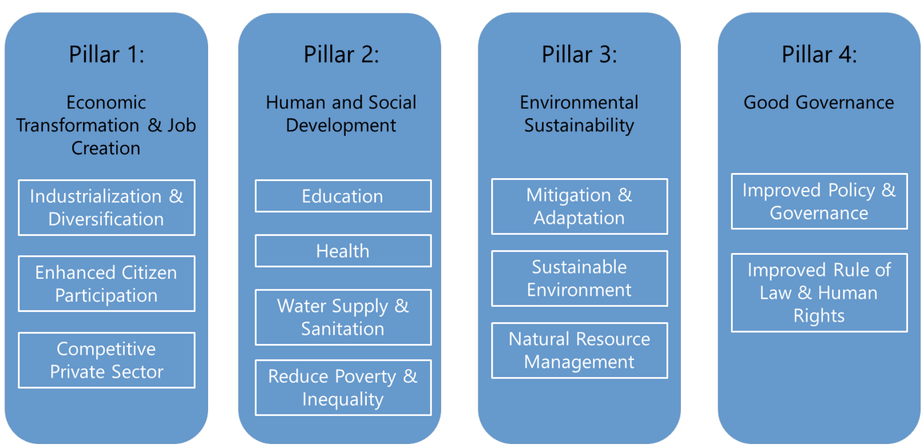
Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
External Risks			
Abrupt global slowdown or recession. Global and idiosyncratic factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market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

Annex II. Zambia's Eighth National Development Plan

1. **The Eighth National Development Plan 2022-2026 (8NDP) was adopted by cabinet in August 2022 after extensive consultations with various stakeholders.** The 8NDP is the fourth in a series of national development plans that aim to turn Zambia into a middle-income country by 2030. It serves as a critical vehicle to support Zambia's commitments under various international and regional frameworks, including the realization of the UN Sustainable Development Goals, and the delivery of the Agenda 2063 of the African Union. While it benefited from technical expertise and support of international development partners, the 8NDP is notably characterized by strong government ownership.

2. **The goal of Government's economic policies in the medium term is to entrench macroeconomic stability and growth, attain debt and fiscal sustainability, and improve the livelihoods of the Zambian people, especially the vulnerable (Text Figure 1).** These objectives rest on the four strategic development areas of 8NDP: (i) economic transformation and job creation through increased diversification of the economy and promotion of value addition and industrialization; (ii) human and social development through the expanding access and the quality of education and healthcare; (iii) environmental sustainability by addressing the challenges imposed by the climate change through mitigation and adaption policies and a better framework for the management of natural resources; (iv) improved governance improved accountability and transparency and increased participation in the democratic processes. The World Bank has noted that the 8NDP is centered on economic diversification and transformation.[1]

Annex II. Text Figure 1. Zambia: Main Pillars of the 8NDP



Source: Eight National Development Plan, Ministry of Finance and National Planning, 2022

[1] WB Green, Resilient and Transformational Tourism Development Project (2023).

3. The strategies underlying the 8NDP are in line with the ECF arrangement. The ECF-supported program underpins the authorities' efforts to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth. The ECF program reflects the goals of the authorities' 8NDP and is tailored toward addressing Zambia's most pressing macroeconomic challenges, namely (i) restoring fiscal and debt sustainability through a fiscal adjustment and debt restructuring; (ii) creating fiscal space for social spending to cushion the burden of adjustment; and (iii) strengthening governance and reducing corruption vulnerabilities, including by improving public financial management (PFM). The policies and reforms envisaged under the ECF arrangement aim at restoring macroeconomic stability and fiscal and debt sustainability, while promoting private sector development and economic diversification, all critical to support the authorities in achieving their development goals.

4. The cost of implementing the 8NDP over the 2022-26 period was estimated at nearly K 132 billion (23 percent of 2023 GDP), compared to a total budget of K 997billion (176 percent of 2023 GDP). Non-discretionary spending (wage bill, debt service and other statutory spending) constitutes 80 percent of the total budget. The government plans to dedicate 64 percent of its discretionary spending to the implementation of the 8NDP. Own revenues over the 2022-26 period (K 650 billion) will cover 65 percent of the overall spending, while the rest is expected to come from domestic borrowing and external financing. The ECF-arrangement is expected to catalyze much needed external support from development partners.

Appendix I. Letter of Intent

December 6, 2023
Lusaka, Zambia

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

Dear Madam Managing Director,

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

2. **Notwithstanding a more difficult global environment, growth has proven resilient.** Real GDP growth was revised up in 2021-22, and economic activity is stronger than anticipated driven by non-agricultural non-mining growth. Inflation has, however, maintained an upward trend, reaching 12.6 percent in October 2023, due to continued exchange rate depreciation and increased food and fuel prices. Despite a deteriorated current account deficit, gross international reserves reached US$2.9 billion at end-September 2023. Despite lower mining revenues, the primary fiscal balance remains aligned with program targets.

3. **We remain committed to continue with our efforts towards a debt treatment plan that meets the program parameters and achieve comparability of treatment as defined by the official creditors.** We have signed the memorandum of understanding that reflects the agreement on a debt treatment with official creditors under the G20 Common Framework on terms consistent with program parameters and debt sustainability. We also reached an agreement in principle with the bondholders committee that, unfortunately, did not meet Comparability of Treatment. The Government is continuing its efforts to find a satisfactory solution that avoids further costly delays in completing the country's debt restructuring. In this context, the Government intends to continue discussions in good faith with all relevant parties on how it can reach a successful and comprehensive debt restructuring.

4. **We reaffirm our commitment to meeting all the agreed upon quantitative performance criteria (QPCs) and structural benchmarks under this IMF-supported program.** Our policy management enabled us to meet all, but one of the end-June 2023 QPCs. We were unable to observe the QPC on the net international reserves due to lower mining tax receipts and pressures in the FX market but met the end-September 2023 indicative target (IT) as the Bank of

Zambia had to apportion some of the mineral taxes to reserves build up. All, but one, of the end-June 2023 and end-September 2023 indicative targets were also met. In addition, all, but two, structural benchmarks for the second review were met, with the others having been completed with minor delays. We are tightening policies to rein in inflation and restore fiscal sustainability, while continuing to implement reforms to strengthen public financial management, the monetary policy framework, financial supervision, transparency, and anti-corruption fight.

5. **We request the completion of the second review under the ECF-supported arrangement and of the financing assurances review, a waiver for the nonobservance of a QPC and request modifications to the end-December 2023 monetary policy consultation clause and to the end-June 2024 QPCs.** The completion of the review would allow for a disbursement of SDR 139.88 million, half of it to be used for budget support as earlier agreed. Our program will continue to be based on QPCs and ITs with end-June and end-December test dates and continuous performance criteria, and on structural benchmarks consistent with our reform agenda. The QPCs and ITs are detailed in Tables 1-2 of the Memorandum of Economic and Financial Policies (MEFP) and in the Technical Memorandum of Understanding (TMU).

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

Yours sincerely,

/s/	/s/
Situmbeko Musokotwane, MP	Denny H. Kalyalya
Minister of Finance and National Planning	Governor, Bank of Zambia
Republic of Zambia	Republic of Zambia

Attachments:

I. Memorandum of Economic and Financial Policies (MEFP)

II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

I. CONTEXT

1. Since the approval of the First Review under the Extended Credit Facility (ECF) arrangement in July 2023, the global environment has become increasingly challenging. Tightening global financial conditions and geopolitical tensions are adding to uncertainties for global growth prospects and further restricting supply chains. This memorandum updates the MEFP attached to the first review of the program supported by the ECF arrangement approved by the IMF's Executive Board on July 15, 2023.

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

II. RECENT ECONOMIC DEVELOPMENTS

3. Despite headwinds, economic activity in 2023 has been stronger than projected at the time of the First Review:

- **After growing by 5.2 percent in 2022, real GDP growth was 4.3 percent and 5 percent in the first and second quarters of 2023, respectively.** The main growth drivers were in the non-mining non-agricultural sectors growing at 7.8 percent and 7.7 percent respectively, driven by the ICT, tourism and transport sectors. This was partly offset by the contraction in agriculture (due to high input costs and delayed rains), mining (low grade ores and persisting difficulties in two large mines) and construction (slowdown in infrastructure projects).

- **Inflationary pressures continue, driven by high food and fuel prices, upward adjustment in electricity tariffs.** Electricity prices were also adjusted upwards. In October, consumer prices continued to rise with annual inflation at 12.6 percent (from 12 percent in September). Amid a declining trade balance and uncertainties tied to external debt restructuring, the kwacha continued to depreciate by 5.3 and 3.7 percent in nominal and real effective terms over 2023H1. Since end-June, the kwacha has experienced a significant 35-percent decline against the US dollar as at November 28,2023. After successive hikes by the BoZ, the benchmark rate reached 11 percent in November 2023. In November, the BoZ increased further the statutory reserve ratio by 550 basis points to 17 percent, aimed at relieving persistent pressures in the foreign exchange market with a view to reigning in inflation.

- **The current account balance deteriorated over the first half of 2023.** After a 3.6 percent of GDP surplus in 2022, the current account balance recorded a deficit of 2.8 percent of GDP in 2023H1 mainly due to a weakened trade balance on account of lower copper exports and higher imports. This was partially mitigated by an improved financial account driven by a reversal in the accumulation of foreign assets by domestic firms, which helped reduce the deficit to 4 percent of GDP in 2023H1 from 9.1 percent in 2022H1. Gross reserves decreased by US$380 million to US$2.7 billion, equivalent to three months of import cover, at end-June 2023.

- **Public debt developments.** The stock of public and publicly guaranteed (PPG) external debt (excluding interest arrears, fuel, contractors and guarantees on ZESCO other payables) amounted to US $15.6 billion at end-September 2023. This includes US$14.2 billion attributed to the central government and US$1.4 billion in guaranteed external obligations. Non-guaranteed liabilities decreased to US$ 0.2 million at end-September 2023 due to principal repayments by ZESCO. The domestic debt stock increased, consistent with planned domestic financing, whilst external financing remained constrained. The stock of Government securities reached K 221.7 billion at end-September 2023, an increase of 5.5 percent from K 210 billion as at end-December 2022.

- **Public debt arrears increased only on claims in the debt restructuring perimeter.** Public and publicly guaranteed external debt arrears (principal and interest) amounted to US$5.3 billion as of end-September 2023 on external PPG debt, increasing by US$1.2 billion relative to end-December 2022.[1] This increase has been registered only on claims in the debt restructuring perimeter. All arrears with multilaterals and other international financial institutions (IFIs)have been cleared. There has not been any new accumulation of external supplier and contractor arrears, as well as arrears on ZESCO other external payables (IPPs), relative to end-December 2022. Expenditure arrears have marginally increased to K 77.8 billion in June-2023 from K 77.6 billion at end-2022. Notable increases in arrears were recorded for VAT and other Recurrent Departmental Charges (RDC) mostly due to stock revaluations following the ongoing audit process and accumulation of late penalties and interest). Significant reductions were, however, recorded in Personnel Emoluments, fuel, electricity, FISP, FRA, pensions, and capital projects. The audit for fuel arrears (initially expected by April 2023) is ongoing and is expected to be concluded by end-March 2024.

- **Financing conditions remain tight although investors' sentiment improved following the agreement on the MoU with official creditors and the agreement in principle on the Eurobonds restructuring.** Further discussions and modifications are on-going with the bondholders to ensure that this initial proposal is in line with the requirements of the program. On the domestic market, private domestic investors’ appetite remains strong, fueled by resumed market participation from NAPSA and heightened interest of nonresident investors.

[1] External arrears at end-December 2022 included US$4.1 billion as external debt arrears, US$123.1 million as government Guaranteed loans, US$582.2 million as central Government contractor arrears, US$195.2 million as contractor arrears (SOEs) and US$139.5 million as IPP import arrears.

- **The banking sector remains stable, with increased regulatory capital and reduced non-performing loans**. Capital adequacy ratio increased to 24.1 percent at end-September 2023 from 22.8 percent at end-2022. Asset quality remained satisfactory with non-performing loans ratio marginally decreasing to 4.4 percent at end-September 2023 from 5.0 percent at end-2022. Credit to the private sector grew by 21.8 percent from January to September 2023 as banks' sovereign exposure decreased. The loan-to-deposit ratio increased to 40.4 percent at end-September from 35.7 percent, but private credit as a share of GDP, at 11.1 percent, remains slightly below the pre COVID-19 average of 12.0 percent. Commercial banks' lending rates remain stable but elevated at 25 percent.

III. OUTLOOK AND RISKS

4. **The positive momentum is expected to continue over the second half of 2023, with real GDP growth projected at 4.3 percent in 2023.** The mining sector is set to outperform over the second half of 2023 reducing the anticipated contraction from 8 percent to 1.1 percent and further supporting growth in manufacturing and service sectors. The ICT sector will sustain its robust growth, propelled by elevated service consumption and data usage, while growth in the financial and insurance sector will be buoyed by increased deposits, loans and issuance of insurance premia. Inflation, however, is projected to remain elevated, at 13 percent, by year-end. The current account balance is also expected to deteriorate to a deficit of 1.6 percent of GDP given strong import demand and lower mining production. Gross international reserves (GIR) are projected to reach 3.2 months of prospective imports by end-2023, consistent with the NIR target set at the First Review.

5. **Medium-term growth prospects remain positive, but subject to significant downside risks.** The baseline scenario assumes growth at 4.7 percent in 2024, 4.8 percent in 2025 and 4.8 percent in 2026 based on renewed investors' confidence following progress on the debt restructuring and a recovery in agriculture and mining as well as sustained growth in services (including in accommodation and food, ICT, and transport). Inflation is projected to peak in 2024H1 due to global food price developments linked to geopolitical tensions, and adjustment in electricity tariffs, before slowing down to 8.6 percent end 2024. The current account surplus is projected at 2.1 percent of GDP in 2024, supported by a recovery in copper production and prices, and relatively lower imports while the financial account will deteriorate slightly due to increased debt amortization. As a result, international gross reserves are set to reach 4.2 months of prospective imports at end-2024, supported by increased multilateral financing and significant foreign investment in the mining sector.

6. **The medium-term outlook is subject to several risks, some of which may have a high adverse impact if they materialize.** These include (i) a slowdown in global growth which could adversely affect commodity prices, in particular copper price, the country's major foreign exchange earner; (ii) the increasing frequency of climate change events, including an evolving El Niño event, which could affect key sectors such as agriculture and energy generation; and (iii) reform fatigue

arising from necessary but socially disruptive reform measures such as adjustment in fuel and electricity tariffs.

IV. MACROECONOMIC POLICIES FOR 2023 AND THE MEDIUM TERM

A. Fiscal Policy

7. We met the target on the primary fiscal balance (on a cash basis) at end-June 2023, despite the underperformance in mining revenues. The 2023Q2 primary fiscal balance reached K 2,170 million against a floor of K 1,866 million (quantitative performance criterion, QPC). Lower mining revenues (of about K7,182 million) were compensated by non-mining revenues, including one-offs, and spending constraint. We continued to mobilize additional non-mining revenues, which reached K 47,081 billion end-September 2023, above the indictive target (IT) of K 44,099 billion.[2] Despite the need to contract spending, we scaled up social spending to K22,260 million, surpassing the end-June 2023 IT (K 18,103 million). In turn, the net clearance of arrears on expenditure and tax refunds fell short of the IT (K 5.908 million), reaching K4,309 million, as the VAT refund repayments (K 7,939 million) did not sufficiently compensate for the accumulation of new VAT claims (K 9,713 million). As planned, we refrained from contracted new external borrowing (IT) and met the ceiling on disbursements on external contracted debt (IT). However, external disbursements fell short of expectations (US$18.8 million versus US$200 million) and, in light of financing pressures, we drew the remaining 25-percent of the SDR allocation amounting to (US $524.7 million) in 2023H1.

8. We remain committed to achieving the end-2023 primary target (K 1,058 million, QPC), representing a sizable fiscal adjustment. The primary balance (cash basis) is projected to improve by 1.8 percent of GDP year-on-year, primarily driven by lower spending. We project revenues at K 118,548 million, marginally lower than at the time of the First Review. We have managed to compensate a significant shortfall in mining revenues (estimated at 1.4 percent of GDP) largely with one-off revenues arising from (i) a tax amnesty (about K 4 billion, 0.7 percent of GDP), (ii) higher dividend transfers from the Bank of Zambia (by K 1.8 billion or 0.3 percent of GDP) and (iii) other exceptional revenue (K 2.2 billion or 0.4 percent of GDP). We contained expenses to sustain our projected domestically financed net acquisition of nonfinancial assets, as we faced delays in project-related external disbursements. To compensate for those delays in disbursements, we envisage higher domestic financing in 2023 compared to the first review, but still within the budget allocation.

9. We will sustain our fiscal consolidation efforts in 2024, targeting a primary fiscal balance of K 5.57 billion (end-December 2024 QPC, 0.8 percent of GDP). The target is based on non-mining domestic revenues at K 58,136 million at end-June (IT) and K 117,334 million end-2024 (IT), against a spending envelope of K 175,367 million. Consistent with the end-2024 commitments, we propose to revise the end-June primary fiscal balance target to K 2,952 million (end-June 2024

[2] This excludes grants and is adjusted by the backlog of VAT refunds.

QPC). Supported by structural fiscal reforms (see below), the following fiscal commitments will help achieve these objectives:

- **Revenues (IT).** We will adopt tax policy measures that are expected to yield 0.4 percent of GDP in additional revenues and continue our efforts to improve tax administration to reduce the compliance gap and improve service delivery (see para 11).

- **Spending**: We will prioritize and protect social spending (IT) even in the event of a revenue shortfall, and instead will try to contain spending in other non-priority arears, while being committed to not generating new arrears.

- **Capital expenditure** is projected at 3.2 percent of GDP in 2024, mostly financed from domestic resources and focused on priority infrastructure (roads, health, education and water and sanitation). Should more disbursements from development partners become available, we will reduce domestic financing accordingly to ensure we remain within the overall spending envelope.

- **Arrears repayment.** We will continue to clear expenditure and VAT refund arrears, while preventing generating new arrears. We commit to clear the legacy stock of VAT refund arrears as laid out in our Arrears Clearance Strategy, and refund on a timely manner all new validated VAT refund claims. For fuel arrears, in order to avoid the augmentation of the stock due to late interest payments and penalty fees, we are exploring the possibility of a liability management operation that would reduce the net present value of the arrears stock through financing in the domestic market. If successful, we would request an adjustor for the primary balance to account for this operation since our budget reporting is on a cash-basis.

- **Subsidies**. We will refrain from re-instating any fuel subsidies, explicitly or implicitly, using instead the fiscal space for targeted social spending. We will refrain from generating new external arrears (continuous QPC).

- **Financing:** continue to abstain from central bank net credit to the government (QPC) while respecting the ceiling on (i) the contracting or guaranteeing of new non-concessional external debt (QPC), and (ii) the ceilings on disbursements of contracted but undisbursed external debt and on the present value of new external borrowing (ITs).

10. The Government remains committed to a multi-year fiscal consolidation path. The overriding objective is to improve the primary balance on cash basis to 1.7 percent of GDP in 2025 from a deficit of 1.6 percent of GDP in 2022. On commitment basis, the target is to improve the primary balance to a surplus of 3.6 percent of GDP by 2025 from a surplus of 0.6 percent of GDP in 2022. The primary balance commitment basis is projected to reach 2.9 percent of GDP in 2024, same as at the time of the First Review, as we plan to maintain the agreed pace of arrear clearance for expenditure and tax arrears (both ITs, see TMU). In 2024, we commit to submit a draft 2025 Budget consistent with program parameters (**proposed end-September 2024 SB**).

In consultation with the IMF, we stand ready to adopt contingency measures, if needed, and consult with IMF staff on any changes to our fiscal commitments. We are also committed to use any additional revenues, in consultation with the IMF, for arrears repayment in a rule-based and transparent manner while taking into consideration our capacity.

B. Fiscal Structural Reforms

MOBILIZING REVENUES

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

- **Tax Policy**.
  - In 2023, we reformed the mineral tax regime to attract investment, improve predictability in the tax regime, and smooth the impact of copper price changes on tax liabilities. Specifically, we set up progressive marginal tax rates for the mineral royalty tax (MRT) and reintroduced its deductibility from the Corporate Income Tax (CIT). To compensate for the revenue losses in the short term, we removed the VAT and excise exemptions for fuel (implemented in September 2022).
  - In the 2024 draft Budget, we proposed measures that are expected to raise revenues by 0.4 percent of GDP. We will increase excises for cigarettes, some alcoholic and non-alcoholic beverages and introduce a levy for mobile transactions. We will also apply a 15 percent withholding tax not only to the coupon income but also to the discount of government securities (which were tax-exempt). To alleviate the impact of inflation on households, we propose an increase of the tax-exempt threshold for personal income tax and lowering the upper band marginal rate by 50 basis points. We will also introduce some limited tax and cost incentives to promote economic activity.
  - In 2025, we will continue mobilizing revenues. We will index fuel and alcohol excise duties to inflation. We also plan to harmonize corporate income tax rates across sectors to improve fairness, together with a review of the effectiveness of fiscal incentives offered to companies operating in special economic zones. We will refrain from providing any new tax exemptions, and plan on estimating the cost of tax expenditures and their effectiveness, with a view to expand the tax base.
- **Tax Administration.** To enhance domestic resource mobilization and reduce the compliance gap, the Zambia Revenue Authority has embarked on reforms to modernize its internal organization and expand the use of data analytics.

- We will establish a unified and dedicated Large Taxpayer Office, merging the offices of indirect and direct taxes (**end-March 2024 SB**); as we turn the ZRA into a service-oriented agency that lowers compliance costs.
- To address tax loopholes in the VAT system and other transaction taxes, we will implement an electronic invoicing system starting in 2024, to better monitor taxpayers' supply chains and reduce false VAT refund claims. This will enable us to accelerate the pace of valid VAT refunds.
- We aim to leverage the use of data through interfaces with other government systems such as IFMIS and the Ministry of Lands database ZILAS by end March 2024, which will help improve accuracy in tax assessments and reduce fraud.
- To improve the collection and compliance of mining-related taxes beyond the existing narrow base, the Zambia Revenue Authority established a dedicated small and medium size Mines Unit in January 2023. The Unit will be rolled out to provinces with substantial mining activity from which supporting services can be extended to other non-primarily mining provinces by end-March 2024 (delayed from the initial rolled out date of end-March 2023, due to the scope of work and logistical challenges). Going forward, we will also step-up efforts to collect tax debt which stood at K 99,94 million at end 2022.

ENHANCING EXPENDITURE EFFICIENCY

12. We aim at enhancing economic growth and development, bridging the rural-urban gap through fiscal decentralization, while strengthening public finance management procedures, and protecting social spending. Public expenditure will remain transparent and accountable, to improve efficiency and channel resources to programs and projects that have a direct impact on the lives of the Zambian people. Total expenditure is projected to come down, largely on account of the reduction of expenses related to inefficient subsidies, while preventing the accumulation of expenditure arrears.

13. We will continue to target social spending. The Government has scaled up and enhanced social protection programs with improved targeting and selection mechanisms through the provision of regular and predictable cash transfers. We remain committed to maintain social spending above K 39,670 million (December 23 - indicative target).

- By end-2023, to protect those most vulnerable, we will scale up the beneficiaries on Social Cash Transfer Program by 25 percent, to more than 1.3 million households from the current 1.1 million households, with the objective to further extend coverage to 1.4 million in 2024. We also doubled the transfer value, but the needs remain high considering the higher costs of living. We increased the beneficiaries under the Food Security Pack Program (by 13.3 percent in 2023 to 241,000 households), the Public Welfare Assistance Scheme (PWAS), and the women empowerment programs. [3,4,5]

- To support our free education policy and extend health services countrywide, we have hired more than 30,600 new teachers and 10,700 health workers, in 2022, maintaining workforce almost stable in 2023. We will employ a total of 20,000 personnel in 2024 and 2025. We will also broaden the school feeding program to cover 2.9 million students in 2024, up from 2.0 million in 2023. As a result of our free education policy, the number of students attending up to secondary education has increased by 32 percent from its 2021 level to 6.2 million in 2023.

- We are evaluating options to reform the public pension schemes to make them financially sustainable and provide social security to retirees. Following the introduction of the pre-retirement lump sum benefit, about 425 thousand members of the National Pension Scheme (NPS) withdrew part of their accrued pension wealth, for a total of K 9.9 billion. This policy aims at fueling economic growth in an environment of high financing costs.

14. The Farmer Input Support Program, the flagship input delivery program for more than one million small scale farmers, is migrating to the more cost-effective e-Voucher system. We remain committed to make the FISP program more effective, with spending declining to 0.9 percent of GDP in 2025 from 1.5 percent of GDP in 2022. The migration path is envisaged as follows:

- In the 2023/2024 season, we only implemented fully the e-voucher system in 17 out of the planned 33 districts in line with the migration criteria and principles outlined in the published Action Plan **(end-September 2023 SB).** The other districts benefited from a hybrid system with government procuring the inputs to farmers who will redeem using the electronic payment system.

- For the 2023/2024 season, we also procured inputs using: open international bidding for Urea fertilizer and direct bidding for D compound fertiliser. The open bidding will help Government receive competitive prices for Urea fertiliser, which is not manufactured locally. Government has decided to offer direct bidding for the supply of D compound fertiliser to local manufacturers.

- For the 2024/2025 farming season, we will bring 73 districts to the full e-voucher system (**proposed end-September 2024 SB**), and 2025/2026 farming season: the last 42 districts will be brought on the electronic agricultural input support system, completing the coverage to all 116 districts. To enhance transparency related to FISP, the Government publishes summary information on all procurement contracts, including beneficial ownership (**continuous SB**).

[3] The Food Security Pack (FSP) is an agricultural – based Social Protection program that provides agriculture inputs and accompanying services to poor and vulnerable farming household.

[4] The Public Welfare Assistance Scheme (PWAS) supports the most vulnerable in society to fulfil their basic needs particularly health, education, food and shelter. It is aimed at mitigating social economic shocks and other negative effects such as, poverty and the HIV and AIDS pandemic.

[5] The Women Empowerment Program offers women technical, financial and material empowerment to promote their participation in economic and social development.

To this end, the contracts were published on the Ministry of agriculture website in November 2023 for contracts signed in August and September. An audit of the program by an independent firm expected to be finalized by end April 2023, will now be finalized, and published by end March 2024. The delay has been due to the scope of work being much larger than envisaged earlier. Results of the audit will help improve controls and ensure value for money.

15. We will continue to take additional resources closer to the people through the Constituency Development Fund. A total of K 4.4 billion have been allocated for the CDF in the 2023 National Budget for community-based projects, empowerment funds for youth and women and bursaries for secondary and skills training, however the utilization rate remains highly uneven across constituencies. On average, the utilization rate up to August 2023 is 51 percent. The 2024 National Budget has increased CDF funding to K 4.8 billion. To build capacity at the community level, sectoral ministries will continue to provide policy orientation and expert advice in CDF-financed activities. Further, the procurement process and awarding of contracts will be in line with the Public Procurement Act No. 8 of 2020 but we have decentralized decision-making to provinces to improve absorption rates.

IMPROVING PUBLIC FINANCIAL MANAGEMENT

16. Despite significant releases to dismantle expenditure arrears that began in in 2022, the stock has marginally increased. In August 2022 we published a strategy for clearance of expenditure and VAT Arrears to be made over 10 years, however, the accumulation of penalties and late interest has increased the government liabilities despite payments to reduce the stock. To expedite the clearance of arrears and reduce the continued accumulation of penalties, we will update the Strategy with a view to ensure a cost-effective liability management, while adhering to a rule-based and transparent clearance process. The updated strategy will be published by end-March 2024.

17. Commitment control system. To improve the PFM systems, a Commitment Control Module was developed in the Integrated Financial Management Information System (IFMIS) that links procurement commitments to the approved budget, which became effective in July 2022. We missed the end-August deadline to roll out IFMIS to at least 59 units (**end-August 2023 SB**), due to some delays in three institutions. However, as of November 2023, the IFMIS system has been rolled out in 59 spending units, including all ministry-level spending units. A report that verifies the use of IFMIS by government agencies (due in August 2023) is still pending and will be finalized and published by end-November 2023.

18. Government is stepping up its efforts to strengthen the public investment management (PIM) and the public-private partnerships (PPPs) frameworks. We adopted in early 2023 a new set of PIM guidelines which, joint with the National Planning and Budgeting Act of 2020, provides sound legal basis for public investment management and constitutes important building blocks towards improved processes. Only projects that have been appraised and deemed viable based on PIM regulations, will be included in the Public Investment Plan and shall be considered for implementation. All capital projects are outlined in the Public Investment Plan for the country and a database of existing projects is updated annually and published by the PIPD. We aim to align the publication of the public investment plan with the annual budget process, starting from 2024. A Master Plan for the road sector is also yet to be developed, however, the National Road Fund Agency continue to coordinate works in the road sector and produces annual workplans. An amended Public Private Partnership Act, submitted to Parliament in July 2023 following IMF TA, will provide a strengthened framework for the selection and evaluation of PPP projects and help manage related fiscal risk **(end-August 2023 SB)**. Key aspects of the bill include the establishment of a clear and comprehensive definition of PPP projects, the provision to the Minister of Finance and National Planning of the mandate to approve or reject PPP projects based on potential fiscal implications, the requirement of public disclosure of key risks and fiscal implications of proposed PPP projects and awarded PPP contracts.

19. Improved Cash Management. We will formulate an action plan to substantially reduce idle cash balances and the number of accounts held by local authorities and lower-level government entities in commercial banks **(end-March 2024 SB)**. The strategy will aim towards a full-fledged Treasury Single Account, to regularly receive account balance information from commercial banks, and to introduce a system of regularly clawing back floats not needed for meeting short-term financial obligations. Government will leverage on recommendations from the technical assistance provided by cooperating partners to strengthen its cash management practices.

ENHANCING FISCAL TRANSPARENCY AND REPORTING FISCAL RISKS

20. Budget Execution and Financial Reports. To enhance fiscal transparency, the Government will continue publishing Quarterly Economic Reviews, which also contain information on Budget performance. The financial report will continue to be published on an annual basis. The scope for the Budget Execution Report will be expanded to include performance on broad revenue and expenditure categories including social spending and its quality will be continuously improved. Government will migrate to the International Public Sector Accounting Standards (IPSAS) Accrual Accounting Basis in 2027 based on the approved roadmap.

21. Fiscal risks. To enhance transparency and credibility in public finances, especially in an environment with tighter fiscal conditions, and high debt burden, the Government will closely monitor fiscal risks. To this end, we will develop a fiscal risk management framework aimed at identifying and quantifying fiscal risks from expenditure pressures and revenue shocks as well as other contingent liabilities as well as strategies to mitigate those risks. A first fiscal risk statement will be prepared for the 2024 Budget. The scope of the Fiscal Risk Report will by end-June 2024 be expanded to include key risks stemming from SOEs, Local Authorities, public pension schemes, PPPs and other obligations as well as the potential consequences of climate change (**end-June 2024 SB**). Standard methodologies will be applied to quantifying risks in a forward-looking manner, with help from IMF TA.

22. SOEs. To strengthen the governance and management of State-Owned Enterprises, the Government will adopt the Supervisory and Performance Monitoring Framework for SOEs by the end of 2023, to be implemented in 2024. The framework will contain guidelines that the Treasury will use to monitor the performance of SOEs and enhance its shareholder oversight. In addition, the Government will develop a State-Owned Enterprises Policy by end-September 2024) defining the different roles that line Ministries, the Industrial Development Corporation and the Ministry of Finance and National Planning have in the governance of SOEs (**proposed end-October 2024 SB**) and a prospective State-Owned Enterprises Act. In addition, to manage fiscal risk from SOEs, the Ministry of Finance and National Planning will continue to conduct credit risk assessment on all public bodies that intend to borrow.

ENERGY REFORMS

23. Fuel arrears accumulation remains a challenge despite removing the fuel subsidy after December 2021. Fuel arrears amounted to US$ 556 million at end-September 2023 from a verified stock of US$ 533 million at end-2022. The increase is attributable to late payment penalties on legacy debt. We remain committed to adjust the oil price monthly based on international oil prices and the Kwacha/U.S. dollar exchange rate. In parallel, an independent audit on the suppliers' claims to confirm their validity (initially planned to be completed by end-June 2023), is still ongoing. Due to its scope and complexity, the audit is expected to be completed and published by March 2024.

24. We have advanced toward open access to the TAZAMA pipeline, which will help costs savings from its use to be passed on more fully to the consumers. The TAZAMA pipeline is expected to reduce diesel transportation costs by 73 percent.

- In mid-September 2023, the Government issued a Statutory Instrument No.41 of 2023 (i) clarifying licensing requirements and provisions and those to construct energy facility, installation, or common carrier; and (ii) setting the conditions to transport petroleum products using the pipeline on behalf of a third party.

- The guidelines for using the TAZAMA pipeline for diesel imports in a transparent, fair and equitable manner was published on October 2023, with the aim to start operating this mechanism by end-March 2024. The framework will provide rights of access to Oil Marketing Companies wishing to utilize the pipeline for diesel imports. The OMCs eligible to use the TAZAMA pipeline will be prequalified for one year and would be allowed to use the pipeline through a quarterly competitive bidding process.

- Since October 2023, the Government has implemented a new cost equalization mechanism to reimburse OMCs for their effective transportation costs. As the transportation cost in the wholesale fuel price formula must fall in middle between costs for fuel (diesel) imported by the pipeline and the roads, at a level sufficiently high to compensate for outflows. We will revise the transportation cost to ensure the financial viability of the Energy Fund and we plan on collecting the extra compensation received by OMCs transporting wholesale diesel products through the pipeline (i.e., tender winners), to compensate those using roads. The collection will be deposited at the Energy Fund.

- We will continue to adhere to monthly updates on domestic fuel prices. To enhance transparency in the pricing, we will publish the retail and wholesale price structures, for the previous month with all line details, as part of the monthly fuel price announcements by the Energy Board starting in 2024 (**proposed end-March 2024 SB**). We will also publish the tender results on the open access auctions on the use of the Tazama pipeline by third parties, which will become operational by end-2024Q1.

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

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

- ZESCO's total outstanding debt amounted to US$2.2 billion in September 2023, from US$2.1 billion at end-2022. On-lent loans from the Central Government amounted to US$406 million (it was 595.2 million in the MEFP of the First Review), US$197(421.6) million to commercial lenders and US$1.6 billion (944.4million in R1) as Government guaranteed loans.

- To improve its balance sheet, ZESCO has confirmed most of its disputed IPP debt; is in the process of negotiating legacy IPP debt; mobilizing long-term domestic financing to repay IPP obligations; and is advancing in converting on-lent public loans to equity in close consultation with the MoFNP. ZESCO has continued to service its non-guaranteed external debt in 2023.

RESTORING DEBT SUSTAINABILITY AND IMPROVING DEBT MANAGEMENT AND TRANSPARENCY

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

27. We are advancing in our discussions with external creditors on a debt restructuring operation in line with program parameters. In the context of the G20 Common Framework for debt treatments beyond the DSSI, we reached agreement with the official creditors on a treatment in line with program parameters as reflected in the Memorandum of Understanding agreed in October 2023. This will be followed by bilateral agreements with the respective creditors under the OCC. Complementarily, the Government has reached an agreement in principle with the Steering Committee of the bondholders on October 26, 2023. The Government is committed to continue to negotiate a debt treatment with all external creditors in good faith and consistent with program parameters. The Government is also continuing to implement a debt service standstill for all external creditors with the exception of multilaterals and a few creditors financing priority projects of high economic and social importance.

28. We are enhancing external debt management and transparency. We published the medium-term debt management strategy in 2023.[6] In addition, the Government prepared the annual borrowing plan, presented with the 2024 Budget, and will undertake regular debt data validation and reconciliation through engagements with its creditors in a transparent and highly collaborative process. The Government will also continue to publish, on a quarterly basis, the Debt Statistical Bulletin to cover external and domestic debt developments including loans contracted, new disbursements, information on guaranteed loans, non-guaranteed State-Owned Enterprises (SOEs), domestic and external arrears, and debt and any liabilities arising out of public private partnerships (**recurrent end-quarter SB**). We commit to refrain from any payments on any official bilateral debt under restructuring negotiation until the process is complete. We have informed OCC that a payment from ZESCO is reflected in the agreed debt restructuring with the OCC to ensure comparability treatment with other creditors.

29. We are strengthening the institutional framework for debt management. The 2022 Public Debt Management Act (PDMA) enhances Parliamentary oversight on loan contraction and strengthens the definition of public debt, reporting requirements and adherence to international best practices in public debt management.[7] In the context of the new PDM the Government is working on developing the regulatory framework for the sinking fund, clarifying the nature and scope of guarantees and indemnities, establishing the general provisions of the debt management office, defining the credit risk assessment framework, and setting the supervising framework for monitoring and operational supervision of SOEs. The regulations will be in place by end-June 2024.

30. We are advancing on establishing a Debt Management Office (DMO). The Cabinet Office is expected to approve a new organization structure for the DMO that aligns its mandate and structure with best practices, and consistent with the PDMA by end-2023 (**end-December 2023 SB**). The new DMO is expected to become fully operational by end-2024. We will reorganize the debt department at the MoF to establish front, middle and back offices at the DMO, effectively following the IMF/guidelines for public debt management.[8] To this end, we will adopt and publish the procedure manual of the DMO by end-2024 (**proposed end-November 2024 SB**).

[6] 2023-25 Medium-term Debt Strategy.

[7] The 2022 Public Debt Management Act.

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

31. The Government will continue to rely on Government securities for domestic financing and aim at extending maturity. The issuance program will focus on attaining a domestic debt stock ratio of 40 percent to 60 percent for Treasury bills and Bonds, respectively, considering market conditions, investor appetite and cost-risk considerations. The issuance calendar reflecting the issuance strategy will be reviewed based on domestic financing and cash management needs. To align with international best practices, we will transition all government securities to be issued at par by end-March 2024 (**proposed end-March 2024 SB**). The coupon setting practice for issuance of bonds will be reviewed to impart greater flexibility to debt management and to support market development objectives. As the non-resident holdings of domestic debt could put pressure on external debt sustainability, we plan on limiting the issuances of securities to non-residents in the primary market to 5 percent of the cumulative government bond with a nominal upper bound of K1.56 billion in 2024.

C. Enhancing Monetary and Exchange Rate Policies

32. The Bank of Zambia (BoZ) remains committed to the inflation targeting (IT) framework to maintain price stability. Inflation has been increasing due to elevated food and fuel prices, upward adjustment in electricity tariffs and exchange rate depreciation. Although inflation is largely caused by external shocks, we have taken steps to tighten monetary policy to address inflationary pressures The MPC will continue to rely on the forward-looking monetary policy framework anchored on the policy rate as a key signal for the monetary policy stance and stands ready to use, when appropriate, all instruments at its disposal in pursuit of the set inflation objective. Decisions on the policy rate will continue to be guided by inflation outcomes, forecasts, and identified risks, to bringing inflation back to the 6-8 percent target range by 2025.

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

34. The primary objective of the exchange rate policy is to maintain a flexible system whilst mitigating excessive volatility, which can undermine the achievement of the Bank's inflation objective. Our commitment to maintaining exchange rate flexibility will be consistent with our aim of increasing international reserves (see below). In this regard, mining companies will continue to pay all tax obligations in U.S. dollars directly to the BoZ, and BOZ will continue to support the market through instruments such as FX swaps. Furthermore, we will review the foreign exchange market rules and policies by the end of 2023 to reflect market developments, considering the broader remit provided in the 2022 Bank of Zambia Act to regulate the foreign exchange market and the need to promote price discovery, improve transparency, and develop a well-functioning market.

35. We are committed to building reserves. In the context of lower-than-envisaged FX from mining companies, the end-June 2023 NIR reached US$1,700.9 million and was US$702.1 million lower than the target of US$2,403 million, which was adjusted downwards due to lower external disbursements (to US$2,262 million). We are projecting US$36 million in purchases in refined gold in 2023, against an original target of at least 659.4 kilos. We remain committed to meeting the end-December 2023 NIR QPC of US$1,952 million and building NIR in 2024. To this end, the central government commits to transfer all FX related to budget support disbursements (loans and grants) to the BoZ to support reserve accumulation. Hence, we are targeting NIR to reach US$2,150 million by end-June 2024 (QPC) and US$2,235 million by end-December 2024 (QPC), consistent with our objective of gross international reserves reaching 4 months of import coverage by end-2024.

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

- We recently broadened the membership of the MPC (first time including external members) and the inaugural Monetary Policy Report (MPR) will now be published by end-Mach 2024. The delay in the of the MPR is to allow the newly constituted MPC to adequately review and endorse the report.
- We will use the MPR as an instrument to substantially strengthen monetary policy communication through its detailed explanation of the monetary policy decision that enhances the transparency of the monetary policy making process.
- We will deploy longer-dated open market operations instruments to manage excess liquidity. We will also improve on the communication contents of our decisions to clarify what our intentions are in deploying these instruments.
- To improve banks' liquidity management and monetary policy transmission, we will strengthen the interbank money market by introducing the Global Master Repurchase Agreement (GMRA) and the ISDA documentation. In this regard, the Bank of Zambia will sign these documents with commercial banks to advance its adoption by commercial banks in 2024.
- With a multi-year technical assistance program from the IMF, we will continue implementing the Forecasting and Policy Analysis System (FPAS) to strengthen monetary policy decision-making. We will take the necessary accompanying measures to improve the BoZ’s economic analysis and forecasting capabilities, and communication.

D. Strengthening Financial Policies to Safeguard Financial Stability

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

- *On the micro-prudential framework*, the Bank embarked on a Supervisory Technology Project to improve the analytical capabilities, timeliness of analysis and data integrity. The project initially slated for implementation in December 2023, has experienced a delay due to the extended duration required for engaging a consultant to design the solution. This matter has now been resolved and aligned to the deliverables in the BoZ’s 2024-27 strategic plan.

The project is expected to be completed by December 2026. To enhance cyber resilience, Cyber and Information Risk Management Guidelines were issued in May 2023 to the financial service and payments systems providers. With the increased usage of digital financial services and the growing threat of cyberattacks, the Guidelines will provide minimum requirements on how to mitigate this risk and help preserve the integrity of the financial sector.

- *On the macro-prudential framework,* the BoZ is working on establishing an inter-agency Financial Stability Committee (FSC) to enhance financial surveillance following the enactment of the 2022 BoZ Act. This Committee will comprise internal members from the BoZ, MoF, PIA and SEC; as well as two other external members. The appointment of members of the FSC is underway. With progress to establish the FSC already in motion, the Bank will publish its maiden Financial Stability Report (FSR) by the end of June 2024 (**end-June 2024 SB**). The FSR will be published at least once a year and will assess emerging risks and vulnerabilities that pose systemic risk to the financial system. The Report will also capture results from the macro stress testing exercises to determine financial sector resilience to shocks.

- On expanding the *macro-prudential toolkit*, capital regulations that provide guidelines on how to deploy countercyclical capital and conservation buffers, have been drafted and undergoing internal consultations. The capital regulations are expected to become effective in 2024. To enhance liquidity risk management based on Basel III liquidity standards, we plan to implement regulations on the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) by 2024 with IMF TA support. Other macro-prudential tools will be implemented in a gradual manner following the establishment of the FSC. The conduct of macro stress tests to ascertain the resilience of the system will continue.

38. The Bank gradually unwound most temporary COVID-19 prudential relief measures that were aimed to support financial resilience. Thus far, the only measure that remained in force was the allowance for commercial banks to restructure existing facilities which had been impacted by the COVID-19 pandemic without adversely classifying these facilities. In September 2023, the Bank will unwind this relief measure effective from end-2023.

39. To support the financial sector to effectively contribute to growth and economic development and to remain aligned to effective regulation, the BOZ is undertaking a review of the legal and regulatory framework of the financial sector. The review aims to make the law more responsive to the current sectoral developments, address emerging regulatory gaps and strengthen coordination and cooperation with other regulators. In addition, the exercise is expected to consider specific roles played by various types of institutions in the sector with the aim of developing appropriate regulations to suit each institution type. The BoZ initiated the review of the Banking and Financial Services Act (2017) in August 2023 with a view to having a draft bill submitted to Parliament by end-2024 (**proposed end-December 2024 SB**). A stocktaking exercise has since been conducted to identify areas that require attention, including reviewing exemptions and exceptions, strengthening disclosure and transparency requirements for banks and improving on the definition of ultimate beneficial owner.

40. The Bank of Zambia developed a Problem Bank Framework in 2022. The Framework establish transparent and uniform criteria for designating an institution as a problem institution. It explicitly outlines supervisory actions to be taken when dealing with such institutions, both pre-emptive and after a problem has become evident. The Framework also aims to minimize the risk of economic and financial contagion and their potential fiscal risks.

41. The BoZ has taken steps to enhance the banking resolution framework. Following the approval of the crisis management and resolution framework in 2018, we successfully conducted an industry-wide crisis simulation exercise in May 2023, with technical assistance from the World Bank. The BoZ will also implement a deposit protection scheme by end-December 2023 under the Bank Supervision Department.

42. We remain committed to facilitating access to affordable credit to micro, small and medium enterprises (MSMEs). For this purpose, the Government has allocated K 386 million to the Zambia Credit Guarantee Scheme in the 2024 Budget. In addition, the Bank is committed introducing, on a pilot basis initially, a Credit Guarantee Fund (CGF) which will leverage private sector participation to support the provision of affordable credit to MSMEs.
Through a memorandum of understanding (MoU), we have partnered with the private sector to design a CGF by the end of 2023. Full implementation of the CGS is expected in 2024 with K5 billion already approved by the Bank of Zambia Board to support the project.

43. We continue to pursue measures to deepen our financial market, including by strengthening relevant financial market infrastructure.

- The BoZ implemented a simplified registration of accounts for investing in Government securities, which is expected to contribute to wider participation by different categories of investors, particularly households.

- Relatedly, the Bloomberg E-Bond platform for secondary trading was also rolled out in June 2023. Effective implementation of the platform is expected to contribute to greater pricing transparency and market liquidity, which also help strengthen the interest rate channel of monetary policy.

- We have upgraded the Real Time Gross Settlement System (RTGS) and the Central Security Depository (CSD). Both systems can now handle larger volumes of transactions and are more resilient to withstand cyber security risks. In July 2023, all banks migrated to the upgraded RTGS, which is based on the ISO 2022 messaging standard.

44. The Bank of Zambia remains committed to establishing and resourcing a dedicated AML/CFT/CPF[9] supervision unit by end-2023, to address the deficiencies identified in the 2019 ESAAMLG Mutual Evaluation, 2022 Enhanced Follow-Up Report, and Zambia's 2016 National

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

Risk Assessment.[10] In the interim, risk-based AML/CFT focused on-site examinations of regulated entities are being conducted to ensure non-compliant financial service providers are sanctioned and required to put in place remedial measures. The AML/CFT/CPF unit will support the BoZ's risk-based approach to AML/CFT/CPF supervision and the effective application of sanctions, in particular for identified high-risk entities and customers including politically exposed persons. Full implementation of the planned electronic balance of payments monitoring system will also help strengthen the AML/CFT regime.

45. We are committed to strengthening the safeguards at the BoZ. The BoZ Act (2022) significantly strengthened the governance arrangements at BoZ. Since July 2023, the Audit and Finance Committee (AFC) have started a closer oversight of the external auditor performance and enhanced disclosures in the audited FY 2022 financial statement. A new Board charter, approved in September 2023, now precludes the Ministry of Finance (Secretary of Treasury) representative from being a member of the AFC, while specific Board committee charters will be revised by March 2024. We conducted a bank-wide assessment to update risk profile, and the internal audit function is now providing assurance on monetary data and implementing a plan to reinforce its capacity. However, clarifying the interpretation of the statutory limit on credit to the Government and roll-over of government securities to ascertain its legal compliance is still pending.

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

46. The Government is committed to unleash the country's economic potential, in line with the theme of the 2024 Budget, by fostering an environment conducive to robust and inclusive growth. Increased stakeholder engagement with champions of industry (such as the chamber of mines and Zambia Association of Manufacturers), and economic diplomacy led by the President; and enhanced dialogue through the Public Private Dialogue Forum will support enhancing the business environment. Incentives in key economic sectors such as agriculture, mining, manufacturing, tourism and energy (as outlined in subsequent sections) will improving the investment climate and promote productivity in these sectors. Leading reforms will include digitalization of public services to ease interaction with the private sector which will ultimately improve private sector productivity, dismantling domestic arrears to ease liquidity, and improving the overall macroeconomic environment. In addition, infrastructure development has also been prioritized to facilitate trade and growth in key sectors.

47. Government remains committed to enhancing dialogue with the private sector through the Public Private Dialogue Forum (PPDF) that was established by the President in April 2022. Technical working groups with defined work plans have been established and provide advisory services to the steering committee chaired by the President in the areas of Agriculture, Energy, Financial services, ICT, digitalization and media, Manufacturing, Tourism and Mining. The forum provides a structured, participatory, and inclusive platform for public-private sector

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

engagement on policy matters with a focus on leveraging partnerships and synergies to accelerate socio-economic development in Zambia.

48. The Government remains committed to increase productivity in agriculture. The formulation of the Comprehensive Agriculture Transformation Program (CATP), initially earmarked for 2023Q2, will now be done by end-December 2023 due to the need to consult widely with key stakeholders. The program will cover extending service support, access to finance, irrigation development, support to value addition as well as storage and logistics. In addition, investments in the farm blocks will be accelerated to increase area under cultivation and increase production. To this end, the Government has sourced funds from the cooperating partners and is constructing 300 km of roads in Nansanga, Luena and Shikabeta farm blocks; 200 km of power lines in Luena, Luswishi and Shikabeta farm blocks expected completion by end-2024. The Government will also leverage on foreign direct investment to operationalize the farm blocks. To enhance production and productivity of a diverse range of agricultural commodities and products, Government is also developing the National Crop Diversification Strategy and will be launched by end-2023. The strategy will spur the agricultural industry through value addition (agro-processing), enhance nutrition and food security in the country.

49. The Government will continue supporting the Tourism sector. The Government will consolidate the development of the Northern and Southern Circuits particularly around Kasaba Bay and Liuwa National Park over the medium term by providing required infrastructure. Government has secured $100 million from cooperating partners to develop Kasaba Bay, Liuwa National Park and the source of the Zambezi River. In addition, the Government will diversify tourism products to offer Eco-Tourism Centres across the country and seek to increase the length of stay of tourists. To support this, reform measures that will stimulate improved wildlife conservation and management, sustainable tourism development and promotion, as well as cultural preservation and development will be undertaken. The continued promotion of hosting of Meetings, International Conferences and Exhibitions (MICE) will also continue to boost tourism receipts. To this end, the 2023 budget provided incentives, such as suspension of customs duty on imports of selected fixtures and fittings, capital equipment, machinery, and safari game viewing vehicles, for non-locally produced items until end-December 2025 to promote investment in the sector.

50. The Government will continue to promote growth through selective industrial strategies. The Government will continue promoting value-added, with priority being placed on processed foods, wood and wood products, textiles, leather and leather products, metallic and non-metallic mineral, pharmaceutical products as well as crop, livestock, and fisheries products. To foster economic growth and development by promoting trade, business development and investment through the private sector, the Government enacted the Investment, Trade and Business Development Act in 2022. Subsidiary legislation is being developed which will promote joint ventures between local and foreign investors, facilitate developing industrial infrastructure and commercial services, and promote research on industrial development, among others. Rationalization of licenses and permits required to operate a business will be finalized in the medium term as it requires policy and legal review. To accelerate investment into Multi-Facility

Economic Zones, where some of these companies will operate, measures were considered in the 2024 National Budget such as lowering land rates, relaxing some provisions of the Employment Code and using a quota system to grant immigration and work permit.

51. To enhance growth in the energy sector, the Government will, among others, work to increase the electricity generation capacity. In line with the long-term Integrated Resource Plan, the Government will continue promoting investments in additional power generation infrastructure and promotion of the use of alternative green and renewable energy sources to make the energy sector more resilient to climate shocks. To promote investment in power generation, the Government has provided incentives such as removal of custom duty on machinery, equipment and other goods designed for geothermal energy. Government has also increased the timeline for investment in hydro power to be eligible to claim VAT refunds.

52. The Government will continue working towards producing 3 million metric tons of copper per annum over the next 10 years. The envisaged resolution of the challenges at Mopani and Konkola Copper Mines, as well as new mines will boost production from 2024. To attract targeted investment and accelerate mineral exploration around the country, the Government will undertake a high resolution countrywide geophysical survey. In 2024, the Government will carry out aerial surveys in Copperbelt, Lusaka, Northwestern, Southern, and Western Provinces as well as parts of Central Province through budgetary allocations and support from cooperating partners. Further, to enhance regulatory oversight in the mining sector, Government will present a Bill to Parliament to operationalize the Minerals Regulation Commission by end-March 2024. The Commission will address, among others, issues pertaining to production reporting, mineral content analysis, illegal mining and illicit trade of minerals.

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

54. Girls and Women Empowerment. The Government, with the support from cooperating partners, continued to implement the Girls' Education and Women's Empowerment and Livelihoods Project. The project provides livelihood support for women and access to secondary education for girls in extremely poor households. As at end-September 2023, there were 116,891 beneficiaries against the target of 129,400 beneficiaries. At the end of its life cycle in April 2024, the project would have enhanced access for girls to secondary education and supported women's empowerment and livelihood initiatives.

55. Financial inclusion. The development of the second National Financial Inclusion Strategy (2024-28) has reached an advanced stage and will be finalized by end December 2023. The strategy, which is a continuation of the first National Financial Inclusion Strategy (2017-22) aims to increase levels of financial inclusion in the thematic areas of (i) MSMEs; (ii) rural areas; (iii) the underserved population (iv) agriculture; (v) green finance and financial inclusion; and (vi) digital financial services and infrastructure. The target is to increase financial inclusion to 85 percent by 2028 from 69.4 percent achieved during the implementation of the first strategy.

56. The Government is taking steps to improve governance. We submitted the draft Access to Information Bill to Parliament with a week delay due to internal processes (end-October 2023 SB) which will be enacted without delay. Government will continue to implement the recommendations contained in the Diagnostic Report on Governance and Corruption. Other priority recommendations include:

- Introduce necessary measures to ensure that top anti-corruption and AML officials such as Director General of the Anti-Corruption Commission, Director General of the Drug Economic Commission, the Director General of the Financial Intelligence Center and the Director of Public Prosecutions are selected and appointed through transparent, merit-based and participatory processes. The Anti-corruption Act will be submitted to Parliament, in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption **(proposed end-March 2025 Structural benchmark).** In particular, the Anti-Corruption Act will (i) clarify institutional arrangement and mandates of anti-corruption institutions to formulate, coordinate, monitor and evaluate anti-corruption policies and strategies; (ii) strengthen institutional and operational autonomy of the Anti-Corruption Commission by introducing necessary measures to ensure transparent, merit-based, and participatory appointment process of top anti-corruption officials, a clear and specific term of office, adequate remuneration and resourcing, and ultimate accountability to the legislature; (iii) bring the definition of "public official" in line with Zambia's international obligation under UNCAC.

- Prepare, with the participation of civil society, academia and legal profession, a comprehensive reform strategy to strengthen the independence, professionalism and efficiency of the judiciary and prosecution authorities to be undertaken by end-December 2023;

- Mandate the use of the IFMIS system for all transactions currently able to be undertaken through the system. Government is already undertaking this measure with the roll-out of the IFMIS as outlined in the fiscal policy and reforms section;

- Mandate regular preparation and external publication of tax expenditure reports on measures expected to result in significant foregone revenue. Implementation of the recommendation is already underway as the Government prepares and publishes regular updates on revenue and expenditure performance as well as explanations for deviations;

- Increase internal audits in VAT refund process and customs warehouse management, as well as in other processes where IT systems are not fully integrated or are unstable.
The recommendation is acceptable by the Government and will be undertaken on an on-going basis;

- Strengthen the MMMD's capacity to properly scrutinize license and transfer applications, and monitor the associated commitments on safety and environment, work programs, and production by end-December 2023;

- Operationalize PACRA's beneficial ownership register, including ensuring the availability of accurate, complete, and up-to-date beneficial ownership information and imposing effective sanctions on entities for non-compliance by end-March 2025.

- Bring the Public Audit Act of 2016 and the State Audit Commission Act of 2016 into force by issuing the statutory instrument by the Ministry of Finance and National Planning. Note that implementation of this recommendation will require a Constitutional amendment as the autonomy of the Auditor General is enshrined therein, while bringing the State Audit Commission Act into force would result in the creation of a Board to provide oversight of the Auditor General's office;

- Prepare a time-bound action plan and roll-out E-Government Procurement by end-September 2023.

57. Government will request technical assistance from the International Monetary Fund as it undertakes implementation of the recommendations in the Zambia Diagnostic Report on Governance and Corruption. Government will also leverage the support of other Cooperating Partners. Cabinet Office will provide oversight on the implementation process and produce bi-annual reports.

V. IMPROVING STATISTICS

58. Government will continue strengthening data collection and estimation of key national economic statistics such as GDP and employment. The focus will be on, developing cost effective instruments and methods for the collection of data such as enhancement of online data collection. This is in line with the Second-Generation Strategy for the Development of Statistics (NSDS2). The strategy is sector inclusive and is one of the tools for the development of statistical systems in all sectors of the economy. Over the long term, all Ministries, Provinces and Agencies (MPAs) will be required to establish functional Statistics Units as well as Management Information Systems, with the view to strengthen sector capacities to produce statistics from administrative records.

59. The Census of Population and Housing was undertaken in August 2022 to provide statistics on Zambia's population and housing stock. To update the national accounts, the Zambia Statistics Agency will rebase the national accounts to 2022, from the current estimates which use 2010 as the base year, by end 2025. Further, the Ministry of Finance and National Planning will continue with the timely publication of fiscal and debt statistics on its website. The Bank of Zambia will also continue publishing monetary and financial statistics.

60. The Bank of Zambia will strengthen the electronic Balance of Payments (e-BoP) monitoring system by extending its coverage to all BoP transactions and enhancing collaboration with other Government regulatory agencies. In this regard, the Bank of Zambia, in collaboration with Zambia Revenue Authority, has developed in September 2023 an Export Proceeds Tracking Framework (Framework) that will require all export proceeds to be captured in the e-BoP System. There will be no restrictions on the use of foreign exchange outside existing restrictions relating to AML/CFT/CPF obligations. Full operationalization of the Framework is planned for January 2024. Following the implementation of the Framework, the Bank of Zambia and Zambia Revenue Authority technical teams will be sharing information regularly in line with the MoU.

61. To support these improvements, a technical team comprising the Bank of Zambia and ZRA has been established to facilitate information sharing and analysis. A detailed action plan to implement the recommendations will be developed and implemented by end-December 2023. The Bank of Zambia, Zambia Revenue Authority and the Ministry of Finance and National Planning will engage the corporate sector to improve the quality of its reporting as these measures are formulated and implemented.

62. Gaps related to unidentified other flows were identified in the compilation of balance of payments statistics. These are largely attributed to the accumulation of foreign assets by the private sector as well as underreported imports. Initial flow-of-funds accounts have been completed for selected mining companies with assistance from the IMF TA mission. A questionnaire was administered to mining companies, followed by physical visits by the TA mission team, the Bank of Zambia and Zambia Statistics Agency (ZamStats) staff during the second quarter of 2023. The IMF TA mission recommended revisions to balance of payments statistics to address identified gaps related to other flows and the accumulation of foreign assets by the private sector. The BoZ will revise services statistics and the accumulation of foreign assets abroad by the private sector. The first revision to the balance of payments statistics will be published by end-November 2023.

VI. PROGRAM MONITORING

63. We will continue to strengthen our institutional capacities, with the support of our partners. Building capacity will help strengthen internal monitoring mechanisms and support program implementation, The provision of technical assistance has already contributed to in-depth diagnostics essential in implementing our reform plans, including a comprehensive diagnostic of governance, and more recently support on Fiscal risk management, with special focus on risks emanating from SOEs and subnational government fiscal frameworks. We also received training on debt sustainability analysis and Medium-Term Debt Strategy and continuing engagement on BoP statistics. The BoZ received advice on the new Public Debt Management Act and support on the implementation of Basel II/III liquidity reforms, strengthen cyber risk regulation and supervision, and aligning with best Principles for Financial Market Infrastructure. We look forward to continuing receiving technical assistance and resident experts including on cash management.

64. Progress in the implementation of the policies under this program will be monitored through semi-annual reviews of the quantitative performance criteria, indicative targets, and structural benchmarks in the attached Tables 1 and 2. These are defined in the attached Technical Memorandum of Understanding (TMU), which also sets out the reporting requirements under the ECF arrangement. The second semi-annual review is based on data and performance criteria at end-June 2023 and took place October 25th – November 8th, 2023. The third review will be based on end-December 2023 test dates and should be completed on or after April 1, 2024. The fourth review will be based on end-June 2024 test dates and should be completed on or after October 1, 2024. The fifth review will be based on end-December 2024 test dates and should be completed on or after April 1, 2025. The sixth review will be based on end-June 2025 test dates and should be completed on or after October 1, 2025.

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

Table 1. Zambia: Quantitative Performance Criteria and Indicative Targets, 2023–2024

(Millions of Kwacha; cumulative from the beginning of each year; except where otherwise indicated)[1]

	March 2023			June 2023			September 2023			December 2023		March 2024		June 2024		September 2024	December 2024
	Prog.	Act.	Status	Prog.	Act.	Status	CR No. 23/256	Act.	Status	CR No. 23/256	Proposed	CR No. 23/256	Proposed	CR No. 23/256	Proposed	Proposed	Proposed
I. Quantitative Performance Criteria[2]																	
1. Floor on the central government's primary balance (cash basis)	1,644	-4,820	Not Met	1,866	2,170	Met	-4,500	239	Met	1,058		1,119	682	2,461	2,163	3,251	5,574
2. Ceiling on new central bank credit to the central government[3]	0	0	Met	0	0	Met	0	0	Met	0		0		0		0	0
3. Floor on the net official international reserves of the Bank of Zambia (millions of US dollars)	2,244	1,993	Not Met	2,403	1,701	Not Met	1,793	1,807	Met	1,952		2,029	2,000	2,217	2,150	2,200	2,235
II. Continuous Performance Criteria																	
4. Ceiling on new external debt arrears by central government, the Bank of Zambia, and ZESCO (millions of US dollars)[4]	0	0	Met	0	0	Met	0	0	Met	0		0		0		0	0
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by central government, the Bank of Zambia, and ZESCO (millions of US dollars)[5]	0	0	Met	0	0	Met	0	0	Met	0		0		0		0	0
III. Monetary Policy Consultation																	
6. Average CPI inflation[6]																	
Upper outer band	15.9			14.4			13.4			13.8	15.1	12.9	15.1	12.4	14.9	13.6	11.5
Upper inner band	13.9			12.4			12.4			12.8	14.1	11.9	14.1	10.9	13.9	12.6	10.5
Mid-point	11.9	9.6	Met	10.4	9.9	Met	11.4	11.0	Met	11.8	13.1	10.9	13.1	9.4	12.4	11.1	9.0
Lower inner band	8.2			8.0			8.9			9.2	9.5	8.5	9.5	7.9	9.1	8.1	7.0
Lower outer band	6.0			6.0			6.9			7.2	8.5	6.5	8.5	6	8.1	7.1	5.5
IV. Indicative Targets																	
7. Floor on the fiscal revenues of central government excluding grants and mining revenues, adjusted by the backlog of VAT refunds	20,731	21,888	Met	44,099	47,081	Met											
7a. Floor on the fiscal revenue of central government excluding grants and mining revenue[8]							67,880	74,185	Met	90,188		24,627	24,494	49,601	54,786	83,440	113,428
8. Ceiling on the present value of new external borrowing (millions of US dollars)[6]	0.00	0.00	Met	0	0.00	Met	75	0.0	Met	75	0.0	0	75	0	75	75	75
9. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars)[7]	200.00	27.80	Met	200	18.76	Met	225	34.6	Met	225	181	100		100		100	100
10. Floor on social spending by the central government	8,551	11,869	Met	18,103	22,260	Met	29,250	33,999	Met	39,670		9,359	11,984	20,361	25,227	39,058	46,070
11. Floor on the net clearance of arrears on expenditure and tax refunds	2,954	2,506	Not Met	5,908	4,309	Not Met											
11a. Floor on the net clearance of expenditure arrears[9] (+clearance/-accumulation)							6,029	7,041	Met	8,039	7,650	1,800		3,800		6,655	6800
12. Floor on the net clearance of arrears of tax refunds[9] (+clearance/-accumulation)							1,631	-3,993	Not met	2,442		610	1,107	1,221	1,215	3,122	4430
V. Memorandum Items																	
13. Expected budget grant disbursments (millions of US dollars)							0	0		75	125	50	29	100	57	86	114
14. Expected public sector disbursements into the Treasury Single Account at the Bank of Zambia (millions of US dollars)	71			141			208			278	58	93	80	186	160	240	320

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

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

[2] Indicative targets for March and September.

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

[4] Cumulative from the date of program approval.

[5] The ceiling is defined on a currency basis and will exclude non-resident holdings of local currency debt.

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

[7] Excludes disbursements from IDA and AfDB.

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

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

Table 2. Zambia: Structural Benchmarks for the Second Review		
Measure	**Target Date**	**Status**
A. Fiscal Measures		
1. FISP: Migration to e-voucher system – Implement migration from Direct Input Supply to e-voucher system in at least 33 districts in line with the migration criteria and principles outlined in the published Action Plan (including private sector participation in inputs distribution and the farmers' choice to select inputs).	End-September 2023	Not Met
2. FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor.	Ongoing – within 3 months of contract award	Met
B. Public Debt Management and Transparency		
3. Publish a quarterly debt statistics bulletin.	Quarterly (on an ongoing basis)	Met
4. Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts.	Quarterly (on an ongoing basis)	Met
C. Public Financial Management		
5. Ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the IFMIS.	End-August 2023	Not met
6. In consultation with Fund staff, submit to Parliament an amended PPP Act.	End-July 2023	Met
D. Governance and Anti-Corruption		
7. Submit draft Access to Information Bill to Parliament.	End-October 2023	Not met

Table 3. Zambia: Structural Benchmarks for the Next 12 Months				
	Measure	**Timetable/ Status**	**Macroeconomic Rationale**	**Monitoring / Verification**
	Current Structural Benchmarks			
1	**PFM** – Cash management – Prepare an action plan to rationalize banking arrangements of local authorities, province- and district-level government entities, to discuss options for eventual inclusion in TSA, and to reduce account balances at commercial banks.	End-March 2024	Reduce financing costs and improve the efficiency and oversight of the use of public resources	Action plan approved by the Secretary to the Treasury and submitted to IMF.
2	**FISP Contracts** – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor.	Ongoing – within 3 months of contract award	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Publish the specified information on procurement contracts on the Ministry of Agriculture Website within 3 months of contract award. The published information should include the types and quantities of inputs, the names of the companies awarded, their beneficial owners, the contract amounts, and procurement method (open bidding or direct bidding).
3	**Revenue Mobilization –** Establish a unified Large Taxpayer Office (LTO) that will deal with all large taxpayers	End March-2024	Having a dedicated LTO is in line with tax administration best practices and will help improve taxpayer services and boost revenues.	The SB will be met when the LTO is formally established (through ZRA Board approval), its role, responsibilities and structure are defined, and the unit is staffed and operational.
4	**Fiscal Risks** – Expand the scope of the Fiscal Risk Report (FRR) to include key risks stemming from SOEs, local authorities, public pension schemes, PPPs and other obligations as well as the potential consequences of	End-June 2024	Quantify and mitigate fiscal risks related contingent liabilities.	Prepare and submit to IMF staff an expanded FRR by end-June 2024 (prior to publishing it no later than end-September 2024).

Table 3. Zambia: Structural Benchmarks for the Next 12 Months (concluded)

	Measure	Timetable/ Status	Macroeconomic Rationale	Monitoring / Verification
	Current Structural Benchmarks			
4	climate change. Establish standard methodologies and assumptions applied to quantifying risks. Assess risks in a forward-looking manner.			
5	**Debt Management** – Approve a new organizational structure for the debt management office.	End-December 2023	Strengthen debt management	Cabinet Office to approve the new structure that should align its mandate and structure with best practice and the new Public Debt Management Act.
6	**Debt Transparency** – Publish the quarterly debt statistics bulletin, including key information on new loans and guarantees.	Quarterly (ongoing)	Improve debt management and transparency.	Bulletin published on the MoFNP website with a two-month lag from the reporting period with all key information including on new loans and guarantees.
7	**Financial Stability** – Produce and publish the inaugural annual financial stability report	End-June 2024	Support financial stability	Report is published online.

Table 4. Zambia: Proposed New Structural Benchmarks

	Measure	Timetable/ Status	Rationale	Monitoring / Verification
1	Submit to Parliament a 2025 draft budget consistent with the parameters of the program	End-September 2024	Enhance budget credibility	Draft 2025 Budget submitted to parliament is in line with ECF program parameters
2	Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Board	End-March 2024	Transparency in fuel pricing	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.
3	Publish a State-Owned Enterprises Policy defining the different roles of line Ministries, the Industrial Development Corporation and the MoFNP	End-October 2024	Improve governance	The policy paper on State-Owned Enterprises that is published on the MFNP website is submitted for Cabinet approval.
4	Adopt the procedures manual for the Debt Management Office	End December 2024	Improve debt management	The procedures manual is published on the website of the Ministry of Finance.
5	Complete the transition to issue government bonds at par in the domestic securities market	End March 2024	Provide greater flexibility to debt management	Coupons on government bonds are set within 100 basis points of prevailing yields.
6	Submit to Parliament a revised Anti-Corruption Bill in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption	End-March 2025	Improve governance	Anti-Corruption Bill is submitted to parliament and published on the website of the National Assembly.
7	Submit to Parliament the comprehensive review of the Banking and Financial Services Act	End-December 2024	Strengthen financial regulation and supervision	A draft bill on Banking and Financial Services Act is approved by the Cabinet and submitted to Parliament.
8	FSIP—Migration to full e-voucher system in at least 73 districts in line with the migration criteria and principles outlined in the published Action Plan.	End-September 2024	Enhance competition	Publish the list of at least 73 districts migrated to full e-voucher system in the 2024-25 farming season on the Ministry of Agriculture website by September 2024.

Attachment II. Technical Memorandum of Understanding

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

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

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

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

Source: Bank of Zambia.

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA

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

DEFINITION

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

REPORTING

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

ADJUSTORS

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

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

DEFINITION

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

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

REPORTING

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

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

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

DEFINITION

11. **The net official international reserves (NIR) of the BoZ will be calculated as the**

difference between its gross international reserves and official reserve liabilities.

12. Gross international reserves consist of:

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

13. Gross international reserves exclude:

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

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

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

REPORTING

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

ADJUSTOR

17. If the amount of public sector disbursements expected to be channeled through the Treasury Single Account (TSA) at the BoZ falls short of the programmed amount (e.g., due to

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

II. CONTINUOUS PERFORMANCE CRITERIA

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

DEFINITION

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

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

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

- loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- leases, i.e., arrangements under which property is provided which the lessee has the right

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

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

REPORTING

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

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

DEFINITION

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

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

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

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

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

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

REPORTING

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

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

F. Other Continuous Quantitative Performance Criteria

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

III. MONETARY POLICY CONSULTATION CLAUSE

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

IV. INDICATIVE TARGETS

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

DEFINITION

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

REPORTING

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

H. Ceiling on the Present Value of New External Borrowing

DEFINITION

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

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

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

REPORTING

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

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

DEFINITION

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

REPORTING

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

J. Floor on Social Spending by the Central Government

DEFINITION

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

REPORTING

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

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

DEFINITION

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

(i) Expenditure Arrears

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

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

(ii) Tax (VAT) Refund Arrears

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

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

REPORTING

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

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

V. MONITORING AND REPORTING REQUIREMENTS

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

[2] The indicative target is set on the validated stock of VAT refund arrears of the previous fiscal year and assumes no new accumulation of arrears in the current fiscal year.

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

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

Table 2. Zambia: Reporting Requirements

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

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

ZAMBIA

December 6, 2023

SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A QUANTITATIVE PERFORMANCE CRITERION, MODIFICATIONS OF THE MONETARY POLICY CONSULTATION CLAUSE AND OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Costas Christou and Jarkko Turunen (IMF) and Manuela Francisco and Hassan Zaman (IDA)

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

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

Zambia remains in debt distress. The stock of external arrears reached 11½ percent of GDP by end-year 2022 and continued accumulating in 2023 in the absence of a debt restructuring agreement. Despite significant fiscal adjustment, in the absence of a signed debt restructuring agreement, Zambia is in overall and external debt distress and public debt remains unsustainable. Under the baseline, all four external debt burden indicators would breach their indicative thresholds by large margins through the medium term.[1] *The authorities have reached an agreement with official bilateral creditors on a debt treatment under the G20 Common Framework, formalized in a Memorandum of Understanding, and have a credible strategy in place to treat commercial creditors on comparable terms. Several rounds of discussions took place with Eurobond holders in October/November 2023. While significant progress has been achieved, adjustments still need to be made to meet both program parameters and the OCC Comparability*

[1] Zambia's debt-carrying capacity is rated as weak based on the composite indicator (CI). The composite indicator is calculated using data from the October 2023 WEO and the 2022 CPIA, the latest available.

of Treatment (CoT) requirements. Under an alternative scenario, where the treatment agreed with the official bilateral creditors is applied to the baseline and commercial claims are treated on comparable terms, debt would be assessed to be sustainable on a forward-looking basis.

PUBLIC DEBT COVERAGE

1. **The coverage of Zambia's public and publicly guaranteed (PPG) debt for the purpose of the DSA includes as in the previous DSA the following:** i) central government domestic and external debt, including US$1.5 billion of arrears to external suppliers (fuel and contractors) and central government guaranteed external debt; ii) the nonguaranteed external debt of Zambia Electricity Supply Company (ZESCO), the fiscally important state-owned utility;[2] and iii) the domestic and external arrears of the same enterprise. Central bank external debt (including outstanding Fund credit), together with the debt of social security funds guaranteed by the central government,[3] are also included in the coverage.

2. **The DSA incorporates non-guaranteed SOE debt in the baseline**. In accordance with the LIC-DSF Guidance Note, given the significant fiscal risks posed by ZESCO, its non-guaranteed external debt (US$93 million at end-2022)[4] and outstanding payables to domestic (US$1.5 billion at end-2022) and external (US$139 million at end-2022) independent power producers (IPPs), are included in the DSA perimeter. The authorities are taking steps to restore ZESCOs' financial viability over the medium term. As progress is made, the inclusion of its non-guaranteed debt in the DSA debt perimeter will be reassessed. The authorities reported no other outstanding non-guaranteed external debt of nonfinancial SOEs that staff consider to pose a contingent fiscal risk warranting inclusion in the DSA. Local governments in Zambia currently cannot borrow externally without the central government's guarantee.
The authorities confirmed that no extrabudgetary funds with outstanding external debt currently exist.

3. **The 2021 General SDR allocation has been incorporated into the DSA in line with the staff guidance note**.[5] The authorities have used the SDR allocation (approved by the IMF in August 2021) to finance the budget over 2022-23;[6] in line with their plans, they used

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

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

[4] ZESCO generated sufficient revenues in 2022 to continue servicing its nonguaranteed external debt.

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

[6] Equivalent to about US$1.3 billion.

50 percent of the allocation in 2022, and another 50 percent in 2023, respectively, as domestic market pressures increased in the first half of the year.

4. **The DSA is conducted on a residency basis**. In line with the LIC-DSF Guidance Note, nonresident holdings of domestic-currency debt (as recorded by the authorities) are treated as external debt for the purpose of this DSA, while recognizing the underlying measurement challenges. End-September 2023 data indicates the stock held by non-resident increased during 2023H2 and is projected to reach K 54.1 billion by end-2023, (US$2.5 billion or 24 percent of the outstanding domestic-currency government securities). This compares with a stock of K 47.4 billion (about US$2.6 billion, 23 percent of outstanding domestic-currency government securities) at end-2022. Due to the projected depreciation of the exchange rate by end of the year, the dollar amounts of the stock held by non-resident is decreasing. The authorities are restricting participation of non-residents in the primary market given the debt sustainability risks. In 2024-25, a limit of 5 percent of the face value of gross domestic bonds issuance will be applied in line with the agreement on the restructuring perimeter reached with the OCC in June 2023.

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

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

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

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

BACKGROUND ON DEBT

5. **The July 2023 DSA, assessed Zambia's debt risk as in debt distress.**[7] This followed Zambia's default on its sovereign Eurobonds in 2020 and the accumulation of arrears to both official bilateral and other commercial external creditors. Note that the accumulation of arrears in 2023 only relates to claims in the debt restructuring perimeter. To help address their debt

[7] Zambia: Request for an Arrangement Under the Extended Credit Facility-Press Release; Staff Report; Staff Supplement; Staff Statement; and Statement by the Executive Director for Zambia. The LIC DSF Guidance Note (footnote 2) calls for an assessment of 'in debt distress' when restructuring with the majority of commercial creditors has not been completed.

sustainability challenge, the authorities requested a debt treatment under the G20 Common Framework (CF) in January 2021.

6. **The Official Creditor Committee (OCC) under the CF, formed in June 2022, reached agreement on a memorandum of understanding (MoU) on terms of the debt restructuring in October 2023**. The OCC delivered the necessary financing assurances to support the IMF-supported program request in July 2022 and enabled the World Bank to approve Development Policy Financing in October 2022. The MoU reflects the agreed debt treatment consistent with program parameters announced in June 2023. In parallel, the authorities engaged in good faith negotiations with its Eurobond holders, facilitated by the bondholder committee that was established in July 2020, and other external private creditors. An agreement in principle for restructuring Zambia's Eurobonds, announced in October 2023 had to be revisited to ensure consistency with program parameters and Comparability of Treatment (CoT) requirements as set by the OCC. While good progress has been achieved, the treatment for private creditors remains under negotiation to ensure CoT as defined by official bilateral creditors and alignment with LIC-DSF debt sustainability parameters.

7. **Zambia's external PPG debt increased to US$20.9 billion by end-2022.** This reflected close to US$1 billion in new foreign-currency denominated external debt disbursements to the central government—principally by the IMF and World Bank—and an increase in interest arrears on central government foreign currency-denominated external debt of about US$397 million in 2022. The stock of expenditure arrears (fuel and contractors) due to non-resident suppliers, together with the stock of ZESCO's arrears to external IPPs was broadly unchanged at US$1.7 billion at end-December 2022. However, the stock of non-resident holdings of domestic-currency debt declined significantly to US$2.6 billion by end-2022. In parallel, while further interest arrears (of US$62 million) also accumulated on government guaranteed external debt, ZESCO's non-guaranteed external debt declined by US$42.5 million as it generated sufficient revenues in 2022 to continue servicing it. As a result, external PPG debt ended the year about US$896 million higher (see text Table 1). In parallel, the outstanding stock of domestically-issued government securities stood at K 210 billion at end-2022 (or 44 percent of GDP), up from K 193 billion a year ago. With domestic budget arrears declining, and ZESCO domestic IPP arrears remaining flat, total PPG debt ended 2022 at US$33.4 billion (or 119.6 percent of GDP).

8. **By end-September 2023, the stock of public and publicly guaranteed (PPG) external debt (excluding interest arrears, fuel, contractors and guarantees on ZESCO other payables) amounted to US$15.6 billion**. This includes US$14.2 billion attributed to the central government and US$1.4 billion in guaranteed external obligations. Non-guaranteed liabilities decreased to US$0.2 million at end-September 2023 due to principal repayments by ZESCO. The domestic debt stock increased, consistent with planned domestic financing, whilst external financing remained constrained. The stock of government securities reached K 221.7 billion at end-September 2023, an increase of 5.5 percent from K 210 billion as at end-December 2022, of which 25 percent were held by non-residents.

Text Table 2. Zambia: Public and Publicly Guaranteed Debt Stock—Creditor Composition and Contracted Debt Service[1] (as of end-2022)

	Debt stock (end of period) [2] 2022			Debt service [3]			
				2023	2024	2023	2024
	(In US$)	*(Percent total debt)*	*(Percent GDP)* [10]	*(In US$)*		*(Percent GDP)*	
Total	33,349	100.0	122.1	5,443	6,412	18.7	22.0
External Foreign-Currency Debt	18,324	54.9	67.1	2,452	3,330	8.4	11.4
Multilateral creditors[4]	3,563	10.7	13.0	139	149	0.5	0.5
IMF	186	0.6	0.7				
World Bank	2,078	6.2	7.6				
ADB/AfDB/IADB	886	2.7	3.2				
Other Multilaterals	413	1.2	1.5				
o/w EIB	195	0.6	0.7				
o/w IFAD	136	0.4	0.5				
Bilateral creditors[5]	6,315	18.9	23.1	1,053	1,027	3.6	3.5
Paris Club	1,474	4.4	5.4	301	291	1.0	1.0
o/w: Israel	473	1.4	1.7				
o/w: UK	238	0.7	0.9				
Non-Paris Club	4,842	14.5	17.7	752	737	2.6	2.5
o/w: China	4,137	12.4	15.1				
o/w: India	331	1.0	1.2				
Eurobonds	3,517	10.5	12.9	451	1,408	1.5	4.8
Commercial creditors	3,235	9.7	11.8	809	746	2.8	2.6
Fuel arrears	721	2.2	2.6	n/a	n/a	n/a	n/a
Arrears to external contractors	832	2.5	3.0	n/a	n/a	n/a	n/a
ZESCO external IPP arrears	139	0.4	0.5	n/a	n/a	n/a	n/a
Domestic-Currency Debt	15,025	45.1	55.0	2,991	3,081	10.3	10.6
Held by residents, total	8,993	27.0	32.9	2,550	3,347	8.8	11.5
Held by non-residents, total	2,621	7.9	9.6	441	314	1.5	1.1
T-Bills	2,211	6.6	8.1	2,000	2,000	6.9	6.9
Bonds	9,403	28.2	34.4	991	1,082	3.4	3.7
Loans	-	-	-				
Domestic budget arrears and ZESCO domestic IPP arrears	3,412	10.2	12.5				
Memorandum Items:							
Collateralized debt[6]	2,428	7.3	6.9				
o/w: Related							
o/w: Unrelated							
Contingent liabilities	n/a	n/a	n/a				
o/w: Public guarantees							
o/w: Other explicit contingent liabilities[7]							
SOE guaranteed external debt[8]	1,517	4.5	4.3				
SOE non-guaranteed external debt (ZESCO)[8]	93	0.3	0.3				
Total external PPG debt[9]	20,944	62.8	59.9				
Nominal GDP	29,122						

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

10/ The debt-to-GDP ratios are calculated from the value in national currency by converting outstanding debt in US dollars at eop exchange rate, and nominal GDP at average period exchange rate.

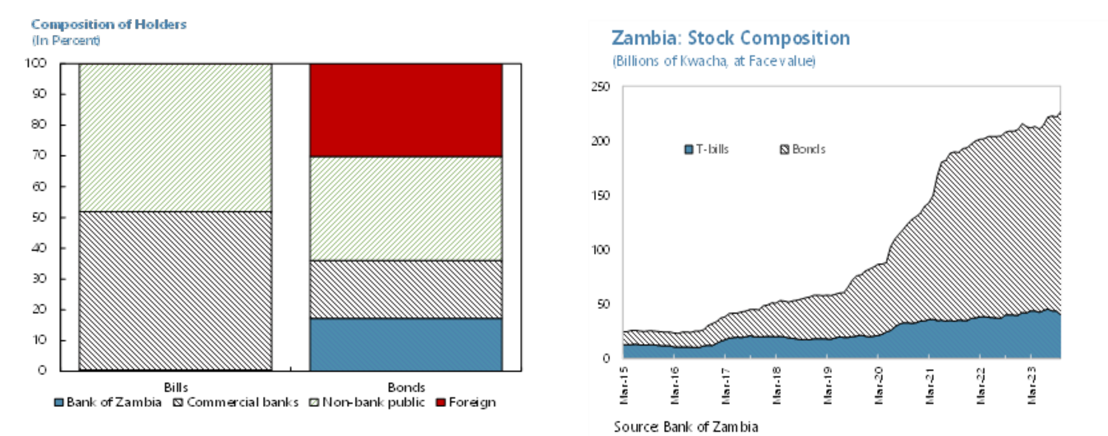
Sources: Zambian authorities and IMF staff calculations.

9. **The creditor composition of external debt (see text Table 1) reflects the representation of the official creditors in the OCC.** Official representatives of some countries with eligible claims represented in the OCC have made requests to re-classify their claims backed by an official export-credit agency as commercial claims, in particular China has requested to re-classify all Sinosure-

backed commercial claims as private claims.[8] These claims are now included as part of commercial creditors' claims, and the arrears related to these claims are considered as arrears to the private sector for the purpose of the application of Fund's policies. Given this classification, commercial creditors share in total external debt has reached 12¾ percent in this DSA update.

10. Zambia remains without access to international capital markets. After peaking at 6,954 basis points (bps) on March 20, 2023, weighted average spreads on Eurobonds narrowed to 1,959 bps by end-October. Reflecting a decrease in uncertainty around the debt restructuring process, non-resident investors came back to the domestic debt market in 2023, notably in the bonds market, reaching 30 percent of total bonds issued by end-September 2023.
As a consequence, the share of non-resident holders of domestic debt is projected to increase to 24 percent at end-2023, up from about 22.5 percent at end-2022, but still lower than a peak of around 29 percent earlier in 2022 (see Text Figure 1). The return of non-residents led to an increase in demand at bond auctions and domestic yields began to come down since end-August. Financing risks remain elevated consistent with the DSF market-financing module, although the signal of this module is currently less relevant given Zambia is currently shut-out from international markets (Figure 5).

Text Figure 1. Zambia: Profile of Central Government Domestically Issued Securities
(end-September 2023)



Sources: Zambia authorities and IMF staff estimates

MACROECONOMIC ASSUMPTIONS

The macroeconomic framework underpinning this DSA is consistent with the baseline of the Second Review of the ECF program. Key changes from the previous DSA include a slight upward revision to

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

real GDP growth, less fiscal adjustment in 2023, a more deteriorated current account balance in the near term, and a weaker exchange rate.

11. Recent developments. Despite supply-chain and weather-related disruptions in the mining sector, real GDP is estimated to have grown by 5.2 percent in 2022 and projected to reach 4.3 percent in 2023. Fiscal performance in 2022 was strong with a 6.6 percentage point improvement in the primary balance (on a commitment basis), leading to surplus of 0.8 percent of GDP. In 2023, due to an underperformance in mining revenues, the surplus decreased to 0.6 percent. In parallel, the primary balance on a cash basis improved by 1.8 percentage points of GDP to a surplus of 0.2 percent of GDP in 2023, including on the back of accumulation of expenditure arrears.

12. Growth. Growth assumptions for 2023-28 have been revised slightly upward from the previous DSA, including to reflect the robust performance of 2022 and 2023. Reflecting the perceived improvement in the business environment, Zambia Development Authority (ZDA) reported a significant increase in interest in direct investment opportunities in 2022. The authorities selected a new strategic partner for Mopani Copper Mines on December 1, 2023, and have found an investor to resolve the situation with Konkola Copper Mines, both of which would boost copper and cobalt production significantly. Growth is expected to average around 4.8 percent over 2023-32, a slight improvement from the previous DSA. Structural, fiscal, and institutional reforms are projected to build the foundation for sustained growth over the long run that is driven by a competitive private sector. For example, the improved mining fiscal regime should contribute to meeting the authorities' target of tripling copper production by 2030, while measures to implement the WTO Investment Facilitation Agreement and the AfCFTA Investment Protocol should attract increased FDI more generally, implementation of ZESCO's turnaround plan and the introduction of a five-year electricity tariff schedule should bring financial sustainability to the power sector and attract investments in new generation in line with the Ministry of Energy's Integrated Resource Plan that was approved in November 2023. Implementation of the Comprehensive Agricultural Transformation Support Programme should increase agricultural productivity and the sector's resilience to climate change. Reorienting of expenditure away from inefficient subsidies and toward investments in education, health, and social protection will help build human capital. Decentralization of public services to the communities is anticipated to increase the efficiency of spending and aid reforms to increase budget credibility and fight corruption.

13. Inflation. Near-term Inflation projections have been revised upwards relative to the previous DSA. At the end of 2022, inflation dropped to 9.9 percent from the 24.6 percent peak in August 2021, but picked up in the beginning of 2023. Delays in signing the Memorandum of Understanding with the OCC and reaching an agreement with the Eurobonds holders have adversely affected confidence, with kwacha depreciating and inflation projected to increase to 13 percent by end-2023.[9] The Bank of Zambia tightened monetary conditions—increasing both the monetary policy rate and statutory reserve requirements on deposits—in response to emerging inflationary pressures. Over the medium term, inflation is projected to stabilize around the mid-point of the Bank of Zambia target band, broadly unchanged from the previous DSA.

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

Text Table 3. Zambia: Macro and Debt Assumptions

	2020	2021	2022	2023	2024	2025	2026	2027
			(Annual percentage change)					
Real GDP Growth								
July DSA	-2.8	4.6	4.7	3.6	4.3	4.5	4.7	5.0
Current DSA	-2.8	6.2	5.2	4.3	4.7	4.8	4.8	4.9
Inflation								
July DSA	15.7	20.5	11.0	10.6	9.6	7.5	7.0	7.0
Current DSA	15.7	20.5	11.0	11.0	11.4	7.8	7.0	7.0
GDP Deflator								
July DSA	13.7	27.6	8.6	12.1	9.9	7.3	6.9	6.5
Current DSA	13.9	25.1	6.1	10.2	10.6	7.6	6.6	6.7
			(Percent of GDP)					
Primary Deficit (on Commitment Basis)								
July DSA	10.1	5.8	-0.8	-2.0	-2.9	-3.3	-2.4	-2.6
Current DSA	10.1	5.8	-0.8	-0.6	-2.9	-3.7	-2.7	-2.6
Non-Interest Current Account Balance								
July DSA	15.0	13.3	3.5	7.5	9.7	10.8	10.8	11.1
Current DSA	14.9	19.1	7.2	0.6	6.7	8.1	9.6	11.6
Net FDI Inflows								
July DSA	1.0	0.7	1.7	2.1	2.8	3.7	4.5	4.5
Current DSA	1.0	3.1	1.2	1.3	2.0	2.9	3.8	2.7
			(Percent)					
Avg. Nominal Interest Rate on External Debt								
July DSA	5.8	4.8	3.0	3.7	3.7	3.9	3.9	4.0
Current DSA	5.8	4.8	3.0	3.7	4.0	3.9	4.8	5.1
			(Millions of dollars)					
Project Loan Disbursements (Incl. Guarantees)								
July DSA	1424	522	396	505	363	279	237	324
Current DSA	1424	522	396	559	417	447	297	204

Source: IMF staff projections.
Note: Zamstats revised upwards its 2021 and 2022 GDP growth rates since the previous DSA update.

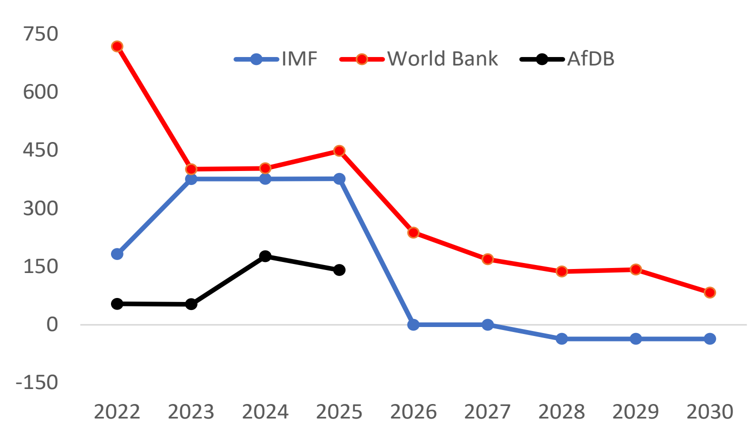
14. **External**. The medium-term outlook for the external position remains broadly unchanged from the previous DSA, with a significant improvement expected over the program period. The current account deteriorated by US$1.6 billion in 2023 on account of a significant decline in the trade balance, turning into a deficit of about US$505 million. Export growth was lower than projected in the ECF-request on account of weaker copper production. Economic recovery, fiscal expansion, high fuel and energy prices did lead to an increase in imports by US$0.9 billion. The fall in mining export revenues led to a sharp decline in assets held abroad by resident and a decline in the financial account, despite the return of non-residents to the domestic market, and a slight improvement in net FDI flows. Due to these pressures, the Bank of Zambia is not expected to increase the level of gross reserves to the level estimated at the time of the first review. The external position is projected to improve following the debt restructuring and the continued implementation of policies under the program that will reduce the deficit, improve business confidence, and attract further foreign direct investment. The current account balance is expected to register an average of 7 percent of GDP surplus for the period 2023-2032, a slight decrease from the previous DSA. The global green energy transition should boost long-term demand for Zambia's copper, cobalt, and other mineral resources. The improved current and financial accounts are expected to support the build-up of FX reserves to the targeted five months of prospective imports by the end of the program.

15. **Fiscal**. Fiscal performance is expected to continue improving under the program. Building on the success in delivering a sharp consolidation in 2022, and to continue helping place public debt on a declining path, the primary balance (commitment basis) is targeted to further improve to a surplus of 3.7 percent of GDP by 2025 (an additional 3.1 percentage point adjustment relative to 2023). Revenues (adjusted for arrears on VAT refunds) are projected to increase to 22 percent of GDP

by 2025, compared to their 2019 (pre-COVID) level of 19.6 percent of GDP, underpinned by the authorities' medium-term revenue mobilization plan, which includes eliminating tax expenditures (implicit subsidies) on fuel worth about 1.2 percent of GDP, together with other measures to broaden the tax base and strengthen compliance. The authorities are making further efforts to improve spending efficiency by strengthening cash management and commitment controls and through new systems for screening and approving new public investment projects. Implementation of a new Public-Private Partnership Law should enable the authorities to close Zambia's infrastructure gaps by mobilizing private capital to finance the public investment program. Overall, these efforts are projected to translate into a further adjustment of 1.6 percentage points in the primary balance (cash basis).

16. Financing. Financing assumptions are guided by the debt conditionality under the program. Looking ahead, domestic borrowing will remain a key source of financing for Zambia, though concessional borrowing—primarily from the IMF, World Bank and African Development Bank—will comprise an important part of the financing mix (Text Figure 2). External financing during 2022-25 will come from the disbursements of US$1.4 billion on contracted but undisbursed priority project loans, about US$1.4 billion expected new financing from the World Bank (including grants), US$1.3bn financing from the IMF, and US$300 million from the African Development Bank.[10] Under the program, Zambia will not undertake any non-concessional borrowing unless an exception is granted in line with the IMF's Debt Limits Policy or World Bank Sustainable Development Finance Policy. Access to international markets is assumed to be lost through the medium term, and non-residents participation in the domestic debt market is expected to remain limited, including due to the authorities' efforts to limit their participation in new issues over the program period in order to protect external debt sustainability.

Text Figure 2. Zambia: Net Financing from IFIs, 2022–30
(US$ million)



Sources: IMF and World Bank staff estimates

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

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

18. Private creditors are expected to deliver a treatment consistent with the DSA parameters and on comparable terms with the OCC. Treatment provided by private creditors must also remain anchored in the LIC-DSF and meet the corresponding DSA thresholds. In line with the provisions of the G20 Common Framework, comparable treatment will be assessed by taking into account the change in debt service, the NPV loss, and the change in the duration of the claims.[11]

19. At the operational level, debt sustainability will also be supported by the debt conditionality under the IMF program and the IDA Sustainable Development Finance Policy. These stipulates a zero ceiling on new nonconcessional external borrowing during the program period. The program sets a ceiling on the PV of new concessional external borrowing as well. The Indicative Target (IT) on the present value of new external borrowing is set in line with the expected borrowing plan for 2023-24, with the envisaged new borrowing from IFIs to be signed in 2024 rather than in the second half of 2023 (see Text Table 4). In 2025, no other new external borrowing is expected, except the financing from the IMF, World Bank, AfDB, and issuances on domestic market.

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

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

January 1, 2023 to December 31, 2024

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

1/ In line with the TMU definition of debt ceilings, it does not include new financing from IMF, World Bank, AfDB and projected issuances of local-currency debt to non-residents

Sources: IMF staff calculations based on authorities' reported data

20. Downside risks to the outlook. Uncertainties around the outlook for copper prices and production is a key source of risk.[12] Rainfall variability also remains a key risk to Zambia's sustainable growth, affecting critical sectors like agriculture, electricity and mining, and also likely to aggravate external vulnerabilities, although the authorities' reform agenda aims to mitigate these risks over time. The materialization of these risks would increase debt vulnerabilities.

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

22. Realism tools suggest that baseline scenario projections are reasonable. The DSA realism tools (Figure 3, 4) highlight the large size of the programmed fiscal adjustment relative to outcomes in other LIC programs, and the likelihood of a diminished growth contribution from public investment over the forecast period. However, the risk that the adjustment proves infeasible is mitigated by the demonstrated track record of the authorities to take needed measures.

[12] The baseline is based on futures market prices, which suggest prices will remain at recent elevated levels, and are consistent with the assumptions under underpinning the April 2023 IMF World Economic Outlook.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

23. Zambia's debt-carrying capacity under the Composite Indicator (CI) rating is assessed as weak, unchanged from the previous DSA.[13] The latest CI score of 2.57 remains below the cut-off for medium debt-carrying capacity of 2.69,[14] so the assessment of debt sustainability is based on the thresholds for a weak debt-carrying capacity country.

Text Table 5. Zambia: Composite Indicator and Thresholds

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.57	Weak 2.59	Weak 2.38

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

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.157	1.22	47%
Real growth rate (in percent)	2.719	3.404	0.09	4%
Import coverage of reserves (in percent)	4.052	28.751	1.17	45%
Import coverage of reserves^2 (in percent)	-3.990	8.266	-0.33	-13%
Remittances (in percent)	2.022	1.676	0.03	1%
World economic growth (in percent)	13.520	2.889	0.39	15%
CI Score			2.57	100%
CI rating			Weak	

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

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

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

24. The DSA includes stress tests that follow standardized and tailored settings. The standardized stress tests indicate breaches of all debt thresholds for an extended period. Zambia has a significant reliance on commodity exports that triggers the commodity price shock, but the natural disasters shock does not apply. Given significant Eurobond issuance in the past, the market financing tool applies. The contingent liabilities shock is calibrated to Zambia, with an additional 10 percent of GDP added to the standard SOE shock to account for risks stemming from the debt of SOEs, as well as potential contingent risks arising from the 2020 acquisition of the Mopani mine by ZCCM-IH, a majority state-own investment holding company.[15] The rest of the components under the contingency liability shock are kept at their default settings.

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[13] The composite indicator is calculated using data from the October 2023 WEO and the latest available 2022 CPIA.

[14] The import coverage of reserves projections, which have an important contribution to the CI score (see text table) may be overestimated due to data quality and possible misclassification of items that should be recorded more accurately as imports rather than elsewhere in the financial account (e.g., in the case of multinational companies, intragroup provision of services). The ongoing technical assistance with the authorities is expected to address this weakness in the balance of payments statistics over the program period.

[15] Sensitivity analysis conducted by staff at the time of Staff Level Agreement in December 2021 showed that the Mopani mine would be financially viable even if copper prices fell to US$7,070 per metric tonne and copper output

(continued)

EXTERNAL DSA ASSESSMENT

25. Under the baseline, all four external debt burden indicators breach their respective thresholds (Figure 1). The debt service-to-revenue ratio soars to a peak of 65.4 percent in 2024 given the large amount of debt service falling due and the relatively low revenue base, and remains well above the 14 percent threshold until 2033 (averaging about 35.7 percent in 2023-32). Similarly, the debt service-to-exports ratio peaks at around 29.2 percent in 2024 and only falls to the threshold of 10 percent in 2029 and breaches again in 2031 (averaging about 16½ percent over 2023-32). On the stock side, the PV of PPG external debt-to-GDP averages about 58 percent from 20232-32, falling below the prudent threshold of 30 percent only in 2039,[16] while the PV of PPG external debt-to-exports indicator also breaches the threshold at about 166 percent in 2023 (averaging about 123½ percent over 2023-32).

26. The thresholds for all four external debt indicators are breached by large margins under stress tests. The standardized exports shock is the most extreme for all external debt indicators. Under the standardized exports shock, the PV of PPG external debt-to-exports ratio peaks at 354 percent in 2025 and remains well above the threshold throughout the medium and long term. The market financing tool also points to significant vulnerabilities debt vulnerabilities in Zambia, although the relevance of this signal is reduced given Zambia has currently no access to international capital markets.

PUBLIC DSA ASSESSMENT

27. Under the baseline, the benchmark for the PV of total PPG debt-to-GDP is breached throughout the medium and long term (Figure 2). After peaking at 118 percent in 2023, the ratio remains elevated (at an average of about 86 percent from 2023-32), before finally falling below the threshold in 2038. The most extreme shock for this indicator is still the exports shock, which peaks at 126 percent in 2025. Similarly, the combined contingent liabilities shock, which accounts for risks from SOE debt, PPPs and the financial sector, peaks at 113 percent in 2025 and remains above the threshold throughout the long term forecast horizon.

RISK RATING AND VULNERABILITIES

28. Zambia remains in debt distress, and debt is deemed unsustainable in the absence of a debt treatment in line with program parameters. This DSA update is based on the macroeconomic framework underpinning the second review, which entails significant fiscal

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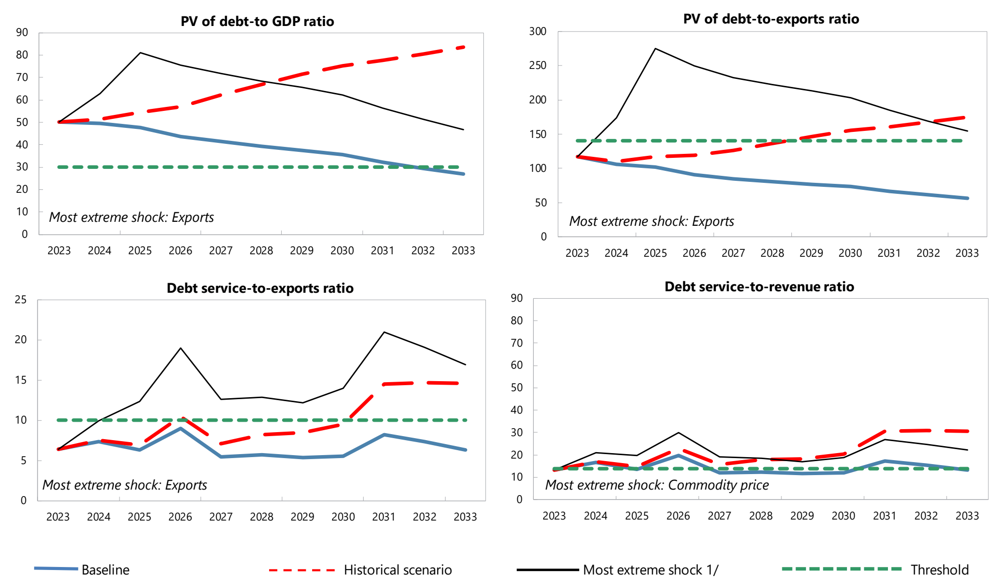
only reached 86,000 metric tonnes. In that scenario, it would take ZCCM-IH until 2040 to repay the debt due to Glencore. However, the net cash flow would remain marginally positive after royalties and capex. On December 1, 2023, after a lengthy search, the authorities selected United Arab Emirates' International Resources Holdings (IRH) as the new strategic equity partner.

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

adjustment over the medium term and incorporates the expected new financing of around US$3 billion from the IMF, World Bank (including grants), and the African Development Bank together over 2022-25.[17] Nevertheless, large financing gaps will remain over this period and would need to be filled through a debt restructuring operation in line with the DSA and IMF program parameters.

29. In the alternative restructuring scenario that takes into account the treatment agreed with the OCC, Zambia would remain in debt distress due to arrears to private creditors. However, taking into account the authorities' continuing good faith negotiations with private creditors on a treatment on comparable terms, Zambia's would be assessed as sustainable on forward-looking basis. Under the restructuring scenario that incorporates the delivery of the state-contingent debt relief agreed within the framework of the G20 Common Framework, two alternative baselines might materialize depending on the evaluation of Zambia's DCC at the end of the program period:

Text Figure 3. Zambia: Alternative baseline, Base Case Treatment – Indicators of PPG External Debt, 2023–2033 1/



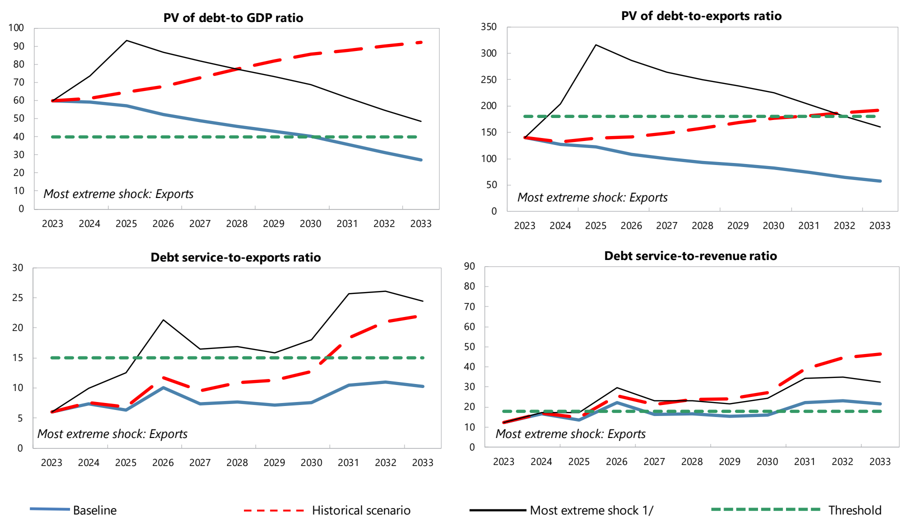
1/ Includes the agreed OSI, and a treatment of private claims that is consistent with comparability of treatment.
Sources: IMF staff projections based on the main elements of the agreed OCC treatment.

- Under the scenario where Zambia remains assessed as weak DCC, the base case treatment will prevail (Text Figure 3). Under this alternative baseline, the PV of external debt-to-exports falls steadily below the "substantial space to absorb shocks" threshold of 84 percent by 2027, while the debt service-to-revenue ratio reaches the 14 percent threshold by 2025, and remains at 14 percent on average over 2026-31. Therefore the targets under the IMF-supported program

[17] Total financing from the World Bank (including projected disbursements from existing commitments) amounts to about US$2.2 billion over 2022-25. New financing from new operations that were approved after the SLA and which contribute to reducing the BoP financing gap amounts to US$1.4 billion out of which about US$292 million will be provided in grants.

are met, and Zambia's debt would be assessed as sustainable with a moderate risk of debt distress over the medium term, despite the protracted and large breach of the threshold by the PV of PPG external debt-to-GDP ratio indicator that averages about 40½ percent from 2023-32, and only falls below the threshold of 30 percent in 2032.[18] In parallel, the external debt service-to-exports indicator would remain well below its threshold, averaging 6½ percent over 2026-31.

Text Figure 4. Zambia: Alternative baseline, Upside Case Treatment – Indicators of PPG External Debt, 2023-2033 1/



1/ Includes the agreed OSI, and a treatment of private claims that is consistent with comparability of treatment.
Sources: IMF staff projections based on the main elements of the agreed OCC treatment.

- Under a scenario where Zambia's debt-carrying capacity is upgraded to medium, the Upside treatment will be triggered. Under this scenario, risks to Zambia's debt sustainability are mitigated by the steady decline of the PV of external debt-to-exports that falls below the "substantial space to absorb shocks" threshold of 108 percent by 2027, while the external debt service-to-revenue ratio remains at about 18 percent on average over 2026-31. This mitigates the protracted and large breach of the threshold by the PV of PPG external debt-to-GDP ratio indicator, which averages about 47 percent from 2023-32, and only falls below the threshold of 40 percent in 2030. In parallel, the external debt service-to-exports indicator remains well below its threshold, averaging 8½ percent over 2026-31. All external debt burden indicators do decline to levels consistent with Zambia reaching a moderate risk of external debt distress over the medium term (see Text Figure 4).

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

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

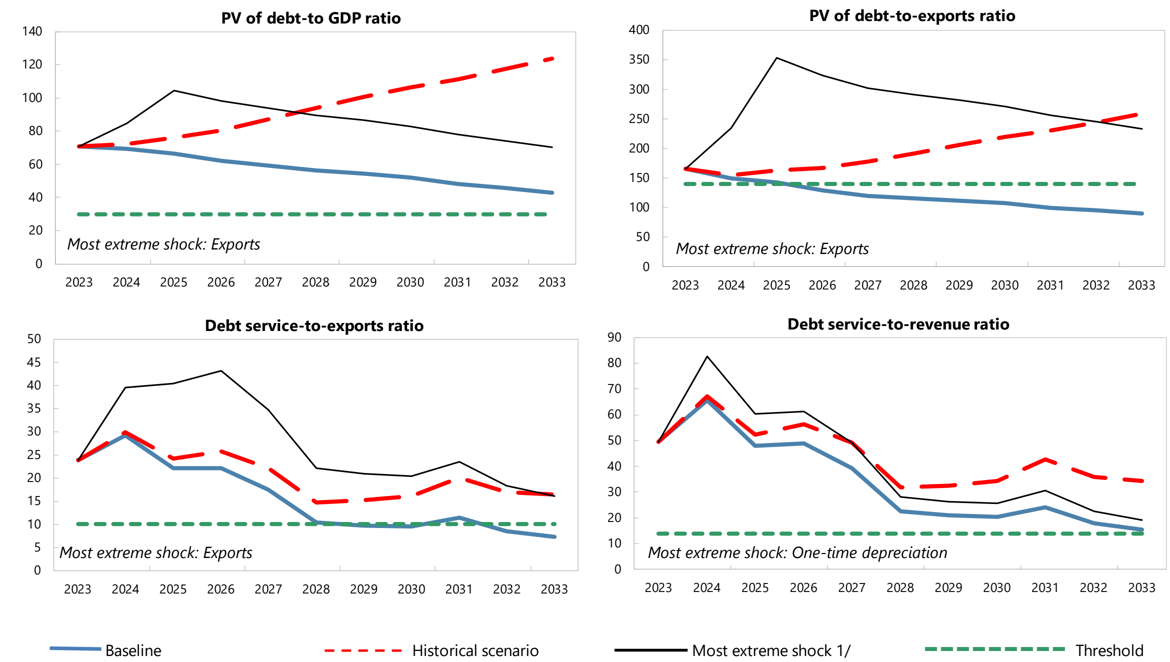
31. Other reforms to support debt sustainability following the debt restructuring are also in train and further mitigate risks. To strengthen the institutional framework, the authorities adopted a new Public Debt Management Act in August 2022.[19] This provides greater oversight on the contracting of debt. This will be supported by ongoing efforts to strengthen public financial management more broadly and to strengthen debt transparency, as well as plans to modernize and strengthen capacity of the debt management unit.

AUTHORITIES' VIEWS

32. The authorities shared staff's assessment of their debt sustainability and emphasized their commitment to restore debt sustainability by seeking a restructuring of their external debt. The authorities highlighted that an agreement has been reached with the OCC on a debt treatment consistent with the parameters of the IMF-supported program, and work on signing the MOU is advancing well. The authorities also emphasized their commitment to reach restructuring agreements with other external creditors on comparable terms and consistent with IMF-program parameters. The authorities agreed that once these agreements are implemented debt sustainability would be restored.

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

Figure 1. Zambia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–33



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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.2%	4.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	13	13

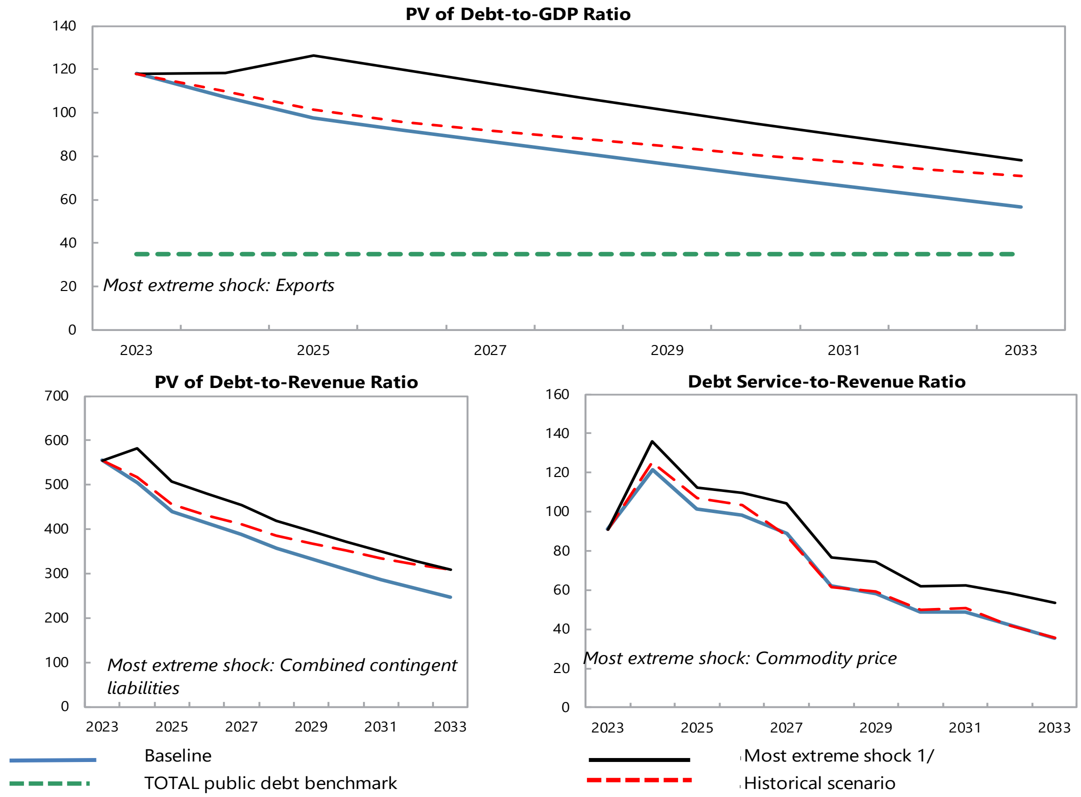
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Zambia: Indicators of Public Debt Under Alternative Scenarios, 2023–33



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	50%	50%
Domestic medium and long-term	22%	22%
Domestic short-term	28%	28%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.2%	4.2%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	13	13
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.0%	6.0%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	1.6%	1.6%

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

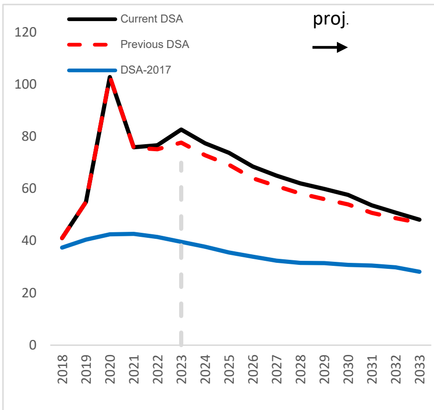
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

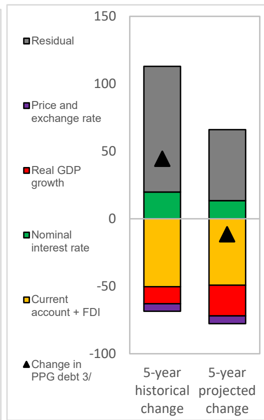
Figure 3. Zambia: Drivers of Debt Dynamics – Baseline Scenario

External Debt

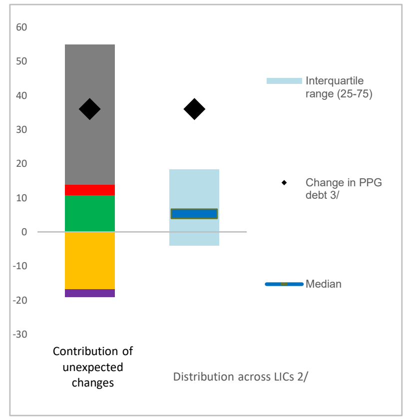
Gross Nominal PPG External Debt
(In Percent of GDP; DSA vintages)



Debt-creating flows
(In Percent of GDP)

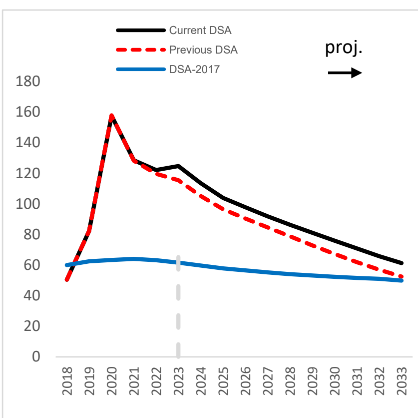


Unexpected Changes in Debt 1/
(In Percent of GDP, past 5 years)

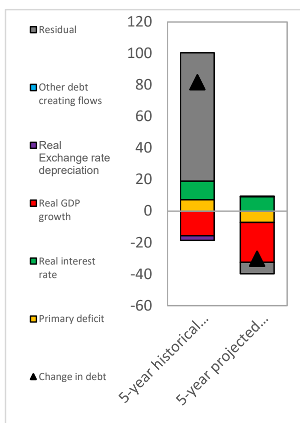


Public Debt

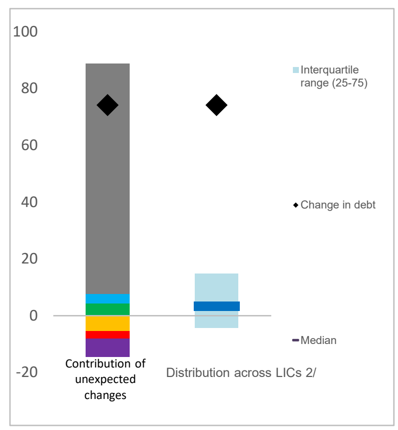
Gross Nominal Public Debt
(In Percent of GDP; DSA vintages)



Debt-creating flows
(In Percent of GDP)



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



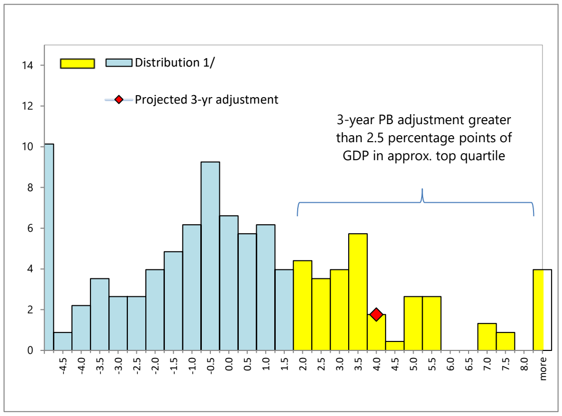
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

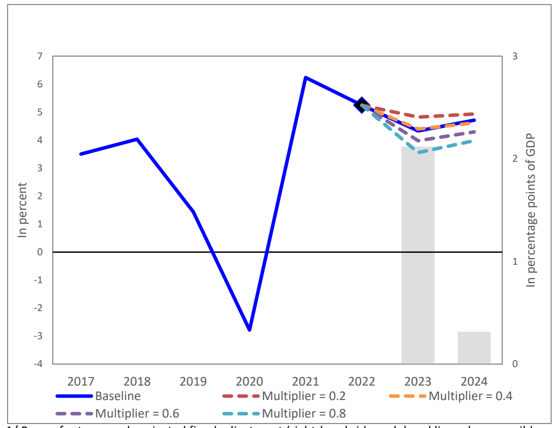
Figure 4. Zambia: Realism Tools

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



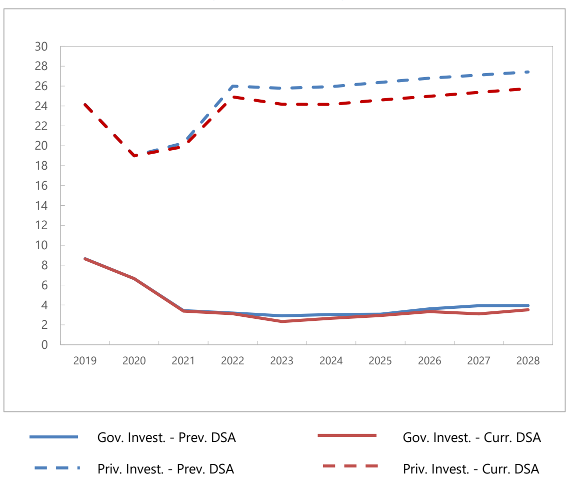
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(In Percent of GDP)



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

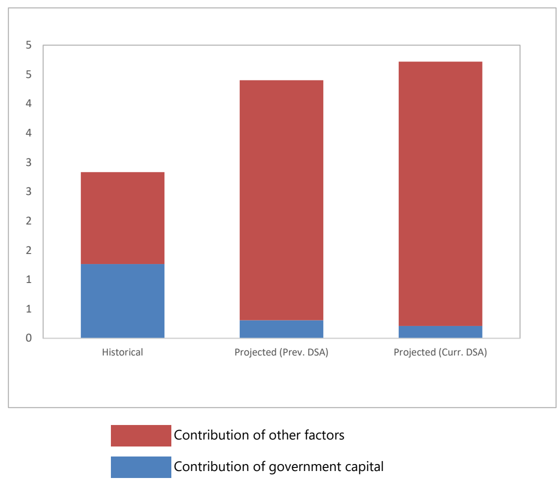
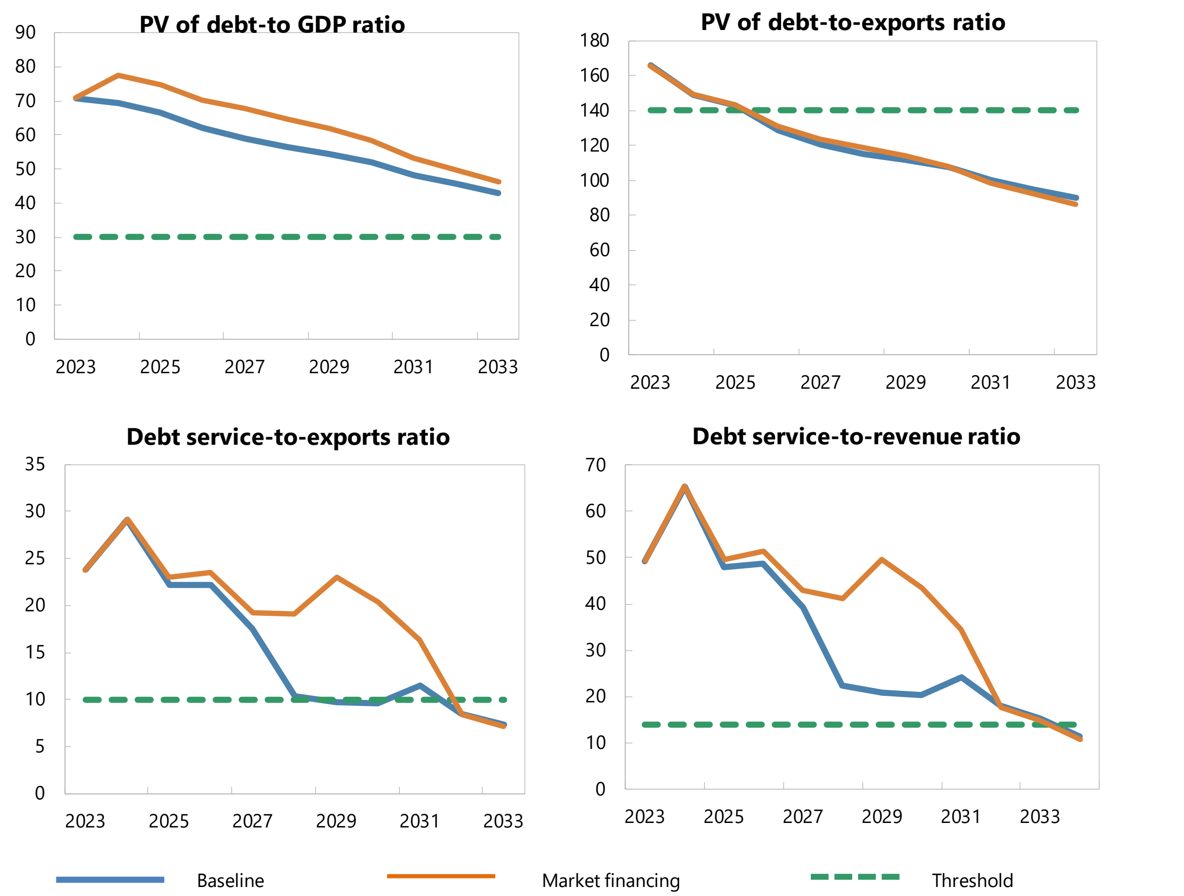


Figure 5. Zambia: Market-Financing Risk Indicators

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	24		5000	
Breach of benchmark	Yes		Yes	
Potential heightened liquidity needs	High			

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



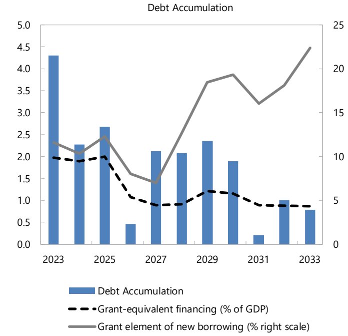
Sources: Country authorities; and staff estimates and projections.

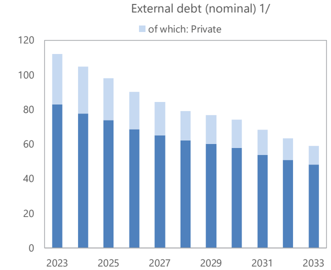
Table 1. Zambia: External Debt Sustainability Framework, Baseline Scenario, 2020–38

(In Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2038	Historical	Projections
External debt (nominal) 1/	**150.0**	**113.5**	**105.8**	**112.1**	**104.6**	**98.0**	**90.1**	**84.2**	**78.9**	**58.9**	**54.7**	**79.3**	**82.6**
of which: public and publicly guaranteed (PPG)	**102.9**	**75.9**	**76.7**	**82.7**	**77.4**	**73.8**	**68.5**	**65.1**	**62.0**	**48.1**	**35.5**	**47.7**	**63.6**
Change in external debt	56.8	-36.5	-7.7	6.3	-7.5	-6.6	-7.9	-5.9	-5.3	-4.4	-0.6		
Identified net debt-creating flows	**14.2**	**-40.0**	**-30.4**	**-4.2**	**-10.8**	**-12.8**	**-15.0**	**-15.7**	**-15.3**	**-14.3**	**-12.8**	**-8.0**	**-13.3**
Non-interest current account deficit	**-14.9**	**-19.1**	**-7.2**	**-0.4**	**-6.7**	**-8.1**	**-9.6**	**-11.6**	**-11.3**	**-10.8**	**-10.6**	**-4.0**	**-9.3**
Deficit in balance of goods and services	-15.0	-18.3	-8.3	-4.3	-9.3	-10.3	-12.3	-13.4	-13.2	-12.7	-11.5	**-3.7**	**-11.5**
Exports	47.2	53.1	42.7	42.7	46.5	46.6	48.0	49.0	48.8	47.8	40.8		
Imports	32.2	34.8	34.4	38.4	37.3	36.3	35.7	35.7	35.6	35.1	29.3		
Net current transfers (negative = inflow)	-1.2	-1.4	-1.0	-1.4	-1.1	-1.4	-1.2	-1.2	-1.2	-1.1	-1.0	**-1.2**	**-1.2**
of which: official	0.0	0.0	0.0	-0.7	-0.5	-0.7	-0.4	-0.3	-0.3	-0.3	-0.3		
Other current account flows (negative = net inflow)	1.3	0.5	2.1	5.3	3.7	3.6	3.8	2.9	3.0	3.0	1.8	**0.9**	**3.4**
Net FDI (negative = inflow)	**-1.0**	**-3.1**	**-1.2**	**-1.3**	**-2.0**	**-2.9**	**-3.8**	**-2.7**	**-2.7**	**-2.7**	**-2.3**	**-3.8**	**-2.6**
Endogenous debt dynamics 2/	**30.1**	**-17.8**	**-22.0**	**-2.5**	**-2.1**	**-1.8**	**-1.5**	**-1.5**	**-1.3**	**-0.8**	**0.0**		
Contribution from nominal interest rate	4.3	9.5	3.5	2.2	2.9	2.9	2.8	2.6	2.6	2.0	2.5		
Contribution from real GDP growth	3.3	-7.7	-4.5	-4.7	-5.0	-4.7	-4.3	-4.1	-3.9	-2.8	-2.5		
Contribution from price and exchange rate changes	22.4	-19.6	-21.0	...	...	...	...	...	...	...	...		
Residual 3/	**42.6**	**3.5**	**22.6**	**10.5**	**3.3**	**6.3**	**7.1**	**9.8**	**9.9**	**9.9**	**12.2**	**17.5**	**9.1**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**64.7**	**70.8**	**69.5**	**66.5**	**61.9**	**59.0**	**56.3**	**42.9**	**31.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**151.5**	**165.9**	**149.3**	**142.6**	**129.0**	**120.3**	**115.4**	**89.8**	**76.5**		
PPG debt service-to-exports ratio	**26.6**	**25.9**	**13.1**	**23.8**	**29.2**	**22.2**	**22.2**	**17.5**	**10.4**	**7.3**	**5.1**		
PPG debt service-to-revenue ratio	**63.5**	**63.1**	**28.0**	**49.3**	**65.4**	**48.1**	**48.7**	**39.1**	**22.4**	**15.3**	**9.2**		
Gross external financing need (Million of U.S. dollars)	-3.9	-205.7	-152.4	3105.4	2283.4	667.6	-17.0	-1124.2	-2576.7	-4525.5	-10232.0		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.8	6.2	5.2	4.3	4.7	4.8	4.8	4.9	5.0	4.8	4.9	**3.4**	**4.8**
GDP deflator in US dollar terms (change in percent)	-20.0	14.7	25.2	-6.5	0.4	3.5	3.3	3.4	3.3	3.1	3.3	**-0.7**	**2.1**
Effective interest rate (percent) 4/	3.6	7.7	4.1	2.0	2.8	3.0	3.1	3.2	3.3	3.4	5.0	**2.9**	**3.1**
Growth of exports of G&S (US dollar terms, in percent)	3.6	37.0	6.1	-2.6	14.7	8.7	11.3	10.9	7.9	7.6	0.6	**3.2**	**8.1**
Growth of imports of G&S (US dollar terms, in percent)	-42.7	31.8	30.3	8.8	2.1	5.7	6.5	8.3	8.3	7.5	0.0	**5.8**	**7.1**
Grant element of new public sector borrowing (in percent)	...	...	...	11.6	10.3	12.3	8.0	7.0	12.7	22.4	30.7	**...**	**14.2**
Government revenues (excluding grants, in percent of GDP)	19.8	21.8	20.0	20.6	20.7	21.5	21.8	22.0	22.6	22.7	22.6	**18.9**	**22.1**
Aid flows (in Million of US dollars) 5/	394.2	262.5	226.4	582.9	638.4	733.6	588.9	511.8	551.9	670.7	757.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.0	1.9	2.0	1.1	0.9	0.9	0.9	0.7	**...**	**1.2**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	16.7	13.5	17.7	12.3	10.6	18.4	29.9	43.3	**...**	**19.3**
Nominal GDP (Million of US dollars)	18,138	22,096	29,122	28,406	29,872	32,410	35,064	38,035	41,233	60,796	90,236		
Nominal dollar GDP growth	-22.2	21.8	31.8	-2.5	5.2	8.5	8.2	8.5	8.4	8.1	8.3	**2.9**	**7.0**
Memorandum items:													
PV of external debt 7/	...	...	93.8	100.2	96.6	90.7	83.5	78.1	73.2	53.8	50.4		
In percent of exports	...	...	219.6	234.7	207.6	194.5	174.0	159.4	149.9	112.4	123.5		
Total external debt service-to-exports ratio	33.7	40.0	18.2	29.6	35.1	28.1	27.9	23.0	15.8	12.6	3.8		
PV of PPG external debt (in Million of US dollars)			18853.7	20105.4	20751.6	21550.4	21699.0	22444.1	23234.6	26109.3	28171.5		
(PVt-PVt-1)/GDPt-1 (in percent)				4.3	2.3	2.7	0.5	2.1	2.1	0.8	0.4		
Non-interest current account deficit that stabilizes debt ratio	-71.7	17.4	0.5	-6.7	0.8	-1.6	-1.7	-5.7	-6.0	-6.4	-10.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

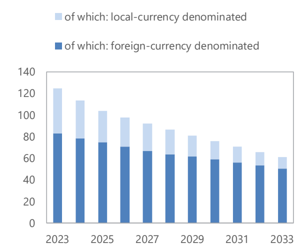
Table 2. Zambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–38

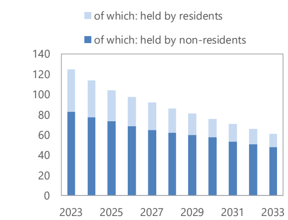
(In Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2038	Historical	Projections
Public sector debt 1/	**157.6**	**128.4**	**122.1**	**124.7**	**113.6**	**103.9**	**97.7**	**91.8**	**86.3**	**61.3**	**42.1**	**70.2**	**88.4**
of which: external debt	**102.9**	**75.9**	**76.7**	**82.7**	**77.4**	**73.8**	**68.5**	**65.1**	**62.0**	**48.1**	**35.5**	**47.7**	**63.6**
Change in public sector debt	75.3	-29.2	-6.4	2.6	-11.1	-9.7	-6.2	-5.9	-5.5	-4.5	-3.4		
Identified debt-creating flows	**32.0**	**-44.2**	**-0.7**	**-1.3**	**-7.8**	**-5.7**	**-3.6**	**-4.5**	**-4.6**	**-4.0**	**-3.4**	**0.9**	**-4.4**
Primary deficit (cash basis)	**3.6**	**2.1**	**1.6**	**-0.5**	**-0.8**	**-2.2**	**-1.4**	**-2.2**	**-2.5**	**-2.2**	**-1.6**	**1.4**	**-1.9**
Revenue and grants	20.3	22.4	20.4	20.9	21.2	21.9	21.9	22.0	22.6	22.8	22.8	**19.4**	**22.2**
of which: grants	0.5	0.6	0.4	0.7	0.5	0.7	0.4	0.3	0.3	0.3	0.3		
Primary (noninterest) expenditure	28.1	24.4	22.0	20.7	20.4	20.0	20.8	20.1	20.4	20.8	21.3	**21.2**	**20.6**
Automatic debt dynamics	**28.4**	**-46.3**	**-2.3**	**-0.8**	**-7.0**	**-3.5**	**-2.2**	**-2.3**	**-2.2**	**-1.9**	**-1.8**		
Contribution from interest rate/growth differential	9.6	-12.3	-5.1	-7.2	-4.4	-1.9	-1.3	-1.5	-1.4	-1.3	-1.3		
of which: contribution from average real interest rate	7.2	-3.1	1.3	-2.1	1.3	3.3	3.4	3.1	2.9	1.7	0.8		
of which: contribution from real GDP growth	2.4	-9.3	-6.4	-5.1	-5.6	-5.3	-4.7	-4.6	-4.4	-3.0	-2.1		
Contribution from real exchange rate depreciation	18.9	-34.0	2.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**43.3**	**15.0**	**-5.6**	**10.3**	**-5.9**	**-5.6**	**-3.4**	**-2.3**	**-1.6**	**-1.0**	**-0.5**	**10.0**	**-1.4**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**114.4**	**118.1**	**107.3**	**97.7**	**92.1**	**86.7**	**81.5**	**56.8**	**38.3**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**561.4**	**555.3**	**505.4**	**439.3**	**413.8**	**388.9**	**356.2**	**246.8**	**167.0**		
Debt service-to-revenue and grants ratio 3/	**124.3**	**126.6**	**88.2**	**91.0**	**121.5**	**101.6**	**98.1**	**88.8**	**62.2**	**35.5**	**20.3**		
Gross financing need 4/	33.0	30.4	19.6	13.6	24.4	19.9	20.0	17.2	11.4	5.9	3.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-2.8	6.2	5.2	4.3	4.7	4.8	4.8	4.9	5.0	4.8	4.9	**3.4**	**4.8**
Average nominal interest rate on external debt (in percent)	5.7	5.2	4.3	2.9	4.0	4.2	4.1	4.2	4.4	4.3	3.8	**4.3**	**4.1**
Average real interest rate on domestic debt (in percent)	15.6	-10.7	0.1	-5.4	-0.6	5.4	7.1	6.7	6.4	4.8	2.9	**7.9**	**4.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	33.1	-35.9	4.5	...	...	...	...	...	...	...	...	**7.4**	**...**
Inflation rate (GDP deflator, in percent)	13.9	25.1	6.1	10.2	10.6	7.6	6.6	6.7	6.6	6.5	6.6	**10.6**	**7.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	29.8	-7.6	-5.3	-1.5	2.9	3.0	9.0	1.4	6.4	5.5	4.9	**7.4**	**4.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-71.7	31.2	7.9	-3.1	10.2	7.5	4.7	3.7	3.1	2.3	1.8	**-9.5**	**3.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Zambia: Sensitivity Analysis for Key Indicators and Publicly Guaranteed External Debt, 2023–33

(In Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	71	69	66	62	59	56	54	52	48	46	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	71	72	76	80	87	94	100	106	111	117	124
A2. Alternative Scenario : Contingent Liabilities + FX debt	71	84	83	79	76	73	71	70	66	64	61
B. Bound Tests											
B1. Real GDP growth	71	74	75	70	67	64	61	59	55	52	49
B2. Primary balance	71	74	76	72	70	67	65	63	60	57	54
B3. Exports	71	85	104	98	94	90	86	83	78	74	70
B4. Other flows 3/	71	73	73	68	65	62	60	57	53	50	48
B5. Depreciation	71	86	83	77	74	70	68	65	60	57	53
B6. Combination of B1-B5	71	83	86	81	77	74	72	69	65	62	59
C. Tailored Tests											
C1. Combined contingent liabilities	71	80	80	76	73	70	68	67	64	61	58
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	71	74	76	72	70	68	66	64	60	58	55
C4. Market Financing	71	78	75	70	68	65	62	58	53	50	46
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	166	149	143	129	120.3	115.4	111.5	107	99.97	95	90
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	166	155	163	167	177	192	206	220	230	244	259
A2. Alternative Scenario : Contingent Liabilities + FX debt	166	180	177	164	155	150	146	144	138	133	127
B. Bound Tests											
B1. Real GDP growth	166	149	143	129	120	115	112	107	100	95	90
B2. Primary balance	166	158	164	151	142	137	134	130	124	119	114
B3. Exports	166	234	354	323	303	291	281	271	256	245	233
B4. Other flows 3/	166	156	156	142	132	127	123	118	110	105	100
B5. Depreciation	166	146	141	127	119	114	110	106	99	94	88
B6. Combination of B1-B5	166	205	166	215	202	195	189	184	173	166	158
C. Tailored Tests											
C1. Combined contingent liabilities	166	173	171	158	149	144	141	139	132	128	122
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	166	176	177	160	149	143	138	134	127	122	117
C4. Market Financing	166	149	143	131	123	119	114	108	99	93	86
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	24	29	22	22	18	10	10	10	11	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	24	30	24	26	22	15	15	16	20	17	16
A2. Alternative Scenario : Contingent Liabilities + FX debt	24	29	24	24	19	12	11	11	13	10	9
B. Bound Tests											
B1. Real GDP growth	24	29	22	22	18	10	10	10	11	8	7
B2. Primary balance	24	29	23	23	19	11	11	11	13	10	8
B3. Exports	24	40	40	43	35	22	21	20	24	18	16
B4. Other flows 3/	24	29	22	23	18	11	10	10	12	9	8
B5. Depreciation	24	29	22	22	17	10	10	9	11	8	7
B6. Combination of B1-B5	24	36	33	34	27	17	16	16	19	14	12
C. Tailored Tests											
C1. Combined contingent liabilities	24	29	23	23	19	12	11	11	13	10	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	24	32	25	25	20	12	11	11	13	10	9
C4. Market Financing	24	29	23	23	19	19	23	20	16	8	7
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	49.35	65.45	48.05	48.71	39.141	22.415	20.958	20.357	24.213	17.945	15.321
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	49	67	52	56	49	32	33	34	43	36	34
A2. Alternative Scenario : Contingent Liabilities + FX debt	49	65	51	52	42	26	24	24	28	21	19
B. Bound Tests	49	65	51	52	42	26	24	24	28	21	19
B1. Real GDP growth	49	70	54	55	44	25	24	23	27	20	17
B2. Primary balance	49	66	49	51	42	25	23	23	27	20	18
B3. Exports	49	69	55	60	49	30	28	27	31	24	21
B4. Other flows 3/	49	65	49	50	40	24	22	21	25	19	16
B5. Depreciation	49	83	60	61	49	28	26	26	30	23	19
B6. Combination of B1-B5	49	69	57	59	48	29	27	27	31	24	21
C. Tailored Tests											
C1. Combined contingent liabilities	49	66	50	51	42	25	24	23	27	21	18
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	49	72	54	56	45	26	24	23	27	21	18
C4. Market Financing	49	65	50	52	43	41	50	44	35	18	15
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

Table 4. Zambia: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33

(In Percent)

					Projections 1/						
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
					PV of Debt-to-GDP Ratio						
Baseline	**118**	**107**	**98**	**92**	**87**	**82**	**76**	**71**	**66**	**61**	**57**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**118**	**110**	**101**	**96**	**92**	**88**	**84**	**81**	**77**	**74**	**71**
B. Bound Tests											
B1. Real GDP growth	**118**	**114**	**112**	**108**	**105**	**102**	**99**	**96**	**93**	**90**	**88**
B2. Primary balance	**118**	**110**	**107**	**101**	**96**	**90**	**85**	**80**	**75**	**71**	**66**
B3. Exports	**118**	**118**	**126**	**120**	**113**	**107**	**101**	**95**	**89**	**84**	**78**
B4. Other flows 3/	**118**	**111**	**104**	**98**	**93**	**87**	**82**	**76**	**71**	**66**	**62**
B5. Depreciation	**118**	**121**	**109**	**102**	**96**	**90**	**84**	**78**	**72**	**67**	**62**
B6. Combination of B1-B5	**118**	**107**	**104**	**99**	**94**	**90**	**85**	**80**	**76**	**72**	**68**
C. Tailored Tests											
C1. Combined contingent liabilities	**118**	**124**	**113**	**107**	**101**	**96**	**91**	**86**	**81**	**76**	**71**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**118**	**111**	**103**	**101**	**99**	**97**	**94**	**91**	**89**	**86**	**84**
C4. Market Financing	**118**	**107**	**98**	**93**	**88**	**83**	**77**	**71**	**65**	**60**	**55**
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
					PV of Debt-to-Revenue Ratio						
Baseline	555	505	439	414	389	356	333	310	287	266	247
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	555	517	456	431	412	386	369	352	335	321	308
B. Bound Tests											
B1. Real GDP growth	555	536	503	486	470	445	431	417	403	392	382
B2. Primary balance	555	516	481	454	429	395	372	350	327	307	289
B3. Exports	555	558	568	538	508	468	441	414	387	363	340
B4. Other flows 3/	555	521	468	442	416	381	357	333	309	288	268
B5. Depreciation	555	573	492	459	429	392	365	339	314	292	271
B6. Combination of B1-B5	555	505	468	444	422	391	371	350	330	312	295
C. Tailored Tests											
C1. Combined contingent liabilities	555	583	507	480	454	420	396	373	349	329	310
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	555	564	500	489	469	437	417	397	384	374	364
C4. Market Financing	555	505	441	418	396	364	338	311	284	261	240
					Debt Service-to-Revenue Ratio						
Baseline	91	122	102	98	89	62	58	49	49	42	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	91	125	107	103	88	62	59	50	51	42	36
B. Bound Tests											
B1. Real GDP growth	91	131	119	118	109	80	79	68	70	64	57
B2. Primary balance	91	124	109	111	97	69	67	58	59	50	43
B3. Exports	91	122	104	104	94	67	63	53	53	46	40
B4. Other flows 3/	91	122	102	99	90	63	59	50	50	43	36
B5. Depreciation	91	126	113	113	102	72	69	58	60	52	44
B6. Combination of B1-B5	91	122	106	109	98	71	69	57	59	52	45
C. Tailored Tests											
C1. Combined contingent liabilities	91	124	130	112	99	71	69	67	62	52	44
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	91	136	112	110	104	76	74	62	62	59	54
C4. Market Financing	91	122	103	101	93	81	86	72	59	42	35

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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

December 20, 2023

INTRODUCTION

1. On behalf of our Zambian authorities, we thank the mission team, led by Ms. Martin, for their constructive engagement. The authorities broadly concur with the staff analysis and the assessment of key policy priorities.

2. The Zambian economy continues to rebound strongly, reflecting the remarkable resilience demonstrated against the backdrop of recurrent shocks. The global economic environment and legacy headwinds have become increasingly challenging, amplified by tightening global financial conditions, increasing geopolitical tensions, volatile commodity prices, climate change events, and delays in debt restructuring. This notwithstanding, the Zambian economy continues to demonstrate remarkable resilience, reflecting the authorities' steadfast efforts to address macroeconomic imbalances. Specifically, they have made determined efforts to implement appropriate bold policies and reforms to restore higher and more inclusive growth, entrench fiscal discipline to ensure debt sustainability, and preserve social cohesion as enunciated in the Eighth National Development Plan (8NDP). Consequently, they have kept reforms under the Extended Credit Facility (ECF) arrangement firmly on track with satisfactory program performance. Meanwhile, the authorities have made progress towards finalizing the debt restructuring process and appreciate support from the international community. They reaffirm their commitment to swiftly agree on mutually acceptable terms and ensure Comparability of Treatment (CoT) among all creditors.

PROGRAM PERFORMANCE

3. All quantitative performance criteria (QPCs) for end-June 2023 were met except for the net international reserves (NIR) target, which was missed due to lower-than-expected mining tax revenues and once-off foreign exchange (FX) pressures. The authorities have taken corrective measures, including reducing FX sales to the market and tightening monetary policy, which led to attainment of the NIR target for end-September 2023. All end-June 2023 Indicative Targets (IT) were met, except for the clearance of expenditure and VAT refund arrears, which were missed on account of faster VAT claims. This IT was missed again in September, and the authorities commit to the timely clearance of arrears upon validation of VAT claims and in line with the Arrears Clearance Strategy.

4. Four out of seven Structural Benchmarks (SBs) were met with two others completed with minor delays. The Access to Information Bill was submitted to Parliament on November 7, 2023, instead of end-October and the rollout of the Integrated Financial Management Information System (IFMIS) due end-August 2023 faced delays in 3 out of the 59 institutions but was completed in November 2023. The full e-voucher migration for the Farmer Input Support Program (FISP) was implemented in 17 out of the 33 planned districts by end-September 2023, with an additional 10 high agriculture production districts utilizing

a hybrid system where the government procures the input for farmers that they, in-turn redeem electronically. It is envisaged that 73 districts will utilize the e-voucher system during 2024/2025 farming season. To strengthen the fight against corruption and improve corporate governance, a new structural benchmark on anti-corruption and state-owned enterprise (SOEs) transparency were introduced.

5. *In view of satisfactory program performance and corrective measures taken, the authorities request Executive Directors to support the completion of the Second Review under the ECF arrangement and proposed decisions.*

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

6. Growth moderated from 5.0 percent in 2022 to 4.3 percent recorded in the first quarter of 2023 before rebounding to 5.0 percent in the second quarter owing to strong performance in non-mining and non-agricultural sectors. An annual growth of 4.3 percent is expected in 2023 compared to a preliminary outturn of 5.2 percent in 2022, with 4.7 percent and 4.8 percent expected in 2024 and 2025, respectively. The outlook is, however, subject to downside risks largely from increasing frequency of climate change events, weaker copper revenues amid slower global growth, and delays in debt restructuring. Meanwhile, headline inflation rose from 9.4 percent in January 2023 to 12.9 percent in November 2023 mainly due to higher food, fuel, and electricity prices as well as the depreciation of the Kwacha against the US dollar. Inflation is expected to average 11 percent in 2023, increasing slightly to 11.4 percent in 2024 before moderating to 7.8 percent in 2025.

7. The current account balance switched from a surplus of 3.7 percent of GDP in 2022 to a deficit of 2.8 percent in the first half of 2023, reflecting lower export earnings alongside increased imports. The financial account inflows partially offset the deficit. As such, gross official reserves decreased from US$3.1 billion (equivalent to 3.4 months of import cover) at the end-December 2022 to US$2.7 billion (3.0 months of import cover) at the end of June 2023.

FISCAL POLICY AND DEBT MANAGEMENT

8. The authorities remain committed to a multi-year fiscal consolidation plan through 2023 and medium term. To this end, they are directing their efforts towards further enhancing revenue mobilization, curtailing current spending, and clearing arrears while preserving social and human capital development. Reflecting the fiscal adjustment efforts, the primary fiscal balance (on a cash basis) improved by 1.8 percent of GDP in 2023 compared to 2022, reaching K2.2 million at the end of June 2023.

9. The authorities continue to strengthen tax policies and administration to improve compliance and revenue collection. To this end, they have reformed the mineral tax regime in 2022 to attract investment and improve tax predictability. They plan to broaden the tax base by rescinding tax exemption on government cars and imposing inflation-indexed excise duty on cigarettes and alcohol. To improve compliance, the specialized mining unit focused on small and medium-sized mines was established and notable progress has been made towards establishing a unified Large Taxpayer Office. To enhance tax administration, the authorities plan to implement the Electronic Invoicing System, as well as a new operating model for the

Zambia Revenue Authority to promote its efficiency, increase system interface and inter-governmental data integration to reduce fraud, use data analytics and artificial intelligence to enhance staff productivity and increase taxpayer satisfaction.

10. The authorities acknowledge that calibrating spending and implementing public finance management (PFM) reforms are critical in improving spending efficiency. Accordingly, they have integrated 59 institutions on the IFMIS system to better control expenditure, upscaled social support beyond the indicative target, and made progress in migrating the FISP to a cost-effective e-voucher system. They also plan to reduce financing constraints through a cash management strategy that will reduce idle cash balances and the number of accounts held by local authorities in commercial banks.

11. The authorities are determined to refrain from contracting non-concessional debt and limit new external borrowing in order to restore debt sustainability and return to a moderate risk of debt distress over the medium term. They have also published the medium-term debt management strategy, and the establishment of the Debt Office Management is expected to be approved by Cabinet by end-December 2023 and become fully operational by end-2024. To better support debt sustainability, the authorities also agreed to transition their government securities issuance strategy to par from discount.

12. Notable strides have been made towards finalizing the debt restructuring process in line with the program parameters. In this vein, the authorities agreed on the Memorandum of Understanding (MoU) with the official creditors, in October 2023. The authorities also announced an agreement in principle (AIP) reached with the Steering Committee of the Ad Hoc Group of Bondholders (Steering Committee) in early October 2023. Consultations on the AIP with the Official Creditor Committee (the "OCC"), later in the month, deduced that comparability of treatment would not be achieved in the base case scenario, but would be achieved in the upside case scenario. In addition, IMF staff noted that provided that the MoU with the OCC would remain valid and, based on the macro-framework for the First Review under the ECF arrangement, the AIP would breach the DSA targets. In light of these developments, the authorities announced at the beginning of November 2023 that further discussion on possible amendments to the AIP will be held with the OCC, IMF, and the Steering Committee of the Ad Hoc Committee of Bondholders. Following two meetings held with all the stakeholders, the authorities are confident that a suitable and comprehensive solution, in line with program parameters and the country's continuous commitment to the Comparability of Treatment principle, will be reached.

MONETARY AND FINANCIAL SECTOR POLICIES

13. The authorities remain committed to the inflation targeting (IT) framework to maintain price stability. Accordingly, the Bank of Zambia (BoZ) tightened monetary policy in August and November 2023 and increased the statutory reserve requirement to address inflationary pressures. The authorities will continue to rely on the forward-looking monetary policy framework and will stand ready to act promptly to fight inflation. They are committed to ensuring that the exchange rate remains flexible while carefully making efforts to step-up the pace of reserves accumulation in 2024. They also plan to review FX market rules to promote price discovery and market efficiency.

14. The banking sector remains resilient as income on government securities boosted regulatory capital. The gross non-performing loans (NPLs) ratio stood at a satisfactory 4.4 percent at end September from 4.9 percent at the beginning of the year. Although this ratio remained below the prudential threshold, there was a modest increase in actual NPLs mainly driven by a significant increase in the retail and wholesale sector. The authorities have taken steps to further strengthen the regulatory and supervisory framework. To this end, the Bank of Zambia (BoZ) has developed the macroprudential toolkit to mitigate excessive credit growth, concentrated risks, and moral hazards. The central bank is also in the process of establishing an inter-agency Financial Stability Committee (FSC) with the first Financial Stability Report envisaged for publication by end-June 2024.

15. Regarding the micro-prudential framework, the Cyber and Information Risk Management Guidelines were issued in May 2023 and the implementation of the Supervisory Technology Project to improve analytical capabilities is underway. An industry-wide crisis simulation exercise was also undertaken in May 2023 to strengthen the crisis management and resolution framework. To promote financial inclusion, the authorities aim to launch the second National Financial Inclusion Strategy 2024-28 by end-2023 and increase the 2024/25 budget allocation to the Credit Guarantee Scheme to support micro, small and medium enterprises (MSMEs).

STRUCTURAL REFORMS

16. The authorities attach a high premium on structural reforms aimed at promoting private sector development and economic diversification to ensure a robust and inclusive growth. In this regard, they are initiating dialogue with private sector players through the Public-Private Dialogue Forum chaired by the President to help identify incentives to foster private sector development in manufacturing, mining, and tourism industries. To increase agricultural productivity, formulation of the Comprehensive Agriculture Transformation Program (CATP) aimed at extending service support, access to finance and development will be completed by end-December 2023.

17. In the energy sector, the authorities have operationalized the open grid to allow Independent Power Producers (IPPs) to directly sell electricity to buyers. In the meantime, the authorities are investing in additional power generation infrastructure and promoting the use of alternative green and renewable energy sources to make the energy sector diversified and more resilient to shocks.

18. The authorities plan to introduce a Climate Change Bill that will provide a legal framework for the country's climate actions and ensure that both mitigation and adaptation strategies are integrated into national policies. That said, they view further Fund support under the RST as important to support their climate mitigation and adaptation efforts considering the country’s susceptibility to climate shocks.

19. The authorities have taken steps to improve governance and remain committed to implementing the recommendations from the Diagnostic Report on Governance and Corruption. In this regard, they submitted the draft Access Information Bill to Parliament in

November 2023. They have also prioritized the implementation of other recommendations, including preparing a comprehensive reform strategy to strengthen the independence of the judiciary and national prosecution authority by end-December 2025, mandating the use of the IFMIS system for transactions, mandate the regular external publication of tax expenditure reports on measures that will yield significant revenue and submission of the Anti-Corruption Act to Parliament by March 2025.

20. The authorities remain committed to establishing a dedicated Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) supervision unit by end-2023. The unit is geared to address the deficiencies identified in the 2019 Financial Action task Force (FATF) Mutual Evaluation.

CONCLUSION

21. The authorities reiterate their commitment to the objectives of the ECF arrangement and the timely completion of the debt restructuring process. They look forward to further Fund technical support to help address attendant constraints to growth and unlock the country's growth and development potential.