

AFRICA RISK CONSULTING

Zambia Monthly Briefing February 2023

Zambia Summary 17 February 2023

The Bank of Zambia's (BoZ) (central bank) Monetary Policy Committee raises the benchmark interest rate from 9% to 9.25% as the kwacha depreciates. A deal with the International Monetary Fund (IMF) is becoming increasingly urgent against the backdrop of a strained economic environment. BoZ governor Denny Kalyalya also attributes the poor performance of the kwacha to "negative sentiments arising from the protracted debt-restructuring negotiations". China is facing mounting criticism for delaying Zambia's progress to a debt resolution under the Common Framework and thus a new IMF deal. A virtual sovereign debt roundtable is set to take place on 17 February with participation from Chinese officials, representatives from the IMF, World Bank and Paris Club creditors including France and the United States. Government announces a resolution to the electricity crisis plaguing the country since December. The solution will go some way towards revitalising economic growth. Finance minister Situmbeko Musokotwane and mines minister Paul Kabuswe attend the Mining Indaba held in Cape Town (South Africa) as Zambia continues to woo investors to the sector. Zambia wishes to revitalise the sector which has suffered from a knock-on sentiment in recent years. Kabuswe states that the government will secure an investor for the state-owned Mopani Copper Mines by end-March 2023. A cholera outbreak continues to spread in Zambia with the situation being exacerbated by heavy rainfall and flash floods, which have caused extensive damage since mid-January.

MPC revises benchmark policy rate upwards as debt restructuring slows

Bank of Zambia's (BoZ) (central bank) Monetary Policy Committee (MPC) raised the benchmark interest rate from 9% to 9.25% during its first quarterly meeting for the year, held from 13 February to 14 February, as anticipated in the January ARC Zambia briefing. This was the first such revision since November 2021. The MPC cited mounting inflationary pressures stemming from the depreciation of the kwacha, which has weakened by 15% since the last MPC meeting took place on 23 November.¹ Under the current conditions, the finance ministry faces a challenge to its goal of reducing bringing inflation within the target band of 6-8% by mid-2023.² Annual inflation for January stood at 9.4%, albeit slightly down from 9.9% in December.

A deal with the **International Monetary Fund (IMF)** is becoming increasingly urgent for the country against the backdrop of this strained economic environment. BoZ governor **Denny Kalyalya** also attributed the poor performance of the kwacha to "*negative sentiments arising from the protracted debt-restructuring negotiations*".³ This comes as Zambia became the first African country to default on its sovereign debt in the **Covid-19** era when it defaulted on a \$ 42.5m payment on its **Eurobond** in 2020 and halted the servicing of much of its external debt burden.

President **Hakainde Hichilema** (2021-present) and the ruling **United Party for National Development** have focused on restructuring this debt since taking office, which ballooned to \$14.9

¹ Bloomberg, 15 Feb. 2023

² 2022 Budget Address, 29 October 2021

³ Bloomberg, 15 Feb 2023

billion by June 2022 and securing a new program with the IMF.⁴⁵ Although this is positive, the pace of negotiations has yet to ramp up and on 22 December the finance ministry divulged that the government had yet to begin discussions with its bilateral creditors, necessary under the multilateral **Common Framework** process.⁶

China is facing mounting criticism for delaying Zambia's progress to a debt resolution under the Common Framework and thus a new IMF deal. In a rebuke of the Chinese government, **World Bank** president **David Malpass** said:

*"China is asking lots of questions in the creditors' committees and that causes delays, that strings out the process"*⁷

United States (US) treasury secretary **Janet Yellen** met with her Chinese counterpart **Liu He** on 20 January, where she indicated that some of China's reluctance to agree to a deal is related to its concern about why Zambia's creditors, comprising multilateral banks, have not been required to "take a haircut" like it is being asked to do. Despite this, she expressed hope for a resolution:

*"But we have counterparts [China] who we are able to talk to in a reasonable way, and work through our differences, and I hope out of that process that some progress will come."*⁸

China has also hit back at claims that it is delaying Zambia's debt restructuring:

*"The biggest contribution that the US can make to the debt issues outside the country is to cope with its own debt problem and stop sabotaging other sovereign countries' active efforts to solve their debt issues"*⁹

For Zambia it had less contentious words, only calling for "mutual understanding and trust" between all parties to the debt negotiations to achieve an "optimal solution", with the Chinese foreign ministry representative **Wang Wenbin** stating:

*"We believe that the Zambian government and people know what China has done to promote Zambia's national development and sustainable development, and China's contribution to helping to resolve Zambia's debt issue".*¹⁰

It is unclear to what extent the Chinese government will be willing to provide Zambia with some leniency from its debt negotiations, especially in light of the new ruling government not pursuing as close a relationship with China as the previous **Patriotic Front** government did. Hichilema hinted at the tense relationship between the two countries on 16 February, describing the current loan interest rates as a "Black Mamba kiss of death".¹¹

Looking forward, a virtual sovereign debt roundtable is set to take place on 17 February with participation from Chinese officials, representatives from the IMF, the World Bank and the **Paris Club** group of creditors including **France** and the US.¹² The roundtable will include officials from countries currently undergoing the debt treatment process under the G20 framework, namely **Ethiopia**, Zambia and **Ghana**.¹³ Zambian officials will be eagerly awaiting this event as a bailout from the IMF hinges on an assurance from all of its bilateral creditors regarding its debt. This meeting also comes ahead of a

⁴ Zambian Observer, 16 Jan 2023

⁵ Bloomberg, 15 Feb 2023

⁶ Reuters, 22 Dec 2022

⁷ Bloomberg, 25 Jan 2023

⁸ Bloomberg, 21 Jan 2023

⁹ Al Jazeera, 25 Jan 2023

¹⁰ Zambia Daily Mail, 16 Feb 2023

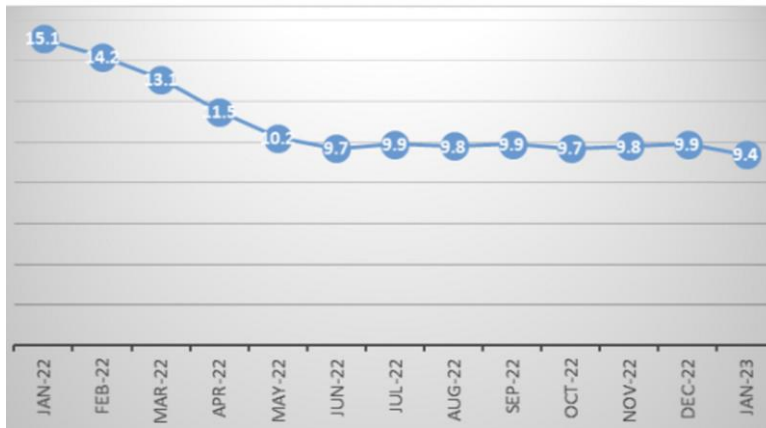
¹¹ Bloomberg, 16 Feb 2023

¹² ABP Live, 14 Feb 2023

¹³ Global Times, 14 Feb 2023

planned meeting of the **G20 Finance Minister's Meeting** in **India**, to complement the Common Framework for debt treatment.¹⁴

Year-on-Year inflation, Jan 2022 – Jan 2023



Source: **Zambia Statistics Agency**, 27 Jan 2023

Government resolves energy crisis

Government has announced a resolution to the electricity crisis which began in December, which will go some way towards revitalising the country's economic growth. **Zesco**, the national power utility, announced on 4 February that it was facing power constraints due to "the drastic reduction in available water in the **Kariba** reservoir for electricity generation at **Kariba North Bank Power Station**." This reduced the power station's generation capacity from 1080 megawatts (MW) to below 400MW resulting in drastic cuts to the power supply across the country. The managing director of the national utility **Victor Mapani** announced on 10 February the end of the energy crisis stating that it had managed to secure alternative energy sources from neighbouring **Mozambique**.¹⁵

Zesco announced also on 1 February that it is planning a \$6 billion expansion of its generation, transmission and distribution infrastructure over the next decade, plans which bode well for the country's energy security. Following its 10 February announcement, it noted plans to invest in ensuring all of **Zambia's** provinces have at least one solar photovoltaics farm. The first phase of investment will begin with establishing 150 Megawatts of new energy in 2023 under the firm's strategic plan which aims to construct up to 800 MV of on-grid solar power generation by 2032. These plans will help diversify and bolster Zambia's energy mix and power generation, veering away from its reliance on hydropower.

Ministers court investors at Mining Indaba

Government officials including finance minister **Situmbeko Musokotwane** and mines minister **Paul Kabuswe** attended the **Mining Indaba** held in **Cape Town (South Africa)** from 5 February to 8 February as an anticipated rebound in the mining sector is also expected to support the stabilisation of the local currency during the year. Zambia continues to woo investment in the sector as it seeks to revitalise the country's mining sector which has suffered from a knock-on sentiment in recent years. Kabuswe announced on 8 February that the government will secure an investor for the state-owned **Mopani Copper Mines**, comprising a mine and smelter complex, by end-March 2023, indicating that 10 firms have shown interest in the mine and, though he declined to name all of the parties, he stated:

¹⁴ International Monetary Fund, 12 Jan 2023

¹⁵ News Diggers, 10 Feb 2023

*"We are dealing with the **Arab** world, we are dealing with the US, we are dealing with China, we are not biased towards anyone. We are friendly to everybody."*¹⁶

One of the potential investors in Mopani, **Sibanye Stillwater** CEO **Neal Froneman** praised Zambia as an investment destination on 12 February, stating:

"Zambia is looking very good... We like Zambia as a destination. There are some great copper assets in Zambia".

Kabuswe also indicated that the government aims to agree with **India**-based **Vedanta Resources**, which owns the financially troubled **Konkola Copper Mines (KCM)** after the parties decided to pursue an out-of-court settlement in the long-standing legal dispute over the mine.¹⁷ This came about after the former Patriotic Front-led government seized the mine in 2019, placing KCM in liquidation, citing a series of alleged breaches by Vedanta Resources of its mining licences, including a failure to pay taxes, all of which are disputed by Vedanta (see *ARC Briefing Zambia May-June 2019*). The government of Zambia owns 20% of KCM through ZCCM-IH, and Vedanta Resources owns the remaining 80%.

Adverse weather causes countrywide infrastructure damage

A **cholera** outbreak continues to spread in Zambia with cases reported in two new areas on 12 February. **Nchelenge** district in **Luapula** province reported two active cholera cases, including one death, while **Chipangali** district in **Eastern** province recorded one active case.¹⁸ Health minister **Sylvia Masebo** announced on 16 February that Zambia's cumulative cases had reached 135 and that the number of deaths had risen to three.¹⁹ The situation is being exacerbated as the country continues to experience heavy rainfalls and flash floods, which have caused extensive damage to areas across the country since mid-January. This is not different to the climate change challenges currently. Floods destroyed 27 houses on 16 February along the **Luangwa River** in the **Lusangazi** district in the Eastern province and on 17 January heavy rainfall resulted in the collapse of 29 houses in the **Chongwe** district outside of **Lusaka**. The **Disaster Management and Mitigation Unit** also reported on 27 January that there was extensive damage to homes, farmland and livestock in the **Bwengwa, Namwala, Monze** in **Southern** province, and **Mumbwa** district in **Central** province.²⁰

Zambia continues to face significant challenges regarding its housing infrastructure, particularly in urban areas. Successive governments since independence have struggled to keep pace with the growing urban centres, particularly in and around Lusaka. It is estimated that the country has a housing shortage of 1.5 million houses and will require the building of around 110,000 of these annually for the next decade to meet demand.²¹ Additionally, council authorities have failed to rein in the growth of illegal housing construction and resulting in the creation of several settlement areas which fall below the required safety standards.

Planner

20 April – 22 April 2023 **Chisamba (Zambia) AgriTech Expo Zambia**

Chronology

17 Feb 2023 **Kitwe (Zambia)** *The Star*. President **Hakainde Hichilema** commissions a \$22m solar power project constructed by **Sinohydro Corporation Limited**, which has power generating capacity of 34 megawatts with an annual energy output of 56.5-gigawatt hours;

¹⁶ Zambia Daily Mail, 8 Feb 2023

¹⁷ Reuters, 6 Feb 2023

¹⁸ The Star, 16 Feb 2023

¹⁹ News Diggers, 16 Feb 2023

²⁰ Floodlist, 30 January 2023

²¹ United States Department of Commerce, 7 August 2022

16 Feb 2023 **Lusaka (Zambia)** *News Diggers*. **Zambia Medicines and Medical Supplies Agency (ZAMMSA)** board chairperson **Anna Chifungula** divulges that medical equipment worth K1.6m (\$82,345) was stolen from a ZAMMSA warehouse. This is the second theft at the warehouse, the first one being in March 2022 when equipment valued over K1m (\$51,456) was stolen;

16 Feb 2023 **Lusaka (Zambia)** *News Diggers*. **Caleb Fundanga**, board chairman of the **Zambia Revenue Authority**, divulges that the authority is establishing measures to tax business's mobile money transactions;

14 Feb 2023 **Lusaka (Zambia)** *News Diggers*. President **Hakainde Hichilema** appoints professor **Margaret Munalula** as judge president of the constitutional court, **Arnold Shilimi** as deputy president of the court and **Mudford Mwandenga**, **Maria Kawimbe** and **Kenneth Mulife** as judges of the constitutional court. He also appoints **Mwiinde Siawwapa** as judge president of the court of appeal, and justices **Abha Patel** and **Yvonne Chembe** as judges of the court of appeal. All decisions are subject to ratification by the **National Assembly**;

12 Feb 2023 **Lusaka (Zambia)** *Times of Zambia*. Permanent secretary for tourism **Evans Muhanga** says the government is seeking a \$100m concession loan from the **World Bank** to improve basic infrastructure in national parks and other tourist destinations;

9 Feb 2023 **Luapula (Zambia)** *Zambia Daily Mail*. The **Rural Electrification Authority** discontinues its pursuit of wind projects in **Lunga** district of **Luapula** due the weakness of the area's wind speed making insufficient for power generation;

8 Feb 2023 **Lusaka (Zambia)** *IT News Africa*. **Zambia Information and Communications Technology Authority** awards telecommunications firm **Paratus Zambia** with Zambia's last data gateway license, allowing the firm to deploy international gateways, cross-border communications services, and import internet data traffic into the country;

7 Feb 2023 **Lusaka (Zambia)** *Zambia Daily Mail*. **Zambia Airways** secures a Foreign Operator Permit to enable it to commence regional flights, as it aims to begin regional flights to South Africa in the first quarter of 2023;

7 Feb 2023 **Lusaka (Zambia)** *United Nations News*. The **Elsie Initiative Fund for Uniformed Women in Peace Operations** issues a \$932,072 grant to the **Zambia Police Force** to facilitate the construction of a new facility to accommodate 40 female officers and a daycare centre for 15 children, training and expansion of its network of regional focal points in rural and remote areas and developing the anti-sexual harassment, exploitation and abuse policy for Zambian police personnel.

30 Jan 2023 **Lusaka (Zambia)** *Zambia Daily Mail*. **Zesco** applies to the **Energy Regulation Board** to increase electricity tariffs for domestic consumers by 37% to be spread over five years;

31 Jan 2023 *Bloomberg*. **Angola**, Zambia and the **Democratic Republic of Congo's (DRC)** governments agree to create a new joint agency, the **Lobito Corridor Management Institution**, to manage the development of the **Lobito Trade Corridor** which will facilitate trade from Zambia and DRC over Angola's **Benguela Railway**.

20 Jan 2023 **Johannesburg (South Africa)** *Al Jazeera*. Lawyers for 12 residents of **Kabwe (Zambia)** begin arguments in a high court case brought against **United Kingdom**-headquartered mining giant **Anglo American** alleging that the mine contributed to the contamination and poisoning of residents in the area;

19 Jan 2023 **Lusaka (Zambia)** *Zambia Daily Mail*. The **Zambia Environmental Management Agency** approves \$5.7 billion worth of projects in mining, infrastructure development, manufacturing and processing, agriculture, forestry and tourism.

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