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Ratings' agency Moody's downgrades Zambia's foreign currency debt outlook to B3 negative, the second downgrade in a row. The government and the International Monetary Fund (IMF) reach an agreement on a bail out scheme which the government will implement in Q4 of 2016. A series of alleged ritual killings spark riots in Lusaka targeting shops owned by foreign nationals. The riots leave two dead, 50 injured and 254 in police custody. President Edgar Lungu (2015-present) deploys the army to control the situation. The government presents a statutory instrument to parliament controlling the price and export of maize following a drastic increase in the price of the staple across 2016. The government suspended all exports of maize from 5 to 13 April while it carried out a full audit of the country's maize reserves.

Moody's downgrade pushes government towards IMF bail-out

Ratings' agency **Moody's** downgraded **Zambia's** foreign currency debt outlook to B3 with a negative outlook on 19 April.¹ This is the second concurrent downgrade the agency has issued since it downgraded the outlook to B2 in September 2015.² It also lowered Zambia's long term foreign currency bond ceiling to B1 from BA3. The ratings agency explained its decision on the basis that all of Zambia's credit metrics had deteriorated beyond its predictions between September 2015 and April 2016. Moody's projects that they will continue for at least the next two years due to the ongoing shock to the economy of the low price of copper and the power crisis, as well as the government's history of missing fiscal targets (*see ARC Briefing Zambia October 2015, January and February 2016*).³ Lowered ratings increase the yield on Zambia's foreign denominated debt. The country is highly exposed on the bond markets following two large **United States (US)** dollar denominated bond releases in 2012 and 2015.⁴ According to the finance ministry Zambia's debt stock was \$6.6 billion at the end of March, a marginal increase from \$6.4 billion in December 2015.⁵ According to a local source:

"The downgrade will increase pressure on government spending due to our high debt exposure. Any fluctuation in the copper price, which provides the majority of our foreign currency receipts, will exacerbate this, so the impact could be delayed...it adds to the structural weakness of the economy."⁶

The downgrade led to a turbulent week for the kwacha. The currency appreciated 15% against the dollar from K10.93 – K9.19/\$ from 1 to 18 April as the price of copper rose 2.5% from \$4,875/tonne to \$5,000/tonne.⁷ However, the downgrade precipitated a 1.5% rise to K9.33/\$, which a strengthening dollar exacerbated from 19 to 21 April.⁸ Deputy finance minister **Christopher Mvunga** told the media on 21 April that the depreciation was not due to the downgrade, but due to dollar demand from the government to buy medical supplies.

¹ Moody's, 19 Apr 2016.

² Moody's, 19 Apr 2016.

³ Moody's, 19 Apr 2016.

⁴ Reuters, 19 Apr 2016.

⁵ Reuters, 19 Apr 2016.

⁶ Source, economic advisor to the central bank, Lusaka

⁷ XE.com

⁸ XE.com

*"The kwacha started depreciating long before Moody's downgraded Zambia. It is a supply and demand issue."*⁹

However, sources that follow the currency markets noted that traders sold off the currency following the announcement:

*"There was a spike in traders offloading the kwacha on the 19 April following the announcement, the currency was definitely more stable before that."*¹⁰

President **Edgar Lungu** (2015-present) released a statement on 21 April saying that he had full confidence in the central **Bank of Zambia (BoZ)**.¹¹ In the statement he voiced confidence that Zambia's economy was on the road to recovery:

*"My administration has the full confidence in the leadership of the central bank which is why we allow them the necessary autonomy to execute monetary policy professionally as they can... The synergy between officials handling fiscal and monetary policy gives me even greater confidence that we are on a recovery path."*¹²

In the wake of the downgrade, the government and the **International Monetary Fund (IMF)** agreed targets for a support programme on 22 April.¹³ The IMF will put the programme in place by Q4 2015.¹⁴ The government and the IMF reportedly reached an agreement that the budget deficit is unsustainable and set their desired targets for deficit reduction in the short and medium term.¹⁵ The IMF predicts Zambia's gross domestic product (GDP) growth will be 3.7% for 2016, up from 3.6% in 2015.¹⁶ The government will provide the IMF with a fiscal consolidation plan by June 2016 with micro and macro-economic plans for 2017 and a medium-term budget statement.¹⁷ The IMF will send a mission to Zambia in September to finalise the budget numbers and reduction targets.¹⁸ Zambian treasury secretary **Fredson Yamba** told the media that the IMF programme will not be a substantial deviation from the government's current budget plans:

*"This is meant to pave the way for their input so that once in place, the programme will not be at variance with the budget."*¹⁹

Riots in Lusaka leave 50 injured and two dead

Rioters looted shops and attacked foreign nationals in Zambia's capital **Lusaka** on 18 and 19 April.²⁰ Hundreds of rioters attacked migrant-owned shops, mostly from the **Democratic Republic of the Congo (DRC)**, hurling stones and looting shop contents.²¹ The rioters clashed with riot police resulting in 50 people being injured, and left two foreign nationals dead.²² A police investigation into four DRC nationals for trafficking body parts sparked the riots.²³ This may be linked to at least six alleged ritual killings across March and April.²⁴

⁹ Mvunga in Zambia Reports, 21 Apr 2016.

¹⁰ Source, emerging markets currencies journalist, Johannesburg

¹¹ Zambia Reports, 21 Apr 2016.

¹² Statement from the presidency, 21 Apr 2016.

¹³ Lusaka Times, 22 Apr 2016.

¹⁴ Zambia Daily Mail, 22 Apr 2016.

¹⁵ Lusaka Times, 22 Apr 2016.

¹⁶ Zambia Daily Mail, 22 Apr 2016.

¹⁷ Zambia Daily Mail, 22 Apr 2016.

¹⁸ Zambia Daily Mail, 22 Apr 2016.

¹⁹ Yamba in Zambia Daily Mail, 22 Apr 2016.

²⁰ Lusaka Times, 18 Apr 2016.

²¹ Lusaka Times, 18 Apr 2016.

²² Lusaka Times, 18 Apr 2016.

²³ Zambia Watch, 18 Apr 2016.

²⁴ Zambia Watch, 18 Apr 2016.

The rioters gathered on the morning of 18 April and broke into four shops on the suspicion that they were selling body parts including ears, hearts and genitals from murder victims.²⁵ Riot police dispersed the rioters, who regrouped and continued to attack foreign nationals the following day. The rioters raided 62 shops in townships across Lusaka – primarily the township of **Kanyama** in the east of the city.²⁶ The rioters targeted shops belonging to any foreign nationals including citizens of **Rwanda, Burundi, Malawi and Mozambique**.²⁷ President Lungu deployed the Zambian army to townships on 20 April to keep the peace, and soldiers patrolled the streets until the president withdrew them on 22 April.²⁸ Police arrested a total of 254 people for riotous behaviour and looting.²⁹ The first six suspects appeared in court charged with inciting the riots and looting on 25 April.³⁰

Zambia has substantial refugee migrant communities from Rwanda, Burundi and DRC with estimates of at least 5,000 from each country.³¹ The government has moved 556 refugees from DRC to camps outside of Lusaka following the destruction of their homes and businesses and concerns over their safety.³² The city remains on high alert after a seventh alleged ritual murder took place on 22 April in neighbouring **Lupaula Province**.³³ The riots demonstrate the increased tensions in townships as the poor economic situation reduces work opportunities:

“The rioters got angry not because of the murders, but because they claimed the Congolese used the body parts to get business success. Tensions are running high here because there are not enough jobs, and migrants with small businesses have increased their prices due to the weak price of the kwacha.”³⁴

Zambia considers maize controls to keep prices low

The government has considered imposing controls on the trade and price of maize due to a sharp increase in the price of maize meal.³⁵ The price of staples maize and mealie-meal (maize-based) increased 15% across January-April 2016 to \$9.20 per 2.5kg bag due to a poor harvest in 2015.³⁶ The agriculture ministry estimates the maize crop for 2015/2016 will be 2.4m tonnes, down from 2.6m tonnes in 2014/2015 due to the region-wide drought.³⁷ The government drafted a statutory instrument on maize price controls which it presented to parliament on 18 April.³⁸ The instrument includes plans to regulate the price of maize within the domestic market, by reserving a proportion of the harvest for domestic use.³⁹ It will also introduce stiffer penalties for millers that fail to comply with the regulations.⁴⁰ Some sources in Zambia see the controls as necessary to ensure food supply:

“The drought is the slow burning issue that will cause most damage in Zambia. If the government does not control the price of grain then people will go hungry.”⁴¹

However, others believe that extensive capital controls are unwise in the current economic climate:

²⁵ Zambia Watch, 18 Apr 2016.

²⁶ Zambia Watch, 18 Apr 2016.

²⁷ Lusaka Times, 19 Apr 2016.

²⁸ Zambia Daily Mail, 22 Apr 2016.

²⁹ Lusaka Times, 19 Apr 2016.

³⁰ Zambia Reports, 25 Apr 2016.

³¹ Lusaka Times, 19 Apr 2016.

³² Zambia Reports, 25 Apr 2016.

³³ Zambia Reports, 22 Apr 2016.

³⁴ Source, director of a think-tank, Lusaka

³⁵ Lusaka Times, 13 Apr 2016.

³⁶ Reuters, 18 Apr 2016.

³⁷ Lusaka Times, 13 Apr 2016.

³⁸ Reuters, 18 Apr 2016.

³⁹ Reuters, 18 Apr 2016.

⁴⁰ Reuters, 18 Apr 2016.

⁴¹ Source, director of a think-tank, Lusaka

“The government is taking the capital risk on itself through subsidising the sale of maize and mealie-meal...we have increased debt exposure, an IMF programme coming later this year, and lowered revenue projections. Money would be better spent on encouraging growth.”⁴²

The government imposed a temporary ban on all exports of maize between 5 and 13 April. It did so on the basis that smuggled exports were reducing the country’s stockpiles to an unsustainably low level.⁴³ Agriculture permanent secretary **Julius Shawa** announced the temporary control measure on 5 April.⁴⁴ The government established an inter-agency taskforce to undertake an audit of Zambia’s grain reserves.⁴⁵ The taskforce consists of the **Food Reserve Agency (FRA)**, the **Grain and Millers Association of Zambia (GMAZ)** and some members of the **Zambia National Farmers’ Union (ZNFU)**.⁴⁶ The **Zambia Revenue Authority (ZRA)** commandeered all trucks at the Zambian border for the period of the ban.⁴⁷

The government lifted the controls on 13 April after it found the country had 600,433 tonnes of maize reserves, enough to last until the end of August 2016.⁴⁸ The government said that it lifted the ban in part to allow producers to fulfill their contractual obligations to deliver shipments.⁴⁹ However, the investigation also found that some millers were exporting some of the 750,000 tonnes of grain the government sold to them at the subsidised price of \$170 per tonne for the domestic market only.⁵⁰ These illegal exports to neighbouring countries, notably **Zimbabwe**, threaten to deplete domestic reserves⁵¹.

The government signed a maize export deal with the government of DRC on 26 April.⁵² The agreement enables DRC-based importers to buy from private sector millers in Zambia, but does not allow them to buy from the FRA, which holds the largest stocks of grain.⁵³ It follows a visit by DRC president **Joseph Kabila** (2001-present) to Zambia on 19 April to discuss this specific issue.⁵⁴

Implications

The IMF programme will increase the pressures on Zambian businesses and consumers as it will require significant rollbacks in government spending. By confirming the terms of the agreement in Q4 of 2016 President Lungu will mitigate the damage of the poor economic situation on his **Patriotic Front (PF)** party’s chances in the August elections. However, whatever government comes into power will have to negotiate with the IMF in hostile market conditions where yields on Zambia’s \$6.6 billion foreign denominated debt will rise.

The riots show the impact of the current economic situation, increasing tensions within townships in Lusaka. If the dire economic circumstances continue, there is a chance of other events triggering violence against foreign nationals, whom Zambians perceive to have greater wealth and income. The violence is comparable, although on a far lesser scale, to the so-called xenophobic riots in neighbouring **South Africa** in 2015. Like those riots, they will damage Zambia’s reputation with its neighbours and key trading partners.

The region wide drought will continue to drive up maize prices across 2016. The high price of grain is the primary factor behind Zambia’s current inflation which stands at 22.9%. If the government is unable to bring this down, pressures on consumers may prove unsustainable. The high price of grain alone could lead to many consumers being unable to feed their families. In this context the government has little option but to introduce measures to control the grain price.

⁴² Source, journalist with ties to the opposition, Lusaka

⁴³ Lusaka Times, 13 Apr 2016.

⁴⁴ Lusaka Times, 5 Apr 2016.

⁴⁵ Lusaka Times, 5 Apr 2016.

⁴⁶ Lusaka Times, 5 Apr 2016.

⁴⁷ Times of Zambia, 13 Apr 2016.

⁴⁸ Lusaka Times, 13 Apr 2016.

⁴⁹ Lusaka Times, 13 Apr 2016.

⁵⁰ Lusaka Times, 13 Apr 2016

⁵¹ Lusaka Times, 13 Apr 2016.

⁵² Lusaka Times, 26 Apr 2016.

⁵³ Lusaka Times, 26 Apr 2016.

⁵⁴ Lusaka Times, 26 Apr 2016.

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