

## AFRICA RISK CONSULTING

### Zambia Monthly Briefing September 2023

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#### Zambia Summary 13 September 2023

*President Hakainde Hichilema (2021-present) arrives in China on 10 September for a week-long working visit. Hichilema's visit is aimed at boosting bilateral relations, trade, and investment but the majority of the focus is on whether he will secure the necessary memorandum of understanding (MoU) needed to cement Zambia's June debt restructuring agreement. Zambia needs this agreement implemented to help stabilise its economy. Statistician general Mulenga Musepa reports on 31 August that annual consumer price inflation rose to 10.8% in August from 10.3% in July despite elevated interest rates. Government reaches an agreement with Vedanta Resources on 5 September to return control of Konkola Copper Mines (KCM) to the Indian company. This agreement has helped the government repair some of the reputational damage caused by the seizure of KCM and ease the related investor concerns.*

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#### President undertakes working visit to China

President **Hakainde Hichilema** (2021-present) arrived in **China** on 10 September for a seven-day working visit.<sup>1</sup> Hichilema aims to bolster bilateral relations between Zambia and China, including boosting Chinese investment in and tourism to the **Southern African** country; however, the focus will be on whether Hichilema succeeds in formalising a debt restructuring agreement with China.<sup>2</sup>

Zambia's economy is in the midst of debt distress after defaulting on its debt obligations in 2020. This prevented the country from participating in any further debt refinancing which has severely hampered its ability to raise capital to fund its development agenda.<sup>3</sup> Zambia's debt burden is in excess of \$32.5 billion of which approximately \$17.5 billion is external debt.<sup>4</sup> At the time of Hichilema's inauguration on 24 August 2021, Zambia's debt-to-GDP ratio was estimated to be 133%. Accordingly, Hichilema's first term has been defined by the country's continued economic challenges which have worsened in the face of global economic headwinds caused by rising inflation and supply chain disruptions.

Restructuring Zambia's external debt burden has been a core objective of the Hichilema administration. However, this process has been slow and marred by repeated disruptions with several of these delays rooted in China's resistance to the debt restructuring process. Specifically, China wanted the **International Monetary Fund (IMF)** and the **World Bank** to absorb larger losses on their Zambian debt. In addition, China pushed to have local-currency-denominated debt held by foreign entities included in the restructuring negotiations.<sup>5</sup> This latter point was rejected as it would have created an even more unsustainable long-term debt burden for Zambia. China's resistance to the debt process was a problem for Zambia, as the **Asian** economic giant's participation was essential for any viable agreement given that it was Zambia's largest creditor - Chinese creditors hold over a third of Zambia's external debt.

The difficulties in securing China's cooperation were further aggravated by wider geopolitical tensions as the **United States (US)** and China used the issue of Zambia's debt to criticise one another.<sup>6</sup>

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<sup>1</sup> *Zambian Eye*, 10 Sep 2023

<sup>2</sup> *Reuters*, 8 Sep 2023.

<sup>3</sup> *Bloomberg*, 23 Jun 2023

<sup>4</sup> *Reuters*, 29 Mar 2023

<sup>5</sup> *Bloomberg*, 23 Jan 2023

<sup>6</sup> *Wall Street Journal*, 10 Apr 2023

US treasury secretary **Janet Yellen** in particular blamed China for the slow pace of Zambia's debt negotiations, a statement China condemned as groundless and self-interested.

However, in June, there was a breakthrough in negotiations between China, the IMF, and the **Paris Club** of creditor countries. These negotiations took place under the **G20** framework for debt treatment (also known as the **Common Framework**).<sup>7</sup> Under this agreement, Zambia would be permitted to restructure \$6.3 billion in debt owed to foreign governments. Critically this included the \$4.1 billion Zambia owes to the **Export-Import Bank of China**. Once secured, this agreement will provide a greater impetus for Zambia's private sector creditors to reach similar debt restructuring agreements. The IMF is pushing to restructure at least \$6.8 billion in such privately held debt.

Zambia still needs to secure memoranda of understanding (MoUs) with the respective creditor countries, and it is hoped that Hichilema will be able to secure such an MoU during his current trip to China. Should he achieve this, it will bring the June agreement closer to implementation and likely ensure that Zambia receives its next tranche payment from the IMF's **Extended Credit Facility (ECF)** arrangement.<sup>8</sup>

Hichilema's visit is also an opportunity for the Zambian president to improve relations with China. Zambia has undertaken a notable pivot towards the **West** ever since Hichilema's inauguration, most significantly improving relations with the US. This has displeased China which had previously considered the Zambian government one of its closest partners in **Africa** with Chinese commercial interests and investments in Zambia exceeding \$11 billion. However, Hichilema's pivot towards the West was unsurprising given that he had been a vocal critic of Zambia's relationship with China long before he was elected president. Hichilema believed that the government had become overly reliant on Chinese credit and was distrustful of the perceived leverage that China had over Zambia.

It was likely this desire to reset Zambia's relationship with China which was behind Hichilema's reluctance to travel to Beijing earlier in his term.<sup>9</sup> The fact that the Zambian President had not travelled to China in his first two years of office was a growing source of criticism, particularly, from the opposition **Patriotic Front (PF)**. However, Hichilema's decision to wait until a multilateral debt restructuring agreement had been reached before travelling to China to secure a debt restructuring MoU will likely turn out to have been a wise move as he is arriving in China in a stronger position than he normally would have. Similarly, China is under pressure to follow through on the commitments it agreed to in June so as not to prove the US's criticisms correct.

China also remains a key diplomatic and trade ally of Zambia and one which Hichilema can ill afford to ignore. This is illustrated by the week-long visit and the Hichilema is seeking to encourage further Chinese investment during his trip, particularly in the energy, infrastructure, mining, and manufacturing sectors.<sup>10</sup>

### Central bank increases rates as inflation worsens

The finance ministry revealed in July that it only expects the economy to grow by 2.7% of GDP this year down from 4.7% in 2022, a potentially optimistic prediction as the country continues to struggle with high inflation.<sup>11</sup> Statistician general **Mulenga Musepa** reported on 31 August that annual consumer price inflation rose to 10.8% in August from 10.3% in July, well outside of the **Bank of Zambia (BoZ)** (central bank) target band of between 6% and 8%.<sup>12</sup> These latest inflation figures were released a week after the BoZ increased the country's benchmark lending rate by 50 basis points from 9.5% to 10%.<sup>13</sup> The higher-than-expected August inflationary figures do foreshadow an additional

<sup>7</sup> Reuters, 23 June 2023

<sup>8</sup> Reuters, 8 Sep 2023

<sup>9</sup> Africa Report, 5 Jan 2023

<sup>10</sup> Zambian Eye, 10 Sep 2023

<sup>11</sup> Africa News, 17 Jul 2023

<sup>12</sup> Bloomberg, 31 Aug 2023

<sup>13</sup> Reuters, 23 Aug 2023

interest rate increase following the BoZ's next **Monetary Policy Committee (MPC)** meeting in November unless the recent rate increase has a profound impact on rising prices.

According to the central bank, Zambia's primary drivers of inflation are the rising cost of food and fuel due to the effects of the **Russia-Ukraine** war, tighter global financial conditions, and the depreciation of the kwacha (ZMW) over the past year.<sup>14</sup> The external causes of these inflationary drivers, however, do mean that the efficacy of increasing the benchmark rate is uncertain. The increase in the interest rate will constrain liquidity in the market reducing demand by constricting consumer spending and investment. This will, in turn, have a cooling effect on the economy and bring down inflation rates at the cost of economic growth.

However, should Zambia secure the necessary agreements to implement the June debt restructuring deal in the coming weeks inflation could ease. This would be due to several factors such as the ZMW appreciating in the wake of such an announcement reducing the cost of imported goods such as fuel and grain. In addition, a substantive debt restructuring deal would ease the government's immediate debt servicing obligations and reduce the related supply-side pressures on the economy. A deal would also ensure that the next IMF ECF tranche payment is approved injecting needed capital into the Zambian treasury.

### Government agrees to return mine to Vedanta

In another boost for Zambia's business operating environment, the government agreed on 5 September to return operational control of **Konkola Copper Mines (KCM)** to **India's Vedanta Resources**.<sup>15</sup> The dispute began when the government seized KCM's assets and forced liquidation in May 2019. The government of then-president **Edgar Lungu** (2015-2021) claimed that it had the right to take this action alleging that Vedanta Resources had failed to meet its obligations to increase investment and mining output at KCM. This development triggered a protracted legal dispute and Vedanta Resources pursued international arbitration.<sup>16</sup>

KCM – in which the Zambian government has a minority 20.6% stake - is one of the largest copper mining houses in Zambia, operating three projects in the country's **Copperbelt Province**. The seizure of KCM's operations dealt significant reputational damage to Zambia's business and investor environment and raised concerns about increased state intervention in the mining sector. However, following Hichilema's election in 2021, tensions between Vedanta Resources and the Zambian government eased with both parties agreeing to reach an out-of-court resolution.<sup>17</sup> Under the terms of the agreement, Vedanta Resources has committed to investing \$1 billion in KCM's operations over the next five years and will pay \$250m to local creditors, spend \$20m on community projects and raise workers' salaries by 20%.<sup>18</sup>

The conclusion of these negotiations is a major political victory for Hichilema. The commitment to additional investment, increased salaries, and community projects will be popular, and it also brings the president closer to achieving one of his key electoral pledges – to reduce the government's involvement in the mining sector.

Furthermore, by reaching an amicable agreement with Vedanta Resources, the government has helped repair some of the reputational damage caused by the initial asset seizure. Zambia needs to create a welcoming investment and operating environment in the mining sector if it is to achieve its goal of tripling copper output over the next decade. The country has among the largest copper reserves in the world and is hoping to leverage this to benefit from the anticipated boom in the battery metals and minerals sector. To do this, the government will need to ensure that international

<sup>14</sup> Mwebantu, 24 Aug 2023

<sup>15</sup> Reuters, 5 Sep 2023

<sup>16</sup> Business Insider Africa, 6 Sep 2023

<sup>17</sup> Reuters, 5 Jul 2023

<sup>18</sup> Reuters, 5 Sep 2023

private sector operators feel secure in committing to multi-million-dollar decades-long mining investments.

### Planner

11 Sep – 12 Sep 2023 **Lusaka (Zambia)** Pan African Conference on Science, Computing & Telecommunications (Pact)  
 29 Sep 2023 **Lusaka (Zambia)** 2024 Budget (expected)  
 4 - 6 Oct 2023 **Lusaka (Zambia)** Digital Government Africa Summit

### Chronology

11 Sep 2023 **Lusaka (Zambia)** *Lusaka Times*. Finance ministry reveals that it disbursed ZMW 13.7 billion (\$660m) towards public service delivery including social benefits and healthcare in August. In addition, the ministry also allocated ZMW 3.4 billion (\$163.8m) towards financing government debt arrears. These disbursements come ahead of the annual budget scheduled for 29 September;

11 Sep 2023 **Lusaka (Zambia)** *Lusaka Times*. President **Hakainde Hichilema** extends his condolences to **Morocco's King Mohammed VI** following a deadly earthquake in that country;

11 Sep 2023 **Lusaka (Zambia)** *ZNBC*. Information ministry spokesperson **Thabo Kawana** denies that there is a diplomatic rift between Zambia and **Zimbabwe** after President **Hakainde Hichilema** declined to attend Zimbabwean President **Emmerson Mnangagwa's** inauguration;

9 Sep 2023 **Lusaka (Zambia)** *The White House*. The **United States (US)** and **European Union (EU)** pledge support for the **Lobito Corridor** project which will develop a transport and infrastructure corridor through Zambia, **Angola**, and **Democratic Republic of Congo (DRC)**;

8 Sep 2023 **Lusaka (Zambia)** *Lusaka Times*. President **Hakainde Hichilema** reveals the government's plans to create a credit window for the agriculture sector aimed at boosting sector financing and output;

8 Sep 2023 **Lusaka (Zambia)** *Times of Zambia*. President **Hakainde Hichilema** officially opens the 13<sup>th</sup> session of the **National Assembly**;

8 Sep 2023 **Lusaka (Zambia)** *Diggers*. The **Zambian Revenue Authority (ZRA)** announces that it has recovered ZMW 238 million (\$11.47m) from government suppliers which were not tax compliant;

6 Sep 2023 **Lusaka (Zambia)** *Anadolu Agency*. Foreign minister **Stabley Kakubo** holds a call with his **Ukrainian** counterpart, **Dmytro Kuleba**, during which they discuss issues of global peace and food security;

6 Sep 2023 **Lusaka (Zambia)** *Anadolu Agency*. President **Hakainde Hichilema** warns that the state will respond decisively against any violent anti-government unrest;

6 Sep 2023 **Lusaka (Zambia)** *Bloomberg*. Police arrest former first lady **Esther Lungu** on theft charges;

5 Sep 2023 **Nsama (Zambia)** *CGTN*. Health officials confirm four deaths and 45 infections in a cholera outbreak in Nsama district (**Northern Province**);

4 Sep 2023 **Lusaka (Zambia)** *Newsday*. **Zambia Environment Management Agency (ZEMA)** blocks copper mining in the **Lower Zambezi Park**, a move that conservation groups welcome;

4 Sep 2023 **Lusaka (Zambia)** *Lusaka Times*. **Christopher Zumani Zimba**, a former advisor to former president **Edgar Lungu**, pleads not guilty to charges of terrorism. He was arrested on 30 May on charges of violating the **Anti-Terrorism and Non-Proliferation Act of 2018**;

1 Sep 2023 **Lusaka (Zambia)** *Al Jazeera*. Authorities drop espionage charges against five **Egyptians** and one Zambian national who had been arrested on 14 August in possession of firearms, ammunition, and 127 kilogrammes (kg) of fake gold;

29 Aug 2023 **Lusaka (Zambia)** *ZNBC*. Outgoing **European Union (EU)** ambassador to Zambia **Jacek Jankowski** praises **Hakainde Hichilema** as one of the world's best presidents and a leading **African** voice in the promotion of democracy and human rights;

26 Aug 2023 **Lusaka (Zambia)** *Lusaka Times*. Police officials deny the opposition **Patriotic Front (PF)** permission to stage a rally at Lusaka's **Muchinga Ground** and seal off access to the venue citing security concerns;

22 Aug 2023 **Sesheke (Zambia)** *NBC*. The **Katima Mulilo Border Post** begins operating 24 hours a day in a boost for cross-border trade and travel between Zambia and **Namibia**.

### About Africa Risk Consulting:

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