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The International Monetary Fund (IMF) and Zambian government authorities reach a staff-level agreement on a \$1.4-billion, three-year extended credit facility. The Bank of Zambia (BoZ) (central bank) Monetary Policy Committee decides to raise the Monetary Policy Rate by 50 basis points to 9.0 at its 22-23 November meeting, citing the need to curb the inflation rate to single digits in 2022 and to be within the 6-8% target range by mid-2023. Commerce, trade and industry minister Chipoka Mulenga announces planned tax incentives for mining and pledges the government's commitment to be private sector driven and to develop the green economy. Health minister Sylvia Masebo announces Zambia's first cases of the Omicron coronavirus variant as Zambian health officials update the health advisory and boost measures to prevent the spread of the virus for a period of one month. The outlook for 2022 is promising for Zambia, with the economy projected to grow by 2.0%, underpinned by recovery in the mining, tourism and manufacturing sectors.

Zambia reaches staff agreement on \$1.4 billion ECF with IMF ...

The **International Monetary Fund (IMF)** and **Zambian** government authorities have reached a staff level agreement on a \$1.4-billion, three-year extended credit facility (ECF).¹ The agreement, announced on 3 December, is a step towards reaching a full overhaul of Zambia's debt-stricken economy. Zambia became **Africa's** first pandemic-era sovereign to default on foreign debt repayment in November 2020 when it failed to pay a \$42.5m coupon after expiry of the grace period (see *ARC Briefing Zambia November 2020*).

President **Hakainde Hichilema's** (2021-present) government began talks with the IMF in early November.² Hichilema's election victory in August was in part a rejection of Zambia's economic trajectory under the administration of former president **Edgar Lungu** (2015-2021), and reaching an agreement with the IMF was one of the key objectives in Hichilema's "*New Dawn*".³ Years of sluggish economic growth and government overborrowing from international institutions under Lungu and his predecessors drove Zambia's debt burden above 120% of annual economic output.⁴ Zambia's external debt includes around \$3 billion in international bonds, \$2.1 billion to multilateral lending agencies such as the IMF, and another \$3 billion to **China** and Chinese entities.

The staff-level agreement is subject to approval from the IMF management and executive board and receiving the necessary financial assurances.⁵ If agreed, it will provide much needed fiscal space for Hichilema, allowing him to pursue his ambitious programme of economic growth and job creation. IMF board approval will give Zambia access to highly concessional IMF financing and allow it to start accessing financial support from other multilateral and bilateral partners. Finance minister **Situmbeko Musokotwane** said the staff-level agreement paves the way for debt restructuring talks with Zambia's creditors:

¹ Times of Zambia, 4 Dec 2021

² Reuters, 3 Dec 2021

³ Source, ARC Zambia analyst

⁴ Reuters, 3 Dec 2021

⁵ Lusaka Times, 4 Dec 2021

*“Upon reaching an understanding with the creditors, including through the **G20 Common Framework for Debt Treatment**, the IMF Board will consider Zambia’s application for the ECF Programme.”⁶*

Investors and the international financial sector welcomed the agreement, which IMF mission chief for Zambia **Allison Holland** described as *“bold and ambitious”*. Former finance minister **Ng’andu Magande** similarly welcomed the staff level agreement, lauding the government’s political will and the IMF’s confidence in the new administration.

The **Bank of Zambia (BoZ)** (central bank) decided at its **Monetary Policy Committee (MPC)** meeting on 22-23 November to raise the monetary policy rate by 50 basis points to 9.0.⁷ In reaching its decision, the MPC cited the need to curb the inflation rate to single digits in 2022 and to be within the 6-8% target range by mid 2023, in line with the 2022 Budget Address. The committee took into account the “New Dawn” economic growth objective of maintaining economic sustainability. Although inflation is projected to decelerate sharply over the forecast horizon, it will continue to be at the upper limit of the target range.⁸

... and woos investors with new tax incentives

In a further bid to drum up support among potential investors, commerce, trade and industry minister **Chipoka Mulenga** has pledged his government’s commitment to develop the green economy and be private sector driven. Addressing the **Weber Wentzel Zambia** event (co-hosted by Zambia-based legal firm **Musa Dudhia & Co**) on 16 November, Mulenga, along with other high-level staffers, said Zambia wanted to regain the top spot in global copper at a time when the metal will be integral to the transition to electric cars.⁹ Mulenga told attendees that Zambia has created a green ministry to advance sun and wind energy production and promote green hydropower in areas not prone to drought.¹⁰

Mulenga emphasised the need to create a business environment conducive for business to thrive. Mulenga noted that Zambia’s tax and royalty laws, and inconsistent policies, had discouraged potential investors from entering the Zambian market.¹¹ Mulenga said in order to promote investment in the mining sector, the government would, with effect from 1 January, implement mining tax incentives that reintroduce the tax deductibility of Mineral Royalty Tax (MRT) for corporate income tax assessment purposes. The new tax rules will also increase from five years to ten years the period for which unutilised disallowed interest for the purpose of corporate income tax may be carried forward.¹² Potential investors will welcome the government’s willingness to reduce bureaucratic red tape, often seen as a barrier to entry for doing in Zambia.¹³ Mulenga said the government planned to streamline the process of setting up a business, including the number of licences required.¹⁴

While revival of the copper industry would bolster foreign exchange and government revenue, it also exposes Zambia’s economy to fluctuation in commodity prices. The Zambian economy was unable to pivot or absorb the downturn when copper prices dropped in March 2020 in response to the Covid-19 pandemic.¹⁵ However, the main message from Hichilema’s new government is that it takes investors’ concerns seriously and plans to create an environment for private-sector driven sustainable economic growth.¹⁶

⁶ Times of Zambia, 4 Dec 2021

⁷ BoZ, 23 Nov 2021

⁸ BoZ, 23 Nov 2021

⁹ Mining Weekly, 16 Nov 2021

¹⁰ Mining Weekly, 16 Nov 2021

¹¹ Mining Weekly, 16 Nov 2021

¹² Mining Weekly, 16 Nov 2021

¹³ Analyst, Zambia

¹⁴ Mining Weekly, 16 Nov 2021

¹⁵ Analyst, Zambia

¹⁶ Analyst Zambia

Omicron detected in Zambia

Global response to the latest variant of **Sars-Cov-2** is likely to stall economic recovery. Health minister **Sylvia Masebo** announced on 4 December that Zambia had detected its first cases of the **Omicron** coronavirus variant, thought to be a highly transmissible strain. The genomic sequencing laboratory at the **University of Zambia** reported that it had found the strain in three fully vaccinated people who had recently travelled abroad and tested positive for Covid-19 on their return to Zambia.¹⁷ Masebo, reflecting the sentiment of the **World Health Organization (WHO)**, warned that information on the new variant is still unclear, but:

“There is currently no information to suggest that symptoms associated with Omicron are different from those associated with other variants.”¹⁸

Masebo assured Zambians that the current vaccines available to the public were still effective against the new variant and cautioned members of the public to continue to adhere to public health and social measures.¹⁹ The health ministry published a health advisory on 30 November implementing stricter measures for a period of one month, at which time they will be reviewed:

- Heightened surveillance at all ports of entry;
- Travelers coming from high-risk (Omicron) countries will be quarantined for 10 days in designated place, at their own cost;
- All passengers arriving in Zambia are required to present a certificate demonstrating a negative COVID-19 test result dated less than 72 hours prior to arrival. Children under five years of age are exempt and will not need to produce a negative COVID-19 test on arrival;
- Local authorities and police services will continue inspection of all public places for adherence to public health measures for Covid-19 control and ensure the public spaces are fumigated;
- Masks to be worn in public spaces;
- All persons are required to provide proof of vaccination before entry into government buildings;
- Funerals and weddings to be restricted to 50 people and subject to approval by health authorities;
- Bars, taverns, restaurants, night clubs, cinemas casinos and stadia to adhere to public health measures. Bars, night clubs, discos are limited to operating from 18hrs to 20hrs and four times a week;
- Government will roll out and scale up nationwide vaccination for 2 million people by 25 December using areas of mass gatherings.²⁰

The **United States Centers for Disease Control and Prevention (CDC)** upgraded Zambia’s health risk classification in its travel guidance on 6 November, weeks after Zambia lifted its Covid-19 restrictions (see *ARC Briefing Zambia Nov 2021*). Since the WHO declared the pandemic on 11 March 2020, as of 8 December Zambia has recorded a total of 210,436 cases of Covid-19 in its population of roughly 18.9 million, with 3,668 Covid-19-related deaths and 206,501 recoveries.²¹

The health ministry aims to vaccinate 30% of the eligible population by the end of December.²² To date, the ministry has administered 871,881 doses of Covid-19 vaccines using **British-Swedish**-manufactured **AstraZeneca**, **United States**-based pharmaceutical company **Johnson&Johnson’s Janssen** vaccine and China’s **Sinopharm** vaccines.²³

¹⁷ Lusaka Times, 4 Dec 2021

¹⁸ Lusaka Times, 4 Dec 2021

¹⁹ Lusaka Times, 4 Dec 2021

²⁰ Republic of Zambia Ministry of Health

²¹ Africa CDC, 9 Nov 2021

²² Lusaka Times, 4 Oct 2021

²³ Africa CDC, 9 Nov 2021

Year in review and beyond...

Zambia headed in 2021 amid the mounting economic fallout from Covid-19, political related violence ahead of elections, and a debt crisis. Zambians were reeling from the impact of colossal debt, corruption, runaway inflation and a weak currency.²⁴ With civil liberties such as access to information and freedom of assembly under threat by the then ruling **Patriotic Front**, tension escalated when former president Lungu deployed defence force onto the streets, resulting in the death of several people. Many analysts forecast bloodshed and a long protracted political standoff, with Lungu not relinquishing power. However, the peaceful transition of power to Hichilema and Lungu's acceptance of defeat was a victory not only for the Zambian people but for **African** democracy. The youth vote was crucial, with many labeling it a protest vote against the status quo and lack of economic opportunity.²⁵

Hichilema quickly established a technocratic and slimmer government, focusing on turning the economy around with his New Dawn economic programme. The IMF staff agreement (see above) is a significant short-term victory for Hichilema and will reinforce his commitment to making changes. The renewed relationship with the mining community, severely strained under the previous administration due to dispute over the tax regime, is also a welcome development going into 2022.²⁶

In 2022 the focus will be on the development of the New Dawn economic agenda and Hichilema's ability to keep his promise to create jobs and empower the youth. Zambia promised to slash its budget deficit and curb borrowing in a bid to secure IMF support. Reduction of spending on politically-sensitive subsidies – such as on power, fuel and farming – is likely to have been one of the IMF's key demands. Hichilema will need to protect those who voted him into power and win them over for the long run, striking a balance between preserving his political gains and presenting austerity measures to please the IMF and international lenders. The government will need to channel resources towards the critical sectors of health, education, agriculture and Infrastructure.²⁷

The outlook for 2022 is promising, with the economy projected to grow by 2.0% in 2022, underpinned by recovery in the mining, tourism and manufacturing sectors. Recovery in international demand for copper and higher copper prices are positive developments, while the impact of Covid-19 will need to be closely monitored.²⁸

²⁴ Source, Zambia analyst

²⁵ Source, Zambia analyst

²⁶ Source Analyst

²⁷ Source Analyst

²⁸ AFdB, Accessed, 8 Dec 2021

Planner

17-18 Feb 2022 **Lusaka (Zambia) Bank of Zambia MPC meets;**

Chronology

7 Dec 2021 **Lusaka (Zambia) Reuters. **Zambian** anti-graft authorities arrest former foreign minister **Joseph Malanji** for possession of property suspected to be proceeds of crime;**

7 Dec 2021 **Lusaka (Zambia) Reuters. Finance minister **Situmbeko Musokotwane** says **Zambia** may seek talks with creditors to extend its debt repayments after reaching a preliminary deal with the **International Monetary Fund** for a \$1.4 billion facility;**

7 Dec 2021 **Lusaka (Zambia) Mining Weekly. **United Kingdom**-based natural resources company **Vedanta** says it intends to support the **Zambian** government in its green energy transition goals;**

6 Dec 2021 **Lusaka (Zambia) Bloomberg. Finance minister **Situmbeko Musokotwane** urges citizens not to fear the tough reforms that will come with the preliminary bailout deal he has secured with the **International Monetary Fund**, even if it means fuel and electricity price hikes;**

5 Dec 2021 **Lusaka (Zambia) Lusaka Times. President **Hakainde Hichilema** is expected to travel to **Malawi** to meet President **Lazarus Chakwera** on 6 December where the heads of state will discuss trade and matters of mutual interest;**

3 Dec 2021 **Lusaka (Zambia) Times of Zambia. Government announces it has reached a staff-level agreement with the **International Monetary Fund** for a \$1.4 billion bailout package;**

1 Dec 2021 **Lusaka (Zambia) Lusaka Times. Energy minister **Peter Kapala** announces the appointment of a new **board of directors** for national energy producer **ZESCO**;**

1 Dec 2021 **Lusaka (Zambia) Times of Zambia. Transport minister **Frank Tayali** relaunches **Zambia Airways** in a bid to make **Zambia** a manufacturing and distribution hub in the sub-region.**

4 Dec 2021 **Lusaka (Zambia) Lusaka Times. Health minister **Sylvia Masebo** says Zambia has detected three **SARS-CoV-2 Omicron** variant isolates among samples from individuals who tested positive for **COVID-19** in the past week;**

26 Nov 2021 **Lusaka (Zambia) News Diggers. Energy minister **Peter Kapala** says **Zambia** will place its sole 24,000 barrel per day **Indeni Petroleum Refinery** on care and maintenance under reforms aimed at increasing security of fuel supply;**

11 Nov 2021 **Lusaka (Zambia) Reuters. UN News. Green economy and environment minister **Collins Nzovu** is elected chair of the **African Group of Negotiators** for two years; the group of 54 nations allows the continent to negotiate as one bloc during climate change negotiations.**

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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