

OP-ED: ZAMBIA REACHES A STAFF-LEVEL AGREEMENT ON AN EXTENDED CREDIT FACILITY ARRANGEMENT WITH THE INTERNATIONAL MONETARY FUND (IMF)

On the 3rd of December 2021, Zambia and the International Monetary Fund (IMF) reached a **Staff-Level Agreement for a three-year program** under the Extended Credit Facility (ECF) for US\$ 1.4 billion. According to the IMF, the agreement is based on Zambia's plans to undertake **"bold and ambitious economic reforms"**. It is worth noting that the agreement is different from the US\$ 1.3 billion allocation of Special Drawing Rights (SDRs), which Zambia received from the IMF in August 2021. **The Extended Credit Facility (ECF) provides financial assistance to countries with protracted balance of payments problems.** The ECF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform mandate to make the Fund's financial support more flexible and better tailored to the diverse needs of Low Income Countries (LIC's), including in times of crisis. The ECF is the Fund's main tool for providing medium term support to LIC's.

The purpose of the ECF is **to support countries' economic programmes aimed at moving towards a stable and sustainable macroeconomic position consistent with strong and resilient poverty reduction and growth strategies.** The ECF may also help catalyze additional foreign aid inflows.

Access to ECF financing is determined on a case-by-case basis, taking into account the **country's balance of payment needs, the strength of its economic program and capacity to repay the Fund, the amount of outstanding Fund credit and the member's record of past use of Fund credit, and is guided by access norms.** Total access to concessional financing under the PRGT is limited to 100 percent of quota per year, and total outstanding concessional credit to 300 percent of

quota. These limits can be exceeded in exceptional circumstances, subject to hard caps of 133.33 percent of quota (annual) and 400 percent of quota (cumulative). The normal access limits were temporarily raised following the COVID-19 pandemic to accommodate increased financing needs. Access may be augmented during an arrangement if needed, subject to applicable limits.

This deal is designed to restore Zambia's macroeconomic stability and promote inclusive economic recovery. Therefore, there are several reasons why such a deal is good news for the Zambia. Firstly, in addition to providing the much needed liquidity in the economy, policies underpinning the **IMF deal will assist the Government in paying for needs related to**

healthcare and education, two critical pillars of human development. Further social sector spending can now be directed at vulnerable groups such as those with disabilities as well as women and youths, all of whom have disproportionately been affected by the COVID-19 Pandemic. Moreover, Zambia's Minister of Finance and National Planning, Dr. Situmbeko Musokotwane has indicated that the deal will reflect Government's implementation of decentralized programming under the Constituency Development Fund (CDF).

Secondly, the IMF deal has implications for Zambia's debt, something the country has been grappling with in the recent past. In the last quarter of 2020, Zambia became the first nation in Africa to default on its \$42.5 million Eurobond repayment during the COVID-19 pandemic due to challenges with its high debt servicing coupled with low fiscal space. This scenario is not different for the 2022 budget where over K78 billion has been allocated for debt service. **The IMF deal paves the way for debt restructuring talks with Zambia's external creditors, which are set to take place in the second quarter of 2022. Having such a deal in place will improve international confidence in Zambia's economy.** Ultimately, such a deal will move the economy to a **more sustainable growth path.**

It is important to note that a financing arrangement under the ECF usually carries zero interest with a grace period of 5½ years and a final maturity of 10 years. This means that Zambia will only be

required to repay the principle amount of US\$ 1.4 billion and will have significantly more time to do so thereby creating the much needed fiscal space for the growth of the economy. Furthermore, Zambia is not the first country to reach such a Staff Level Agreement on an ECF with the IMF. In February 2021, Pakistan and Kenya reached such agreements with the IMF for amounts of US\$ 6 billion and US\$ 2.4 billion respectively.

The Policy Monitoring and Research Centre (PMRC) supports Zambia's Staff-Level Agreement on an **Extended Credit Facility Arrangement with the IMF as it will go a long way in stimulating economic transformation for Zambia, achieving debt sustainability, and a more resilient and inclusive economy.**



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