

AFRICA RISK CONSULTING

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Zambia Summary 13 December 2024

Bank of Zambia (central bank) governor Denny Kalyalya plans to double down on efforts to reduce Zambia's reliance on the United States (US) dollar, fearing that a rally in the US dollar driven by president-elect Donald Trump's (2017-2021) recent election victory may put a strain on the economy. France and Zambia sign a bilateral debt restructuring agreement as part of Zambia's efforts to restructure \$13 billion in external debt. International Monetary Fund (IMF) resident representative in Zambia Eric Lautier says the IMF forecasts a very strong economic recovery for Zambia with a projected 6.2% GDP growth in 2025 from 1.2% in 2024, driven by a recovery in agriculture and investments in mining. Zambia's Constitutional Court bars former president Edgar Lungu (2015-2021) from standing in future presidential elections, ruling that he is ineligible to run for another term in office.

Central bank warns of stronger dollar effects on economy

Bank of Zambia (BoZ) (central bank) governor **Denny Kalyalya** plans to double down on efforts to reduce **Zambia's** reliance on the **United States (US)** dollar, fearing that a rally in the US dollar driven by president-elect Donald Trump's (2017-2021) recent election victory may put a strain on the economy. A stronger dollar could hinder Zambia's ability to get cheaper financing after being locked out of international capital markets because of high borrowing costs and a default in 2020.

Kalyalya claims that a strengthening dollar will draw away capital flows from Zambia and contribute to further inflation.¹ Annual inflation, which stood at 16.5% in November, has been above the central bank's 6%-8% target since April 2019, while the kwacha has been on a losing streak throughout 2024, further fuelling inflation already near a three-year high because of a severe drought. The BoZ **Monetary Policy Committee (MPC)** has been hiking interest rates for the past two years in a bid to contain inflationary pressures, except in August where it maintained the policy rate at 13.5%. On 13 November, the BoZ increased the benchmark policy rate by 50 basis points to 14%, taking the key interest rate to the highest level since 2017 (see *ARC Briefing Zambia Nov 2024*).

Globally, emerging market currencies have come under pressure as investors bet Trump's win will deliver the higher tariffs he promised while campaigning for the presidency, stoking inflation and limiting the **Federal Reserve's** ability to cut US interest rates.² Kalyalya said Zambia and other **African** countries are working on ways to reduce their reliance on the US dollar and promote local currencies as a way to counter the potential effects of a stronger dollar. In 2022, African countries launched the **Pan-African Payments and Settlements System (PAPSS)**, a payment system that removes the dollar from cross-border African transactions and could save the continent up to \$5 billion in processing costs.³ The PAPSS, an initiative under the

¹ Bloomberg 13 Nov 2024

² African Business. 6 Nov 2024

³ Bloomberg. 6 Nov 2024

new **African Continental Free Trade Area**, would avoid routing regional cross-border payments offshore for clearing via US or **European** banks.

Kalyalya said Zambia is looking at ways to promote the use of the kwacha, and is already trying to restrict the use of foreign currencies in domestic transactions, which creates local dollar shortages and weakens the kwacha. The BoZ announced on 28 June that it was drafting new rules to curb the use of foreign currencies in local transactions, particularly the US dollar, in a bid to stabilise the kwacha (see *ARC Briefing Zambia Jul 2024*).⁴ The finance and national planning minister will reportedly issue the new currency regulations as a statutory instrument. Once it comes into force, it will require the Zambian kwacha and its subunit, the ngwee, to be used for all domestic public and private transactions.

Zambian authorities adopted a similar move in 2012 implementing foreign exchange restrictions but abolished them less than two years later.⁵ Local businesses from car dealers to mall landlords and hotels often charge in dollars, shunning the unstable local currency and driving up demand for dollars. The central bank has raised concern over the increasing use of the dollar within the local economy, claiming that it undermines its monetary policy tools and exerts pressure on the exchange rate.

Zambia has faced severe currency volatility over the past five years, driving up the cost of imports and fanning inflation, which neared a two-and-a-half-year high in June.

Zambia and France sign bilateral debt restructuring deal

Finance minister **Situmbeko Musokotwane** and the head of the department for multilateral affairs, trade and development policies at the **French** Treasury, **William Roos**, signed a bilateral debt restructuring agreement in **Lusaka** on 8 December as part of Zambia's efforts to restructure \$13 billion in external debt after Zambia became the first African nation to default during the **Covid-19** pandemic in 2020. The deal with France is the first that Zambia has signed with official bilateral creditors ranging from **China** to **Saudi Arabia** and **India**. The historic agreement marks the first concluded under the memorandum of understanding (MoU) agreed in October 2023, paving the way for the finalisation of an additional 15 agreements with other creditor nations.⁶

Under the deal with official creditors, Zambia's debt maturity will be extended for an average of 12 years to 2040 and beyond. Interest rates will be 1% for the next 14 years and will not exceed 2.5%. These agreements, currently under negotiation, are crucial for delivering comprehensive debt treatment designed to bolster Zambia's economic recovery efforts. Roos highlighted France's commitment to fostering collaboration and ensuring equitable outcomes for Zambia. Musokotwane hailed the agreement as a vital step in addressing Zambia's debt sustainability challenges, underscoring its importance in providing the fiscal space needed to prioritise economic recovery, social investments, and sustainable development initiatives:

*"This agreement is a testament to the power of international cooperation in tackling the debt sustainability challenges faced by developing nations."*⁷

Zambia pulled itself out of default in June after a debt restructuring process that took more than three-and-a-half years with the protracted debt rework deterring investment and constraining economic growth. At the start of the debt restructuring process, \$13.1 billion was to be subject to renegotiation. So far, \$11.69 billion has been restructured, representing 89% of the original

⁴ Bloomberg, 29 Jun 2024

⁵ Reuters. 19 Mar 2014

⁶ Reuters. 14 Oct 2023

⁷ Lusaka Times. 9 Dec 2024

debt that was to be subjected to treatment. Accounting firm **PwC** estimates that the total amount payable for external debt service in 2025 is K16.7 billion(\$634m), representing 7.7% of the total expenditure for the year and 9.6% of projected domestic revenues.⁸

IMF sees strong recovery in Zambian economy

International Monetary Fund (IMF) resident representative in Zambia **Eric Lautier** says the IMF is forecasting a very strong economic recovery for Zambia with a projected 6.2% GDP growth in 2025 from 1.2% in 2024. The **El Nino**-induced drought that affected **Southern Africa** in the 2023/24 season heavily impacted Zambia. The agriculture sector contracted by 20.6 % this year and the electricity sector is expected to shrink by 9.6%. Lautier said the IMF's projection was anchored on the expected recovery of the agriculture sector and investments taking place in mining:

*"You know that the economy has been severely impacted by the drought and so this has reduced agricultural output. We also had the electricity shortages that impacted the economy widely in 2024."*⁹

The IMF's board expected to meet by mid-December to conclude the fourth review of an Extended Credit Facility arrangement for Zambia after the IMF reached a staff-level agreement with the country. In November, the IMF said that the fourth review would pave the way for the disbursement of \$185.5m under a 38-month IMF-supported programme (see *ARC Briefing Zambia Nov 2024*).¹⁰ The IMF completed a third review of Zambia's Extended Credit Facility in June and approved an immediate disbursement of roughly \$569.6m. At the time, the IMF board also approved a request to increase its financial support from \$1.3 billion to \$1.7 billion to help Zambia respond to a severe drought.

Court bars Lungu from running for president again

Zambia's highest court on 10 December barred former president **Edgar Lungu** (2015-2021) from standing in future presidential elections, ruling that he is ineligible to run for another term in office. The **Constitutional Court** ruled that Lungu's first term, which he served from 2015 to 2016 after the death of president **Michael Sata** (2011-2014), counted as a full term.¹¹ Lungu's second term was from September 2016 to August 2021. He lost the presidency to **United Party for National Development (UPND)** candidate, President **Hakainde Hichilema** (2021-present) in the 2021 national election. Lungu announced in October 2023 that he would be returning to politics with the intention of running as president again.

Lungu condemned the Constitutional Court's decision in a social media post, accusing the judiciary of being manipulated by political forces, prioritising partisan interests over constitutional integrity.¹² He pointed to the strategic reshuffling of judges, claiming it was orchestrated to guarantee a pre-determined outcome. Hichilema sacked three Constitutional Court judges in October over alleged judicial misconduct, drawing further accusations of political interference in the judiciary. The three judges presided over a presidential petition in 2016 in which they dismissed Hichilema's challenge against Lungu's election victory.¹³ They also took part in a controversial ruling allowing Lungu to stand in the 2021 elections, despite strong objections from the opposition that he had already served his two terms.

⁸ PwC. 28 Sep 2024

⁹ Diggers. 20 Nov 2024

¹⁰ Bloomberg. 12 Nov 2024

¹¹ Reuters. 10 Dec 2024

¹² Lusaka Times. 10 Dec 2024

¹³ BBC. 22 Oct 2024

Following the court's recent decision, Lungu said he will activate a "Plan B", without explaining what his plans were.

2025 outlook

Zambia will start gearing up for its 2026 election, but Hichilema has consolidated power ahead of the election and it is already expected that he and the UPND will retain power. There may be some political jockeying from Lungu, but the aforementioned ruling will make any attempt to run nearly impossible.

It is also expected that Zambia will sign debt restructuring deals in 2025 with the rest of the official bilateral creditors after successfully signing its deal with France. The economy is also expected to recover strongly in 2025, driven by the recovery in the agricultural sector. This will bolster the kwacha and inflation should come down, allowing space for monetary easing. Zambia's IMF programme will also be coming to an end towards end-2025 and the country will likely seek another programme.

Planner

3-6 Feb 2025 **Cape Town (South Africa)** Mining Indaba 2025

Feb 2025 Lusaka (**Zambia**) **Bank of Zambia** (central bank) Monetary Policy Committee meets.

Chronology

11 Dec 2024 **Lusaka (Zambia)** *Diggers*. **Copperbelt** police commissioner **Peacewell Mweemba** confirms that three illegal miners have died after the earth collapsed on them while conducting mining activities near **Black Mountain** in **Kitwe**;

10 Dec 2024 **Lusaka (Zambia)** *Diggers*. **Non-governmental Gender Organisations' Coordinating Council (NGOCC)** executive director **Anne Anamela** says the proposed **Cybercrimes Bill** presents risks to good governance and democracy as it grants excessive power to state agencies;

10 Dec 2024 **Lusaka (Zambia)** *Bloomberg*. Secretary to the Treasury **Felix Nkulukusa** says Zambia is looking to remedy an erroneous payment of \$80m from state-owned power utility **Zesco Ltd** to **China**;

9 Dec 2024 **Lusaka (Zambia)** *Times of Zambia*. **KoBold Metals**, backed by a coalition of billionaires including **Bill Gates** and **Jeff Bezos**, signs a Memorandum of Understanding (MoU) with **Africa Finance Corporation (AFC)** committing to anchor the commercial viability of the **Zambia-Lobito** rail project with more than 300,000 tonnes of copper per year from its **Mingomba Mine**;

9 Dec 2024 **Lusaka (Zambia)** *Lusaka Times*. **Konkola Copper Mines (KCM)** officially relaunches its Konkola Business Unit operations in **Chililabombwe**, marking a significant milestone in its commitment to revitalising the mine as the company plans to invest approximately \$700m to unlock the full potential of the mine over the next five years;

8 Dec 2024 **Lusaka (Zambia)** *Diggers*. State-owned power utility **Zesco Ltd** says it has indefinitely lost power imports of up to 300 megawatts from **Mozambique** state-owned energy company **EDM** after post-election protests in that country disrupted output of two power plants supplied by natural gas;

6 Dec 2024 **Lusaka (Zambia) Diggers**. Tanzania's **National Food Reserve Agency (NFRA)** has notified the **Zambian** government of its move to stop supplying maize due to Zambia's failure to fulfill contractual obligations regarding payment;

6 Dec 2024 **Lusaka (Zambia) Diggers**. State-owned power utility **Zesco Ltd** announces it has reported relative power stability which will enable it to supply electricity for seven hours a day to its residential customers from the current three hours, following the completion of maintenance works on the **Zambian-Namibia** interconnector;

6 Dec 2024 **Lusaka (Zambia) Diggers**. The government defers the **Cyber Security Bill** and the **Cyber Crimes Bill** to a later stage with home affairs and internal security minister **Jack Mwiimbu** saying the ruling **United Party for National Development (UPND)** administration is a "listening government and heard the genuine concerns from stakeholders";

5 Dec 2024 **Lusaka (Zambia) Diggers**. President **Hakainde Hichilema** participates in the **Lobito Trans-Africa Corridor** summit convened by the **Angolan** government, where **United States** president **Joe Biden** announces an additional \$600m in funding for infrastructure projects along the corridor;

3 Dec 2024 **Lusaka (Zambia) Diggers**. Outgoing state-owned power utility **Zesco Ltd** managing director **Victor Mapani** bids farewell to the utility company following the expiration of his contract on 2 December after serving in the position since 2021;

3 Dec 2024 **Lusaka (Zambia) Diggers**. **Democratic Republic of Congo (DRC)** soldiers have killed a **Zambia National Service (ZNS)** officer in **Chichele** plantation in **Kawama, Masaiti District** after an exchange of gunfire;

2 Dec 2024 **Lusaka (Zambia) Diggers**. The government signs a 25-year concession agreement with **Borderway Capital Investments** to upgrade 111 km of the **Solwezi-Kipushi** gravel road in **North-Western Province** and the **Kipushi border** post for \$145m using the PPP financing model;

29 Nov 2024 **Lusaka (Zambia) Diggers**. **Nitrogen Chemicals of Zambia (NCZ)** CEO **Chanda Mongo** says the company has embarked on a programme to establish a blending plant that will be producing 144,000 metric tonnes of fertilizer and a granulating plant that will be producing the same quantity;

28 Nov 2024 **Lusaka (Zambia) Diggers**. Health minister **Elijah Muchima** says Zambia is expected to receive three million doses of cholera vaccines from **China** in December;

28 Nov 2024 **Lusaka (Zambia) Diggers**. **Swedish** state secretary to the minister for international development cooperation and foreign trade, **Diana Janse**, says Sweden will contribute approximately 2.25 billion krona (\$206m) to Zambia through development cooperation between 2024 and 2028;

28 Nov 2024 **Lusaka (Zambia) Moneyweb**. Statistician general **Sheila Mudenda** says annual inflation rose to 16.5% in November compared to 15.7% in October, its highest level in three years;

27 Nov 2024 **Lusaka (Zambia) Reuters**. **United Kingdom**-based **Standard Chartered** is exploring a potential divestment of its wealth and retail banking operations in **Zambia, Botswana** and **Uganda** as it looks to free up capital in the midst of a broad shake-up;

25 Nov 2024 **Lusaka (Zambia) Mining Weekly**. State-owned energy utility **Zesco** says Zambia suffered a nationwide power outage on 24 November following a power system disturbance;

22 Nov 2024 **Lusaka (Zambia)** *Times of Zambia*. Zambia signs a Memorandum of Understanding (MoU) with **Singapore** towards initiating negotiations of a bilateral agreement between the two countries for Article 6 Cooperative Approaches under the **Paris Agreement**;

21 Nov 2024 **Lusaka (Zambia)** *Africa News*. Independent member of parliament (MP) **Emmanuel Banda** is arrested in **Zimbabwe** after escaping custody earlier this year while facing robbery charges;

19 Nov 2024 **Lusaka (Zambia)** *Mining Weekly*. **Japan's Mitsui & Co.** is reportedly the highest bidder for a 20% stake in **Canada's First Quantum Minerals'** Zambian copper mines;

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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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