



IMF EXECUTIVE BOARD APPROVES NEW EXTENDED CREDIT FACILITY (ECF) ARRANGEMENT FOR ZAMBIA

PRESS STATEMENT

FOR IMMEDIATE RELEASE

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The International Monetary Fund (IMF) has approved SDR 978.2 million (about US\$1.3 billion) 38-month Extended Credit Facility (ECF) arrangement. This has been achieved under the background of years of rapid debt accumulation and high deficit spending, which saw Zambia becoming Africa's first pandemic-era sovereign to default after it missed a **\$42.5 million coupon payment in November 2020. As of June 2022, Zambia's debt stock was \$13.25 billion external and K203.3 billion domestic debt.**

The 2022-2025, \$1.3 billion extended credit facility-supported program is centred on the home-grown economic reform plan. The primary goals are **to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth by addressing Zambia's most pressing macroeconomic challenges**, namely:

1. Unsustainable Debt.

Under the G20 Common framework, Zambia will renegotiate terms of loan contraction with its official and private creditors. This will be critical in restoring the country to the path of debt sustainability.

2. Constricted Fiscal Space

The adjusted plan under the ECF will re-establish sustainability through fiscal adjustment and debt restructuring and create fiscal space for social spending. This will ensure that more resources are available for the sustainability of the **free education policy, procurement of medicines and other essentials, and expansion of social protection services**, among others.

3. Low Private Sector Investment

The EFC will limit Government's desire for domestic credit, thereby reducing the risk of crowding out of private sector investments. The subsequent effect will be moderated interest rates and pumped up domestic private sector borrowing for investment. Further, the EFC will boost the influx of FDI, especially in the mining sector, through increased investor confidence and lowered country risk premium.

4. Credit Rating

The EFC will improve the country's credit rating and open doors for more concession loans and financing from development partners for the continued financing of the budget.

5. International Reserves

The EFC and its accompanying debt restructuring plan will boost the country's foreign reserves, making them more resilient financially. This implies that the country will be better positioned to mitigate financial volatilities, bubbles and panics for a more stable currency and stable inflation, among others.

Prominent Conditions and What the Government Has Done

1. Promote Decentralisation

In order to take development closer to the people, the Government has increased Constituency Development Fund (CDF) from **K1.6 million to K25.7 million per constituency**.

2. Support the International Agenda on Green Energy and Sustainable Development

The formation of the Ministry of Green Economy and Environment is a clear indication of the Government adherence towards achieving this condition and create a strong base for wealth generation, employment creation and poverty reduction through sustainable extraction and trade in key sectors such as forestry.

3. Enhanced and Transparent Fight against Corruption

In its quest to end corruption in the country, the Government is in the preliminary stage

of formulating the revised **National Anti-Corruption Policy (NACP)** to safeguard and protect public resources.

4. Subsidize only Sectors that are Under Stress

The Government has made progress towards this by eliminating some regressive fuel subsidies.

5. Good Governance through the Promotion of the Rule of Law

The Government has committed itself to undertake extensive and far-reaching reforms that will positively impact the country's governance system. This includes electoral reforms to tackle the weaknesses and structural limitations of the Electoral Commission of Zambia. Others will include reforms to the Public Order Act.

Recommendations

To ensure that the tenets of the Extended Credit Facility are achieved and yield the maximum benefits:

- PMRC urges the Government to expedite the alignment of the policy frameworks in **agriculture, mining, manufacturing, tourism and energy sectors to support growth during the Extended Credit Facility period.**
- The Government is urged to increase investment in the agriculture sector, especially towards irrigation mechanization services, to **mitigate overdependence on rain-fed and mono-cropping led agriculture policies.**
- Further, the Government is urged to channel more resources towards expanding the manufacturing sector by promoting agro-processing firms, mainly targeting areas endowed with resources like the Kalene Hills Fruit Company and Eastern Tropical Fruits Company.
- PMRC further urges the Government to explore and promote investment in Research and Development to facilitate the generation and creation of new products and services. The Ministry of Technology and Science should take the **lead in stimulating innovative ways of supporting Research and Development.**
- The Bank of Zambia is urged to continue pursuing measures to **restore financial market stability.**

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