

AFRICA RISK CONSULTING

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Zambia Summary 17 June 2024

Zambia on 12 June issues two new restructured Eurobonds worth \$3 billion pulling the country out of a four-year-old debt default. Energy minister Peter Kapala on 12 June announces several short and long-term measures to mitigate Zambia's power crisis. Cabinet on 12 June approves plans to set up a new mining investment and trading company. International Monetary Fund (IMF) on 3 June confirms that Zambia has requested an expanded Extended Credit Facility (ECF) programme.

Zambia concludes Eurobond restructuring deal

Zambia on 12 June issued two series of restructured **Eurobonds** worth \$3 billion finally ending nearly four years of default on its bonds.¹ This followed the finance ministry's 28 May announcement that more than 90% of holders of its \$3 billion in outstanding international bonds had accepted its restructuring proposal, paving the way for it to emerge from a lengthy default.² Under the plan, bondholders swapped three existing instruments due to mature in 2022, 2024 and 2027, into two amortising bonds.

Zambia became the first **African** country to renege on its obligations during the **Covid-19** pandemic in November 2020 (see *ARC Briefing Zambia Nov 2020*). Its debt restructuring process has been complex and fraught with setbacks. The deal to restructure the bonds means Zambia has now become the first globally to successfully use the **Group of 20's Common Framework** mechanism to restructure its Eurobonds alongside debts it owed to other governments, the biggest of which was **China**.

One of the two bonds that Zambia issued will see investors repaid by 2032 rather than 2053 if its economy performs better than expected. Finance minister **Situmbeko Musokotwane** called the outcome a "*historic day*" for Zambia and a significant accomplishment in helping to get Zambia back on track to sustained growth and prosperity.³ He added:

*"We are grateful to the bondholders for their cooperation in finding a resolution, as well as all our international partners who made this achievement possible. As we get closer to closing this chapter, we remain committed to strengthening our economy and improving the lives of Zambians."*⁴

Despite the new deal, **United States (US)-based Fitch Ratings, S&P Global Ratings and Moody's**, still classify Zambia as being more broadly in default on its external loans because the government has yet to restructure about \$3.3 billion in loans owed to commercial lenders that are distinct from Eurobond holders.

Fitch Ratings said on 10 June it would assign a CCC rating to the two new Eurobonds and maintain the nation's long-term foreign-currency debt at restricted default. S&P had a similar assessment published on 24 May, maintaining a selective default rating on Zambia's foreign

¹ Livemint, 12 Jun 2024

² Reuters, 28 May 2024

³ Bloomberg, 12 Jun 2024

⁴ Bloomberg, 12 Jun 2024

currency debt because the nation has yet to make good on its commercial loans. Moody's said it will review its assessment after the bond exchange has concluded.

New 300MW projects underway as load shedding extended

Energy minister **Peter Kapala** on 12 June announced a series of short and long-term measures the government is taking to help address Zambia's power deficit, including plans to produce over 300MW from new power projects this year. The announcement was pertinent as power utility **ZESCO** on 20 May extended the daily load shedding period from eight hours to 12 hours.⁵

The **El Nino**-induced drought has caused a significant impact on the region's rainfall pattern resulting in Zambia experiencing significant power deficits as it generates most of its power supply from hydroelectric plants. Zambia has an installed electricity generation capacity of 3,777MW with hydropower accounting for 3,154MW - 85% of total generation capacity. The country currently has an estimated peak demand of 2,600MW. Despite the installed electricity generation capacity, only an estimated 900MW is being generated from the major reservoir dams resulting in a deficit of approximately 750MW.

An eight-hour load shedding was initially affected on 11 March but as dam water levels continued to drop a decision was made to extend the daily hours of load shedding to 12 hours. The 12 hours are staggered in intervals of six hours each day to ensure that the power supply is available until the end of the year and to further prevent damage to the power generating machines due to insufficient water levels.⁶

As part of short-term mitigation measures, Zambia secured additional power imports from **Mozambique** and stopped exporting 160MW under its export contracts. In addition, at least three new power generation plants are expected to come online this year. Among the new power-generating projects the energy ministry, ZESCO and **Ndola Energy Company** are undertaking negotiations to restart the 105MW **Ndola Energy Power Plant** by July. ZESCO is also eyeing the development of a 100MW solar power plant in **Chisamba** with the project scheduled to be completed in December 2024. The installation of 120MW of diesel generators in **Ndola** and **Mpika** is ongoing.⁷

In the medium to long term, the country plans to initiate a 120MW portfolio of solar power projects under the **Global Energy Transfer Feed-in Tariff (GET-FiT)** programme. Plans are also underway to develop the 300MW **Maamba Coal Power Plant** with financial closure expected to be reached by 30 June and construction expected to commence immediately. Further plans are underway to expedite progress on the development of the 271MW **Luapula Hydropower Project** on the **Luapula River**.

Under the **Integrated Resource Plan (IRP)** announced in 2023, the government says there is a need for an additional generation capacity of 6,505MW by 2026, requiring an estimated investment of \$5 billion. To meet long-term demand, the IRP forecasts a total of 23,000MW by 2050 with a corresponding investment requirement of nearly \$31 billion.

New state-owned minerals trading firm set up

Cabinet on 12 June approved plans for Zambia, Africa's second-largest copper producer, to set up a new entity for investment and trading in minerals. The new entity will allow Zambia to take mineral commodities instead of dividends from mining companies in which the state has a shareholding. The country will then trade the commodities on its own bringing direct

⁵ Xinhua, 24 May 2024

⁶ *Zambian Observer*, 21 May 2024

⁷ *Diggers*, 21 May 2024

competition to major commodity suppliers such as **Switzerland-based Glencore** and **Singapore-based Trafigura**.⁸

Through **ZCCM Investment Holdings**, Zambia currently has stakes ranging between 10% and 20% in mines including those owned by **Canada-based Barrick Gold** and **First Quantum Minerals (FQM)** and **India's Vedanta Resources**. The government also recently sold a 51% stake in **Mopani Copper Mines** to a unit of the **United Arab Emirates-headquartered International Holding Company**, retaining the remainder.

In February, mines minister **Paul Kabuswe** said Zambia planned to negotiate larger holdings in new mining projects as it seeks to raise its revenue and boost spending by investors on social projects.⁹ The change from a dividends model to production sharing will help the country in price discovery and therefore earn greater revenues. The new business model will also allow for the sharing of minerals produced as well as enable the government to negotiate mineral prices and ensure the correct declaration of mineral consignments designated for export and domestic use. The government, long suspicious that some mining companies under-declare production and profits hopes the creation of a state minerals trading company will provide a window into where others are making money from Zambia's resources.¹⁰

In another boost to the mining sector, US-based **KoBold Metals**, backed by billionaires **Bill Gates** and **Jeff Bezos**, announced on 10 June that it would spend \$2.3 billion to build a new copper mine in **Mingomba**. The mine will produce more than 300,000 tonnes per year making the operation the country's biggest copper producer. Shaft sinking will begin in the first half of 2026.¹³

Zambia is looking to become one of the world's largest copper producers, a critical metal in green transition technologies like electric vehicles. The country, which produced 698,000 metric tonnes of copper in 2023, is targeting three million metric tonnes in annual output within the next decade.

Zambia applies for expanded IMF programme

The **International Monetary Fund (IMF)** announced on 3 June that it reached a staff-level agreement with Zambian authorities on the third review of its \$1.3 billion **Extended Credit Facility (ECF)**, also confirming that the government requested the ECF be increased to \$1.7 billion. Pending IMF executive board approval, expected by the end of June, Zambia will gain immediate access to approximately \$573m. An IMF staff team led by **Mercedes Vera Martin** held in-person discussions with the authorities in **Lusaka** from 24 April to 7 May, with discussions focused on the authorities' reforms and policy priorities in the context of the third review.¹⁵

Zambia's ECF was initiated in August 2022, designed to enhance macroeconomic stability and debt sustainability and foster higher, more resilient, and more inclusive growth (*see ARC Briefing Zambia Sep 2022*). In April, the IMF released \$188m as the first tranche of the ECF programme. A key aspect of the programme was Zambia restructuring its debt in line with IMF standards.¹⁹ Musokotwane said the staff agreement was a "testament to Zambia's determination

⁸ Bloomberg, 12 Jun 2024

⁹ Reuters, 6 Feb 2024

¹⁰ Reuters, 13 Jun 2024

¹³ Miningmx, 10 Jun 2024

¹⁵ Diggers, 5 Jun 2024

¹⁹ Reuters, 1 Sep 2022

to rebuild macroeconomic and debt sustainability" and its efforts to finalise restructuring talks within the parameters of its IMF programme.²²

Zambia's 2024 outlook has worsened due to the drought with GDP growth now projected at 2.3%, half the forecast in December 2023. Agriculture production is expected to contract by 19% while power outages continue to hinder manufacturing activity and copper production is expected to recover more gradually than initially envisaged. The government in the context of these significant macroeconomic challenges that have become more complex to manage due to the severe drought applied for the programme to be increased from \$1.3 billion to \$1.7 billion.

Zambia is currently revising its 2024 budget aiming to reprioritise spending to accommodate emergency relief for one million additional households as the country aims to build resilience and sustainability through early recovery interventions, aligned with the recent declaration of a **State of Disaster and Emergency**.²³

Planner

12-13 Aug 2024 Lusaka (Zambia) **Bank of Zambia** (central bank) **Monetary Policy Committee** meeting

Sep 2024 Lusaka (Zambia) 2025 National budget presentation

Chronology

13 Jun 2024 Lusaka (Zambia) *Xinhua*. **ZESCO** selects **Chinese** firm **PowerChina International Group Limited** to build a 100MW solar photovoltaic project in the country's central district of **Chisamba**;

13 Jun 2024 Lusaka (Zambia) *Diggers*. Mines minister **Paul Kabuswe** says the government has recognised that gold is a game changer that should contribute significantly to the country's GDP;

10 Jun 2024 Lusaka (Zambia) *Diggers*. The **Disaster Management and Mitigation Unit (DMMU)** national coordinator **Gabriel Pollen** says the country has received \$395m from cooperating partners as part of the drought response support;

10 Jun 2024 Harare (Zimbabwe) *Newsday*. Information and media minister **Cornelius Mweetwa** says Zambia is engaging **Zimbabwean** authorities following remarks by Zimbabwe's President **Emmerson Mnangagwa** that the neighbouring country's security sector is heavily funded by the **United States**;

6 Jun 2024 Lusaka (Zambia) *Times of Zambia*. President **Hakainde Hichilema** makes changes at the ministerial level appointing central province minister **Princess Kasune** as the first female justice minister taking over from **Mulambo Haimbe**, who was named as the new foreign affairs and international cooperation minister;

6 Jun 2024 Lusaka (Zambia) *Diggers*. President **Hakainde Hichilema** warns his predecessor **Edgar Lungu** that he will be arrested if he continues to break the law;

4 Jun 2024 Lusaka (Zambia) *Times of Zambia*. The **African Development Bank (AfDB)** projects that Zambia's economy will grow by 4.5 % in both 2024 and 2025, as the mining and

²² Reuters, 4 Jun 2024

²³ Zambia Monitor, 13 Jun 2024

manufacturing sectors continue to recover, while global copper prices rebound. Inflation is expected to decelerate from 9.3% in 2024 to 7% in 2025 driven by falling food and fuel prices;

4 Jun 2024 **Lusaka (Zambia) Diggers**. The **Zambezi River Authority** says the water levels in **Kariba Dam** have continued to decline posing an increased threat to power generation in both Zambia and **Zimbabwe**;

3 Jun 2024 **Luanda (Angola) Times of Zambia**. Mines and minerals development permanent secretary **Hapenga Kabeta** says Zambia has in the last three years recorded close to \$10 billion in investments in the mining sector;

3 Jun 2024 **Lusaka (Zambia) Diggers**. Statistics agency **Zamstats** says **Switzerland** was Zambia's largest export market in April 2024, accounting for 44.9% of export earnings, while **South Africa** was the country's biggest source of imports accounting for 29.5% of the import bill;

31 May 2024 **Lusaka (Zambia) Diggers**. **Canada's First Quantum Minerals (FQM)** says it contributed over \$727.8m to Zambia's economy in 2023 through taxes and royalties;

31 May 2024 **Livingstone (Zambia) Reuters**. **Angola, Botswana, Namibia, Zambia and Zimbabwe** commit to expanding the use of a special common visa to allow easier movement of tourists as the region seeks to boost arrivals;

31 May 2024 **Lusaka (Zambia) Zambia Observer**. Former first lady **Esther Lungu** and her daughter, **Chiyeso Katete** are arrested over possession of properties worth more than \$2m suspected to be proceeds of crime;

30 May 2024 **Lusaka (Zambia) Bloomberg**. Statistician general **Goodson Sinyenga** reports that annual inflation increased from 13.8% in April to 14.7% in May, driven by a weaker kwacha and the effects of the **El Nino**-induced drought;

28 May 2024 **Lusaka (Zambia) Diggers**. **Mopani Copper Mines** CEO **Charles Sakanya** says more projects are coming up to support the economy, among them cobalt mining in the northwestern province;

27 May 2024 **Lusaka (Zambia) Diggers**. **Kariba North Bank Power Station** senior manager **Cephas Museba** says power utility **ZESCO** will be forced the shut down the power station if the country doesn't receive any rains by January 2025;

25 May 2024 **Lusaka (Zambia) Anadolu Agency**. Energy minister **Peter Kapala** confirms state-owned power utility **Zesco** will increase power cuts from eight to 12 hours a day, citing a drop in dam water levels that have impacted hydropower production;

22 May 2024 **Lusaka (Zambia) Diggers**. Former president **Edgar Lungu** alleges he has received information that the **Zambia Police Service** has been instructed to arrest him;

About Africa Risk Consulting:

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