

AFRICA RISK CONSULTING

Zambia Monthly Briefing July 2024

Zambia Summary 19 July 2024

Finance minister Situmbeko Musokotwane announces a supplementary budget on 21 June that increases the 2024 budget by 13.88 %, with additional funding to go towards drought mitigation measures, debt repayment and settling fuel subsidy arrears. The International Monetary Fund (IMF) on 26 June announces its executive board has completed a third review of Zambia's Extended Credit Facility and approved an immediate disbursement of \$569.6m. The Fund's board also approves a request to increase its financial support from \$1.3 billion to \$1.7 billion to help Zambia respond to a severe drought. In a bid to tame demand for United States dollars and stabilise the exchange rate, the Bank of Zambia (central bank) on 28 June announces plans to introduce restrictions on the use of foreign exchange in local transactions. The National Pensions Scheme Authority (NAPSA) signs a financing agreement with Maamba Collieries Limited to invest up to \$200m in debt financing towards a 300MW coal power plant project.

Finance minister unveils supplementary budget to mitigate drought, pay debts...

Finance minister **Situmbeko Musokotwane** presented a supplementary budget of K41.9 billion (\$1.65 billion) to parliament on 21 June, a 13.88 % jump from the original budget.¹ The government seeks to mitigate the effects of a devastating drought while catering for external debt repayments and arrears owed to fuel retailers.²

Musokotwane outlined key macroeconomic goals when he announced the initial K177.9 billion (\$7.03 billion) budget for 2024 in September 2023. These included achieving a real GDP growth of 4.8%, maintaining international reserves at a level equivalent to three months of import cover, increasing domestic revenue to represent 22% of GDP, narrowing the fiscal deficit to 4.8% of GDP, and capping domestic borrowing at a maximum of 2.5% of GDP. However, **Zambia** has since grappled with the severe effects of an **El-Nino**-induced drought, including decimation of agricultural output and 12 hours-a-day power cuts, which have all undermined the execution of the government's economic plans. Of the recommended K41.9 billion (\$1.65 billion) in this supplementary budget, K8.3 billion (\$328m) or 19.8% of the revised budget will be dedicated to facilitating the government's drought response interventions in an effort to provide life-saving and early recovery assistance.

The supplementary budget dedicates K14.6 billion (\$577m) or 34.8 % to addressing external debt service obligations.³ The government is seizing the opportunity to adjust the funds required for debt servicing, reflecting the actual agreed amounts after making progress in the restructuring process.⁴ An amount of K15.2 billion (\$600.7m) or 36.3 % of the supplementary budget will be dedicated to the payment of fuel arrears, which were contracted during the administration of former president **Edgar Lungu** (2015-2021). The government heavily subsidised fuel before 2022 and did not fully pay fuel suppliers.

¹ Diggers, 21 Jun 2024

² Diggers, 21 Jun 2024

³ Parliament, 21 Jun 2024

⁴ Parliament, 21 Jun 2024

Musokotwane indicated that K17.2 billion (\$679.8m) of the supplementary budget will be financed through the declaration of savings from existing budget allocations to various government institutions and departments.⁵ This will be raised by cutting costs on items such as workshops, local and international travel as well as other general government operations. An amount of K16.6 billion (\$656.1m) is proposed to be facilitated through additional concessional financing using both domestic and external sources. Of this amount, \$194.5m is part of the funds expected to come from the **International Monetary Fund (IMF)** as additional financing specifically aimed at supporting the country's response to the drought situation (see below).

Roughly K4.3 billion (\$169.9m) will come as additional support from co-operating partners in 2024 aimed at addressing the drought situation. The balance of K3.8 billion (\$150m) of this budget is from additional revenues that have been realised in the year and were not part of the 2024 revenue estimates. These include dividends posted by the **Bank of Zambia (BoZ)** (central bank), which were higher than earlier projected, as well as some moneys forfeited to the state from individuals and institutions who are believed to have acquired it irregularly.

... as IMF approves \$569m credit facility

The IMF announced on 26 June that its executive board had completed a third review of Zambia's **Extended Credit Facility** and approved an immediate disbursement of \$569.6m. The Fund's 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, which has caused crop losses and affected power generation.⁶ IMF deputy managing director **Antoinette Sayeh** noted that Zambian authorities had made progress on economic and structural reforms while addressing humanitarian challenges due to the drought:

*"Going ahead, coordinated macroeconomic policies, continued efforts to restore fiscal and debt sustainability, and consistent reform implementation would be key to addressing the impact of the drought, preserving macroeconomic stability, and bolstering growth."*⁷

The impending funds are part of the ECF programme initiated in August 2022, designed to enhance macroeconomic stability and debt sustainability in Zambia. In April, the IMF released \$188m to Zambia as the first tranche of the ECF programme, which has set forth objectives for fiscal rectitude, poverty alleviation, corruption mitigation, and close creditor consultations to align debt restructuring with IMF standards. The programme supports Zambia's eighth **National Development Plan**, which seeks to entrench macroeconomic stability, attain debt and fiscal sustainability, enhance public governance, and foster inclusive growth to improve the livelihood of Zambians, especially the vulnerable.

An IMF staff team led by IMF mission chief for Zambia **Mercedes Vera Martin** held in-person discussions with the authorities in **Lusaka** from 24 April to 7 May. Discussions focused on the authorities' reforms and policy priorities in the context of the third review of Zambia's 38-month IMF-supported programme under the ECF.

Zambia is grappling with a severe drought that has significantly impacted agriculture and electricity generation, affecting a substantial share of the population. Consequently, the IMF has revised down growth projections for 2024 to 2.3% from 4.7%.⁸

⁵ PwC, 21 Jun 2024

⁶ Reuters, 26 Jun 2024

⁷ IMF, 26 Jun 2024

⁸ IMF, 26 Jun 2024

Central bank to impose foreign currency curbs to protect kwacha

The BoZ announced on 28 June that it is drafting new rules to curb the use of foreign currencies in local transactions, particularly the **United States (US)** dollar, in a move to stabilise the volatile local currency.⁹ The central bank has raised concern over the increasing use of the dollar within the local economy. 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 BoZ claims that this practice undermines its monetary policy tools and exerts pressure on the exchange rate. Zambia adopted a similar move in 2012, with Zambian authorities implementing foreign exchange restrictions, but abolished them less than two years later.¹⁰

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. BoZ deputy governor for operations **Francis Chipimo** said on 29 June that individuals caught using foreign currency for local transactions could face up to ten years in prison or substantial fines.

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. The kwacha has been among the world's worst-performing currencies over the past 12 months, depreciating by 28%, according to data compiled by US-based media outlet **Bloomberg**. It has staged a strong recovery in July to become the greatest gainer globally after Zambia ended a near-four-year default on its dollar bonds and received a \$569.6m payment from the IMF (see above). Chipimo noted that the use of the dollar raises credit and liquidity risks and undermines the central bank's influence, as dollar-denominated credit markets do not respond to its actions.¹¹ Chipimo said in an economy reliant on the US dollar, the demand for and importance of the local currency is reduced, resulting in a persistent decline in its value as both a medium of exchange and a store of value.

In a statement on 26 June, the IMF said a tight monetary stance until inflation declines toward the BoZ's target range of between 6% and 8% would help anchor inflation expectations. Inflation in June reached a 15-month high of 15.2%. Reserve accumulation and sustained exchange rate flexibility remain critical to address external shocks.

Pension fund invests \$200m in coal plant as power crisis bites

The **National Pensions Scheme Authority (NAPSA)** has signed a financing agreement with **Maamba Collieries Limited** to invest up to \$200m in debt financing towards the second phase of a 600-megawatt (MW) coal power plant project. This expansion aims to increase power generation from the current 300MW to 600MW through the construction of a modern, technologically advanced and environmentally friendly 300MW power plant.¹² The Maamba phase two project, estimated to cost up to \$400m, would be financed through approximately \$300m in debt and \$100m in equity.

Singapore-headquartered holding company **Nava Bharat**, which owns a 65% stake in Mamba Collieries, will contribute \$65m towards the equity investment into the project while state-owned **ZCCM-IH**, which owns the remainder of the shareholding in the company, will contribute

⁹ Bloomberg, 29 Jun 2024

¹⁰ Reuters, 19 Mar 2014

¹¹ Bloomberg, 29 June 2024

¹² Diggers, 17 Jul 2024

\$35m. Other local investors will finance the balance of \$100m debt financing, with the project expected to be completed in 24 months.¹³

Zambia has installed electricity generation capacity of 3,777MW with hydropower accounting for 3,154MW and representing 85% of total generation capacity, and current estimated peak demand of 2,600MW. Current drought conditions have led to a significant reduction in water levels of the major rivers from which electricity is generated, resulting in a power deficit of about 750MW. The situation has compelled the main power utility company to ration power supply, which has adversely affected industries and businesses, especially those that rely heavily on power. An eight-hour load-shedding schedule was implemented on 11 March. However, as dam water levels continued to decline, daily load shedding was extended to 12 hours, staggered in intervals of six hours each day, to ensure that power supply is available until the end of the year and prevent further damage to the power generating machines due to insufficient water levels. The second phase of the Maamba coal project is one of several projects the government hopes will mitigate the power crisis.

Among new short-term power generating projects, the energy ministry, ZESCO and **Ndola Energy Company Limited (NECL)** have restarted the 105MW **Ndola Energy Power Plant**. Zesco is also eyeing the development of a 100MW solar PV power plant in **Chisamba (Central Province)**, with the project scheduled to be completed in December. Installation of 120 MW of diesel generators in Ndola and **Mpika** is ongoing.¹⁴

In the medium to long term, in addition to the Maamba project, the government plans to initiate a 120MW portfolio of solar PV power projects under the **Global Energy Transfer Feed-in Tariff (GET-FiT)** programme. Plans are also already underway to expedite progress on the development of the 271MW **Luapula Hydropower Project** on the **Luapula River**.

Planner

12-13 Aug 2024 Lusaka (**Zambia**) **Bank of Zambia** Monetary Policy Committee meets;
Sep 2024 Lusaka (**Zambia**) 2025 National budget presentation

Chronology

17 Jul 2024 Lusaka (**Zambia**) *Diggers*. Mines minister **Paul Kabuswe** says the rationale behind the government's decision to establish the **Zambia Minerals Investments Corporation** is to ensure a 100% state-owned firm representing the government's interests in mining;

16 Jul 2024 Lusaka (**Zambia**) *Times of Zambia*. **Konkola Mineral Resources** and **Konkola Copper Mine (KCM) Smelterco**, subsidiaries of **Konkola Copper Mine (KCM)**, created by former liquidator **Milingo Lungu**, have agreed to hand back 78 properties and 15 environmental mining licences to KCM;

13 Jul 2024 Lusaka (**Zambia**) *Zambian Observer*. The ruling **United Party for National Development (UPND)** wins eight of nine council by-elections held across the country on 12 July, with an independent candidate winning the ninth ward;

¹³ Bloomberg, 18 Jul 2024

¹⁴ [Diggers](#), 21 May 2024

11 Jul 2024 **Harare (Zimbabwe)** *Reuters*. State mining investment unit **ZCCM-IH** announces that **China's JCHX Mining** plans to invest \$300m to breathe new life into **Lubambe Copper Mines**, which it recently acquired;

11 Jul 2024 **Lusaka (Zambia)** *Lusaka Times*. Zambia is set to benefit from a €4.5 billion (\$4.89m) **Global Fund for Sustainable Development** from **Italy**, following the signing of a Memorandum of Understanding (MoU) on 10 July on sustainable development cooperation between the two countries;

10 Jul 2024 **Lusaka (Zambia)** *Diggers*. **Konkola Copper Mines (KCM)** signs a collective agreement with five workers' unions that covers a wide range of benefits including a 20% salary adjustment;

9 Jul 2024 **Lusaka (Zambia)** *Diggers*. The **Zambia Revenue Authority (ZRA)** announces that importers of domestic solar equipment are no longer required to get a once-off waiver from the **Energy Regulation Board**, as part of measures to ease the prevailing electricity deficit;

6 Jul 2024 **Lusaka (Zambia)** *Diggers*. **United Kingdom**-based **Vedanta Resources** announces that it has arranged \$250m in funding to pay creditors as per a **High Court** judgment issued on 28 June;

5 Jul 2024 **Luanda (Angola)** *Diggers*. Energy minister **Peter Kapala** says the \$500m **Chongwe** nuclear power plant has stalled due to lack of funding despite an intergovernmental agreement signed with **Russia** in 2017 for cooperation on the construction of the **Centre of Nuclear Science and Technology**;

3 Jul 2024 **Lusaka (Zambia)** *Reuters*. **United Arab Emirates (UAE)**-headquartered **International Resources Holding (IRH)** withdraws its bid to buy a stake in **Konkola Copper Mines** after talks collapsed with mine owner, **India's Vedanta Resources**, over the assets' value;

28 Jun 2024 **Livingstone (Zambia)** *Lusaka Times*. **ZamStats** statistician general **Goodson Sinyenga** attributes the increase in the annual inflation rate from 14.7% in May to 15.2% in June to price movements in both food and non-food items;

27 Jun 2024 **Lusaka (Zambia)** *Diggers*. Energy minister **Peter Kapala** discloses that a national power utility **Zesco** team is in **Namibia** to negotiate the possibility of further clawing back power exported to that country as part of measures to mitigate Zambia's prevailing power deficit;

27 Jun 2024 **Maputo (Mozambique)** *Club of Mozambique*. President **Filipe Nyusi** arrives in **Zambia** for a visit at the invitation of his counterpart, **Hakainde Hichilema**;

27 Jun 2024 **Lusaka (Zambia)** *VOA*. **United States (US) Africa Command** head General **Michael Langley** denies claims by **Zimbabwe** government officials that the US is setting up a military base in Zambia;

25 Jun 2024 **Lusaka (Zambia)** *Mining Weekly*. **United Kingdom**-headquartered **Jubilee Metals** acquires two opencast copper mining operations in Zambia;

22 Jun 2024 **Lusaka (Zambia)** *Diggers*. Foreign affairs minister **Mulambo Haimbe** says the government has sought the **African Union's (AU)** intervention in its diplomatic impasse with **Zimbabwe**;

19 Jun 2024 **Lusaka (Zambia)** *Times Live*. Information minister **Cornelius Mweeta** says Zambia will import 650,000 metric tonnes of white maize from **Tanzania** after drought cut local production by up to 50%;

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