

AFRICA RISK CONSULTING

Zambia Monthly Briefing March 2021

Zambia Summary 17 March 2021

The Bank of Zambia's (BoZ) (central bank) Monetary Policy Committee (MPC) increases the benchmark interest rate to 8.5% in an attempt to combat inflation. The increase is the first since November 2019. The International Monetary Fund (IMF) holds virtual talks with the Zambian government to discuss the Extended Credit Facility the government has requested. Zambia reaches record-high copper production of 882,061 tonnes of copper in 2020, up 10.8% from 796,430 tonnes in 2019. State-owned ZCCM Investment Holdings is looking for new ventures to invest in as it prepares to complete the acquisition of a majority stake in Switzerland-based Glencore PLC. United Kingdom-based Lancet Global Health journal claims Covid-19 cases in Zambia between March and July 2020 may have been 92 times higher than official health statistics showed. The Zambian government prepares for the rollout of its Covid-19 vaccine programme.

Central bank hikes benchmark interest rate to fight inflation...

Bank of Zambia (BoZ) (central bank) governor **Christopher Mvunga** announced on 17 February that the **Monetary Policy Committee (MPC)** had increased Zambia's benchmark interest rate to 8.5% in an attempt to bring down the inflation rate, which is at a five-year high.¹ The increase, from 8%, is the first since November 2019.² The MPC's 50-basis-point increase reverses its aggressive monetary easing cycle in 2020 when it cut rates in May and August by a total of 350 points to a historic low of 8% in response to the **Covid-19** pandemic.³

The MPC said it made its decision, following two days of deliberations, based on striking a balance between the need to fight soaring inflation and bolstering the economy.⁴ According to the **Zambia Statistics Agency (ZamStats)**, the year-on-year inflation rate for January 2021 increased to 20.15% from 19.2%.⁵ The BoZ is prepared to further adjust the policy rate upwards should inflationary pressure persist in a range beyond the bank's 6%-8% range. Mvunga stated:

"We can't let inflation run away; neither can we stifle economic growth. We had to get into the middle of the road of saying 'how do we have some form of control on both sides without necessarily destroying the economy?'"⁶

The kwacha has continued to weaken despite the scaled-up interventions. Zambia's gross international reserves declined by \$117.7m to \$1.2 billion at the end of December from \$1.3 billion, largely due to foreign exchange interventions and debt service.⁷ On 16 March the kwacha was trading at 21.96 to the **United States (US)** dollar, down 2.3% this year and 35% since the start of 2020.

Zambia will continue to struggle with the weakening kwacha until the government deals with its \$12 billion external debt. In November, Zambia became the first pandemic-era **African** country to default on its **Eurobond** payment (see *ARC Briefing Zambia November 2020*). Mvunga said a lag in the effects

¹ Bloomberg, 17 Feb 2021

² MPC, accessed 17 Feb 2021

³ Bloomberg, 17 Feb 2021

⁴ Bloomberg, 17 Feb 2021

⁵ ZamStat, accessed 16 Mar 2021

⁶ MPC, accessed 17 Feb 2021

⁷ Bloomberg, 17 Feb 2021

of the currency depreciation and sustained high fiscal deficits will put pressure on inflation, adding that,

*“... narrowing the fiscal deficit by ramping up revenue while rationalizing expenditure and restructuring government debt remain critical to restoring fiscal and macroeconomic stability ... [and] securing external support will be central to this effort”.*⁸

... as IMF and Zambia continue talks

The **International Monetary Fund (IMF)** held virtual talks with Zambia from 11-13 March to discuss the government’s request for support under the IMF’s Extended Credit Facility.⁹ The discussions covered a range of topics from near-term macroeconomic challenges and policy options to helping Zambia return to a sustainable macroeconomic position over the medium term. The discussions are expected to continue in the coming weeks, with additional technical work on the policy package. The key challenges for the IMF remain:

- Implementing fiscal reforms to correct current large fiscal imbalances;
- Increasing fiscal revenues to provide the needed fiscal space to achieve development objectives;
- bolstering governance and the efficiency of the use of public resources, including through debt and expenditure transparency;
- halting the incurrence of domestic arrears; and
- ensuring that the social protection scheme is fully funded with timely payments.¹⁰

The IMF said the talks were *“robust, constructive and making good progress”*. No date has been set for the next talks with the Zambian authorities.

Zambia achieves record high copper production

Mines minister **Richard Musukwa** announced on 23 February that Zambia produced 882,061 tonnes of copper in 2020, up 10.8% from 796,430 tonnes produced in 2019.¹¹ The increase is an historical high for Africa’s second highest copper producer after the **Democratic Republic of the Congo (DRC)**.¹² Increased copper production is attributed to a surge in demand and production in the electric car industry, which uses more copper than cars with traditional combustion engines.¹³ Musukwa is optimistic that copper mining production will continue to increase, despite the Covid-19 pandemic.¹⁴ Musukwa said Zambia aims to produce more than 900,000 tonnes in 2021, and in the long term exceed 1 million tonnes in annual production.¹⁵

With regard to other commodities, Musukwa said cobalt production fell 21.8% in 2020, to 287 tonnes from the 367 tonnes produced in 2019.¹⁶ Musukwa attributed the lower production to the reduced mineralisation and operational challenges facing **Konkola Copper Mine**, a subsidiary of **United Kingdom (UK)**-based **Vedanta Resources**. Gold production fell to 3,579 kg in 2020 from 3,913 kg in 2019 as ore grades at **Canada**-headquartered **Quantum Minerals’ Kansanshi** mine decreased. Musukwa commended state-owned **Zambia Gold Company**, mandated to drive formalisation and

⁸ Bloomberg, 17 Feb 2021

⁹ IMF, 13 Mar 2021

¹⁰ IMF, 13 Mar 2021

¹¹ Bloomberg, 23 Feb 2021

¹² Reuters, 23 Feb 2021

¹³ Reuters, 23 Feb 2021

¹⁴ Reuters, 23 Feb 2021

¹⁵ Reuters, 23 Feb 2021

¹⁶ Mining Weekly, 23 Feb 2021

growth in the gold sector, which sold 47.9 kg gold to the BoZ to bolster the country's gold reserves in 2020.¹⁷

Nickel production more than doubled to 5,712 tonnes in 2020 from 2,500 in 2019, due to restructuring and streaming of nickel operations, which helped to increase production. Zambia's manganese production jumped 79% to 28,409 tonnes in 2020 from 15,904 tonnes in 2019, with manganese mainly produced by small-scale miners. Musukwa said increased formalisation of manganese operations helped boost production.¹⁸

ZCCM on the lookout for deals

Zambia's state mining investment company, **ZCCM Investment Holdings (ZCCM-IH)**, is on the lookout for cheaper deals as it prepares to complete the acquisition of a majority stake in **Switzerland**-based company **Glencore PLC's** struggling copper business in Zambia.¹⁹ ZCCM chairman **Mabvuto Chipata** noted:

*"We think that operating a mine will allow us to extract more value [and] we need to make sure we have participation in the mining sector, which controls largest part of this economy."*²⁰

The ZCCM has been central to Zambia's mining industry, selling off controlled states assets to large mining groups when Zambia started to privatise the industry in the 2000's. This process started with **Mopani Copper Mines**, which ZCCM is buying from Glencore, and KCM.²¹ ZCCM changed its strategy from being a minority shareholder in the mining and energy sector to actively acquiring assets, in line with President **Edgar Lungu's** (2015-present) pledge to buy strategic stakes in the country's mineral resources.²² ZCCM agreed a controversial deal to buy Glencore's majority stake in the ailing Mopani mine and in doing so take on \$1.5 billion of debt to finance the deal, amid consultations with the IMF for debt restructuring (see *ARC Briefing Zambia February 2021*).²³

Zambia is set to hold presidential elections in August and the **Copperbelt** will be a key battleground.²⁴ When Glencore tried in April to mothball operations at Mopani mine, which employs 9,000 people, due to losses as a result of low copper prices and high costs,²⁵ the decision caused tension between the government and Mopani (see *ARC Briefing Zambia April 2020*).²⁶ If Mopani were to halt operations, it would impact Lungu's image and message for an ambitious re-run, especially as Zambia faces immense socio-economic challenges from the continuing pandemic.²⁷ However, Chipata said the decision to buy the mine had nothing to do with the upcoming election, but was in line with the company's strategic agenda.²⁸ Chipata said the Mopani mine deal was self-financing because the loans would be repaid from future copper output.²⁹

Did Zambia under-report Covid-19 cases?

A study published in the UK-based **Lancet Global Health Journal** claims that Covid-19 cases in Zambia between March and July may have been 92 times higher than official health statistics showed.³⁰ Researchers tested samples in six districts across Zambia in July and used the results to estimate a total of 454,708 cases for the period. The government's official number of infections for the

¹⁷ MiningMx, 23 Feb 2021

¹⁸ MiningMx, 23 Feb 2021

¹⁹ Financial Times, 14 Mar 2021

²⁰ Financial Times, 14 Mar 2021

²¹ Financial Times, 14 Mar 2021

²² Financial Times, 14 Mar 2021

²³ Reuters, 19 Jan 2021

²⁴ Source, analyst, Zambia

²⁵ Reuters, 19 Jan 2021

²⁶ Analyst Zambia

²⁷ Source, analyst, Zambia

²⁸ Financial Times, 14 Mar 2021

²⁹ Financial Times, 14 Mar 2021

³⁰ Bloomberg, 11 Mar 2021

same period was 4,917 infections.³¹ A similar trend was reportedly observed in **Nigeria** in September.³²

While under-reporting of numbers is concerning, it largely results from a lack of testing capacity in poorer countries. It also important to note that the study took place during the first wave of the Covid-19 outbreak in Zambia, when health authorities faced significant operational challenges. As of 16 March, Zambia has recorded 84,950 cases in its population of roughly 18.5 million people, with 82,375 recoveries and 1,164 deaths.³³

Zambia rolls out Covid-19 vaccine strategy

The government has started to prepare for the rollout of its Covid-19 vaccine programme.³⁴ Health minister **Jonas Chanda** said the government has agreed in principle to adopt the rollout and was finalising which vaccine it would use. Cabinet has yet to approve the operational plan:

“Cabinet will further guide on the types of vaccines to be based on the safety, efficacy, cost and sustainability of supply. This will then provide a clear roadmap that the Ministry of Health and other stakeholders will follow.”³⁵

Zambia has been allocated 8.7 million doses of the 270 million Covid-19 vaccines secured by the **African Union**, which may increase to 25 million doses by December.³⁶ The initial allocation comprises doses of the **Pfizer** and **AstraZeneca** vaccines while the additional allocation is likely to comprise vaccine doses manufactured by US-based pharmaceutical company **Johnson & Johnson**.³⁷

³¹ Bloomberg, 11 Mar 2021

³² Reuters, 29 Sep 2020-

³³ Africa CDC, 16 Mar 2021

³⁴ WHO Africa, 18 Feb 2021

³⁵ ReliefWeb, 18 Feb 2021

³⁶ WHO Africa, 18 Feb 2021

³⁷ WHO Africa, 18 Feb 2021

Planner

6-8 May 2021 **Lusaka (Zambia)** Zambia International Mining and Energy Conference (ZIMEC);
 17-18 May 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 19 May 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;
 12 Aug 2021 **(Zambia)** Presidential and legislative elections;
 16-17 Aug 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 18 Aug 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;
 15-16 Nov 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 17 Nov 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;

Chronology

14 Mar 2021 **Lusaka (Zambia) Financial Times**. State mining company **ZCCM Investment Holdings** chairman **Mabvuto Chipata** says the company will consider any opportunities to increase the minority shareholdings it owns in Zambia-based companies;

12 Mar 2021 **(Africa) AfDB**. Multinational financial institution **African Development Bank Group** forecasts **African** economies to rebound by 3.4% on an average in 2021, following an average contraction of 2.1% last year;

10 Mar 2021 **Lusaka Times (Zambia) Lusaka Times**. **Kapiri Mposhi** region-based **Eagle Glass Manufacturing Company** managing director **Zhi Zhao** says the company has shut down one year into production because of the “influx of cheap imports in the Zambian market”;

10 Mar 2021 **Lusaka (Zambia) Moneyweb**. Academic journal **The Lancet Global Health** says **coronavirus** cases in **Zambia** from March to July 2020 may have been 92 times higher than official statistics showed;

4 Mar 2021 **Lusaka (Zambia) EWN**. **International Monetary Fund** says talks with **Zambian** government over a possible bailout will continue over the next few weeks to address remaining fiscal challenges;

23 Feb 2021 **Lusaka (Zambia) South China Morning Post**. Top **Chinese** diplomat **Yang Jiechi** holds debt talks with **Zambia** government after appeal for restructure under **G20** common framework;

18 Feb 2021 **(Africa) Africa Global Funds**. **South Africa**-based **African Alliance Asset Management** partners with social investment manager and advisor **Tshikululu Social Investments** to offer global investors **Thrive Africa** an impact investment offering for **Africa**;

17 Feb 2021 **Lusaka (Zambia) Reuters**. **Bank of Zambia** (central bank) raises lending rates by 50 basis points to 8.5%, saying it was ready to tighten further to tame rising consumer inflation driven by “cost-push” pressures and a sharp depreciation in the currency;

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