

AFRICA RISK CONSULTING

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Zambia Summary 10 September 2021

President Hakainde Hichilema (2021-present) unveils his new cabinet, which includes Situmbeko Musokotwane as Zambia's new finance minister and Paul Chanda Kabuswe as minister of mines and minerals. Musokotwane prioritises talks with the International Monetary Fund (IMF) and debt restructuring. Hichilema dismisses the inspector general of police, as well as top army, airforce and national service commanders, and designates Francis Chipimo to serve as governor of the Bank of Zambia (BoZ) (central bank) following the resignation of Christopher Mvunga after just a year in the position. The BoZ Monetary Policy Committee (MPC) decides to keep the Monetary Policy Rate (MPR) at 8.5%. Zambia records declining numbers of new Covid-19 infections amid a vaccination programme with low momentum.

Hichilema unveils his cabinet

Newly elected President **Hakainde Hichilema** (2021-present) unveiled his full cabinet on 8 September.¹ Hichilema has promised a “*new dawn*”, promising to clean up government and crack down on corruption.² Response to the new cabinet has generally been positive, and investor confidence in **Zambia's** economy, hard-hit by the **Covid-19** pandemic, is expected to increase. Key among the new cabinet appointments is that of **Situmbeko Musokotwane** on 28 August as Zambia's new finance minister.³ Musokotwane held the position from 2008 to 2011 and is regarded as a “*safe pair of hands*”, inviting expectations that he will be able to implement Hichilema's promise to bring public spending and budget deficit under control.⁴

Zambian and international stakeholders alike have welcomed Musokotwane's appointment given his extensive and positive track record. Musokotwane served Zambia's deputy central bank governor from 2008 to 2011 and held positions as alternate governor and advisor at the **International Monetary Fund (IMF)**.⁵ In an interview aired on 29 August on state-owned **Zambia National Broadcasting Corporation (ZNBC)**, Musokotwane assured Zambians that he is “*confident*” in securing a deal with the IMF before the end of the year.⁶

Other notable cabinet appointments include **Paul Chanda Kabuswe** as the new minister of mines and minerals. With copper accounting for 70% Zambia's export earnings, the portfolio carries significant responsibility.⁷ Zambia produced 882,061 tonnes of copper in 2020 and aims to produce 900,000 tonnes in 2021.⁸ Hichilema has stated that his administration aims to double copper output by 2026. Currently elevated copper prices (\$9,515 per tonne at time of writing) should help finance minister Musokotwane implement his plans for economic reform.⁹

Hichilema has trimmed the cabinet to just 17 members, scrapping the ministries of religious affairs and gender.¹⁰ Hichilema has created the ministry of small and medium enterprises development to

¹ Lusaka Times, 8 Sep 2021

² Lusaka Times, 24 Aug 2021

³ Al Jazeera, 28 Aug 2021

⁴ Source, analyst, Zambia

⁵ Bloomberg, 29 Aug 2021

⁶ Reuters, 29 Aug 2021

⁷ Reuters, 29 Aug 2021

⁸ Mining Weekly, 23 Feb 2021

⁹ Source, analyst, Zambia

¹⁰ Lusaka Time, 6 Sep 2021

facilitate growth and help smaller and medium size business, which is anticipated to boost job creation.¹¹ The newly added ministry of technology and sciences also aims to be an economic catalyst and create opportunities for youth in the tech space.¹²

Hichilema's lean cabinet includes engineering consultant **Peter Kapala** as energy minister, **Mike Elton Mposha** as water development minister and **Ambrose Lwiji Lufuma** as minister for defence.¹³ **Jack Mwiimbu** is the new home affairs minister, while **Stanley Kakubo** will head the ministry of foreign affairs. **Sylvia Masebo** is Zambia's new health minister, with the responsibility of steering Zambia through the **Covid-19** pandemic (see below). As the new ministers took their oath of office at **State House in Lusaka**, Hichilema warned against inflating prices in the procurement process, which he said has hindered the country's development process:

*"Corruption will not be tolerated. There will be no sacred cows."*¹⁴

In keeping with his pledge to be tough on corruption, Hichilema has started to clean up government. He fired top army, air force and national service commanders as well as police inspector general **Kakoma Kanganja** on assuming the presidency, announcing on 29 August the appointment of **Dennis Alibuzwi** as new army commander, **Collins Barry** as **Zambian Air Force (ZAF)** commander, **Patrick Solochi** as **Zambia National Service (ZNS)** commander, and **Remmy Kajoba** as inspector general of police.¹⁵ Hichilema has also designated **Francis Chipimo** as **Bank of Zambia (BoZ)** (central bank) governor following the resignation on 7 September of **Christopher Mvunga**, who was in the position for just over a year.¹⁶

Hichilema has promised to allow parliament to operate independently, without fear or favour, and to focus on improving the lives of the community.¹⁷ Hichilema opened the **National Assembly** on 10 September, outlining the government's vision and five-year plan.¹⁸ **Nelly Mutti** was elected unopposed on 3 September as Zambia's first female speaker, replacing **Patrick Matibini** who served for 10 years. Mutti was sworn in along with her two deputies, **Attractor Chisangano**, a member of Hichilema's **United Party for National Development (UPND)**, and **Moses Moyo**, who was elected to parliament as an independent candidate.¹⁹ Mutti, a human rights lawyer and former chairperson of **The Anti-Corruption Commission (ACC)**, will preside over a parliament that requires the support of opposition benches – mainly the **Patriotic Front**, which won 38.71% of the vote in the August election – if it wants to enact any constitutional changes.²⁰

Bank of Zambia holds MPR at 8.5% amid focus on economic recovery ...

Zambia's new financial leaders have a challenging task ahead of them in charting the country's economic recovery. Zambia, Africa's second largest copper producer, in November 2020 became the first country in the pandemic era to default on servicing its Eurobond debt (see *ARC Briefing Zambia November 2020*). Zambia's total external debt – measured at \$27 billion by the **World Bank**²¹– includes \$3 billion in Eurobonds and \$3.5 billion in bilateral debt.²² A further \$2.1 billion is owed to multilateral lending agencies and \$2.9 billion to commercial banks. The World Bank also includes \$15 billion in "private not guaranteed" debt as well as significant lending to **Chinese** entities.²³ New finance minister Musokotwane will have to oversee the country's fiscal readiness and has promised to

¹¹ Lusaka Time, 6 Sep 2021

¹² Lusaka Times, 7 Sep 2021

¹³ Times of Zambia, 8 Sep 2021

¹⁴ Daily Nation, 8 Sep 2021

¹⁵ The Standard, 30 Aug 2021

¹⁶ The Business Telegraph, 8 Sep 2021

¹⁷ Lusaka Time, 8 Sep 2021

¹⁸ Reuters, 8 Sep 2021

¹⁹ Lusaka Times, 8 Sep 2021

²⁰ Reuters, 6 Sep 2021

²¹ World Bank, accessed 11 Sep 2021

²² Al Jazeera, 29 Aug 2021

²³ World Bank, accessed 11 Sep 2021

deliver a budget within 90 days of being sworn in.²⁴ Securing a lending programme with the IMF will boost investor confidence; however, Musokotwane has acknowledged that the government does not have the money to repay the next \$750m installment of its Eurobond debt:

“This is why it is important that we get on (an) IMF (programme) so that we can re-arrange not to pay next year. I am 100 percent confident that it will be done.”²⁵

While international donors will be looking to Musokotwane for cost-cutting measures and a streamlined budget, Hichilema’s new finance minister will also have to focus on job creation for the youth, a demographic that was instrumental in the president’s landslide victory.²⁶ Musokotwane faces a delicate balancing act of appeasing both the electorate and investors.²⁷

At its last meeting under the leadership of now former governor Christopher Mvunga on 30-31 August, the Bank of Zambia’s Monetary Policy Committee (MPC) decided to hold the Monetary Policy Rate (MPR) at 8.5%.²⁸ In its statement released on 1 September, the MPC said it took the decision in view of subdued economic activity and existing vulnerabilities in the financial system.²⁹ The BoZ expects inflation to slow down and move closer to the target range projected in the May 2021 MPC meeting, a range between 6 and 8%.³⁰

The MPC cited several factors that informed its decision:

- **Recovery in global growth momentum:** The global economy continued to register gains in Q2 2021 amid successful vaccination campaigns against Covid-19 in most advanced countries. Global growth is projected at 6% in 2021, and expected to moderate to 4.9% in 2022;
- **Domestic economic activity weak but recovery expected in medium-term:** Zambia’s real GDP is projected to recover beginning 2021 on the back of strong performance in information and communication, electricity, education as well as public administration sectors;
- **Demand for Zambian government securities:** Demand for Zambian government securities was relatively stronger in Q2 2021 than in Q1 2021 on the back of improved domestic liquidity conditions and increased interest from non-resident investors. Subscription rates to Treasury bill and government bond auctions improved to 112% and 70% from 80.8% and 30.0%, respectively;
- **Interest rates decline:** Interest rates, including yield rates on treasury bills and government bonds and commercial banks’ nominal average lending rate, declined, while the average 180-day deposit rate remained broadly unchanged;
- **Pace of kwacha depreciation slows down:** The kwacha has appreciated sharply mainly due to significant inflows from non-resident investors in government bonds and improved market sentiments. Between 1 July and 31 August, the kwacha strengthened by 29.6% to K15.94 per United States dollar.³¹

The BoZ said it remains committed to adjusting the MPR upwards if the disinflationary process is slower than projected.³² Decisions on the policy rate will continue to be guided by inflation forecasts, outcomes, and identified risks, including those associated with financial stability and the Covid-19 pandemic. Implementation of fiscal adjustment measures are hinged on fiscal discipline, reduction of domestic debts, increasing revenue collections, securing an IMF programme, external debt

²⁴ Lusaka Times, 29 Aug 2021

²⁵ Reuters, 29 Aug 2021

²⁶ Source, analyst, Zambia

²⁷ Source, analyst, Zambia

²⁸ BoZ, 1 Sep 2021

²⁹ BoZ, 1 Sep 2021

³⁰ BoZ, 1 Sep 2021

³¹ BoZ, 1 Sep 2021

³² BoZ, 1 Sep 2021

restructuring and attaining a budget balance remain critical to restoring macroeconomic stability.³³ The next MPC meeting is scheduled for 15- 16 November.

Covid infections decreasing

The number of daily new Covid-19 cases is decreasing in Zambia, with 122 new infections reported on 10 September, just 4% of the highest daily average recorded on 27 June. As of 10 September, Zambia had recorded a total of 207, 560 Covid-19 infections in its population of roughly 18.9 million, with 3,623 Covid-19-related deaths.³⁴ Although the rollout of Zambia's Covid-19 vaccination drive is credited with bringing down the number of new infections, the vaccination rate remains low. Zambia has administered at least 649, 919 doses of vaccines, accounting for about 1.8% of the population.³⁵

Zambians continue to face restrictions and curfews to stem the spread of the coronavirus. Zambia's borders are open, but under tight restrictions. Tourist and business visitors' visas are available in advance and on arrival in Zambia. All visitors to Zambia must have proof that they have tested negative for Covid-19 in the 72 hours prior to their arrival. Visitors are responsible for monitoring their condition for 14 days after arrival and are required to report any Covid-19 symptoms they experience to medical authorities. Although all airports are open to flights, the availability of international flights remains limited.

Planner

15-16 Nov 2021 **Lusaka (Zambia) Bank of Zambia MPC meets;**
17 Nov 2021 **Lusaka (Zambia) Bank of Zambia MPC media briefing;**

Chronology

10 Sep 2021 **Lusaka (Zambia) Reuters.** President **Hakainde Hichilema** makes his first address to the **National Assembly**, promising to cut the deficit, renew mining and rebuild the economy as top priorities;

8 Sep 2021 **Lusaka (Zambia) Times of Zambia.** President **Hakainde Hichilema** unveils cabinet of 17 ministers, with **Situmbeko Musokotwane** appointed finance minister;

7 Sep 2021 **Lusaka (Zambia) Reuters.** President **Hakainde Hichilema** appoints lawmaker **Paul Chanda Kabuswe** as new mines minister and says central bank governor **Christopher Mvunga** has resigned;

1 Sep 2021 **Lusaka (Zambia) BBC.** In an interview with the BBC, President **Hakainde Hichilema** says he has inherited an empty treasury and that there have been "*horrific amounts of money stolen*";

24 Aug 2021 **Lusaka (Zambia) eNCA.** Newly elected president **Hakainde Hichilema** is sworn in, pledging to rebuild the ailing economy and alleviate poverty;

24 Aug 2021 **Lusaka (Zambia) Times.** **South African** opposition party **One South Africa Movement** leader **Mmusi Maimane** says "*There's a wind blowing across SADC. Across Africa*" at the inauguration of President **Hakainde Hichilema**, attended by many African opposition politicians;

19 Aug 2021 **Lusaka (Zambia) Bloomberg.** **Zambia's** kwacha extends gains versus the dollar, making it the world's best- performing currency since **Hakainde Hichilema** was announced the winner of the 12 August presidential vote;

³³ BoZ, 1 Sep 2021

³⁴ Africa CDC, 10 Sep 2021

³⁵ Africa CDC, 10 Sep 2021

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