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2025 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA

In the context of the 2025 Article IV Consultation, Fifth Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 25, 2025 consideration of the staff report on issues related to the 2025 Article IV Consultation, Fifth Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 25, 2025, following discussions that ended on May 13, 2025, with the officials of Zambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 2, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Zambia.

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PRESS RELEASE

PR25/268

IMF Executive Board Concludes 2025 Article IV Consultation and Completes Fifth Review Under the Extended Credit Facility with Zambia

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the 2025 Article IV consultation and completed the fifth review under the 38-month Extended Credit Facility (ECF) Arrangement, providing immediate access to about US$184 million.
- Program performance has remained broadly satisfactory. All end-December 2024 quantitative performance criteria and most indicative targets for end-March 2025 were met. Six out of fourteen structural benchmarks were met for this review, and four were completed with delays.
- The authorities remain committed to maintaining macroeconomic stability, sustaining social spending, and restoring fiscal and debt sustainability, while advancing structural and governance reforms to foster growth.

Washington, DC – July 25, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation and fifth review of Zambia's 38-month Extended Credit Facility (ECF) Arrangement, approved on August 31, 2022, and financing assurances review for Zambia.[1] The completion of this review allows for an immediate disbursement of SDR 139.88 million (about US$184 million), bringing Zambia's total disbursement under the ECF-supported program to SDR 1132.74 million (about US$1.55 billion). The ECF Arrangement seeks to entrench macroeconomic stability, restore debt and fiscal sustainability, enhance public governance, and foster inclusive growth to improve the livelihood of the Zambian people.

Program performance has been broadly satisfactory, with all end-December 2024 quantitative targets and most end-March 2025 indicative targets met. Three end-March 2025 indicative targets—on non-mining tax revenues, arrears clearance, and reserve accumulation—were missed. Six out of fourteen structural benchmarks (SBs) for this review were met, four were completed with delays, and the remainder four SBs on debt office procedures, along with financial sector and governance reforms, were proposed to be reset to the next review. The recent adoption of an amended 2025 budget in line with the program commitments satisfies the prior action set for

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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this review. The Executive Board also granted a waiver for nonobservance of the continuous performance criterion on contracting non-concessional external debt in the fourth quarter of 2024.

With the effects of the historic drought receding, Zambia's economic outlook remains positive. Real GDP growth is estimated at 4 percent in 2024, underpinned by stronger mining and services performance as electricity access was prioritized to productive sectors. Real GDP growth in 2025 is projected at 5.8 percent on the back of continued recovery in agricultural production in the wake of the drought and continued strong performance in mining and services. Headline inflation is expected to gradually decline, to 11 percent by end-2025. The outlook is subject to significant downside risks stemming from global uncertainty. Medium-term prospects hinge on scaling up mining investment, sustained fiscal discipline, and structural reforms to promote private sector activity, economic diversification, and more inclusive growth.

Zambia's public debt is assessed as sustainable, but the country remains at high risk of overall and external debt distress. The authorities have reached agreements in principle with most external commercial creditors, and efforts are ongoing to advance bilateral agreements with official bilateral creditors, in line with program parameters and comparability of treatment as defined by the Official Creditors Committee. Although Zambia is at a high risk of debt distress because of near-term breaches of the DSA thresholds, it is expected to reach a moderate risk of external debt distress over the medium term.

The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Following the Executive Board discussion, Ms. Gita Gopinath, First Deputy Managing Director and Chair of the Board, issued the following statement:

"Economic policies have helped stabilize Zambia's economy, which proved more resilient than initially envisaged to the impact of a historic drought in 2024. Agricultural, mining and services activity has rebounded strongly, notwithstanding the still limited supply of and access to electricity, while inflation has begun to moderate.

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[2] *Option 1:* Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the https://www.imf.org/en/Countries/ZMB page.

Option 2: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent.

Option 3: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have requested additional time to decide on the publication of the staff report. A final decision is expected not later than 28 days from the Board consideration date.

Option 4 (opt-outs): Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have not yet communicated their decision on the publication of the staff report.

Program performance remains broadly satisfactory, and the authorities are continuing to advance structural and governance reforms, albeit with some delays.

“Fiscal consolidation, prudent monetary policy and further reserve accumulation, exchange rate flexibility, and sound financial policies remain crucial for safeguarding macro-financial stability and building resilience against shocks.

“The fiscal path envisaged in the revised 2025 budget will support restoring fiscal and debt sustainability. To this end, progress in enhancing revenue mobilization and strengthening spending efficiency and transparency remain critical to generating much needed fiscal space and supporting the country’s medium-term growth and development objectives.

“Zambia’s public debt is assessed as sustainable but remains at high risk of overall and external debt distress. Agreements in principle have been reached with the vast majority of external commercial creditors, and efforts are ongoing to advance bilateral agreements with official bilateral creditors, in line with program parameters. Zambia is expected to reach a moderate risk of external debt distress over the medium term.

“The Bank of Zambia should continue to act to bring inflation to a downward path, which is key to preserving the credibility of its inflation targeting framework. Reserve accumulation and sustained exchange rate flexibility would help address future external shocks.

“Governance and structural reforms remain vital for promoting private sector activity, economic diversification, and inclusive growth. Enhancing transparency in the energy sector and resource management, strengthening anti-corruption measures, continuing agriculture reform, alongside building climate resilience, will help improve the business climate and support sustainable growth.”

Table 1. Zambia: Selected Economic Indicators

Population (millions, 2024):	21.1	Per capita GDP ($, 2024):	1,246
Quota (SDR millions, % total):	978.2	Poverty rate (2022):	64.3
Main products and exports:	Copper		
Key export markets:	China		

	2021	2022	2023	2024	2025	2026	2027
				Est.		Proj.	
Output							
Real GDP growth (%)	6.2	5.2	5.4	4.0	5.8	6.4	6.5
Prices							
Inflation annual average (%)	22.0	11.0	10.9	15.0	14.2	9.2	7.4
Inflation end-of-year (%)	16.4	9.9	13.1	16.7	11.1	7.9	7.0
Central government finances							
Revenue (% GDP)	22.4	20.4	21.9	22.2	22.8	23.0	23.3
Expenditure (% GDP)	30.5	28.2	27.4	25.5	28.0	26.7	24.9
Fiscal balance (cash basis, % GDP)	-8.1	-7.8	-5.5	-3.3	-5.3	-3.7	-1.6
Fiscal balance (commitment basis, % GDP)	-13.9	-5.4	-4.5	-1.9	-2.3	-2.1	-0.3
Public debt (% GDP)	112.1	110.9	133.4	123.9	91.9	79.0	69.4
Money and Credit							
Broad money (% change)	3.7	24.5	24.6	23.0	19.1	14.7	13.6
Credit to private sector (% change)	-7.8	34.2	41.3	20.5	52.1	29.7	12.7
3-month Treasury bill interest rate (%)	12.8	9.6	9.8	10.1	…	…	…

Balance of payments							
Current account (% GDP)	11.9	3.7	-3.0	-2.6	1.3	2.7	3.7
FDI (% GDP)	3.1	0.7	1.8	3.8	3.8	4.5	3.8
Reserves (in months of imports)	3.3	3.4	3.3	4.2	4.5	4.4	4.7
Exchange rate							
REER (% change)	5.0	30.3	-7.1	-13.3	...	...	...

Sources: Zambian authorities; and IMF Staff estimates and projections.

ZAMBIA

July 2, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Zambia's economy has stabilized, with average per capita income growth of about 2 percent over 2022–24, supported by continued reform efforts. Inflationary pressures are gradually subsiding. In 2024, real GDP growth is estimated at 4 percent—well above earlier projections—underpinned by stronger mining and services performance and prioritizing electricity access to productive sectors. The authorities' commitment to reform is yielding dividends: macroeconomic stability is improving, fiscal consolidation is progressing, and reserve buffers are strengthening. However, poverty and inequality remain high, and the economic outlook is vulnerable to external shocks, climate events, and domestic political pressures ahead of the 2026 elections.

Program Performance. Performance under the program has been broadly satisfactory. All end-December 2024 quantitative targets were met. However, three end-March 2025 indicative targets—on non-mining tax revenues, arrears clearance, and reserve accumulation—were missed. Six out of fourteen structural benchmarks (SBs) for this review were met, four were completed with delays, and the remainder four SBs are proposed to be reset to the next review. One prior action is set for this review, adopting an amended 2025 budget in line with the program commitments.

Outlook and Risks. The near-term outlook is positive, with growth projected at 5.8 percent in 2025, supported by improved rainfall, agricultural recovery, and higher mining output. Inflation is expected to decline gradually, and gross reserves are projected to reach 4.5 months of imports by end-2025. Medium-term prospects hinge on scaling up mining investment, sustained fiscal discipline, and structural reforms. Key downside risks include weaker copper prices, climate shocks, social unrest, and electoral spending pressures. On the upside, renewed mining investment could boost confidence, strengthen external balances, and support a more robust growth recovery.

Policy Discussions. Discussions focused on sustaining fiscal consolidation to preserve space for investment and social spending, strengthening public financial management, and mobilizing durable revenues through tax policy and administration reforms. A proactive and data-dependent monetary policy stance remains essential to anchor inflation expectations. The Bank of Zambia's liquidity operations and FX market functioning need strengthening to enhance monetary transmission and support reserve accumulation. Advancing financial sector reforms, including key legislation and risk-based supervision, will be essential to safeguarding stability. Medium-term priorities include accelerating structural transformation to support inclusive growth by raising labor productivity, enabling firm expansion, and addressing barriers such as informality, infrastructure gaps, and limited access to finance. Complementary reforms to improve governance, raise agricultural productivity, promote energy sector competition, and strengthen climate resilience and public investment management will be essential to advance Zambia's development goals.

Approved By
C. Christou (African Department) and M. Cihak (Strategy, Policy, and Review Department)

An IMF team comprising Mmes. Vera Martin (head) and Spahia and Messrs. Gurara, Lautier (Resident Representative), Masilokwa (local economist) and Youssef (all AFR), and Messrs. Josic (SPR) and Tumino (FAD) visited Lusaka April 29-May 13, 2025. Ms. Boulad (MCM) participated virtually. Discussions were held with Minister of Finance and National Planning Musokotwane, Governor of the Bank of Zambia Kalyalya, Secretary to the Treasury Nkulukusa, Deputy Governor Chipimo, and other senior officials. The mission team also met with His Excellency President Hakainde Hichilema, representatives from various government agencies, the private sector, and development partners. Ms. Motsumi (OED) participated in the discussions. Ms. Pan and Mr. Qi assisted in the preparation of the report.

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CONTEXT

1. The authorities' policies have so far yielded strong results in addressing economic vulnerabilities and restoring macroeconomic stability, in line with Fund policy advice. Under the Eighth National Development Plan, growth averaged 5 percent over 2022-24. Aligned with the recommendations from the last Article IV consultation, policies have been geared towards addressing macroeconomic imbalances, restoring debt sustainability and laying the foundations for private-sector-led growth (Annex I). Fiscal consolidation, including through the fuel subsidy reform, and implementation of the debt restructuring under the G20 Common Framework will help restore debt sustainability. Structural reforms have strengthened public financial management and debt management, improved energy sector efficiency, and advanced governance and transparency. Social sector reforms expanded free access to education at primary and secondary schooling and increased support to vulnerable households, especially during the drought. While governance weaknesses persist, reform efforts support stabilization, fostering growth, and helping mobilize private investment.

2. Challenges remain. Zambia is amongst the poorest and the most unequal countries in the world. Poverty is entrenched, and inequality remains high. [1] The economy is vulnerable to external shocks, including fluctuations in copper prices and climate, and maintaining reform momentum will be critical to sustain growth and achieve fiscal and external stability. While the government remains committed to macroeconomic stability and structural reforms, the rising cost of living, with annual inflation averaging 12 percent in 2022-24, has dented real incomes, especially for the most vulnerable. With the presidential and parliamentary elections scheduled for August 2026 increasingly shaping policy discussions, program implementation may become more challenging, despite satisfactory performance to date.

RECENT ECONOMIC DEVELOPMENTS

3. Economic activity proved resilient despite last year's severe drought (Table 1, Figure 1). Real GDP growth in 2024 is estimated at 4 percent, significantly higher than the 1.2-percent projected at the time of the Fourth Review. This reflects a smaller-than-projected decline in agricultural production, coupled with a larger-than-projected acceleration in mining and non-mining activity during 2024Q4. The stronger economic performance in Information, Communication and Technology (ICT), mining, financial activities, and construction suggest that the use of alternative power sources, including imported diesel, and the authorities' prioritization of electricity delivery to key sectors were a successful strategy in limiting spillovers from drought-related power shortages. [2]

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[1] The poverty rate reached 64.3 percent of the population, and the Gini coefficient is estimated at 51.5 percent in 2022—see [Zambia Poverty and Equity Assessment.]

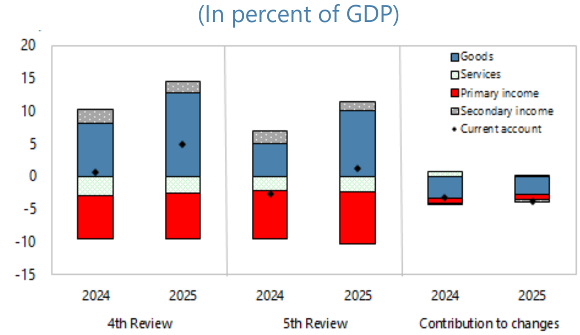
[2] The authorities prioritized mining and large corporates on accessing electricity, with most of the load shedding taken by the households.

4. Inflation pressures remain elevated but show signs of easing. Driven by higher food prices and kwacha depreciation, inflation averaged 15 percent in 2024. Inflation peaked at 16.8 percent y/y in February 2025 before declining to 15.3 percent y/y in May, as food inflation decelerated to 17.9 percent y/y from 20.6 percent in February. Non-food inflation eased only marginally, to 11.6 percent y/y in May from 11.7 percent in February. To contain inflationary pressures, the Bank of Zambia (BoZ) raised the policy rate by a cumulative 300 basis points (bps) in 2024, followed with an additional 50 bps increase in February 2025, bringing the rate to 14.5 percent, and held it steady in May.

5. The 2024 current account deficit is estimated at 2.6 percent of GDP, down from 3.0 percent in 2023 (Tables 2a-b, Figure 2). This improvement was driven by higher inflows from cooperating partners in response to the drought and increased tourism receipts. Relative to the small surplus projected at the Fourth Review, the current account balance deteriorated—primarily due to stronger-than-anticipated imports of petroleum products and electricity. The financial account was supported by an increase in net FDI (mostly in the mining sector). Gross international reserves (GIR) rose to $4.3 billion at end-2024 (equivalent to 4.2 months of prospective imports) but the cover was somewhat lower reflecting higher imports. By end-May 2025, GIR increased further to $4.7 billion.

Text Figure 1. Current Account Comparison

(In percent of GDP)



Sources: BoZ and IMF staff calculations

6. Foreign exchange (FX) pressures have recently eased. In 2024, kwacha was depreciated by 21.5 percent and 13.3 percent y/y (on average) in nominal and real effective terms, respectively. The BoZ sold $970 million on a net basis. Although FX pressures persisted into early 2025, seasonal increase in FX supply and lower fuel imports in April-May led to an appreciation of 4 percent against the dollar through early June. With pressures easing, the BoZ net-sold $393.5 million by early June—around ⅓ less than in the same period of 2024. In 2025, impermissible spreads related to previously identified multiple currency practices (MCPs)—the payment of mining-related taxes and FX purchases from the government—were observed in April and May. [3]

7. Tight domestic financing conditions led to deeper spending cuts and arrears accumulation, resulting in a higher 2024 primary fiscal balance (cash basis) (Tables 3a-b, Figure 3). It reached K 20.2 billion, well above the adjusted program target (K 8.4 billion, Text Table 1). Despite higher growth and one-offs (from tax arrears and central bank dividends) that boosted revenues (excluding grants) by one percent of GDP, lower grants (by 0.8 percent of GDP, mostly reflecting backloaded and slower-then-planned disbursements by official partners) kept overall revenues unchanged. The overall financing was 2.9 percent of GDP lower than envisaged at

[3] Staff continues to assess their economic impact as minimal. For details, see Zambia's Fourth ECF Review.

the time of the Fourth Review. Constrained financing compressed primary expenditure by 0.7 percent of GDP. While social spending targets were met, investment spending was reduced (by 0.8 percent of GDP) and arrears of one percent of GDP accumulated. The authorities only cleared $103 million in legacy fuel arrears (out of $600 million), as they secured $26 million in loans and $78 million from their own revenues.

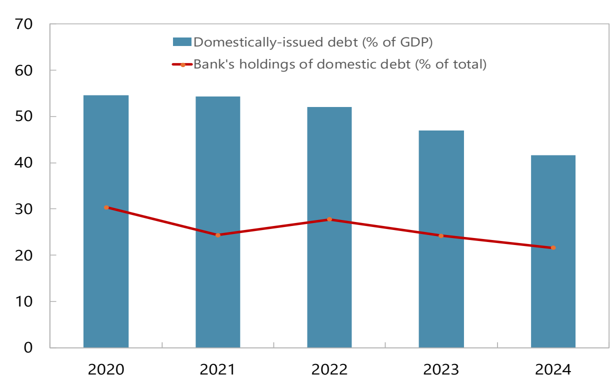
Text Table 1. Zambia: Primary Fiscal Balance in 2024

		in million of USD	in million of Kwacha	in percent of GDP
A	**Fuel Arrears projected to be cleared in LMO**	**600**	**15,774**	**2.3%**
B	Fuel arrears cleared in 2024	103	2,712	0.4%
C	Difference (Adjustor) (A-B)	497	13,061	1.9%
D	PB Target before adjustor (4th Review)		-4,698	-0.7%
E	PB Target adjusted = D + C		8,363	1.2%
	PB outturn (preliminary data)		**20,219**	**2.9%**
	Memo items			
	Nominal GDP		688,851	
	Average exchange rate		26.2	

Sources: Authorities and Staff Calculations

8. Tight liquidity dampened banks' demand for government securities in 2024. The February 2024 increase in reserve requirements and the government drive to transfer some of its accounts to the BoZ reduced banks' liquidity, lowered demand for government securities in 2024H1, and reduced the sovereign-bank nexus (Text Figure 2). Demand recovered after June 2024, bringing the 2024 net domestic financing to 0.7 percent of GDP. [4] Declining bond yields in 2024Q4 (Figure 5) resulted in lower weighted average yields (by about 80 bps) in 2024 compared to 2023, a trend that has continued so far in 2025. In turn, exposure to non-resident holders (NRHs) increased amid renewed investor appetite, to K 57.6 billion at end-2024. By end-April 2025, Non-resident holdings (NRHs) further rose to K 59.2 billion (7.3 percent of GDP), as investors benefited from allocations in the primary market. [5]

Text Figure 2. Zambia: Domestically Issued Debt and Commercial Banks' Holdings, 2020-24



Sources: Zambian authorities and IMF staff estimates.

[4] Following the liquidity easing operation in June 2024, when banks were allowed to provision reserve requirements with government bonds, the bid subscription ratio improved, from 90 percent during January-May to 190 percent during June-December. The liquidity easing operation remains in place.

[5] The share of NRHs remained stable at 25 percent of total outstanding bonds between end-2023 to end-April 2025. The authorities have limited NRHs' participation to 5 percent of annual gross primary issuances (see here). As of end-March 2025, the primary issuance stood at K 842.6 million versus the limit of K 1,572 million. This measure constitutes a residency-based capital inflow measure under the Fund's Institutional View on the Liberalization and Management of Capital Flows and should be removed as conditions allow.

9. The banking sector remains well-capitalized and liquid, faced with low intermediation, high concentration, and significant sovereign-bank nexus. As of March 2025, the capital adequacy ratio exceeded 24 percent, with all banks meeting minimum requirements, and liquid assets accounted for 49 percent of total assets and 65 percent of deposits (Table 5). Asset quality has improved, with the NPL ratio declining to 3.6 percent, though provisioning dipped slightly to 89.5 percent of NPLs in early 2025. Private sector credit growth slowed down in 2024, to 9 percent in constant exchange rate terms compared to 17.8 percent in 2023, reflecting weaker kwacha-denominated lending and a small contraction in FX loans. Financial intermediation remains low—evidenced by a 40-percent loan-to-deposit ratio—and loan concentration remains high, as the largest 20 loans account for 62 percent of total lending. Banks' exposure to government securities, while declining, stands at 20.4 percent of total assets. Deposit and loan dollarization rose to 44 percent, though unhedged positions remain below 10 percent.

PROGRAM PERFORMANCE

10. Program performance has been broadly satisfactory, with delays in structural conditionality (MEFP, Tables 1-2).

- All end-December 2024 quantitative performance criteria (QPCs) and indicative targets (ITs) have been met. Three end-March 2025 ITs were missed, on non-mining tax revenues, clearance of expenditure arrears and net international reserves (MEFP, Table 1).

- On structural conditionality, six out of 14 SBs were met. The authorities published the report with the description and costing of tax expenditures, the retail and wholesale price structures timely, the quarterly debt bulletin (**all continuous SBs**), and the revised pipeline open access tender procedures (**end-December 2024 SB**). However, four SBs for this review were missed and completed with delays. The 2016 Public Audit Act and the 2016 State Audit Commission Act were enacted on May 23, 2025 (**end-January 2025 SB**), and procurement contracts for maize imports and tender results for the Tazama open access were published with minor delays.

- Facing delays, the authorities request to reset four SBs, those related to submitting to Parliament the Anti-Corruption Act, the Banking and Financial Services Act, and the adoption of the deposit insurance framework—all to end-September 2025, and the adoption of the debt management office's procedures manual to end-July 2025.

11. Revised data on borrowing indicates non-observance of the continuous PC on the ceiling on the contracting or guaranteeing of new non-concessional external debt. The authorities contracted two non-concessional loans in 2024Q4, amounting to 0.2 percent of GDP, with grant element below 35 percent.

OUTLOOK AND RISKS

12. The near-term growth outlook remains positive despite the deteriorating global environment, as the impact of the drought dissipates and mining production ramps up. Growth in 2025 is projected at 5.8 percent reflecting a continued rebound in mining output, improved agricultural harvest and electricity generation as rainfall normalized. Inflation is expected to gradually decline driven mostly by declining food prices, as supply conditions improve. The external position is expected to strengthen, supported by mining exports. Gross reserves are projected at 4.5 months of imports by end-2025.

13. The medium-term outlook remains positive, contingent upon increasing mining production, favorable copper prices, and restoring debt sustainability (Text Table 2). Growth is projected to accelerate in 2026-27 driven by expanding mining production, stabilizing at around 4.8 percent over the medium term. Higher mining-related investment and continued strength in agriculture will underpin growth, while improving electricity supply will reduce fuel and electricity imports. Inflation pressures are expected to ease as external stability strengthens, and domestic conditions improve. Completion of the external debt restructuring would lower risk premium, further supporting investment and broader economic activity. Lower official development assistance may increase central government's health spending pressures. [6] Based on a post-restructuring scenario, Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress with limited room to absorb shocks (DSA Annex).

Text Table 2. Zambia: Medium-Term Macroeconomic Framework, 2023–30

	2023	2024		2025		2026	2027	2028	2029	2030
		ECF 4th Review*	Est.	ECF 4th Review*	Proj.	Projections				
Real GDP (percent change)	5.4	1.2	4.0	6.2	5.8	6.4	6.5	5.1	4.8	4.8
of which: extractive	-3.5	4.7	8.8	11.2	11.5	14.6	20.0	8.7	5.0	4.3
GDP deflator (percent change)	7.1	19.2	18.8	9.7	11.5	6.9	6.3	6.9	6.7	6.4
CPI inflation, average (percent)	10.9	14.9	15.0	12.8	14.2	9.2	7.4	7.0	7.0	7.0
CPI inflation, eop (percent)	13.1	16.4	16.7	7.6	11.1	7.9	7.0	7.0	7.0	7.0
Primary fiscal balance (% GDP), commitment basis	1.5	2.5	4.3	3.3	4.1	4.2	4.9	4.4	3.5	2.8
Primary fiscal balance (% GDP), cash basis	0.6	0.5	2.9	1.9	1.1	2.7	3.6	3.2	2.9	2.7
Current account balance (% GDP)	-3.0	0.7	-2.6	5.0	1.3	2.7	3.7	3.8	3.4	3.3
Financial account (% GDP)	0.3	-3.9	-3.5	-3.4	-0.5	-1.5	-2.1	-1.9	-1.6	-1.6
FDI (net % GDP)	1.8	3.7	3.8	3.7	3.8	4.5	3.8	3.8	3.8	3.8
Trade Balance (% of GDP)	5.0	8.2	4.9	12.7	10.0	10.4	10.8	10.8	10.4	10.2
Gross international reserves (months of prospective imports)	3.3	4.5	4.2	5.3	4.5	4.4	4.7	4.9	5.0	5.0

Sources: Zambian authorities and IMF staff estimates and projections.
* IMF CR No. 24/350

[6] Official development assistance was financing about $430 million annually on health spending, primarily medicines, health worker salaries, and NGO-led programs.

14. Downside risks to the outlook dominate (Annex II). A growth slowdown in major economies, due to investment and trade shocks or deepening geopolitical fragmentation, could adversely affect copper prices, worsening Zambia's external and fiscal imbalances and reducing investment and growth prospects. Real income losses and worsening inequality could ignite resistance to reforms or suboptimal policies, which could hinder investment and growth prospects. Domestic market conditions, with a narrow investor base and elevated sovereign-bank nexus, could challenge government financing and pose risks to financial stability. The electoral cycle could hinder reform implementation and growth prospects. Recurrent droughts or floods could sustain upward pressure on inflation, increase social spending needs, and weaken medium-term growth. On the upside, positive price dynamics could result in lower inflation by end-year and renewed mining investments could boost confidence and support growth. If downside risks materialize, additional fiscal consolidation, tighter monetary policy, and exchange rate adjustment, while seeking additional bilateral and multilateral external financing, will help sustain macro stability.

Authorities' Views

15. The authorities broadly agreed with staff's views on the outlook and risks. They expect growth to rebound as mining recovers and agricultural production improves. The authorities noted stronger potential for medium-term growth, underpinned by rising mining investment, improved electricity supply, and the completion of debt restructuring. While recognizing downside risks, they emphasized their commitment to advancing reforms and maintaining macroeconomic stability.

POLICY DISCUSSIONS

Discussions focused on policies to support macro-financial stability, restore debt sustainability, and support medium-term growth and structural transformation. Revenue-based fiscal consolidation, a tight monetary stance to anchor inflation expectations, and strengthened financial policies remain critical for stability. Structural reforms should prioritize improving governance, reinforcing the rule of law, and fostering a level-playing field for private sector development to support medium-term growth and structural transformation. Building economic resilience will also require implementing adaptation policies towards climate resilience.

A. Sustaining Fiscal Consolidation Efforts to Support Fiscal and Debt Sustainability

16. The authorities will amend the 2025 budget to reflect the fuel operation and other expenditure pressures (MEFP, ¶10). The overall fiscal deficit is expected to widen to 5.3 percent of GDP, compared to 3.8 percent at the time of the Fourth Review, and includes the fuel arrears repayment operation with the discount agreed with suppliers (1.3 percent of GDP) for which prospective domestic financing has been identified. Higher interest spending (0.9 percent of GDP, mostly related to past due interest on the restructured external debt and domestic interest projection updated with Q42024 debt stock), and other additional expenditure pressures (i.e. arrears on the Farmer Input Support Program (FISP) of 0.7 percent of GDP, stop-gap financing for USAID health-related spending, keeping the social cash transfers at K 400/month, and others related to 2026 election preparations) will be financed by increased revenues (a mix of better-than-expected performance in the mining sector and new revenue measures, amounting to one percent of GDP) and spending reallocations (Table Text 3). The proposed cut in goods and services of 0.9 percent of GDP reflects limited flexibility in non-priority expenditure, but risks leading to further arrears' accumulation. The primary balance (cash basis, program target) is projected at 1.1 percent of GDP (from 1.9 percent of GDP at the Fourth Review); however, when excluding the fuel operation, the primary balance strengthens to 2.5 percent of GDP, reflecting a higher fiscal effort than envisaged in the context of the previous review. Non-fuel domestic borrowing will increase by 0.5 percent of GDP, partly compensating for lower external financing.

Text Table 3. Zambia: Amended 2025 Budget—Changes with respect to the Fourth Review

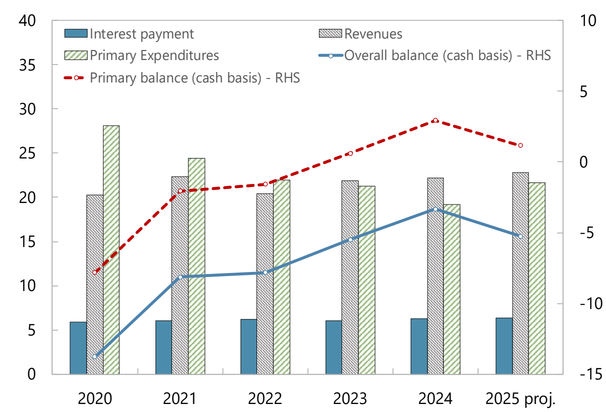
	Changes vs the 4th ECF Review	
	in million of Kwacha	in percent of GDP
Total Revenues (excl. grants)	**8,145**	**1.0**
Revenue excluding grants	8,340	1.0
of which New Revenue Measures	3,827	0.5
Expenditure	**20,958**	**2.6**
Interest	**7,595**	**0.9**
o/w Domestic Interest	2,369	0.3
Extenal Interest	6,184	0.8
Primary Expenditure (net)	**13,363**	**1.6**
additional spending needs	**21,183**	**2.6**
of which Personal Emoluments	403	0.0
USAID Health Spending stop gap	1,392	0.2
FISP	5,799	0.7
Elections, public affairs spending	1,346	0.2
Fuel operation	10,712	1.3
Social Cash Transfer	1,532	0.2
Spending Cuts	**-9,227**	**-1.1**
of which Net aquistiion of non-financial assets	-1,005	-0.1
Use of Goods and Services	-7,222	-0.9
Transfers to Food Reserve Agency	-1,000	-0.1
Overall Balance (cash basis)	**-12,813**	**-1.6**
Primary Balance	**-5,217**	**-0.6**
Adjusted Primary Balance (without fuel operation)	**5,495**	**0.7**
Financing	**12,813**	**1.6**
Net acquisition of financial assets (+ use, - accumulatio	**0**	0.0
Net Domestic Financing	**14,659**	**1.8**
of which Government Securities	4,000	**0.5**
of which Fuel arrears loan (net of amortization)	10,659	1.3
Net External Financing	**-1,846**	**-0.2**

Sources: Zambian authorities and staff calculations.

17. To address the 2025 spending pressures and to sustain fiscal consolidation, the authorities will take new revenue measures in the 2025 revised budget in line with program parameters (prior action). These revenue measures are expected to yield an additional ½ percent of GDP in 2025 (Table Text 3). They include halving duty relief on imported manufacturing inputs, doubling the surcharge on imports of domestically produced goods, increasing excise duties on alcoholic beverages, sugar and sugary drinks, exempting wheat and wheat products instead of having a zero VAT rating, and increasing the withholding tax on interest payments of government securities from 15 to 20 percent. Going forward, the efforts to strengthen domestic revenue mobilization should continue. Specifically,

- **Tax policy.** According to the first-ever tax expenditure report (**end-December 2024 SB**), estimated foregone revenues in 2023 amounted to 1.5 percent of GDP, including from CIT reduced rates (0.7 percent of GDP) and custom duties exemptions (0.6 percent of GDP). [7] Eliminating exemptions and tax incentives will provide additional resources to finance social spending and investment needs, while enhancing the level-playing field for the private sector. Other measures include unifying the corporate income tax rate, improving the progressivity of personal income tax by adding a new bracket for high earners and expanding the base by including fringe benefits; and increasing excises on diesel.

Text Figure 3. Zambia: Fiscal Outcomes, 2020-24



Sources: Zambian authorities and IMF staff estimates

- **Tax administration.** Restricting VAT deductions to transactions under the Smart Invoice System (SIS) and establishing and staffing a compliance risk management unit by mid-2025 (**end-June 2025 SB**) are expected to improve compliance. ZRA has also increased the pace of VAT refunds, including by offsetting with tax payments, and will adopt risk-based audits by end-2025. Broadening the tax base remains critical to mobilizing revenues that can generate fiscal space to address development needs. Ensuring collection of the revenues associated with the transportation differential from the oil pipeline and their remit to the Treasury will also help generate additional fiscal space.

18. Over the medium term, additional revenue measures are essential to sustain fiscal consolidation while preserving space for critical investment and long-term debt sustainability (MEFP, ¶12). Additional revenue will help keep the debt-service-to-revenue ratio at an average of 13.8 percent over 2026-31, below the 14 percent threshold. Over 2025-31, average tax revenues are

[7] 2023 Tax Expenditure Report, Minister of Finance and National Planning, December 2024

projected to increase to 22.7 percent of GDP—1½ percentage points higher compared to the 2021-24 average—driven by a recovery in the mining sector, stronger VAT and excises revenues boosted by the elimination of fuel exemptions and other base-expanding measures undertaken during the ECF program as well as improved collection. In parallel, primary expenditures still need to be compressed to an average of 20.5 percent of GDP over 2025-31. In the absence of additional revenue measures, the primary fiscal balance (cash basis) consistent with the authorities' goal of bringing down domestic borrowing to around 2 percent of GDP—as stated in their medium-term budget framework—is expected to hover around 2.7 percent of GDP, with the debt-service-to-revenue ratio below 14 percent.

19. Strengthening public financial management will help improve the efficiency, transparency, and credibility of fiscal operations (MEFP, ¶16-22). Priorities include consolidating government bank accounts to enhance cash visibility, operationalizing the Cash Management Unit, and improving coordination with the debt management office to better align borrowing with liquidity needs. Finalizing the debt procedures manual (**end-March SB, proposed to be reset to end-July 2025 SB**) and advancing the IFMIS rollout will support expenditure control and arrears monitoring. Enhancing SOE oversight by submitting to Cabinet a new SOE Act consistent with the SOE policy (**end-September 2025 SB**) will strengthen the legal framework and transparency of PPPs would help better monitor fiscal risks. In this context, the 2026 Fiscal Risk statement is expected to include quantitative financial information about SOEs and signed PPPs to enhance understanding of their fiscal risks (**end-September 2025 SB**). Reforms to improve public investment include enhanced oversight by the Ministry of Finance and National Planning, to ensure the quality and affordability of projects and improving the budget for capital investment, while planning for maintenance of operational infrastructure (Annex III). Recent trends in the size wage bill call for close monitoring (Annex IV).

20. The LMO for the costly fuel arrears is progressing. The authorities have made headway in agreeing on discounts with fuel suppliers regarding accumulated interest charges and late fees. Efforts to secure domestic financing to clear the remaining stock is at an advanced stage. The authorities propose to go ahead with the LMO as it generates net-present-value savings. Repayment is expected to be completed in 2025.

21. A fiscal framework that accounts for resource wealth will enhance fiscal governance and support intergenerational equity (MEFP, ¶11). As mining output expands, the fiscal framework would benefit from addressing the challenges of transforming resource wealth into other assets that support development; of limiting boom-bust cycles to help safeguard stability; and of resource revenue exhaustibility and intergenerational equity. [8] Coupled with the 2022 Debt Rule—limiting public debt to 65 percent of GDP in the future—such framework will guide fiscal policy on the use of resource revenues while strengthening institutional capacity for long-term fiscal sustainability.

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[8] For details, see Macroeconomic Policy Frameworks for Resource-Rich Developing Countries (IMF, 2012).

Authorities' Views

22. The authorities reaffirmed their commitment to restoring fiscal sustainability while advancing PFM and tax administration reforms. They confirmed their commitment to fiscal consolidation and addressed additional spending pressures in 2025 by a mixture of permanent revenue measures and spending reallocations. The authorities also reiterated their commitment to modernizing PFM and tax administration. They agreed that revamping the fiscal framework will help reduce the procyclicality of fiscal policy, while allowing to share the benefit for mining revenues with future generations. They acknowledged the need to undertake base-broadening revenue measures.

B. Safeguarding Price and External Stability

23. Despite the recent pause in rate hikes, the BoZ may need to tighten policy further to anchor inflation expectations and safeguard policy credibility (MEFP, ¶32-33). While the business surveys suggest that inflation expectations remain elevated and persistent, base effects, lower global fuel prices, favorable rainfall, and a good harvest—key factors that could help stabilize food prices and the kwacha—are expected to support the disinflation process in 2025. [9] With real policy rates still in negative territory, however, further inflation surprises could risk de-anchoring expectations. In this context, a gradual and data-dependent tightening of the monetary stance may be needed to bring the real policy rate into positive territory and guide inflation toward the target band. Strengthening BoZ's communication would help anchor expectations and bolster market confidence.

24. Better alignment of open market operations (OMOs) with policy objectives is critical to strengthen monetary transmission and liquidity management. Although the overnight interbank rate has converged toward the policy rate, pass-through to lending rates remains weak, partly due to structural constraints (Figure 4). A more structured and predictable OMO framework—anchored on a weekly fixed-rate full-allotment operation linked to the reserve requirement maintenance period—would enhance policy signaling, stabilize short-term rates, and improve liquidity conditions. These improvements would help anchor the interbank rate more firmly around the policy rate and lay the foundation for stronger transmission. Reversing the provision of the statutory reserve requirement (SRR) strictly to cash balances will also help enhance the monetary framework.

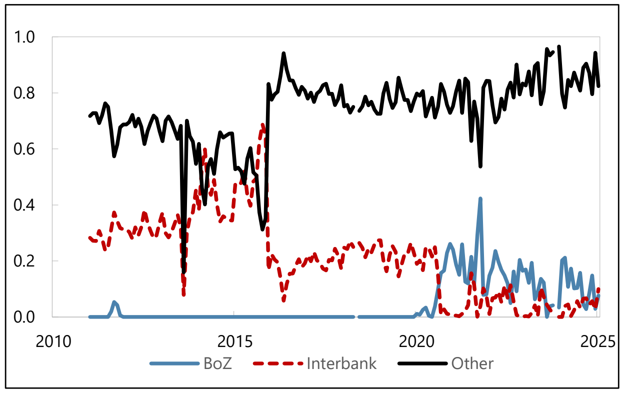
25. Broader reforms are needed to improve transmission to lending rates. These include deepening financial markets, strengthening bank intermediation, and reducing credit risk. In parallel, developing the interbank market—through steps such as finalizing ISDA documentation and adopting a standardized Master Repurchase Agreement—would support secure and efficient liquidity redistribution among banks, helping shift liquidity toward private sector lending and reinforcing the transmission mechanism.

[9] See BoZ Quarterly Survey of Business Opinions and Expectations.

26. Enhancing interbank FX market efficiency would improve liquidity and price discovery. The recently increased $5 million threshold above which interbank FX transactions are allowed should be reconsidered, as it risks further reducing market volumes by limiting transactions eligible for negotiated pricing. With interbank activity shrinking (see Text Figure 4) and the commercial banks' posted board rates subject to a 2-percent cap on FX spreads, price discovery is increasingly constrained, making exchange rate formation less responsive to market fundamentals. Ensuring a more active interbank FX market will be critical to improving FX liquidity and aligning exchange rate adjustments with market conditions. A lower threshold, along with targeted reforms to improve market transparency and depth, would support more efficient FX pricing and greater market participation.

Text Figure 4. Zambia: Commercial Banks FX Purchases

(In percent of total)



Sources: Authorities and Staff Calculations

27. Maintaining exchange rate flexibility and limiting FX market interventions will be critical to support reserve accumulation. In 2025Q1, net FX sales by the BoZ for market support reached $233.5 million, well above the programmed amount of $79 million. Although net sales have moderated in Q2, in line with easing FX pressures, mining-related FX inflows have also declined. This decline largely reflects the Zambian Revenue Authority's (ZRA) decision to increase monthly VAT arrears clearance from K 1.3 billion to K 2 billion partly by offsetting tax liabilities—some of which are settled in FX. To safeguard reserve buffers, the ZRA should limit the offsetting of FX-related tax obligations, while the BoZ should limit FX sales to support further progress toward meeting the end-September 2025 NIR target (IT). Sustained reserve accumulation is essential given ongoing import demand and increased external financing needs in 2026.

28. Zambia's external position is weaker than the level implied by medium-term fundamentals and desirable policies (Annex IV). Addressing these imbalances will require sustained implementation of policies under the ECF-supported arrangement. Strengthening the fiscal position, advancing export diversification with greater value addition, and attracting foreign direct investment are key to easing pressures on the external balance.

Authorities' Views

29. The authorities remain committed to maintaining a prudent monetary policy stance. They underscored the importance of exchange rate flexibility, improving monetary policy transmission, and enhancing market functioning. They also noted the need for a data-driven approach to guide future policy actions. The authorities also broadly agreed with staff assessment of Zambia's external position. However, they considered the recently increased $5 million limit for interbank FX transactions to be suitable for promoting meaningful market activity and ensuring that transactions reflect genuine demand.

C. Strengthening Financial Policies

30. Strengthening financial surveillance remains important to support financial stability (MEFP, ¶39-41). The BoZ has continued to enhance systemic risk analysis, upgrading the stress testing framework, and reinforce macroprudential tools to address persistent banking sector vulnerabilities, including loan and deposit concentration, dollarization risks, maturity mismatches, low financial intermediation, and the sovereign-bank nexus. [10] More specifically:

- The BoZ is revising the Banking and Financial Services Act (BFSA) but facing some delays (**end-March 2025 SB, proposed to be reset to end of September 2025**), aligning it with international standards and best practices. Improvements include provisions related to licensing and market access, ownership changes, prudential requirements, governance, early intervention and resolution. The draft Bill is now expected to be submitted to Parliament by end-September 2025.

- The BoZ will expand the macroprudential toolkit and strengthen stress testing and cyber risk oversight (MEFP ¶39). The issuance of capital regulations on the deployment of countercyclical capital and conservation buffers has been delayed from October 2024 to June 2025. The introduction of a Liquidity Coverage Ratio (LCR) is expected this year, with a five-year phase-in period; and the Net Stable Funding Ratio (NSFR) is due by June 2026. Macro (top-down) and micro (bottom-up) stress testing has also been put in place on an annual basis. On cyber risk, the BoZ conducted four onsite examinations in 2024. Concentration risks would need to be considered to support financial stability.

- The deposit insurance regulation is also facing some delays. The new regulatory framework will cover key elements such as scope, depositor preference, and funding, aligned with the IADI Core Principles and Basel Supervision Principles **(SB end-April 2025, proposed to be reset to end-September 2025)**. Authorities are considering aligning its rollout with the bank resolution framework. To ensure a robust legal basis for the scheme, the authorities should strengthen the clause on deposit protection in the BFSA.

- The BoZ is making progress in strengthening market conduct, consumer protection and AML/CFT supervision. Two AML/CFT examinations were conducted in 2024, with four additional examinations underway or planned for 2025. To enhance information sharing and enforcement, it will be important to deepen collaboration with the Financial Intelligence Center (FIC) and Zambia Revenue Authority (ZRA). Full implementation of the electronic balance of payments system and the Export Proceeds Tracking Framework will also support efforts to strengthen the

[10] The upcoming Financial Sector Stability Review (FSSR) will support identifying capacity needs and informing future reforms.

AML/CFT framework.[11] The BoZ is also seeking to strengthen enforcement actions for consumer protection as part of the BFSA reform, and work is ongoing to enhance oversight procedures.

31. The BoZ continues to work on regulations to settle all domestic transactions in kwacha. In a phased approach, the central government and public institutions would first be required to use the kwacha for domestic operations, with exemptions limited to certain sectors such as tourism, taxes paid in foreign currency, and services in the mining sector. Staff recognized that the measure may enhance the effectiveness of monetary policy, while cautioning against possible higher kwacha volatility and some financial disintermediation. Staff also noted that administrative measures to promote de-dollarization should be accompanied by market-driven incentives once macroeconomic stability is consolidated, while promoting prudential regulations that internalize financial risks associated with financial dollarization.

32. Effective oversight of the BoZ's new credit facilities is essential to mitigate risks to BoZ's autonomy and credibility. The Stability and Resilience Facility (SRF), offering K 5 billion in liquidity support with preferential terms to financial service providers, is expected to promote credit to sectors impacted by the energy shock and agricultural supply challenges from the 2024 drought.[12] Given the SRF's size—0.5 percent of GDP in 2025 and 1.8 percent of banks' balance sheet at end-2024—it is important to assess its impact on liquidity and BoZ's monetary operations, to avoid undermining its intentions to stabilize inflation expectations. To maintain policy credibility, the SRF should be regularly reviewed and fully integrated into the BoZ's liquidity management framework. Separately, the BoZ is also launching the Small Business Growth Initiative, a K 5 billion credit guarantee scheme aimed at addressing structural bottlenecks in small businesses' access to credit. To support BoZ's autonomy, it will be operated through a special purpose vehicle (SPV) under the control of the BoZ Board. Given that the scheme targets previously unbanked borrowers, potential risks to the BoZ balance sheet will need to be carefully managed.[13] Furthermore, the legal framework governing the scheme should provide adequate safeguards, including clear criteria to inform the decision-making process, a transparent distribution of responsibilities, full administrative separation between the SPV and the bank supervisory function to ensure effective supervision, and appropriate accountability mechanisms. Overall, the BoZ should prioritize its role as the bank supervisor over any development objective by refraining from relaxing any bank prudential requirements on loan portfolios and ensuring banks maintain robust credit risk management. These two facilities,

[11] On January 1, 2024, the BoZ launched the Export Proceeds Tracking Framework, which requires all export proceeds to be captured in the e-BoP System. The framework mandates the repatriation of all export earnings into a foreign currency account at a bank domiciled in Zambia. This measure was assessed as a capital flow management measure deemed appropriate under the IMF's Institutional View on capital flows. The BoZ should aim for less intrusive measures in addressing data monitoring issues to decrease compliance costs for businesses.

[12] The BoZ has received applications amounting to K3.2 billion as of end-May 2025. The drawdown period is one year and will conclude at end-2025, followed by a repayment period of up to 7 years. The terms and conditions can be found here: https://www.boz.zm/STABILITY-AND-RESILIENCE-FACILITY-TERMS-AND-CONDITIONS.pdf

[13] The credit guarantee coverage will start at 40 percent and could increase up to 80 percent to promote certain areas (e.g. environmental goals, women entrepreneurship).

constituting quasi-fiscal operations in nature, should have a fiscal backstop to avoid any risk to the financial autonomy of the BoZ, while developing a strategy to phase out these activities.

33. The outstanding issues from the IMF's safeguard assessment on the issuance of government securities are yet to be addressed. The Attorney General's Office is expected to issue its legal opinion clarifying the interpretation of the statutory limit on credit to the government and the rollover of government securities, including the legal treatment of securitized accrued interest, and to ascertain its compliance with the law by end-June 2025 (**proposed end-July 2025 SB**).

Authorities' Views

34. The authorities remain strongly committed to promoting financial sector stability and development. They are committed to strengthening supervisory capacity, enhancing risk monitoring, and advancing key legislative and regulatory reforms. They recognize the need to support deeper financial intermediation, improve credit access, and reduce structural vulnerabilities. As implementation progresses, they intend to maintain close oversight of evolving risks while promoting policies that foster a more inclusive and resilient financial system.

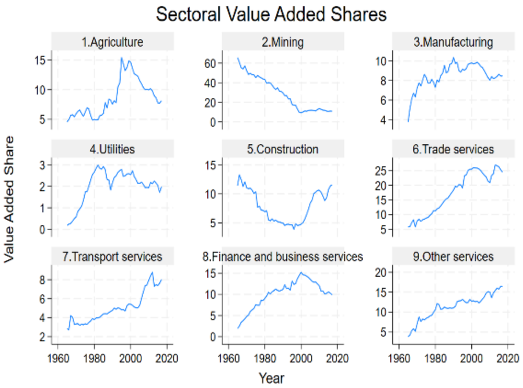
D. Advancing Structural Reforms to Boost Inclusive Growth

35. Structural transformation is essential to reduce poverty and inequality by enabling a shift toward more productive employment. [14] Despite some progress in shifting labor out of agriculture, much of the workforce remains trapped in informal, low-productivity activities—reflecting slow and, in recent years, negative structural transformation driven by labor shifts into lower-productivity sectors such as informal services (see Text Figure 3). This outcome reflects limited private sector dynamism, which has constrained the creation of higher-productivity jobs. Firm-level evidence shows that growth is held back by limited access to finance, unreliable electricity, and widespread informality—key barriers to business expansion, job creation, and diversification (see Selected Issues Paper).

[14] For further details, please see Zambia Poverty and Inequality Assessment: Turning Things Around after a Lost Decade (World Bank, 2025).

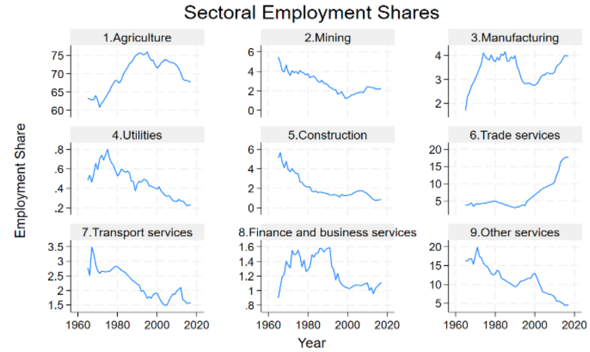
Text Figure 5. Zambia: Trends in Structural Transformation

Zambia's economy has undergone significant structural changes....



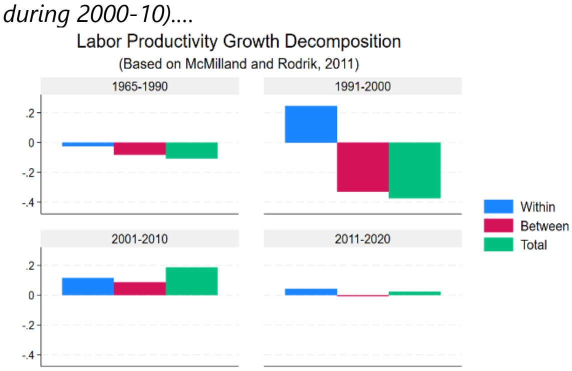
Source: World Bank, 2021. Global Productivity: Trends, Drivers, and Policies

...closely linked to shifts in employment patterns....



Source: World Bank, 2021. Global Productivity: Trends, Drivers, and Policies

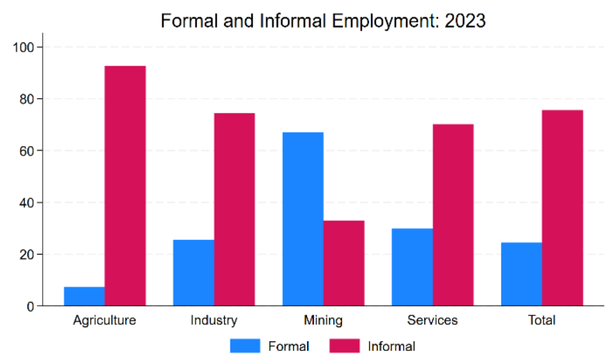
...but negative structural changes predominate (except during 2000-10)....



Source: Staff estimate based on World Bank, 2021. Global Productivity: Trends, Drivers, and Policies

***Note**: **Within-sector** productivity growth reflects productivity gains from technology or capital, while **between-sector (structural change)** captures gains from labor moving to higher-productivity sectors.*

...with significant part of the labor force employed in the informal sector.

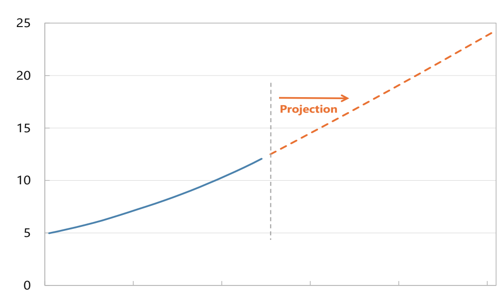


Source: Zambia Labor Force Survey 2023

36. Accelerating structural transformation by raising labor productivity and supporting firm growth will be critical to strengthening Zambia's resilience and medium-term growth prospects. The subdued performance of formal firms—characterized by stagnant or declining growth, limited scale-up, and weak entry rates—reflects deeper structural constraints. Evidence from Zambian firm-level data shows that firms with access to credit and reliable power grow significantly faster, while those facing binding constraints lag behind. Addressing these barriers through targeted reforms—such as expanding access to credit, improving infrastructure reliability, and reducing regulatory burdens— can unlock

Text Figure 6. Zambia. Working-Age Population

(million, age 15-64)



Sources: UN World Population Prospects, 2025 productivity gains and support broader economic transformation, which is needed to absorb the growing labor force (Text Figure 5). Labor productivity will also need to strengthen to support economic transformation (Annex VI).

37. Persevering with structural reforms will help foster diversification and job creation and boost potential growth. In particular,

- **Enhancing agricultural productivity will require more effective and fiscally sustainable support mechanisms.** Expanding the e-voucher scheme and advancing implementation of the Comprehensive Agriculture Transformation Support Program (CATSP) are key to improving input delivery and productivity. The Smallholder Agricultural Finance Facility (SAFF, under the Ministry of Agriculture), however, poses significant fiscal risks, with an 80-percent guarantee on loans and limited collateral requirements. The Treasury has already committed K 803 million (about $29 million) over two seasons, yet delays in disbursement have undermined productivity and repayment capacity. A redesign of the facility is needed to better leverage private sector participation and reduce the fiscal burden.

- **Promoting energy sector competition is key to improving efficiency, expanding access, and attracting private investment.** While the initial open access for fuel imports via the TAZAMA pipeline is a step in the right direction (with tenders completed up to August 2025), further efforts to report monthly on revenues to the Treasury, to ensure timely delivery of fuel by OMCs that won the tender process, and to publish all contracts should help foster greater competition and transparency. The open access regime, starting on April 1, faced challenges, as the OMCs that won the tender process could only deliver diesel through the pipeline starting mid-April. For the first half of April, the authorities directly allocated the delivery to another OMC, undermining the open access regime. Given delays, the OMCs have resorted to diesel swaps to ensure they deliver under the open access. To this end, as a corrective measure, the authorities published the contract on delivering fuel in the first half of April to enhance transparency and support their commitment to the open access. In the electricity sector, the open access regime marks a significant step toward fostering competition and integrating more renewable energy, enabling eligible producers, suppliers, and large consumers (with capacity of at least MW1) to access transmission and distribution infrastructure irrespective of ownership. By facilitating direct electricity trading and prioritizing long-term access, the reform reduces dependence on ZESCO’s power purchase agreements and supports a more competitive electricity market. In parallel, renewed efforts are needed to support the financial sustainability of Zesco.

- **Improving the business environment is essential to unlock private investment and support inclusive growth.** Revitalizing private sector dialogue should focus on removing cumbersome regulations, reducing corruption, improving transparency of procedures, and establishing regular consultative platforms to enhance investment climate and public-private collaboration. Developing a one-stop shop for opening business would facilitate transparency and streamline procedures.

- **Enhancing transparency in mining licensing and resource management is key to improving governance and investor confidence.** Establishing clear, consistently applied, publicly disclosed rules can enhance predictability, attract reputable investors, minimize disputes, improve resource allocation efficiency, increase revenues, and ensure fair distribution of benefits. The creation of a one-stop-shop Licensing, Mineral and Appeals Tribunal and the upcoming launch of the Minerals Regulation Commission are expected to centralize and strengthen regulatory oversight across the mining value chain, streamline permitting, and enforce compliance. To maximize the effectiveness of these reforms, addressing institutional capacity, data governance challenges will help support that regulatory discretion is guided by transparent and enforceable rules.

- **Strengthening climate resilience will be essential to safeguard development gains and reduce fiscal and economic vulnerabilities to climate shocks.** Building on the adoption of the Climate Change Bill, the authorities are preparing carbon market regulations and have signed bilateral agreements with Sweden and Norway to facilitate carbon credit trading in exchange for financing in energy efficiency, renewable energy, and low-emission technologies. The 2023 National Adaptation Plan outlines a strategic roadmap to enhance resilience in priority sectors, including water and irrigation, energy, food security, and climate-resilient infrastructure. Given the substantial cost of adaptation, efforts are also underway to document climate-related losses to support future access to financing from the Loss and Damage Fund established under COP27. Going forward, policy focus should prioritize mitigating the most frequent and fiscally significant shocks—such as droughts and floods—through investments in resilient infrastructure, enhanced buffer mechanisms, and further diversification of electricity generation.

- **Improving governance.** Despite progress, strengthening transparency, integrity and accountability remains essential for macro-economic stability. Anti-corruption oversight is still weak and perceived as selective. The authorities are facing delays in submitting to Parliament the Anti-Corruption Act aligned with IMF recommendations (**end-March 2025 SB, proposed to be reset to end-September 2025 SB**). After its enactment, reforms developing a forfeited asset management framework, the asset declaration system for public officials, and on public interest disclosing will proceed.

- **Enhancing infrastructure investment is critical to support connectivity, productivity, and long-term growth.** Scaling up public investment should be accompanied by enhanced public investment management, including greater transparency on project costs, timelines, and implementation status. With the new PPP framework, leveraging private sector participation can help expand infrastructure delivery, but it is essential to assess and disclose fiscal risks associated with PPPs. Incorporating these risks into the Fiscal Risk Statement starting from 2026 would strengthen fiscal oversight and support more sustainable infrastructure financing.

- **Access to finance remains critical to support private sector growth.** Private sector credit remains below half the Sub-Saharan Africa average. Domestic financing to the government is somewhat contributing to crowding out private sector credit. Lending bank rates averaged over 26 percent in 2025 to end-May 2025. Expanding access to credit, deepening capital markets, and enhancing banking sector competition while strengthening financial infrastructure will be essential to improve credit access for SMEs, bolster financial resilience, and advance economic inclusion. Over time, increased private sector credit, together with a more diversified investor base for government securities, could also help reduce the sovereign-bank nexus and enhance financial intermediation.

Authorities' Views

38. The authorities underscored their commitment to advancing structural reforms to promote inclusive growth, enhance productivity, and support economic diversification. They emphasized the importance of improving agricultural productivity, strengthening infrastructure, and fostering a more competitive energy and business environment. The authorities also noted their efforts to improve transparency in resource management, build climate resilience, and leverage private sector participation to sustain long-term growth and development.

PROGRAM MODALITIES AND FINANCING

39. Program modalities remain unchanged. Program monitoring will continue on a semi-annual basis through indicative targets, quantitative performance criteria, and structural benchmarks, consistent with the updated macroeconomic framework (MEFP, Table 1). In line with the ECF arrangement, half of the disbursement will be used for budget support. The authorities have requested to reset the deadlines for submitting to Parliament the Anti-Corruption Act, the Banking and Financial Services Act, and the adoption of the deposit insurance framework—all to end-September 2025. They have also requested to shift the deadline for adopting the debt management office's procedures manual from end-March to end-July 2025. Three new structural benchmarks are proposed for the remainder of the program period (MEFP, Table 2).

40. Staff proposes to grant a waiver of the nonobservance of the performance criterion on new non-concessional external debt. The authorities have cooperated fully to ascertain the relevant facts and have agreed to preemptively confirm the grant element of prospective loans with the staff before signature.

41. Adequate financing assurances are in place for the remainder of the program. The program remains fully financed, with firm commitments through October 2025 (Text Table 4).

Text Table 4. Zambia: Baseline Program Financing (US$ million)

	2022	2023	2024	2025	**Total**
Financing gap[1]	**3,059**	**1,779**	**1,284**	**699**	**6,821**
Offical financing	**737**	**538**	**1,284**	**699**	**3,258**
IMF ECF	187	373	761	370	1,691
World Bank[2]	550	165	415	328	1,459
AfDB	-	-	108	-	108
Exceptional Financing (Accumulation of arrears)[3]	**2,322**	**1,240**	**-**	**-**	**3,563**

Source: IMF staff estimates and projections.

1/ For 2022 and 2023, pre-restructuring financing gap before external debt treatment from commercial creditors. Under the post-restructuring baseline, includes the exceptional financing from the debt restructuring from 2024 onwards

2/ Includes new financing from the World Bank that will support budget implementation, including grants.

3/ In 2022 and 2023, the arrears accummulated on restructurable debt covered the financing gap. The 2023 exceptional financing estimate has been revised to reflect updated data on contractors arrears.

42. The authorities continue making good-faith efforts toward restructuring agreements with both official and private commercial creditors consistent with program parameters. Preparation of bilateral agreements under the MoU signed with the Official Credit Committee (OCC) satisfies the IMF's Lending into Official Arrears (LIOA) policy, while arrears to other official bilateral creditors are considered eliminated under LIOA. To date, agreements cover about 94 percent of Zambia's external debt within the restructuring perimeter. Given Zambia's progress and active engagement with both official and commercial creditors, staff supports completing the financing assurance review.

43. Zambia's capacity to repay the Fund is adequate but subject to downside risks. These include commodity prices and climate shocks, and policy slippages that could reduce the government's debt service capacity. However, these risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, significant fiscal consolidation, progress in debt restructuring with official and private creditors, and the catalytic role of the IMF program. Debt to the IMF is projected to peak at 5.5 percent of GDP in 2025, remaining elevated and above the 75th percentile of past PRGT arrangements, ranking among the top exposures in the last decade. Annual repayments will peak at 0.6 percent of GDP and 1.4 percent of exports in 2031. However, Zambia's IMF-related debt and debt service relative to total Public and Publicly Guaranteed external debt remain moderate, with IMF debt service indicators near or below comparator medians and below the 75th percentile as a share of exports.

44. Enterprise risks are assessed as moderate. Fund's financial risks arise from the high risk of debt distress and potential macro-financial challenges, but these are mitigated by the program's design and credible debt relief prospects. The program also catalyzes donor and creditor support while anchoring policy adjustments and reforms.

45. The PRGT enhanced safeguard requirement on debt composition is met. Although the share of multilaterals and other IFIs in Zambia's FX-denominated external debt is projected to rise from 21½ percent at end-2023 to around 28 percent over the medium term, it remains below PRGT program averages, ensuring ample restructurable debt. FX-denominated external debt potentially considered collateralized stood at 10 percent of GDP at end-2024 and is expected to decline through restructuring efforts.

CAPACITY BUILDING AND DATA ADEQUACY

46. Capacity development (CD) priorities are aligned with program objectives (Annex VII). The Fund's CD strategy, supported by AFRITAC South and coordinated locally with a wide range of stakeholders, covers public financial management, monetary policy, financial supervision, debt management, and governance. Authorities value IMF technical assistance, highlighting successes such as integrating the Forecasting and Policy Analysis System, improved customs and tax administration, and enhanced capacity in debt management, liquidity risk regulations (Basel II/III), and public financial management.

47. Data provision is broadly adequate for surveillance and program monitoring, but coverage of fiscal and public sector debt data should expand to at least general government (Annex VIII). A recent assessment of the data quality of the public sector debt statistics (PSDS) recognized the authorities' efforts to strengthen public debt management including establishing Public Debt Management Act, 2022, and the operationalization of the Debt Management Office, consistent with the strong and sustained commitment to improve debt data transparency and accountability. The report finds the disseminated statistics to be broadly reliable, transparent, and of good quality. Recommendations include: (i) expanding the sector coverage beyond the budgetary central government, (ii) transparently publishing reconciliations of stocks and flows and a more detailed breakdown of arrears and (iii) making the PSDS more widely available in machine readable formats. Priority areas include expanding institutional coverage beyond the central government, automating data flows across systems, improving Inter-agency collaboration, formalizing revision policies, and improving data accessibility and transparency. The Zambia Statistics Agency continues to work in developing quarterly GDP by expenditure and rebasing the national accounts. In the current GDP by production, key areas for improvement include rebasing the Index of Industrial Production, enhancing indicators for construction, agriculture, and education, and refining deflators. The BoZ continues to work on improving balance of payment statistics, primarily related to deeper granularity and consistency between the balance of payments and international investment position.

STAFF APPRAISAL

48. Zambia has made notable progress in stabilizing the economy and advancing reforms. Under the Eighth National Development Plan, per capita income growth averaged 2.1 percent over 2022–24, reflecting a solid recovery in economic activity. However, poverty and inequality remain high.

49. Economic activity has proved resilient despite severe drought conditions last year. GDP growth is estimated at 4 percent for 2024—well-above earlier projections—driven by strong mining and services performance. Inflation eased slightly, the current account deficit narrowed, and reserves rose to 4.7 months of imports by May 2025. Growth is projected to reach 5.8 percent and inflation to average 14.2 percent in 2025.

50. Program performance remains broadly satisfactory. All end-December 2024 quantitative performance criteria and indicative targets were met, and implementation of structural benchmarks is ongoing, though some have been delayed. However, the continuous performance criterion on non-concessional external borrowing was breached in 2024Q4, highlighting the need for corrective action. Sustained engagement and strong implementation will be critical to maintain progress, particularly amid rising political pressures ahead of the 2026 elections. With the ECF arrangement expiring on October 31, 2025, the authorities' continued reform commitment will be key to supporting market confidence and limiting policy slippage risks during the political cycle.

51. The 2025 fiscal stance remains aligned with program goals, but emerging pressures underscore the need for stronger revenue mobilization efforts. While 2024 fiscal performance exceeded expectations—driven by one-off revenues and contained spending—weak investment execution and new arrears highlighted underlying financing constraints. In 2025, higher payments related to past due interest on restructured debt and fuel arrear clearance have been putting pressure on the deficit. To safeguard development spending and limit reliance on expenditure cuts, durable revenue measures are essential. Priorities include broadening the tax base by reducing exemptions, unifying corporate tax rates, streamlining VAT, and strengthening compliance and audit practices.

52. Strengthening public financial management remains essential to enhance fiscal governance, support budget execution, and mitigate fiscal risks. Progress on cash forecasting and the Cash Management Unit is welcome, but further consolidation of government accounts is needed to improve liquidity oversight and control. Better coordination between debt and cash management, faster IFMIS rollout, and stronger expenditure controls will help curb arrears. Advancing SOE reforms, implementing the PPP framework, and preparing the Fiscal Risk Statement will strengthen fiscal oversight.

53. Anchoring inflation expectations and preserving policy credibility will require a data-driven and proactive monetary policy stance. With inflation expectations still elevated, further tightening may be needed to guide inflation toward the target band. Strengthening the BoZ's operational framework—including structured open market operations and reserve averaging—will enhance policy transmission. A more efficient interbank FX market and disciplined FX intervention are also essential to safeguard reserves and support the reserve target.

54. Advancing financial sector reforms remain critical to strengthen stability and support inclusive growth. While the banking sector is sound, low intermediation and concentrated credit pose risks. BoZ's new credit facilities should be closely monitored to ensure alignment with monetary policy. Finalizing the Banking and Financial Services Act, operationalizing the deposit insurance scheme, and expanding macroprudential tools will be key to bolstering the financial stability framework.

55. Progress on eliminating MCPs should be accelerated to align with Fund policy. The authorities' commitment to remove them by end-October 2025 is welcome, and timely implementation will be important to ensure consistency with program objectives and Zambia's compliance with its obligation under the Articles of Agreement.

56. Persevering with structural reforms is essential to boost productivity and support inclusive, private-sector-led growth. Reallocating labor to higher-productivity sectors, reforming agricultural support, and enhancing energy sector competition will strengthen economic diversification. Improving the business climate, mining transparency, and anti-corruption measures will help attract investment. Continued focus on climate resilience, carbon markets, and infrastructure governance — particularly through the PPP framework — will be key to mitigating fiscal risks and sustaining growth.

57. Data provision is broadly adequate for surveillance but improving fiscal and public debt coverage remains a priority. Expanding reporting to the general government, automating data flows, strengthening inter-agency coordination, and formalizing revision and dissemination practices will enhance transparency and policy effectiveness. The timely completion of the national accounts rebasing is also important for accurate macroeconomic analysis.

58. Staff support the authorities' requests to complete the Fifth Review under the ECF supported arrangement and the financing assurances review. Staff also supports the authorities' request to reset four missed structural benchmarks to the next review given satisfactory program performance and progress in the debt restructuring, continued commitment to fiscal and debt sustainability, sound macroeconomic policies, and structural reforms.

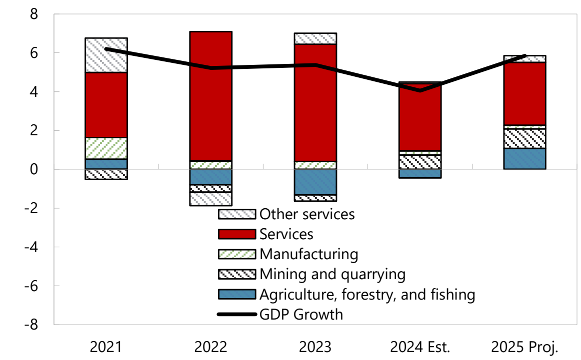
59. It is expected that the next Article IV Consultation be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangement.

Figure 1. Zambia: Real Sector Development, 2021-25

(In percent, unless otherwise specified)

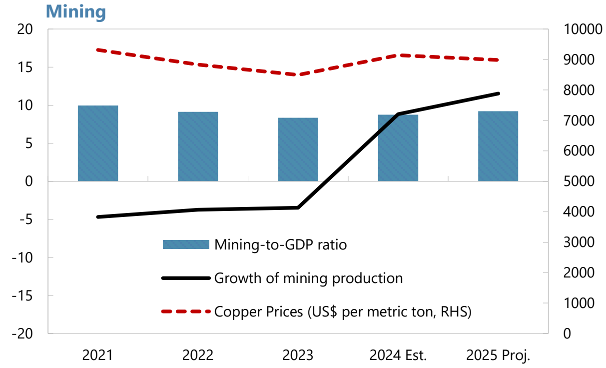
Zambia is recovering from a severe drought…

Contributions to GDP Growth



…accompanied by robust mining growth.

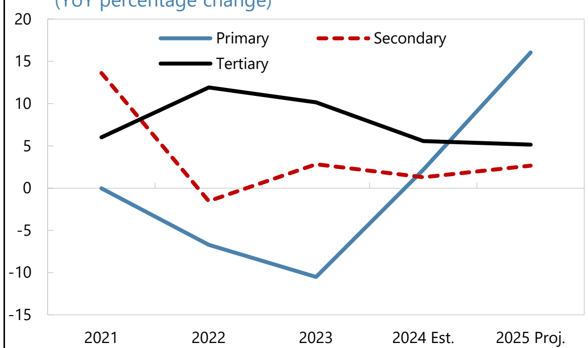
Mining



The recovery is particularly stronger in the primary sector ….

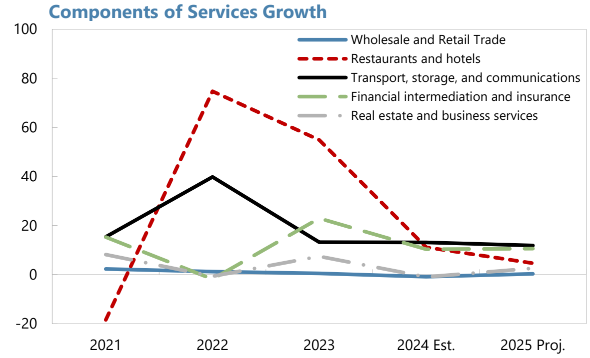
Primary, Secondary and Tertiary Sectors

(YoY percentage change)



…with services growth lagging.

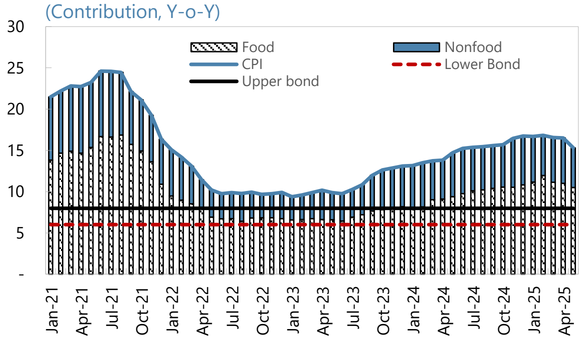
Components of Services Growth



Inflation peaked in February, and has since started to ease…

CPI Inflation

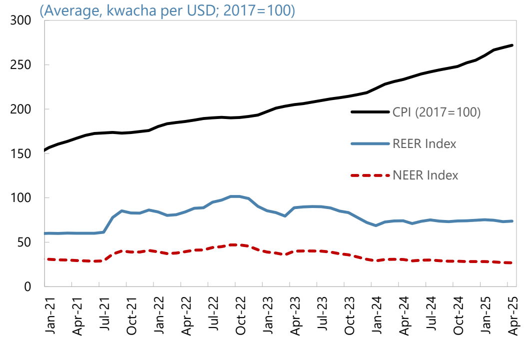
(Contribution, Y-o-Y)



…mainly due to the recent decline in food prices and supported by the recent stabilization of the exchange rate.

Consumer Price Index and Exchange Rate

(Average, kwacha per USD; 2017=100)



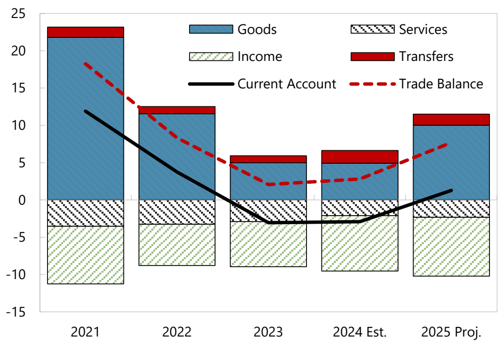
Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 2. Zambia: External Sector Developments, 2021–25

(Percent of GDP, unless otherwise specified)

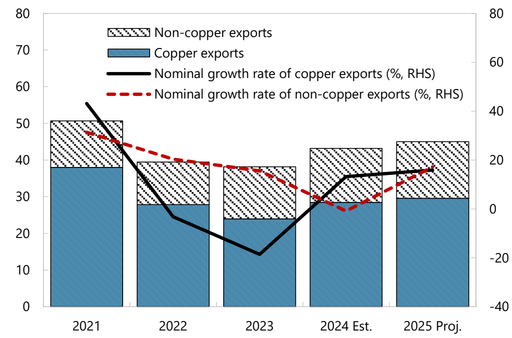
The current account deficit narrowed in 2024, supported by increased grants and stronger tourism receipts.

Current Account



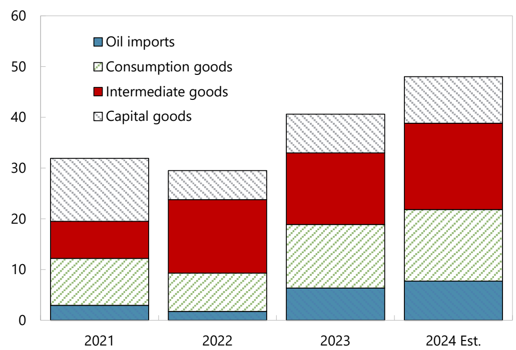
Copper and gold exports increased, particularly toward the end of the year, but were offset…

Exports



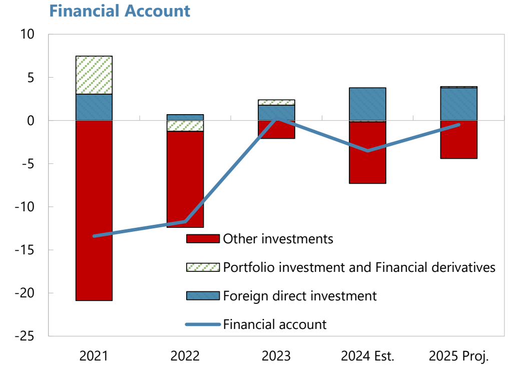
…by higher oil and electricity imports amid power shortages.

Imports



Stronger FDI boosted financial inflows, excluding a one-off (outflow) private debt transaction recorded in Q1 2024.

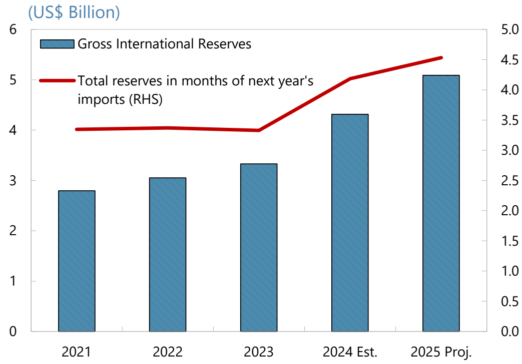
Financial Account



Reserves increased, supported by increased FX statutory reserve requirement and multilateral financing.

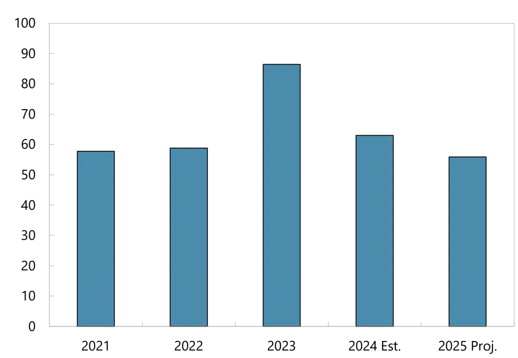
Gross International Reserves

(US$ Billion)



External debt remained at elevated levels.

External Debt: FX Denominated



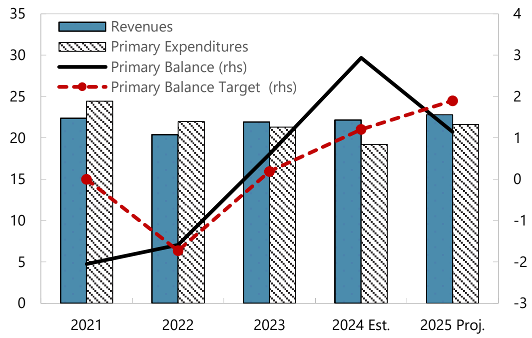
Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 3. Zambia: Fiscal Developments, 2021–25

(Percent of GDP)

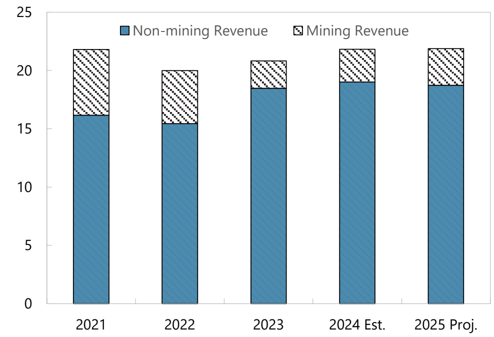
The 2024 primary balance far exceeded the target

Primary Balance Target vs Outturn



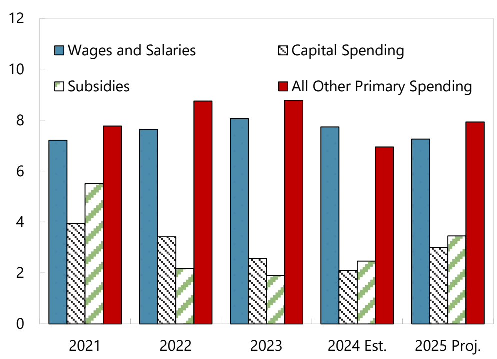
…. as revenue performed in line with the budget…

Mining vs Non-Mining Revenue



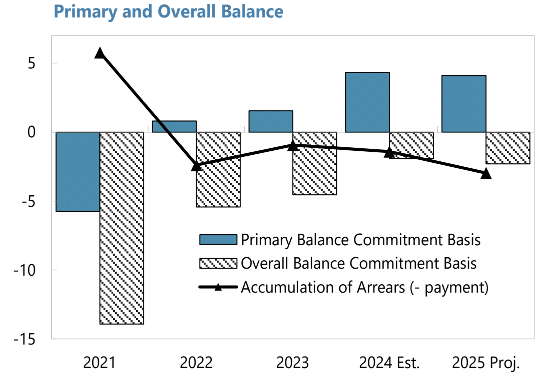
…and primary spending, especially capital, compressed…

Primary Spending



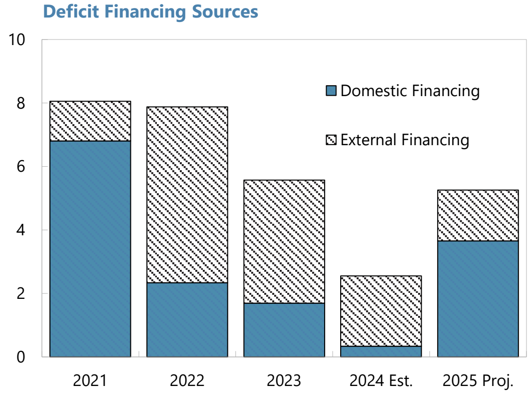
… and the overall balance commitment balance improved

Primary and Overall Balance



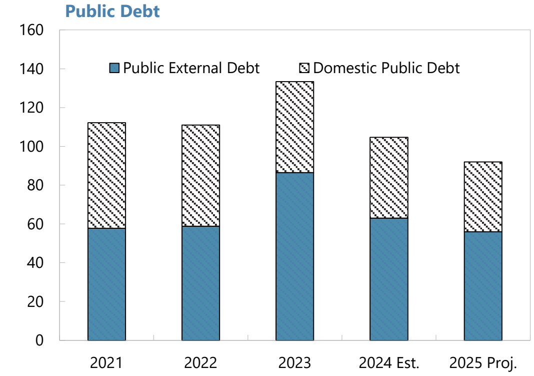
…with tight domestic financing conditions, the deficit was mostly financed from external sources…

Deficit Financing Sources



…and public debt came down.[1]

Public Debt

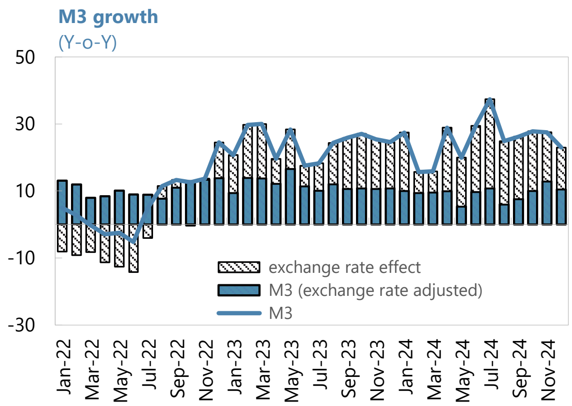


Sources: Zambia: Ministry of Finance National Planning and IMF staff estmates.
1/Pre-restructuring stocks.
2/ Domestic Debt includes Non-Resident Holdings and Budgetary Arrears.

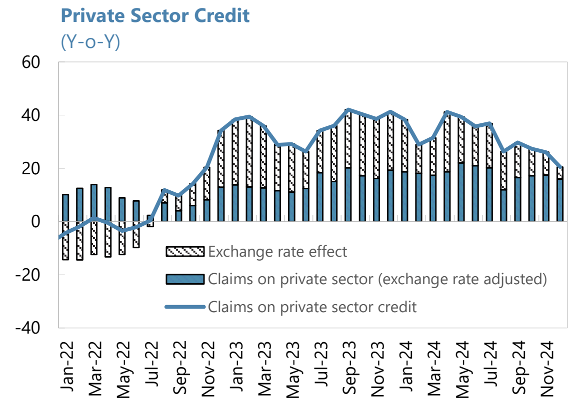
Figure 4. Zambia: Monetary and Financial Developments, 2021-25

(In percent)

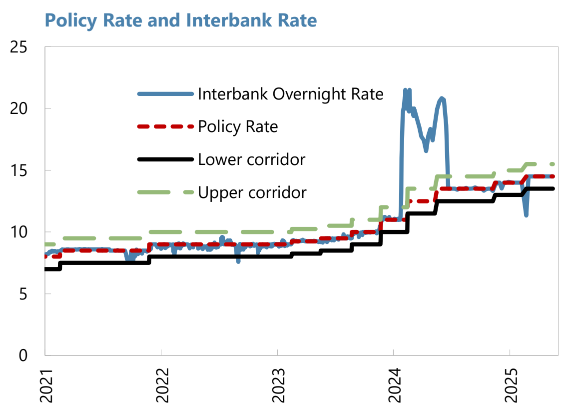
M3 growth rate remains elevated….



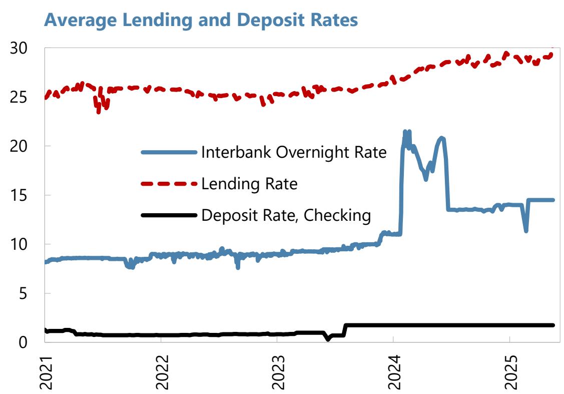
As does credit growth ….



Interbank rate has converged toward the policy rate since June 2024….



but lending rates have remained persistently high, and deposit rates near zero—indicating weak transmission through the banking system.

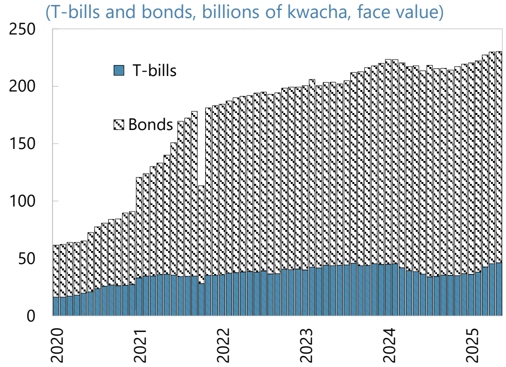


Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 5. Zambia: Financial Sector Developments, 2021–25

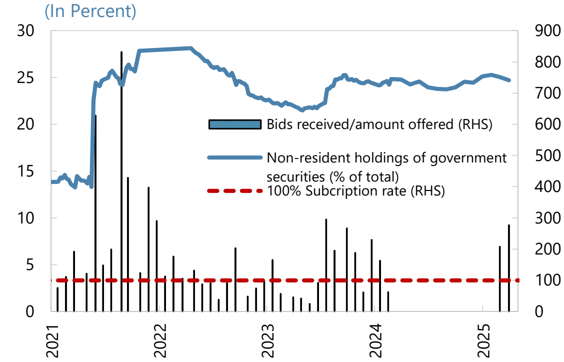
Reliance on bond financing resulted in outstanding bonds to swell relatively more than T-bills.

Outstanding Government Securities
(T-bills and bonds, billions of kwacha, face value)



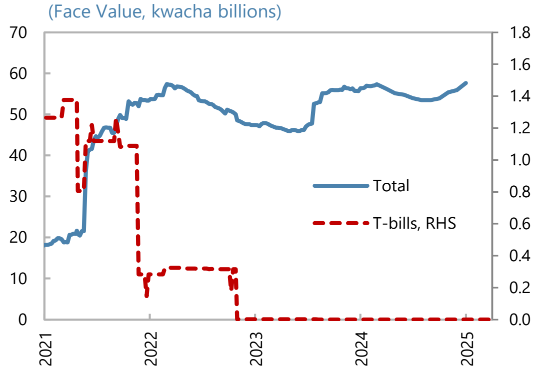
A return by non-resident investors supported rising demand for bonds ....

Non-Resident Holdings of Bond Auction Performance
(In Percent)



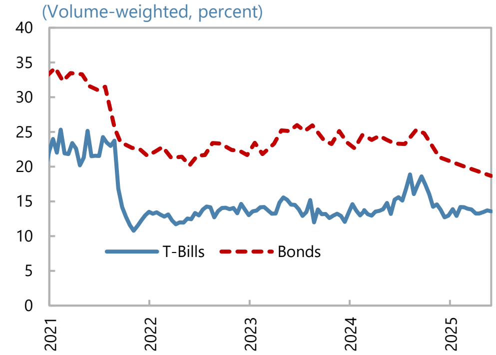
...sustained by high yield differential between bonds and T-bills.

Foreign Holdings of Government Securities
(Face Value, kwacha billions)



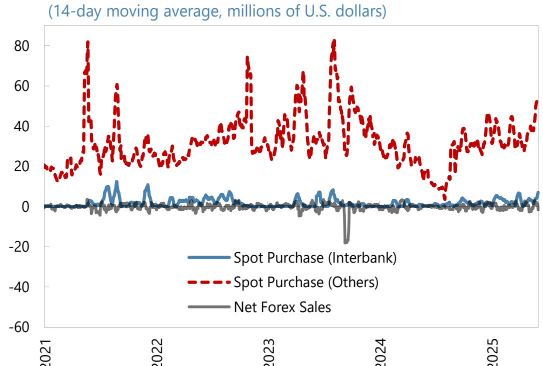
However, spreads with T-bills have narrowed.

Government T-Bills and Bonds Yields
(Volume-weighted, percent)



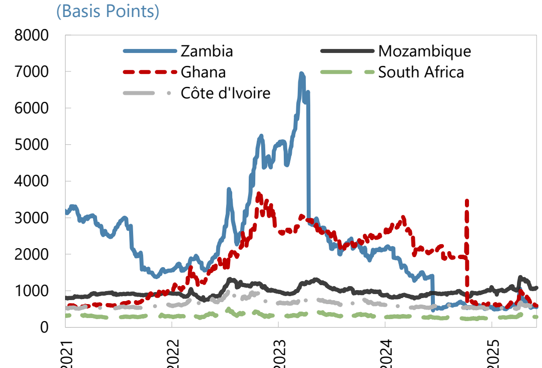
Banks remained net purchasers of FX with the shortage in FX in the system.

Commercial Banks' Forex Purchase
(14-day moving average, millions of U.S. dollars)



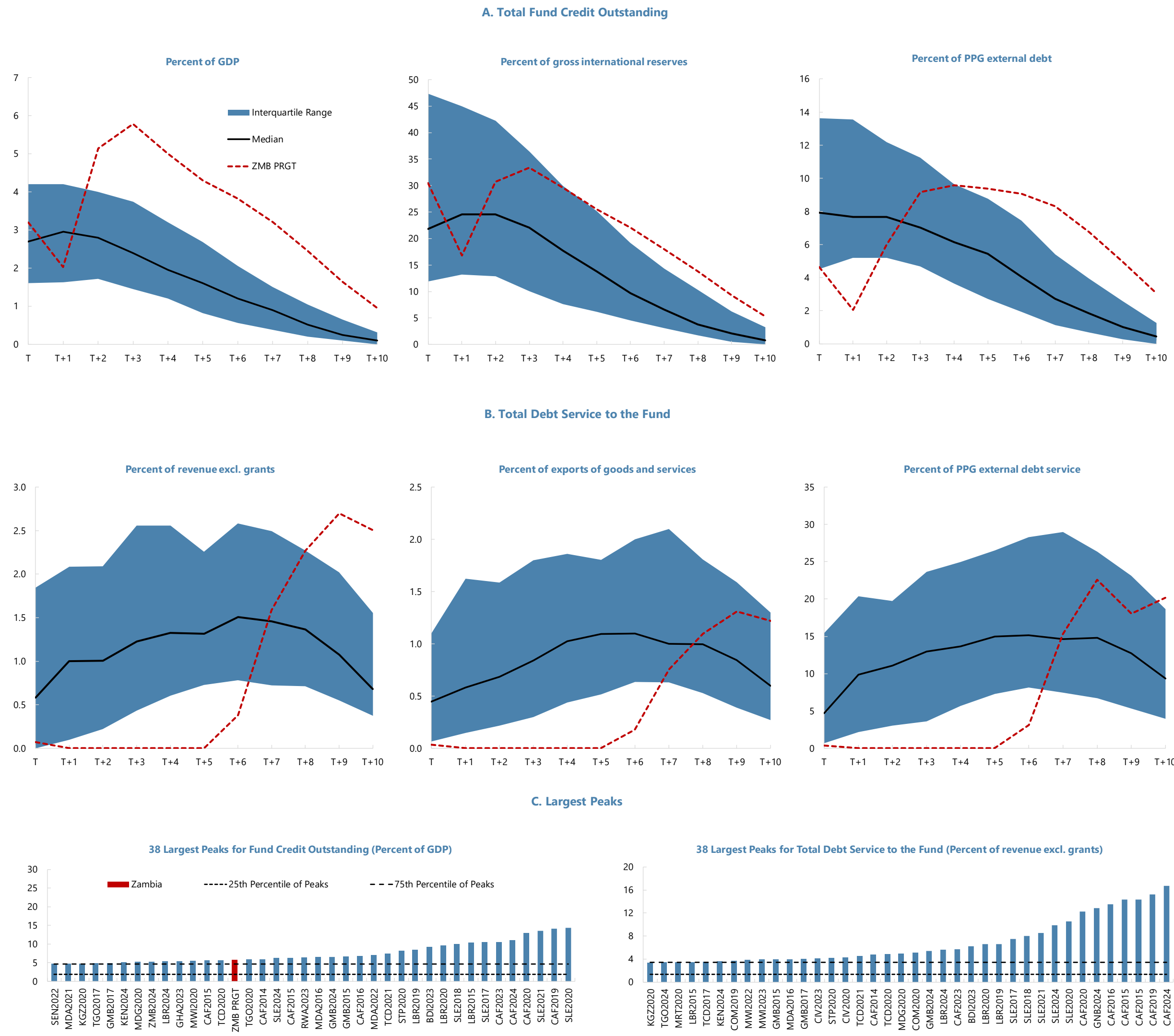
Spreads on Zambian Eurobonds are now on par with other SSA issuers.

Weighted Average Spread
(Basis Points)



Sources: Bank of Zambia, ZamStat and IMF staff estimates

Figure 6. Zambia: Capacity to Repay Indicators Compared to PRGT Countries
(Units as indicated)



Notes:
1)T=date of arrangement approval. PPG=public and publicly guaranteed.
2)Red lines/bars indicate the CtR indicafor for the arrangement of interest.
3)The median, interquartile range, and comparator bars reflect arrangements (including blends) approved for PRGT countries between 2014 and 2024.
4)The comparator group "All PRGT" excludes arrangements that never had a UCT between 2014 and 2024.
5)PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
6)Comparator series is for PRGT arrangements only and runs up to T+10.
7)Debt Service obligations to the Fund reflect prospective payments, including for the current year.
8)In the case of blenders, the red lines/bars refer to PRGT +GRA. In The case of RST, the red lines/bars refer to PRGT+GRA+RST.

Table 1. Zambia: Selected Economic Indicators, 2020–30
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.	Projections				
National Accounts and Prices													
GDP growth at constant prices (in percent)	-2.8	6.2	5.2	5.4	1.2	4.0	6.2	5.8	6.4	6.5	5.1	4.8	4.8
Agriculture (in percent)	17.2	6.9	-10.6	-20.5	-31.4	-9.2	32.3	25.4	13.8	4.6	4.0	4.0	4.0
Mining (in percent)	8.0	-4.7	-3.7	-3.5	4.7	8.8	11.2	11.5	14.6	20.0	8.7	5.0	4.3
Non-mining, non-agricultural (in percent)	-5.6	7.7	7.7	8.3	2.7	4.3	4.7	4.3	5.0	5.1	4.7	4.9	4.9
GDP deflator (in percent)	13.9	25.2	6.1	7.1	19.2	18.8	9.7	11.5	6.9	6.3	6.9	6.7	6.4
GDP at market prices (billions of kwacha)	333	442	494	557	672	689	783	813	924	1,047	1,176	1,316	1,466
Consumer prices													
Consumer prices (average)	15.7	22.0	11.0	10.9	14.9	15.0	12.8	14.2	9.2	7.4	7.0	7.0	7.0
Consumer prices (end of period)	19.2	16.4	9.9	13.1	16.4	16.7	7.6	11.1	7.9	7.0	7.0	7.0	7.0
External Sector													
Current account balance	11.8	11.9	3.7	-3.0	0.7	-2.6	5.0	1.3	2.7	3.7	3.8	3.4	3.3
Exports of goods and servies	47.2	53.1	42.7	41.5	48.9	48.4	47.8	49.8	48.2	48.4	48.2	48.2	48.2
Imports of goods and services	32.3	34.8	34.4	39.5	43.6	45.6	37.8	42.1	39.7	39.3	39.0	39.6	39.6
Average exchange rate (kwacha per U.S. dollar)	18.3	20.0	16.9	20.2	26.0	26.2	…	…	…	…	…	…	…
(percentage change; depreciation +)	42.3	9.1	-15.4	19.3	28.6	29.5	…	…	…	…	…	…	…
End-of-period exchange rate (kwacha per U.S. dollar)	21.2	16.7	18.1	25.7	27.0	27.6	…	…	…	…	…	…	…
Terms of trade (deterioration -)	14.0	22.5	-5.8	-13.6	6.9	6.4	1.8	4.4	1.2	-0.1	-0.4	-0.4	0.1
Gross international reserves (months of prospective imports)	1.9	3.3	3.4	3.3	4.5	4.2	5.3	4.5	4.4	4.7	4.9	5.0	5.0
Money and Credit													
Reserve money (end of period)	57.0	8.5	12.0	65.5	41.7	42.0	13.9	19.1	14.7	13.6	12.7	12.2	11.8
Money supply (M3, percentage change)	46.4	3.7	24.5	24.6	31.7	23.0	13.9	19.1	14.7	13.6	12.7	12.2	11.8
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	12.8	13.8	12.5	15.6	16.1	18.4	18.3	17.5	16.6	16.1
Credit to the private sector growth	8.5	-7.8	34.2	41.3	29.5	20.5	31.7	52.1	29.7	12.7	7.6	5.9	8.3
Credit to the private sector growth (constant exchange rate)2/	14.2	-3.3	34.8	23.8	29.5	25.2	31.7	38.6	28.2	12.1	6.7	5.8	11.3
National Accounts													
Gross investment	32.2	31.4	27.0	31.4	27.8	31.0	32.1	32.3	32.4	31.9	32.4	33.5	33.9
Public	7.7	3.9	3.4	2.6	2.9	2.1	3.2	3.4	3.6	3.0	3.6	4.6	5.0
Private	24.5	27.4	23.6	28.9	24.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9
National savings	44.0	43.3	30.7	28.4	28.5	28.4	37.1	33.6	35.1	35.6	36.2	36.9	37.2
Central Government Budget													
Revenues	20.3	22.4	20.4	21.9	22.1	22.2	22.6	22.8	23.0	23.3	23.4	23.6	23.8
Taxes	15.7	16.1	16.1	16.6	16.5	17.2	16.9	17.4	17.7	18.0	18.1	18.5	18.8
Grants	0.5	0.6	0.4	1.1	1.1	0.3	1.0	0.9	0.8	0.7	0.7	0.6	0.5
Other revenues	0.0	0.0	0.0	4.2	4.5	4.6	4.7	4.5	4.5	4.5	4.6	4.6	4.6
Expenditures	34.0	30.5	28.2	27.4	28.5	25.5	26.4	28.0	26.7	24.9	25.0	24.9	24.9
Expenses	26.3	26.6	24.8	24.8	25.6	23.4	23.2	25.0	23.3	21.6	21.5	20.6	20.2
Net acquisition of nonfinancial assets	7.7	3.9	3.4	2.6	2.9	2.1	3.2	3.0	3.4	3.3	3.5	4.3	4.7
Net lending/borrowing (cash basis)	-13.8	-8.1	-7.8	-5.5	-6.5	-3.3	-3.9	-5.3	-3.7	-1.6	-1.6	-1.4	-1.1
Net lending/borrowing (commitment basis)3/	-17.3	-13.9	-5.4	-4.5	-4.5	-1.9	-2.5	-2.3	-2.1	-0.3	-0.4	-0.7	-1.0
Primary balance (cash basis, program target)	-7.8	-2.1	-1.6	0.6	0.5	2.9	1.9	1.1	2.7	3.6	3.2	2.9	2.7
Non-mining primary balance	-11.0	-7.7	-6.1	-1.7	-2.1	0.1	-1.3	-2.0	-0.4	0.3	-0.1	-0.6	-1.0
Public Debt													
Total public debt (gross, end-of-period) 4/,5/	150.3	112.1	110.9	133.4	104.6	123.9	89.7	91.9	79.0	69.4	63.8	58.9	54.7
External	95.8	57.8	58.8	86.4	63.0	77.5	55.0	55.9	46.6	40.5	37.3	33.8	31.8
Domestic	54.5	54.4	52.1	46.9	41.6	46.4	34.8	36.0	32.4	28.9	26.6	25.1	22.9

Sources: Zambian authorities; and IMF staff estimates and projections.
1/ IMF CR No. 24/350
2/ Exchange rate for end-2023 (25.7 ZMK/USD) applied.
3/ Adjusted for the accumulation/clearance of VAT refund claims and expenditure arrears.
4/ Nonresident holdings of local currency debt are included under domestic debt here, unlike in the DSA, which is conducted on a residency basis.
5/ Including arrears.

Table 2a. Zambia: Balance of Payments, 2020–30
(Millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.	Projections				
Current Account	**2,139**	**2,630**	**1,093**	**-838**	**179**	**-688**	**1,533**	**375**	**916**	**1,464**	**1,659**	**1,599**	**1,662**
Current Account, excluding budget support grants					-59	-890	1,135	150	669	1,223	1,417	1,406	1,503
Trade balance	3,216	4,816	3,368	1,373	2,121	1,300	3,885	2,944	3,516	4,269	4,701	4,852	5,148
Exports, f.o.b.	8,003	11,202	11,505	10,521	11,650	11,366	13,593	13,225	14,730	17,303	18,960	20,362	21,899
Of which: Copper	5,868	8,396	8,129	6,617	7,823	7,494	8,843	8,687	9,742	11,803	12,992	13,931	14,993
Imports, f.o.b	-4,787	-6,386	-8,137	-9,148	-9,529	-10,066	-9,707	-10,281	-11,213	-13,034	-14,259	-15,510	-16,751
Services (net)	-524	-779	-946	-799	-767	-556	-794	-685	-632	-667	-699	-776	-810
Income (net)	-775	-1,709	-1,614	-1,668	-1,711	-1,954	-2,128	-2,317	-2,489	-2,695	-2,962	-3,068	-3,268
Of which: Interest on public debt	-635	-736	-906	-717	-538	-396	-515	-741	-716	-556	-608	-544	-551
Current transfers (net)2/	221	301	285	257	297	320	173	207	274	316	378	398	433
Other official grants				128	131	79	0	0	35	37	70	69	79
Private transfers	221	301	285	129	166	240	173	207	239	279	308	330	355
Capital and Financial Account	-3,054	-2,883	-3,338	162	259	409	-985	-75	-436	-761	-753	-690	-764
Capital account	80	77	76	78	1,265	1,335	70	67	69	73	72	70	68
Project grants	80	77	76	78	65	66	70	67	69	73	72	70	68
Other Private3/	0	0	0	0	1,200	1,269	0	0	0	0	0	0	0
Financial account	-3,134	-2,960	-3,414	85	-1,006	-926	-1,054	-142	-506	-834	-825	-760	-832
Foreign direct investment (net)	181	674	198	488	969	998	1,145	1,113	1,543	1,524	1,678	1,799	1,936
Portfolio investment (net)	199	1,002	-332	177	-36	-41	1	46	213	227	211	242	196
Financial derivatives (net)	-10	-26	-31	-4	46	-3	155	-3	-4	-4	-5	-5	-6
Other investments (net)	-3,503	-4,611	-3,249	-577	-1,986	-1,880	-2,356	-1,297	-2,258	-2,581	-2,709	-2,796	-2,958
Public sector (net)	-2	-1,346	-1,021	-898	-249	185	185	-262	-132	-145	-384	-415	87
Disbursements	1,424	571	914	333	426	426	412	364	442	276	213	160	718
Amortization due	-1,426	-1,917	-1,935	-1,232	-675	-241	-227	-627	-575	-421	-598	-575	-632
Monetary Authority (SDR Allocation)	0	1,328	0	0	0	0	0	0	0	0	0	0	0
Commercial banks (net)	-413	-205	-411	483	369	-661	-162	-78	-324	-227	-159	-111	-78
Other sectors	-3,088	-4,388	-1,817	-162	-2,106	-1,404	-2,379	-957	-1,801	-2,210	-2,166	-2,270	-2,967
Errors and Omissions	-639	-369	-5	-665	-578	183	0	0	0	0	0	0	0
Overall Balance	-1,555	-623	-2,251	-1,340	-378	-298	150	75	232	461	665	715	739
Financing	1,555	623	2,251	1,340	378	298	-150	-75	-232	-461	-665	-715	-739
Central bank net reserves (- increase)	233	-1,607	-71	100	-245	-225	-800	-403	-664	-928	-926	-928	-898
Of which: Change in gross reserves	248	-1,604	-258	-274	-1,005	-986	-1,170	-774	-664	-928	-888	-757	-631
Of which: Use of Fund resources	-16	-3	187	373	760	761	370	370	0	0	-38	-171	-267
New MDB financing					624	523	649	328	432	467	261	212	159
WB loans					285	213	102	103	79	75	20	19	0
WB grants					238	203	398	225	248	242	242	193	159
AfDB loans					100	108	150	0	105	150	0	0	0
Exceptional financing (accumulation of arrears)4/	1,322	2,230	2,322	1,240	0	0	0	0	0	0	0	0	0
Memorandum Items:													
Exports of goods and services	8,558	11,728	12,444	11,454	12,635	12,746	14,662	14,633	16,357	19,206	21,054	22,608	24,316
Imports of goods and services	5,866	7,691	10,022	10,880	11,281	12,002	11,571	12,373	13,473	15,604	17,053	18,532	19,978
Change in copper export volume (percent)	14.4	-5.2	2.2	-15.4	8.0	5.2	11.2	16.5	14.6	20.0	10.8	5.0	4.3
Gross international reserves	1,203	2,796	3,054	3,328	4,333	4,314	5,503	5,087	5,751	6,679	7,567	8,324	8,956
In months of prospective imports	1.9	3.3	3.4	3.3	4.5	4.2	5.3	4.5	4.4	4.7	4.9	5.0	5.0
GDP (billions of U.S. dollars)	18.1	22.1	29.2	27.6	25.9	26.3	30.7	29.4	33.9	39.7	43.7	46.9	50.4

Sources: Zambian authorities; and IMF staff estimates and projections.

1/ IMF CR No. 24/350

2/ Excluding prospective budget support grants.

3/ The other private capital account balance stems from debt write-downs totaling over US$ 1.2 billion, negotiated between resident enterprises and non-resident entities. These write-downs have been recorded in the capital account as debt forgiveness, benefiting Zambian enterprises and Zambia.

4/ For the third review, which assumed pre-restructuring debt service on external commercial debt, the residual gap indicated the gap that needed to be covered by the external commercial debt restructuring.

Table 2b. Zambia: Balance of Payments, 2020–30

(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est	ECF 4th Review1/	Proj.	Projections				
Current Account	11.8	11.9	3.7	-3.0	0.7	-2.6	5.0	1.3	2.7	3.7	3.8	3.4	3.3
Current Account, excluding budget support grants					-0.2	-3.4	3.7	0.5	2.0	3.1	3.2	3.0	3.0
Trade balance	17.7	21.8	11.5	5.0	8.2	4.9	12.7	10.0	10.4	10.8	10.8	10.4	10.2
Exports, f.o.b.	44.1	50.7	39.4	38.2	45.1	43.2	44.3	45.0	43.4	43.6	43.4	43.5	43.4
Of which: Copper	32.4	38.0	27.9	24.0	30.3	28.5	28.9	29.6	28.7	29.7	29.7	29.7	29.7
Imports, f.o.b	-26.4	-28.9	-27.9	-33.2	-36.9	-38.2	-31.7	-35.0	-33.0	-32.8	-32.6	-33.1	-33.2
Services (net)	-2.9	-3.5	-3.2	-2.9	-3.0	-2.1	-2.6	-2.3	-1.9	-1.7	-1.6	-1.7	-1.6
Income (net)	-4.3	-7.7	-5.5	-6.0	-6.6	-7.4	-6.9	-7.9	-7.3	-6.8	-6.8	-6.5	-6.5
Of which: Interest on public debt	-3.5	-3.3	-3.1	-2.6	-2.1	-1.5	-1.7	-2.5	-2.1	-1.4	-1.4	-1.2	-1.1
Current transfers (net)2/	1.2	1.4	1.0	0.9	1.1	1.2	0.6	0.7	0.8	0.8	0.9	0.9	0.9
Other official grants	0.0	0.0	0.0	0.5	0.5	0.3	0.0	0.0	0.1	0.1	0.2	0.1	0.2
Private transfers	1.2	1.4	1.0	0.5	0.6	0.9	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Capital and Financial Account	-16.8	-13.0	-11.4	0.6	1.0	1.6	-3.2	-0.3	-1.3	-1.9	-1.7	-1.5	-1.5
Capital account	0.4	0.3	0.3	0.3	4.9	5.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Project grants	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Other Private	0.0	0.0	0.0	0.0	4.6	4.8	0.0	0.0	0.0	0.0	0.0	0	1
Financial account	-17.3	-13.4	-11.7	0.3	-3.9	-3.5	-3.4	-0.5	-1.5	-2.1	-1.9	-1.6	-1.6
Foreign direct investment (net)	1.0	3.1	0.7	1.8	3.7	3.8	3.7	3.8	4.5	3.8	3.8	3.8	3.8
Portfolio investment (net)	1.1	4.5	-1.1	0.6	-0.1	-0.2	0.0	0.2	0.6	0.6	0.5	0.5	0.4
Financial derivatives (net)	-0.1	-0.1	-0.1	0.0	0.2	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other investments (net)	-19.3	-20.9	-11.1	-2.1	-7.7	-7.1	-7.7	-4.4	-6.7	-6.5	-6.2	-6.0	-5.9
Public sector (net)	0.0	-6.1	-3.5	-3.3	-1.0	0.7	0.6	-0.9	-0.4	-0.4	-0.9	-0.9	0.2
Disbursements	7.9	2.6	3.1	1.2	1.6	1.6	1.3	1.2	1.3	0.7	0.5	0.3	1.4
Amortization due	-7.9	-8.7	-6.6	-4.5	-2.6	-0.9	-0.7	-2.1	-1.7	-1.1	-1.4	-1.2	-1.3
Monetary Authority (SDR Allocation)	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	-2.3	-0.9	-1.4	1.8	1.4	-2.5	-0.5	-0.3	-1.0	-0.6	-0.4	-0.2	-0.2
Other sectors	-17.0	-19.9	-6.2	-0.6	-8.1	-5.3	-7.8	-3.3	-5.3	-5.6	-5.0	-4.8	-5.9
Errors and Omissions	-3.5	-1.7	0.0	-2.4	-2.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-8.6	-2.8	-7.7	-4.9	-1.5	-1.1	0.5	0.3	0.7	1.2	1.5	1.5	1.5
Financing	8.6	2.8	7.7	4.9	1.5	1.1	-0.5	-0.3	-0.7	-1.2	-1.5	-1.5	-1.5
Central bank net reserves (- increase)	1.3	-7.3	-0.2	0.4	-0.9	-0.9	-2.6	-1.4	-2.0	-2.3	-2.1	-2.0	-1.8
Of which: Change in gross reserves	1.4	-7.3	-0.9	-1.0	-3.9	-3.7	-3.8	-2.6	-2.0	-2.3	-2.0	-1.6	-1.3
Of which: Use of Fund resources	-0.1	0.0	0.6	1.4	2.9	2.9	1.2	1.3	0.0	0.0	-0.1	-0.4	-0.5
New MDB financing	0.0	0.0	0.0	0.0	2.4	2.0	2.1	1.1	1.3	1.2	0.6	0.5	0.3
WB grants	0.0	0.0	0.0	0.0	0.9	0.8	1.3	0.8	0.7	0.6	0.6	0.4	0.3
Exceptional financing (accumulation of arrears)3/	7.3	10.1	8.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:													
Financial Account (percent of GDP w/o FDI)	-18.3	-16.4	-12.4	-1.5	-7.6	-7.3	-7.2	-4.3	-6.0	-5.9	-5.7	-5.5	-5.5
Total official grants (percent of GDP)	0.4	0.3	0.3	0.7	0.8	0.6	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Gross international reserves	1,203	2,796	3,054	3,328	4,333	4,314	5,503	5,087	5,751	6,679	7,567	8,324	8,956
In months of prospective imports	1.9	3.3	3.4	3.3	4.5	4.2	5.3	4.5	4.4	4.7	4.9	5.0	5.0
GDP (billions of U.S. dollars)	18.1	22.1	29.2	27.6	25.9	26.3	30.7	29.4	33.9	39.7	43.7	46.9	50.4

Sources: Zambian authorities; and IMF staff estimates and projections.

1/ IMF CR No. 24/350

2/ Excluding prospective budget support grants.

3/ For the third review, which assumed pre-restructuring debt service on external commercial debt, the residual gap indicated the gap that needed to be covered by the external commercial debt restructuring.

Table 3a. Zambia: Fiscal Operations of the Central Government, 2020–30

(Millions of Kwacha)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.	Projections				
Revenues	67,437	98,945	100,684	122,104	148,604	152,625	176,939	185,084	212,125	243,605	275,375	310,243	349,147
Revenues excluding grants	65,722	96,463	98,702	116,055	141,005	150,271	169,393	177,733	204,436	236,271	266,982	302,889	342,236
Revenues excluding grants adjusted by the backlog of VAT refunds	64,163	94,547	96,861	111,830	138,764	149,038	173,128	181,266	207,970	239,805	270,515	306,423	342,236
Tax	52,182	71,151	79,492	92,381	110,848	118,803	132,273	141,414	163,045	188,658	213,128	243,014	275,361
Income tax	19,831	22,815	26,890	30,232	36,463	39,390	42,474	47,269	53,727	60,872	68,412	76,515	85,286
Profit tax	9,513	19,242	21,020	14,913	18,674	19,973	22,287	24,058	28,354	33,643	38,037	44,918	53,497
Mining	5,300	12,702	11,958	5,353	7,244	7,740	8,522	9,492	11,085	13,856	15,800	20,047	25,775
Non-mining	4,213	6,540	9,062	9,560	11,430	12,232	13,765	14,566	17,270	19,786	22,237	24,871	27,722
Value-added tax	14,639	19,516	20,816	33,209	38,768	41,517	47,076	46,975	55,497	64,748	73,242	83,196	93,873
Excise taxes	4,661	4,327	5,190	7,548	9,020	9,366	11,360	11,408	12,979	15,079	17,339	19,978	22,588
Taxes on international trade	3,538	5,250	5,577	6,480	7,924	8,557	9,077	11,704	12,488	14,318	16,099	18,407	20,116
Other revenues	0	0	0	23,674	30,157	31,468	37,120	36,319	41,391	47,613	53,854	59,875	66,875
Of which: Mining royalties	5,241	12,268	10,445	7,709	10,556	11,538	15,816	15,975	17,618	20,678	23,582	26,018	29,137
Grants	1,715	2,481	1,981	6,049	7,599	2,353	7,546	7,352	7,688	7,334	8,393	7,354	6,911
Expenditures	113,227	134,929	139,315	152,642	191,374	175,502	206,822	227,780	246,347	260,838	294,555	328,102	365,988
Expenses	87,478	117,477	122,446	138,340	171,785	161,107	181,394	203,358	215,258	226,352	253,248	270,879	297,199
Compensation of employees	26,881	31,881	37,699	44,898	52,433	53,250	58,522	58,925	66,378	73,598	84,604	95,052	108,974
Goods and services	10,330	15,094	13,084	12,981	9,791	10,910	23,040	15,818	20,777	22,923	27,120	30,833	35,902
Interest	19,762	26,910	30,797	33,943	46,314	43,096	44,402	51,997	58,852	54,550	57,170	56,198	56,484
Domestic	14,525	24,929	30,057	31,782	38,900	38,457	37,335	39,704	51,584	48,263	50,837	50,087	50,776
Foreign	5,237	1,980	739	2,161	7,414	4,639	5,641	11,825	5,977	5,262	5,550	5,609	5,709
Subsidies	18,368	24,345	10,715	10,565	26,167	16,944	12,203	28,026	15,271	15,539	15,986	18,093	20,303
Of which: Agricultural (FISP and FRA)	11,748	11,845	8,526	8,788	13,117	10,175	10,951	16,070	13,004	13,098	13,373	15,249	17,193
Of which: Energy (fuel and electricity)2/	5,099	10,610	1,840	969	12,494	2,760	0	10,712	853	839	813	830	866
Intergovernmental transfers	7,487	8,799	15,382	17,144	16,075	17,336	21,931	26,098	26,962	29,143	35,325	40,886	45,346
Social protection	2,468	5,538	7,424	7,660	13,372	11,424	14,078	15,610	16,603	18,802	21,122	23,548	26,247
Other	2,183	4,911	7,346	11,149	7,633	8,149	7,219	6,883	10,415	11,798	11,921	6,269	3,943
Net acquisition of nonfinancial assets	25,749	17,451	16,870	14,301	19,589	14,394	25,428	24,423	31,089	34,485	41,308	57,223	68,789
Of which: Domestically-financed	4,901	9,296	10,828	10,144	8,377	7,580	12,642	15,878	14,132	22,708	30,821	50,482	45,933
Of which: Foreign-financed	20,848	8,155	6,041	4,157	11,212	6,815	12,786	8,545	16,957	11,777	10,486	6,741	22,856
Net lending/borrowing (cash basis)	-45,789	-35,984	-38,632	-30,538	-42,769	-22,877	-29,883	-42,696	-34,223	-17,233	-19,181	-17,858	-16,841
Primary balance (cash basis)	-26,027	-9,074	-7,835	3,405	3,545	20,219	14,519	9,302	24,630	37,317	37,989	38,340	39,643
Primary balance (cash basis) adjusted with the fuel arrear operation								20,014					
Expenditure arrears (- payments)	6,008	14,525	-13,642	-9,404	-15,380	-10,908	-7,669	-20,486	-10,901	-10,566	-10,406	-4,495	-1,907
Backlog of VAT refunds (flow)	1,558	1,916	1,841	4,225	2,241	1,233	-3,735	-3,533	-3,533	-3,533	-3,533	-3,533	0
Arrears on external interest (flow)	4,327	9,120	0	0	0	0	0	0	0	0	0	0	0
Overall balance, (commitment basis)3/	-57,682	-61,546	-26,831	-25,359	-29,630	-13,201	-18,479	-18,676	-19,788	-3,133	-5,241	-9,830	-14,934
Primary balance (commitment basis)3/	-33,594	-25,516	3,966	8,585	16,684	29,894	25,923	33,321	39,064	51,417	51,929	46,369	41,550
Financing	45,789	35,984	38,632	30,538	42,769	22,877	29,883	42,696	34,223	17,233	19,181	17,858	16,841
Net acquisition of financial assets (+ drawdown, - accumulation)	-816	-2,674	-1,440	491	1,053	2,626	0	0	0	0	0	0	0
Net incurrence of liabilities	47,323	38,292	40,354	30,562	41,716	20,207	29,883	42,696	34,223	17,233	19,181	17,858	16,841
Domestic	31,754	32,774	12,968	8,950	22,163	4,939	15,029	29,688	29,642	22,619	23,343	24,058	12,482
Foreign	15,568	5,518	27,386	21,612	19,553	15,268	14,854	13,008	4,581	-5,387	-4,163	-6,199	4,359
Exceptional financing	0	0		0	0	0	0	0	0	0	0	0	0
Statistical discrepancy / financing gap	-717	366	-283	-515	0	44	0	0	0	0	0	0	0
Memorandum items:													
Primary expenditure (cash basis)	93,464	108,019	108,519	118,698	145,060	132,406	162,420	175,783	187,495	206,288	237,385	271,903	309,504
Primary expenditure (commitment basis)	99,472	122,544	94,876	109,294	129,679	121,498	154,751	155,297	176,594	195,722	226,979	267,408	307,597
Primary balance excluding mining revenues (commitment basis)3/	-44,134	-50,486	-18,438	-4,477	-1,116	10,615	1,586	7,854	10,361	16,883	12,546	304	-13,362
Mining revenues (in million of US$)	575	1,247	1,323	646	685	737	953	920	1,055	1,310	1,463	1,641	1,641
Non-mining primary balance (cash basis)	-36,568	-34,045	-30,239	-9,656	-14,255	940	-9,818	-16,165	-4,073	2,783	-1,393	-7,725	-15,269
Backlog of VAT refunds (stock)	8,451	10,368	12,209	16,434	18,675	17,667	14,940	15,389	11,855	8,322	4,788	1,255	1,255
Stock of expenditure arrears	42,506	57,031	47,659	61,427	51,929	66,880	43,554	38,258	27,696	17,888	8,502	4,920	3,013

Sources: Zambian authorities; and IMF staff estimates and projections.

1/ IMF CR No. 24/350

2/ From 2022 onwards this represents clearance of arrears for fuel. There are no direct transfers to electricity sector

3/ Adjusted for the accumulation/clearance of arrears on VAT refund claims and expenditure arrears.

Table 3b. Zambia: Fiscal Operations of the Central Government, 2020–30

(Percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.			Projections		
Revenues	20.3	22.4	20.4	21.9	22.1	22.2	22.6	22.8	23.0	23.3	23.4	23.6	23.8
Revenues excluding grants	19.8	21.8	20.0	20.8	21.0	21.8	21.6	21.9	22.1	22.6	22.7	23.0	23.3
Revenues excluding grants adjusted by the backlog of VAT refunds	19.3	21.4	19.6	20.1	20.6	21.6	22.1	22.3	22.5	22.9	23.0	23.3	23.3
Tax	15.7	16.1	16.1	16.6	16.5	17.2	16.9	17.4	17.7	18.0	18.1	18.5	18.8
Income tax	6.0	5.2	5.4	5.4	5.4	5.7	5.4	5.8	5.8	5.8	5.8	5.8	5.8
Profit tax	2.9	4.4	4.3	2.7	2.8	2.9	2.8	3.0	3.1	3.2	3.2	3.4	3.6
Mining	1.6	2.9	2.4	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3	1.5	1.8
Non-mining	1.3	1.5	1.8	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Value-added tax	4.4	4.4	4.2	6.0	5.8	6.0	6.0	5.8	6.0	6.2	6.2	6.3	6.4
Excise taxes	1.4	1.0	1.1	1.4	1.3	1.4	1.5	1.4	1.4	1.4	1.5	1.5	1.5
Taxes on international trade	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.4	1.4	1.4	1.4	1.4	1.4
Other revenues	0.0	0.0	0.0	4.2	4.5	4.6	4.7	4.5	4.5	4.5	4.6	4.6	4.6
Of which: Mining royalties	1.6	2.8	2.1	1.4	1.6	1.7	2.0	2.0	1.9	2.0	2.0	2.0	2.0
Grants	0.5	0.6	0.4	1.1	1.1	0.3	1.0	0.9	0.8	0.7	0.7	0.6	0.5
Expenditures	34.0	30.5	28.2	27.4	28.5	25.5	26.4	28.0	26.7	24.9	25.0	24.9	25.0
Expenses	26.3	26.6	24.8	24.8	25.6	23.4	23.2	25.0	23.3	21.6	21.5	20.6	20.3
Compensation to employees	8.1	7.2	7.6	8.1	7.8	7.7	7.5	7.3	7.2	7.0	7.2	7.2	7.4
Goods and services	3.1	3.4	2.6	2.3	1.5	1.6	2.9	1.9	2.2	2.2	2.3	2.3	2.4
Interest	5.9	6.1	6.2	6.1	6.9	6.3	5.7	6.4	6.4	5.2	4.9	4.3	3.9
Domestic	4.4	5.6	6.1	5.7	5.8	5.6	4.8	4.9	5.6	4.6	4.3	3.8	3.5
Foreign	1.6	0.4	0.1	0.4	1.1	0.7	0.7	1.5	0.6	0.5	0.5	0.4	0.4
Subsidies	5.5	5.5	2.2	1.9	3.9	2.5	1.6	3.4	1.7	1.5	1.4	1.4	1.4
Of which: Agricultural (FISP and FRA)	3.5	2.7	1.7	1.6	2.0	1.5	1.4	2.0	1.4	1.3	1.1	1.2	1.2
Of which: Energy (fuel and electricity)2/	1.5	2.4	0.4	0.2	1.9	0.4	0.0	1.3	0.1	0.1	0.1	0.1	0.1
Intergovernmental transfers	2.3	2.0	3.1	3.1	2.4	2.5	2.8	3.2	2.9	2.8	3.0	3.1	3.1
Social protection	0.7	1.3	1.5	1.4	2.0	1.7	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Other	0.7	1.1	1.5	2.0	1.1	1.2	0.9	0.8	1.1	1.1	1.0	0.5	0.3
Net acquisition of nonfinancial assets	7.7	3.9	3.4	2.6	2.9	2.1	3.2	3.0	3.4	3.3	3.5	4.3	4.7
Of which: Domestically-financed	1.5	2.1	2.2	1.8	1.2	1.1	1.6	2.0	1.5	2.2	2.6	3.8	3.1
Of which: Foreign-financed	6.3	1.8	1.2	0.7	1.7	1.0	1.6	1.1	1.8	1.1	0.9	0.5	1.6
Net lending/borrowing (cash basis)	-13.8	-8.1	-7.8	-5.5	-6.4	-3.3	-3.8	-5.3	-3.7	-1.6	-1.6	-1.4	-1.1
Primary balance (cash basis)	-7.8	-2.1	-1.6	0.6	0.5	2.9	1.9	1.1	2.7	3.6	3.2	2.9	2.7
Primary balance (cash basis) adjusted with the fuel arrear operation								2.5					
Expenditure arrears (- payments)	1.8	3.3	-2.8	-1.7	-2.3	-1.6	-1.0	-2.5	-1.2	-1.0	-0.9	-0.3	-0.1
Backlog of VAT refunds (flow)	0.5	0.4	0.4	0.8	0.3	0.2	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	0.0
Arrears on external interest (flow)	1.3	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, (commitment basis)3/	-17.3	-13.9	-5.4	-4.5	-4.4	-1.9	-2.4	-2.3	-2.1	-0.3	-0.4	-0.7	-1.0
Primary balance (commitment basis)3/	-10.1	-5.8	0.8	1.5	2.5	4.3	3.3	4.1	4.2	4.9	4.4	3.5	2.8
Financing	13.8	8.1	7.8	5.5	6.4	3.3	3.8	5.3	3.7	1.6	1.6	1.4	1.1
Net acquisition of financial assets (+ drawdown, - accumulation)	-0.2	-0.6	-0.3	0.1	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.2	0.6	0.3	-0.1	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	14.2	8.7	8.2	5.5	6.2	2.9	3.8	5.3	3.7	1.6	1.6	1.4	1.1
Domestic	9.5	7.4	2.6	1.6	3.3	0.7	1.9	3.7	3.2	2.2	2.0	1.8	0.9
Foreign	4.7	1.2	5.5	3.9	2.9	2.2	1.9	1.6	0.5	-0.5	-0.4	-0.5	0.3
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy / financing gap	-0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Primary expenditure (cash basis)	28.1	24.4	22.0	21.3	21.6	19.2	20.7	21.6	20.3	19.7	20.2	20.7	21.1
Primary expenditure (commitment basis)	29.9	27.7	19.2	19.6	19.3	17.6	19.8	19.1	19.1	18.7	19.3	20.3	21.0
Mining revenues (in million of US$)	3.2	5.6	4.5	2.3	2.6	2.8	3.1	3.1	3.1	3.3	3.3	3.5	3.3
Primary balance excluding mining revenues (commitment basis)3/	-13.3	-11.4	-3.7	-0.8	-0.2	1.5	0.2	1.0	1.1	1.6	1.1	0.0	-0.9
Backlog of VAT refunds (stock)	2.5	2.3	2.5	2.9	2.8	2.6	1.9	1.9	1.3	0.8	0.4	0.1	0.1
Stock of expenditure arrears	12.8	12.9	9.6	11.0	7.7	9.7	5.6	4.7	3.0	1.7	0.7	0.4	0.2
Nominal GDP (billions of kwacha)	332.7	442.3	494.0	557.4	672.3	688.9	783.1	812.7	923.7	1,046.6	1,176.2	1,315.5	1,466.3

Sources: Zambian authorities; and IMF staff estimates and projections.

1/ IMF CR No. 24/350

2/ From 2022 onwards this represents clearance of arrears for fuel. There are no direct transfers to electricity sector

3/ Adjusted for the accumulation/clearance of arrears on VAT refund claims and expenditure arrears.

Table 4. Zambia: Monetary Survey, 2020–30

(Millions of Kwacha, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.	Projections				
Depository corporations survey:													
Net Foreign Assets	38,980	37,624	50,562	56,457	83,990	81,966	94,861	96,633	93,168	114,113	144,814	178,712	205,151
Net Domestic Assets	64,848	70,002	83,437	110,478	135,815	123,299	155,494	163,860	205,761	225,658	238,274	251,142	275,533
Domestic claims	102,655	103,414	99,282	140,474	165,126	151,654	196,076	204,442	246,288	270,371	287,594	302,909	335,257
Net claims on central government	60,446	64,641	46,798	63,232	66,390	59,960	68,058	67,333	70,284	72,875	75,510	78,694	80,670
Claims on other sectors	42,209	38,773	52,484	77,242	98,736	91,694	128,018	137,109	176,004	197,496	212,084	224,215	254,587
Claims on other financial corporations	168	189	521	1,080	1,265	928	1,265	1,346	1,346	1,346	1,346	1,346	1,346
Claims on state and local government	51	41	41	15	16	66	17	71	77	84	91	98	106
Claims on public non-financial corporations	1,148	871	1,358	4,726	4,958	4,638	4,958	4,638	4,638	4,638	4,638	4,638	4,638
Claims on private sector	40,842	37,672	50,563	71,421	92,497	86,062	121,777	130,868	169,762	191,252	205,839	217,968	236,113
(o.w) National currency	24,011	28,615	33,469	43,241	…	…	121,777	130,868	169,762	191,252	205,839	217,968	236,113
(o.w) Foreign currency	16,831	9,057	17,094	28,180	…	…							
Other items net	-37,806	-33,412	-15,845	-29,996	-29,824	-28,355	-40,582	-29,605	-29,220	-33,067	-37,325	-51,767	-59,724
Broad Money (M3)	103,829	107,626	133,998	166,935	219,805	205,266	250,355	244,437	280,338	318,577	359,119	402,878	450,426
Bank of Zambia:													
Net Foreign Assets	10,921	12,127	15,472	21,046	30,084	34,809	52,104	49,719	65,720	86,903	116,220	143,383	168,562
Asset	26,230	47,101	55,945	86,637	105,450	122,229	129,344	134,502	145,947	166,435	199,800	229,946	258,212
Liabilities	-15,309	-34,974	-40,472	-65,590	-75,366	-87,420	-77,239	-84,783	-80,227	-79,531	-83,581	-86,562	-89,650
Net Domestic Assets	15,856	16,939	17,094	32,855	46,316	9,808	34,914	41,433	38,819	31,895	17,698	6,852	-596
Net domestic claims	33,862	28,710	8,217	31,253	44,714	-1,340	33,072	28,612	25,614	18,294	3,689	-7,998	-16,337
Net claims on other depository corporations	5,383	6,984	2,441	5,570	7,114	6,058	7,114	30,488	30,488	30,488	30,488	30,488	30,488
Net claims on central government	28,389	21,631	5,667	25,521	25,412	-7,618	25,412	-7,618	-7,618	-7,218	-6,818	-6,418	-6,018
Claims on other sectors	90	95	110	162	87	220	87	87	87	87	87	87	87
Other items (net)	-18,007	-11,771	8,877	1,602	1,602	11,148	1,843	12,820	13,205	13,601	14,009	14,849	15,740
Reserve Money	26,777	29,066	32,567	53,902	76,400	76,544	87,018	91,152	104,539	118,799	133,917	150,235	167,966
Currency outside banks and cash in vaults	12,389	13,550	14,740	16,641	20,553	20,269	20,275	22,485	28,502	35,366	37,526	39,472	41,193
Other depository corporation reserves	14,304	15,426	17,732	36,781	62,356	56,184	68,200	74,545	92,562	112,935	138,135	167,114	200,418
Liabilities to other sectors	84	90	95	480	179	91	203	199	224	250	282	317	354
Memorandum Items:													
Reserve money (end-of-period, percentage change)	57.0	8.5	12.0	65.5	41.7	42.0	13.9	19.1	14.7	13.6	12.7	12.2	11.8
Broad Money (M3) (percentage change)	46.4	3.7	24.5	24.6	31.7	23.0	13.9	19.1	14.7	13.6	12.7	12.2	11.8
Credit to the private sector (percentage change)	8.5	-7.8	34.2	41.3	29.5	20.5	31.7	52.1	29.7	12.7	7.6	5.9	8.3
Velocity (nominal GDP/M3)	3.2	4.1	3.7	3.3	3.1	3.4	3.1	3.3	3.3	3.3	3.3	3.3	3.3
Money multiplier (M3/reserve money)	3.9	3.7	4.1	3.1	2.9	2.7	2.9	2.7	2.7	2.7	2.7	2.7	2.7
Credit to the private sector (percent of GDP)	12.3	8.5	10.2	12.8	13.8	12.5	15.6	16.1	18.4	18.3	17.5	16.6	16.1
Nominal GDP (billion kwacha)	332.7	442.3	494.0	557.4	672.3	688.9	783.1	812.7	923.7	1,046.6	1,176.2	1,315.5	1,466.3

Sources: Zambian authorities; and IMF staff estimates and projections.

1/ IMF CR No. 24/350

Table 5. Zambia: Financial Soundness Indicators, 2015–24
(Percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Adequacy										
Regulatory capital to risk-weighted assets	21.0	26.2	26.5	22.1	22.2	20.1	24.7	22.8	23.5	24.4
Tier 1 regulatory capital to risk-weighted assets	19.2	23.4	24.5	20.1	20.1	17.8	23.3	21.9	22.8	23.0
Asset Quality										
Past due advances (NPL) to total advances	7.3	9.7	12.0	11.0	8.9	11.6	5.8	5.0	4.2	4.1
Loan loss provisions to non-performing loans	70.5	71.5	69.2	86.4	91.6	75.9	102.8	93.4	92.2	91.2
Bad debt provisions to advances	4.6	5.6	8.0	9.5	8.2	8.8	6.0	4.4	3.6	3.4
Earnings and Profitability										
Return on average assets	2.8	2.5	3.1	3.0	3.3	2.1	5.2	5.0	5.8	5.1
Return on equity	13.1	12.3	15.4	14.7	16.2	12.9	35.1	29.9	33.8	29.7
Liquidity										
Liquid assets to total assets	34.8	39.1	45.5	47.0	42.2	48.6	46.6	50.7	48.5	49.3
Liquid assets to total deposits	47.9	54.2	56.5	57.0	51.5	57.4	56.3	67.6	64.9	64.7
Advances to deposits ratio	56.4	50.0	45.2	47.3	51.5	41.0	39.4	35.7	39.8	39.1
Exposure to Foreign Currency										
Foreign currency loans to total gross loans	36.9	35.7	41.6	44.5	50.3	47.1	33.7	40.9	42.8	43.3
Foreign currency liabilities to total liabilities	48.9	45.0	44.0	46.6	47.4	52.2	41.9	41.7	44.9	48.3
Net open position in foreign exchange to capital	4.7	0.8	1.4	1.7	1.3	1.1	0.2	5.6	0.2	1.5

Source: Bank of Zambia.

Table 6a. Zambia: External Financing Needs and Sources, 2020–30

(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.	Projections				
I. Total Requirement	**2,598**	**5,618**	**3,159**	**2,824**	**4,167**	**2,648**	**2,795**	**2,276**	**2,707**	**2,524**	**2,394**	**3,220**	**3,842**
Current Account Deficit, excluding Official Transfers	-2,139	-2,630	-1,093	965	429	1,173	-738	76	-386	-944	-1,106	-1,144	-1,265
of which interest due on public debt	635	736	906	717	538	396	515	741	716	556	608	544	551
Public Sector Debt Amortization	1,426	1,917	1,935	1,232	675	241	227	627	575	421	598	575	632
of which public debt	1,426	1,917	1,935	1,232	675	241	227	627	575	421	598	575	632
of which private debt	495	406	334	516	585	592	691	661	764	893	983	200	200
Gross Reserves Accumulation, incl SDR allocation	-248	1,604	258	274	1,005	986	1,170	774	664	928	888	757	631
of which reserve accumulation	-248	277	258	274	1,005	986	1,170	774	664	928	888	757	631
of which SDR allocation (+) / use (-)	0	1,328	0	0	0	0	0	0	0	0	0	0	0
Repayments to the Fund	15	3	0	0	0	0	0	0	0	0	38	171	267
Other Capital Flows2/	3,543	4,723	2,059	353	2,058	248	2,136	801	1,854	2,120	1,976	2,862	3,577
II. Total Sources	**1,276**	**3,388**	**100**	**1,045**	**2,783**	**1,363**	**1,776**	**1,578**	**2,275**	**2,058**	**2,133**	**3,008**	**3,683**
Official Transfers (Current and Capital)	80	77	76	78	1,635	1,617	467	292	352	351	384	332	305
BoZ Liabilities, incl. SDR allocation	0	1,328	0	0	0	0	0	0	0	0	0	0	0
Foreign Direct Investment, net	181	674	198	488	969	998	1,145	1,113	1,543	1,524	1,678	1,799	1,936
Private Sector Loans, net	-608	-264	-206	7	-211	-1,637	-250	-237	-274	-321	-353	476	527
Loan Disbursements to Public Sector	1,424	571	364	296	426	426	412	364	442	276	213	160	718
Portfolio Investment, net	199	1,002	-332	177	-36	-41	1	46	213	227	211	242	196
III. Financing Gap (I-II)	**1,322**	**2,230**	**3,059**	**1,779**	**1,383**	**1,284**	**1,020**	**699**	**432**	**467**	**261**	**212**	**159**
IV. Expected Sources of Financing	**1,322**	**2,230**	**3,059**	**1,779**	**1,383**	**1,284**	**1,020**	**699**	**432**	**467**	**261**	**212**	**159**
New AfDB/WB financing	0	0	550	165	624	523	649	328	432	467	261	212	159
WB	0	0	550	165	524	415	499	328	327	317	261	212	159
WB loans	0	0	550	37	285	213	102	103	79	75	20	19	0
WB grants	0	0	0	128	238	203	398	225	248	242	242	193	159
AfDB	0	0	0	0	100	108	150	0	105	150	0	0	0
Exceptional Financing (Accumulation of arrears)	1,322	2,230	2,322	1,240	0	0	0	0	0	0	0	0	0
IMF ECF Arrangement	0	0	187	373	760	761	370	370	0	0	0	0	0
Memorandum Items													
Gross International Reserves (GIR), total	**1,203**	**2,796**	**3,054**	**3,328**	**4,333**	**4,314**	**5,503**	**5,087**	**5,751**	**6,679**	**7,567**	**8,324**	**8,956**
Reserve Assets (Includes reserve position in the Fund), total3/	812	2,328	2,695	2,505	3,193	3,238	4,463	3,478	3,587	4,407	5,182	5,819	6,325
Imports of Goods and Services (million USD)3/	5,866	7,691	10,022	10,880	11,281	12,002	11,571	12,373	13,473	15,604	17,053	18,532	19,978
Gross remittances (million USD)3/	135	240	243	246	313	334	292	323	373	437	481	515	555
GIR in months of prospective imports	1.9	3.3	3.4	3.3	4.5	4.2	5.3	4.5	4.4	4.7	4.9	5.0	5.0
o/w total reserve assets in months of prospective imports	1.3	2.8	3.0	2.5	3.3	3.1	4.3	3.1	2.8	3.1	3.4	3.5	3.6

1/ IMF CR No. 24/350

2/ Includes financial derivatives (net), errors and omissions, and other sectors from Table 2a.

3/ Remmitances data revised based on the newly published BoZ series. Total reserves assets are defined as unencumbered reserves, including the position in the Fund. Balance of Payments (BPM6) statistics that updated with each WEO forecast in April and October and used in the computation of the Composite Indicator (CI) score.

Table 6b. Zambia: External Financing Needs and Sources, 2020–30

(Percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					ECF 4th Review1/	Est.	ECF 4th Review1/	Proj.	Projections				
I. Total Requirement	**14.3**	**25.4**	**10.8**	**10.2**	**16.1**	**10.1**	**9.1**	**7.8**	**8.0**	**6.4**	**5.5**	**6.9**	**7.6**
Current Account Deficit, excluding Official Transfers	-11.8	-11.9	-3.7	3.5	1.7	4.5	-2.4	0.3	-1.1	-2.4	-2.5	-2.4	-2.5
of which interest due on public debt	3.5	3.3	3.1	2.6	2.1	1.5	1.7	2.5	2.1	1.4	1.4	1.2	1.1
Public Sector Debt Amortization	7.9	8.7	6.6	4.5	2.6	0.9	0.7	2.1	1.7	1.1	1.4	1.2	1.3
Gross Reserves Accumulation, incl SDR allocation	-1.4	7.3	0.9	1.0	3.9	3.7	3.8	2.6	2.0	2.3	2.0	1.6	1.3
of which reserve accumulation	-1.4	1.3	0.9	1.0	3.9	3.7	3.8	2.6	2.0	2.3	2.0	1.6	1.3
of which SDR allocation (+) / use (-)	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments to the Fund	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.5
Other Capital Flows2/	19.5	21.4	7.1	1.3	8.0	0.9	7.0	2.7	5.5	5.3	4.5	6.1	7.1
II. Total Sources	**7.0**	**15.3**	**0.3**	**3.8**	**10.8**	**5.2**	**5.8**	**5.4**	**6.7**	**5.2**	**4.9**	**6.4**	**7.3**
Official Transfers (Current and Capital)	0.4	0.3	0.3	0.3	6.3	6.1	1.5	1.0	1.0	0.9	0.9	0.7	0.6
BoZ Liabilities, incl. SDR allocation	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Direct Investment, net	1.0	3.1	0.7	1.8	3.7	3.8	3.7	3.8	4.5	3.8	3.8	3.8	3.8
Private Sector Loans, net	-3.4	-1.2	-0.7	0.0	-0.8	-6.2	-0.8	-0.8	-0.8	-0.8	-0.8	1.0	1.0
Loan Disbursements to Public Sector	7.9	2.6	1.2	1.1	1.6	1.6	1.3	1.2	1.3	0.7	0.5	0.3	1.4
Portfolio Investment, net	1.1	4.5	-1.1	0.6	-0.1	-0.2	0.0	0.2	0.6	0.6	0.5	0.5	0.4
III. Financing Gap (I-II)	**7.3**	**10.1**	**10.5**	**6.4**	**5.4**	**4.9**	**3.3**	**2.4**	**1.3**	**1.2**	**0.6**	**0.5**	**0.3**
IV. Expected Sources of Financing	**7.3**	**10.1**	**9.8**	**6.4**	**5.4**	**4.9**	**3.3**	**2.4**	**1.3**	**1.2**	**0.6**	**0.5**	**0.3**
New AfDB/WB financing	0.0	0.0	1.9	0.6	2.4	2.0	2.1	1.1	1.3	1.2	0.6	0.5	0.3
WB	0.0	0.0	1.9	0.6	2.0	1.6	1.6	1.1	1.0	0.8	0.6	0.5	0.3
WB loans	0.0	0.0	1.9	0.1	1.1	0.8	0.3	0.4	0.2	0.2	0.0	0.0	0.0
WB grants	0.0	0.0	0.0	0.5	0.9	0.8	1.3	0.8	0.7	0.6	0.6	0.4	0.3
AfDB	0.0	0.0	0.0	0.0	0.4	0.4	0.5	0.0	0.3	0.4	0.0	0.0	0.0
Exceptional Financing (Accumulation of arrears)	7.3	10.1	8.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF ECF Arrangement	0.0	0.0	0.6	1.4	2.9	2.9	1.2	1.3	0.0	0.0	0.0	0.0	0.0
Memorandum Items													
Gross International Reserves (GIR), total	**6.6**	**12.7**	**10.5**	**12.1**	**16.8**	**16.4**	**18.0**	**17.3**	**16.9**	**16.8**	**17.3**	**17.8**	**17.8**
Reserve Assets (Includes reserve position in the Fund), total3/	4.5	10.5	9.2	9.1	12.3	12.3	14.6	11.8	10.6	11.1	11.9	12.4	**12.5**
Imports of Goods and Services3/	32.3	34.8	34.4	39.5	43.6	45.6	37.8	42.1	39.7	39.3	39.0	39.6	**0.0**
Gross remittances3/	0.7	1.1	0.8	0.9	1.2	1.3	1.0	1.1	1.1	1.1	1.1	1.1	0.0
GIR in months of prospective imports	1.9	3.3	3.4	3.3	4.5	4.2	5.3	4.5	4.4	4.7	4.9	5.0	5.0
o/w total reserve assets in monhts of prospective	1.3	2.8	3.0	2.5	3.3	3.1	4.3	3.1	2.8	3.1	3.4	3.5	3.6

1/ IMF CR No. 24/350

2/ Includes financial derivatives (net), errors and omissions, and other sectors from Table 4a.

3/ Balance of Payments (BPM6) statistics that updated with each WEO forecast in April and October and used in the computation of the Composite Indicator (CI) score. Total reserves assets are defined as unencumbered reserves, including the position in the Fund.

Table 7. Zambia: Schedule of Reviews and Disbursements[1]

Availability Date	Millions of SDR	In Percent of Quota	Conditions
August 31, 2022	139.88	14.3	Board approval of arrangement
April 1, 2023	139.88	14.3	Observance of end-December 2022 and continuous performance criteria and completion of first review
October 1, 2023	139.88	14.3	Observance of end-June 2023 and continuous performance criteria and completion of second review
April 1, 2024	433.34	44.3	Observance of end-December 2023 and continuous performance criteria and completion of third review
October 1, 2024	139.88	14.3	Observance of end-June 2024 and continuous performance criteria and completion of fourth review
April 1, 2025	139.88	14.3	Observance of end-December 2024 and continuous performance criteria and completion of fifth review
October 1, 2025	138.92	14.2	Observance of end-June 2025 and continuous performance criteria and completion of sixth review
Total	**1,271.66**	**130.0**	

1/ Zambia's IMF quota is SDR 978.2 million.

Table 8. Zambia: Indicators of Capacity to Repay the Fund, 2025–39

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Fund Obligations Based on Existing Credit (millions of SDRs)															
Principal	0.0	0.0	0.0	28.0	127.3	198.6	198.6	198.6	170.6	71.3	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)															
Principal	0.0	0.0	0.0	28.0	127.3	198.6	254.3	254.3	226.4	127.1	55.8	0.0	0.0	0.0	0.0
Charges and interest	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total Obligations Based on Existing and Prospective Credit															
Millions of SDRs	0.0	0.0	0.0	28.0	127.3	198.6	254.3	254.3	226.4	127.1	55.8	0.0	0.0	0.0	0.0
Millions of U.S. dollars	0.0	0.0	0.0	37.6	171.1	266.9	341.9	341.9	304.3	170.8	75.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.0	0.0	0.0	0.2	0.8	1.1	1.3	1.2	1.0	0.5	0.2	0.0	0.0	0.0	0.0
Percent of debt service	0.0	0.0	0.0	2.9	14.2	21.1	17.3	19.3	17.3	13.7	6.5	0.0	0.0	0.0	0.0
Percent of quota	0.0	0.0	0.0	2.9	13.0	20.3	26.0	26.0	23.1	13.0	5.7	0.0	0.0	0.0	0.0
Percent of gross international reserves	0.0	0.0	0.0	0.5	2.1	3.0	3.5	3.3	2.8	1.4	0.6	0.0	0.0	0.0	0.0
percent of GDP	0.0	0.0	0.0	0.1	0.4	0.5	0.6	0.6	0.5	0.3	0.1	0.0	0.0	0.0	0.0
Outstanding Fund Credit Based on Existing and Prospective Credit															
Millions of SDRs	1271.7	1271.7	1271.7	1243.7	1116.4	917.9	663.5	409.2	182.8	55.8	0.0	0.0	0.0	0.0	0.0
Millions of U.S. dollars	1696.7	1700.5	1704.6	1670.2	1502.3	1235.1	892.8	550.6	246.0	75.0	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	11.6	10.4	8.9	7.9	6.6	5.1	3.4	2.0	0.8	0.2	0.0	0.0	0.0	0.0	0.0
Percent of debt service	102.8	100.1	124.0	128.0	124.4	97.5	45.1	31.1	14.0	6.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	130.0	130.0	129.9	127.1	114.1	93.8	67.8	41.8	18.7	5.7	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	33.4	29.6	25.5	22.1	18.0	13.8	9.3	5.3	2.2	0.6	0.0	0.0	0.0	0.0	0.0
percent of GDP	5.8	5.0	4.3	3.8	3.2	2.4	1.6	0.9	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	278.8	0.0	0.0	-28.0	-127.3	-198.6	-254.3	-254.3	-226.4	-127.1	-55.8	0.0	0.0	0.0	0.0
Memorandum Items:															
Exports of goods and services (millions of U.S. dollars)	14,633	16,357	19,206	21,054	22,608	24,316	26,137	28,068	30,098	32,292	34,662	37,312	37,312	37,312	37,312
External Debt service (millions of U.S. dollars)1/	1,651	1,698	1,374	1,305	1,207	1,267	1,978	1,770	1,761	1,249	1,155	1,419	2,008	2,148	2,085
Gross international reserves (millions of U.S. dollars)	5,087	5,751	6,679	7,567	8,324	8,956	9,631	10,321	11,063	11,865	12,724	12,724	12,724	12,724	12,724
Quota (millions of SDRs)	978.2	978.2	979.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2
Nominal GDP (millions of U.S. dollars)	29,369	33,945	39,699	43,699	46,856	50,428	54,257	58,331	62,734	67,509	72,686	78,303	84,397	91,002	98,170

Sources: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Annex I. Key Recommendations of the 2023 Article IV Consultation

Recommendations	**Status**
Fiscal Policy and Governance	
Fiscal Policy Stance: Restore debt sustainability and rebuild buffers	Ongoing: The authorities have delivered a substantial fiscal consolidation even against a challenging backdrop of delayed recovery in the mining sector, a severe drought in 2024. The primary balance improved from minus 1.6 percent of GDP in 2022 to 3 percent of GDP in 2024. However, the bulk of the fiscal consolidation has been mostly expenditure driven. The authorities have preserved priority spending for health, education and social assistance, but investment spending has shrunk.
Revenue Mobilization: Increase revenue from a combination of policy and tax administration measures.	Partially implemented The Zambia Revenue Agency has increased efforts in reducing the compliance gap and improving tax administration, including from a better use of data from across government agencies. A large taxpayer office has been established in 2024 and a new e-invoice system for VAT has gone live. However, the tax base remains narrow. Tax Policy: some but not all CIT rates have been harmonized, excises have been indexed with inflation, but Zambia continues to maintain many exemptions that do not bring tangible benefits. The internal audit in the VAT refund process has improved but clearing VAT refund arrears remains a challenge.
PFM: Enhance Budget Credibility and implement structural reforms to underpin fiscal strategy.	Partially implemented: IFMIS system has been rolled out across all central spending agencies. A new PPP bill adopted in 2023 increased the oversight role of Ministry of Finance A list of active investment projects is maintained and updated annually but in-year controls are weak. A Fiscal Risks report was first published in 2024 The Debt Management Office has been reorganized, and a debt bulletin is published quarterly. Efficient cash management is still hampered by lack of coordination and the existence of multiple government accounts.

Recommendations	Status
Improve Governance and Reduce Corruption Vulnerabilities.	Ongoing: A new Anticorruption Act, initially planned for submission to Parliament by end-March 2025, is planned for submission by end-September 2025. The authorities have been working on improving the beneficial ownership (BO) register of the Patent and Copyright Registration Agency, building capacity in identifying BO. Implemented: The statutory instruments of the 2016 Public Audit Act and Public Audit Commission Acts were enacted on May 23, 2025. Renewed efforts to strengthen the independence of the judiciary are needed.
Monetary and Financial Sector Policies	
Monetary policy stance. Ensure inflation returns to the monetary policy band.	*Ongoing*. The BoZ has tightened the monetary policy stance, but inflation remains above the policy band also due to supply shocks. Monetary policy effectiveness is diluted by the high level of dollarization.
Monetary Policy Framework. Grant BoZ formal operational independence to pursue price stability as its primary mandate by amending the BoZ Act.	*Implemented.* The new BoZ act went into effect in 2023.
Bank supervision. Strengthen banking supervision capacity, including by strengthening risk-based prioritization of onsite inspections, and crisis preparedness.	*Ongoing*. An inter-agency Financial Stability Committee was established in 2023, and the first Financial Stability Report was published in June 2024. Regulations for countercyclical capital and conservation buffers; and for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), will be implemented by mid-2025. The Banking and Financial Services Act is being amended.
Energy Sector	
Restore the financial viability of power utility ZESCO and minimize the need for fiscal transfer.	*Ongoing*. The multi-year tariff framework was adopted in 2023. Tariffs have been revised annually, but the emergency tariffs adopted in response to the 2024 drought are not fully cost-reflective.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Recurrent drought and extreme climate events affecting agricultural output, damaging key infrastructure, causing loss of human lives and livelihoods, leading to water and food shortages, and amplifying supply chain disruptions.	L	**H.** Higher food prices and reduced agricultural production would raise inflation and hinder medium-term growth. Lower hydropower generation and open-pit mining could dampen growth prospects.	Provide effective support to vulnerable households. Diversify food crops to varieties better aligned to extreme weather. Consider medium-term strategies to help regulate water flows. Maintain exchange rate flexibility to adjust to the external sector pressure resulting from the climate shock.
Social discontent. Supply shocks, high inflation (including due to drought and electricity tariff increases), and spillovers from crises in other countries worsen inequality and trigger social unrest.	L	**M.** Social unrest could weaken political impetus for economic adjustment and reform, dent investor confidence, and lead to rising financing pressures and capital flight, growth slowdown, and higher inflation.	Continue to improve governance and implement orderly fiscal adjustment, especially by increasing domestic revenues, to support social spending. Maintain exchange rate flexibility to cushion balance-of-payments pressures while keeping monetary policy focused on price stability. Clear and timely communication on the objectives and benefits of reforms is essential to secure public support.
Further delays in debt restructuring negotiations.	L	**M.** Exchange rate pressures could intensify, while domestic yields may increase, partly due to exiting non-resident domestic debt holders. Additional external arrears could increase uncertainty in restoring debt sustainability, dampening the growth outlook.	Expedite fiscal adjustment through revenue mobilization, and identify financing sources. Enhance public investment management and structural reforms to boost investment and FDI. Further strengthen financial sector surveillance along with contingency planning.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Global Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	H	**H.** Weakened global demand may result in lower copper prices, widening external and fiscal balances and leading to kwacha depreciation. Lower FDI and disrupted supply chain will lower growth potential.	• Continue implementing orderly fiscal adjustments and maintain exchange rate flexibility to cushion external shocks while allowing monetary policy to focus on price stability. • Enhance domestic revenue mobilization measures, while strengthening the fiscal framework to prevent procyclical fiscal policy and build buffers to support economic resilience. • Enhance export competitiveness and diversification through structural reforms. Diversify import supply chains. Enhance regional integration, including through existing SADC and AfCFTA protocols. Diversify import supply chain. • Persevere in implementing structural reform to improve the business environment, improve productivity and formality, and support economic diversification.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	H	**H.** Tighter financial conditions and capital outflows could worsen fiscal and external imbalances, exerting pressure on the exchange rate and inflation and hindering growth. The fiscal financing gap created by withdrawn development aid may require public spending cuts.	
Deepening geo-economic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weak international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	H	**M.** A disruption in global supply chains may weaken global demand for Zambia's upstream exports and increase the costs of imports of intermediate goods.	
Commodity price volatility. Supply and demand volatility increases commodity price volatility, external and fiscal pressures, social discontent and f economic instability.	M	**H.** Uncertainty in global trade could lead to volatile and rising commodity prices, including Zambia's imports. This may worsen its balance of payments and fiscal positions, potentially driving up inflation.	
Regional conflicts. Intensification of conflicts or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	M	**M.** Spillover through supply chains or commodity price could negatively affect growth, inflation, the balance of payments, and the vulnerability of the financial system.	

Annex III. Improving Public Investment Management[1]

This annex provides an overview of Public Investment Management (PIM) and its operating framework in Zambia. Notwithstanding the ramp up in utilizing PPPs, institutional and macroeconomic constraints limit the level of public investment in Zambia. This generates a sizeable infrastructure gap, which in turn is closely linked to lower levels of productivity growth. The Zambian authorities have made strides in improving institutional design and effectiveness in PIM. There is however scope for further reform to improve efficiency and unlock higher levels of public investment, including strengthening the link between planning and budgeting for public investment projects, along with enhancing information availability on projects, developing a framework for asset monitoring, and higher utilization of competitive procurement.

1. **Addressing infrastructure gaps is crucial for enhancing productivity and fostering economic growth.** Zambia has ambitious investment goals outlined in the 8th National Development Plan (8NDP). This focus is appropriate given that large infrastructure gaps hinder productivity growth.[2] Infrastructure gaps result in structural constraints that lead to falling labor productivity, volatile agricultural productivity and limited economic diversification. Inadequate energy supply, poor transportation networks, and limited access to clean water significantly hinder economic performance. Concurrently, deficiencies in infrastructure can exacerbate the effects of shocks, further hindering productivity, and post-shock recovery across key sectors. These challenges are compounded by climate change risks, making the inclusion of investment resilience and sustainability crucial. Strategic investments in energy, transportation, and water infrastructure can significantly improve business efficiency and competitiveness. As such, addressing delays, underfunding and inefficiencies in public investment is a necessity for Zambia.

2. **Public investment in Zambia has fluctuated significantly in recent decades and has generally been lower than comparator countries.** Government investment has averaged around 4.4 percent over the last thirty years, with some temporary spikes in 2002 and 2019. Constrained fiscal space since 2020 has contributed to an increased number of uncompleted projects, with an overhang of unfinished projects with incomplete contracts equivalent to 150 percent of the capital budget in 2024. Private investment followed a general upward trajectory, albeit slightly unevenly, reaching 28 percent of GDP in 2023. Having surpassed regional comparators in 2019, public investment in Zambia again fell below its regional comparators in recent years.[3] In line with fluctuations in public investment, the share of the government budget dedicated to infrastructure has also varied. From highs of around 40 percent of total spending in the early 2000s, capital expenditure comprised 10 percent of total public spending in 2023 (Figure 3). Compared to its peers

[1] This annex is based on the findings of a recent IMF Fiscal Affairs Department, Public Investment Management assessment (PIMA) mission.

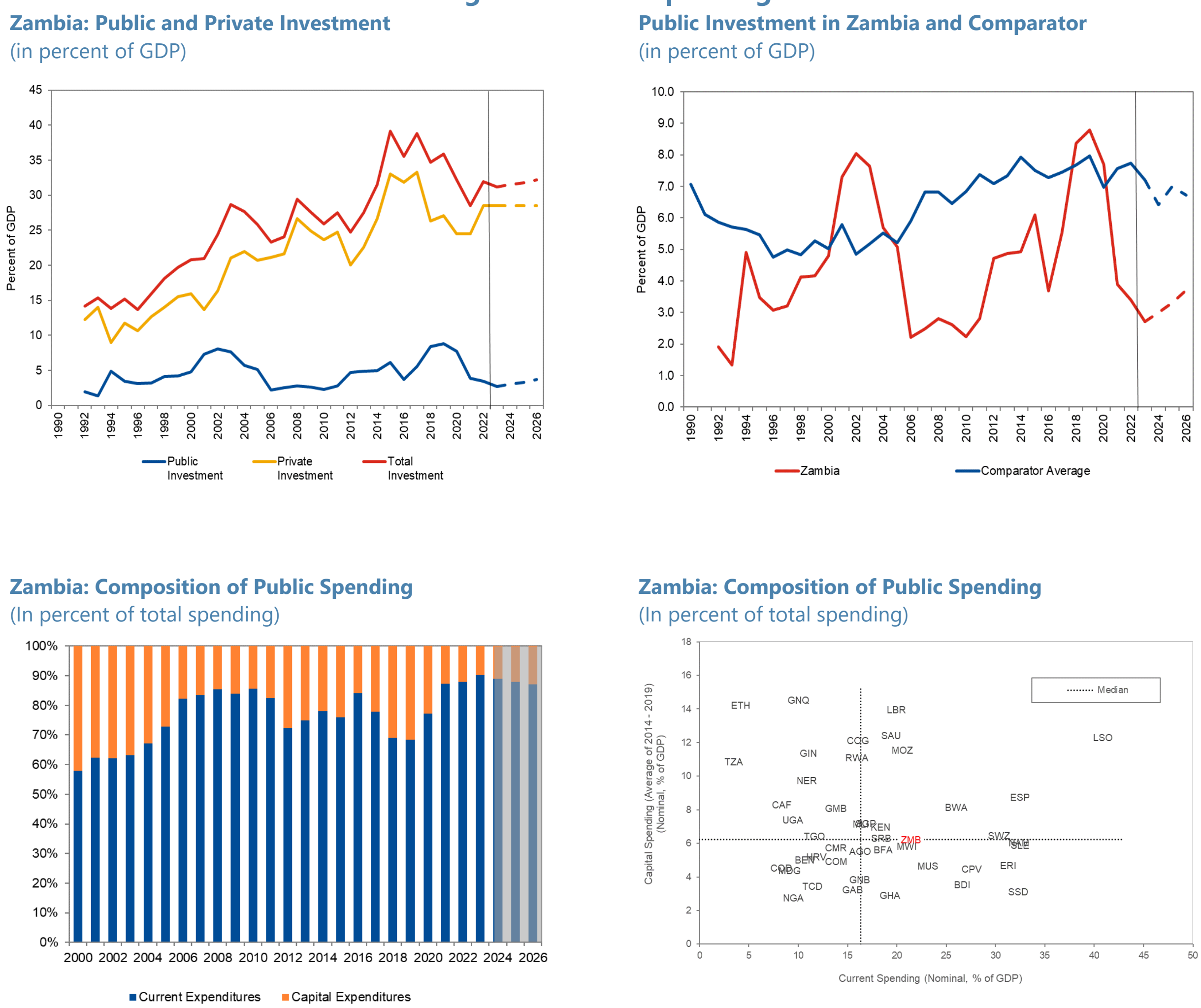
[2] Bizimana, Jaramillo, Thomas and Yoo, "Scaling up Quality Infrastructure Investment in South Asia", IMF WP/21/117.

[3] Regional comparator countries include Kenya, Malawi, Mozambique, South Africa, Tanzania, Uganda, and Zimbabwe.

in Sub-Saharan Africa (SSA), Zambia devotes a higher share of GDP to current expenditure and sits slightly under the median on capital spending.

3. Zambia has the highest level of Public-Private Partnerships (PPPs) capital stock of all relevant comparator countries in recent years. Since 2010, Zambia made extensive use of PPPs, with an estimated capital stock of PPPs of 8.2 percent of GDP by end-2019, compared to an average of about 6 percent of GDP for LIDCs and 4 percent of GDP for SSA. The increase was driven partly by a new 2009 PPP policy, underpinned by a dedicated PPP law. In 2024, the authorities signed six PPPs.

Figure 1. Public Spending



Sources: Staff estimates based on official data.

4. Nevertheless, Zambia faces important constraints in filling infrastructure gaps. Firstly, there is limited fiscal and financing space in the wake of efforts to restore debt sustainability. This requires the government to make crucial tradeoffs between responding to shocks in the short run, particularly through subsidies and other cash transfer programs and during the most recent drought, versus spending on infrastructure. In addition, the Public Investment Management (PIM) framework suffers from deficiencies which further exacerbate the constraints.

5. The authorities have progressed in implementing the recommendations from the 2017 PIMA, and some strengthening in some areas of institutional design and effectiveness. Good progress has been made in strengthening the planning and PIM regulatory framework, establishment of a consolidated database of projects that provides a good foundation for active portfolio management and oversight, and a targeted capacity building program. Project appraisal has seen improvement both in design and effectiveness with the issuance and implementation of PIM Guidelines and an Appraisal Manual anchored in the 2020 National Planning and Budgeting Act. Effectiveness has also strengthened, albeit it to a limited extent, in other areas including procurement and project implementation.

6. Key public investment and efficiency trends point to the scope and need for improving PIM. Weak linkages between planning and budgeting hinder the availability of adequate funding during implementation. Gaps in the allocation phase of public investment, including limited information on investment projects in budget documentation, are a further weakness. The use of less competitive procurement processes, the prevalence of arrears and payment delays due to funding shortfalls, with weak asset monitoring are all factors that further hinder efficient public investment in Zambia.

7. Reforms to the PIM framework can improve the efficiency and efficacy of public investment in Zambia. Investment planning could be improved through prioritizing and rationalizing projects including by streamlining the portfolio of underfunded and incomplete projects and strengthening project appraisal, by ensuring standardized risk evaluations across ministries. Reforms to enhance and protect budget allocation for public investment include presenting information on project costs, timelines and financing needs in the budget and enhancing forecasting public investment needs to improve multi-year budgeting. Implementation also needs to be strengthened, through standardized competitive procurement practices, improvements in cash management and forecasting, along with developing an asset register to manage and maintain infrastructure efficiency. In addition, to help build climate resilience, climate change analysis should be incorporated in the appraisal and selection of public investment projects and steps can be taken to improve coordination between public entities at all levels—including State-Owned Enterprises—to prevent a fragmented approach to climate-related investment governance. Developing a framework to track climate-related expenditure and expanding climate risk analysis is essential to understand and address vulnerabilities and improve disaster risk management strategies (see SIP).

8. Further PIM reforms can help unlock higher and more inclusive growth while improving the country's fiscal position. Efficient project selection can help deliver higher returns on capital, and incentivize crowding-in by the private sector, which in turn reduces the need for higher borrowing. Boosting the transparency of procurement for public investment could lead to cost savings, better project outcomes and investment returns, which can help avoid fiscal slippages and corruption-related risks to the budget. Ex-post evaluations of public investment management can help limit fiscal waste and boost debt dynamics. Overall, such reforms can also support higher levels of economic activity across the country and thereby generating further revenues for the government.

Annex IV. Central Government Compensation and Employment

Zambia's wage-bill-to-GDP-ratio declined slightly in 2024, moderating the sharp increase of the previous biennium. *In 2024, the central government wage bill is larger than in peer countries as share of GDP and both in proportion of revenues and expenditures. A negative evolution of public wages in 2018-2021, partly offset by an expansion in the size of the civil service in 2021-24, explains 2018-2024 changes wage-bill-to-GDP-ratio, while evidence exists on the presence of a significant public sector wage premium. Recent trends call for closer monitoring. Merits to compensate public employees for the losses in purchasing power should be carefully calibrated to prevent further increases in the wage bill, limiting workforce increases. The establishment of a centralized registry of all the civil servants, maintained at the Ministry of Finance, would facilitate a more efficient management of the size of the civil service.* [1]

A. Recent Trends in Wage Bill

1. The Zambian central government wage bill amounts 7.7 percent of GDP in 2024, 0.2 percentage points lower than in 2018. An increasing trend in place since 2021 calls for close monitoring. The Zambian central government wage bill reached K 53.5 billion in 2024, accounting for 34.9 percent of government revenues and 30.3 percent of expenditures. Despite a nominal increase of 144 percent between 2018 and 2024, in the same period the wage bill declined as a share of GDP (0.2 percentage points) and revenues (3.3 percentage points), while its incidence on expenditures increased (1.7 percentage points). Almost 70 percent of the 2018-24 nominal increase in wage bill occurred in the three latest years. Since 2021, the wage-bill-to-GDP ratio increased by 0.5 percentage points, while its incidence on revenue and expenditure increased by 2.5 and 7 percentage points respectively. In terms of composition, as of 2024 health and education account for 58 percent of the total wage bill. Compared to 2018, the share of wage bill allocated to education workers and "mainstream" services (e.g. functionaries) declined by over 5 percentage points cumulatively, compensated in part by increase in the allocation to the Ministry of Defense. Payments outside the payroll in gratuities, specific allowances and repayment of arrears averaged 6 percent of the wage bill between 2018 and 2024 (Figure 1).

2. In 2024, the central government wage bill is larger than in peer countries. The Zambian wage-bill-to-GDP ratio in 2024 exceeded by 1.2 percentage points the average for sub-Saharan Africa (SSA) and by 0.5 percentage points the average for SSA Middle Income countries (SSA-MI) (Figure 2). The Zambian wage bill exceeded those of peers also as share of revenues and as share of expenditures. In terms of revenues, differences amount to 1.7 and 4.1 percentage points compared to SSA and SSA-MI respectively. Differences in expenditures amounts to 2.4 and 3.5 percentage points. [2] The increase in wage bill in 2021-24 has exceeded the one of peers.

[1] The analysis uses data updated at the end of May 2025. At the time of writing, some data are still been checked by the authorities.

[2] The Zambian wage bill refers to central government while WEO data refer to general government. The analysis should hence be interpreted as a lower bound of the differences between the Zambian wage bill and that of peers.

Figure 1. Wage bill in percent of GDP, revenues and expenditures, years 2018-24

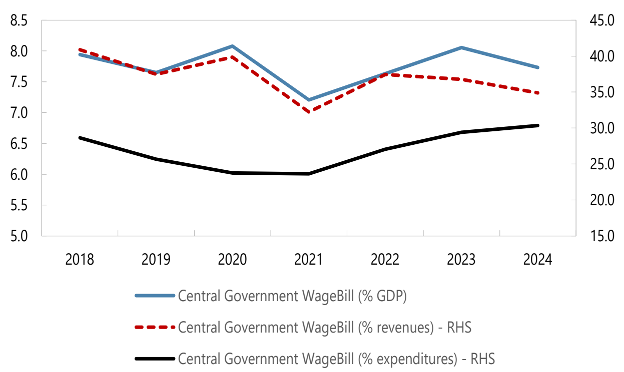
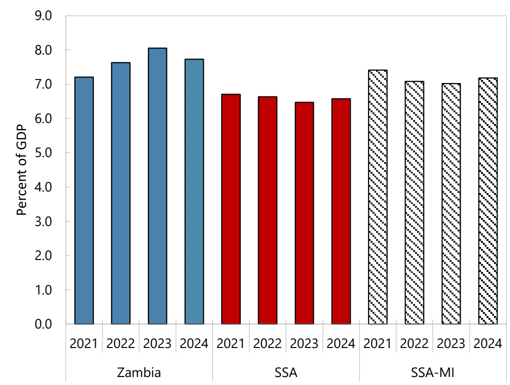


Figure 2. International comparison of wage-bill-to-GDP-ratio



Source: IMF Staff calculations using administrative data provided by the MoFNP and WEO (Oct 24)

B. Driving Changes in the Wage Bill

3. **Lack of data availability on the number of civil servants limits the analysis that follows to the PMEC payroll, the largest of the six payrolls which administer the Zambian central government wage bill.** The PMEC payroll accounts for 76 percent of the central government wage bill in 2024. It covers personnel employed in health, education, police and prisons, statutory and political employees, and "mainstream" civil servants, exceeding 300 thousand employees in 2024. The size of the payroll increased by more than 83 thousand employees between 2018 and 2024, more than 60 thousand of which concentrated in the years 2021-2024.

4. **A negative evolution of public wages, partly offset by an expansion in the size of the civil service, explains 2018-2024 changes wage-bill-to-GDP-ratio. Separate analyses for years 2018-2021 and 2021-2024 highlight opposite trends.** The PMEC wage-bill-to-GDP ratio is decomposed in the role of average public wage as a share of per capita GDP, and the role of employment as a share of the total population. PMEC wage bill declined from 5.3 to 4.1 times the per capita GDP between 2018 and 2024. PMEC employment as a share of population increased by almost 0.2 percentage points, exceeding 1.4 percent in 2024 (Figure 3). The decomposition shows a negative role of wages in the evolution of the wage bill. Out of a decline in the PMEC wage-bill-to-GDP-ratio of 0.6 percentage points, wages contributed with a negative effect of 1.6 percentage points, while increase in employment contributed with a 1 percentage points increase (Figure 4). Separate analyses of the periods 2018-21 and 2021-24 highlight a decline of the PMEC wage-bill-over-GDP-ratio by 1.5 percentage points in the earlier period, driven by a decline in the wage component, and a 0.9 increase afterwards, driven by the employment component (Figures 5 and 6).

Figure 3. PMEC wage bill, average wage and employment, 2018-24

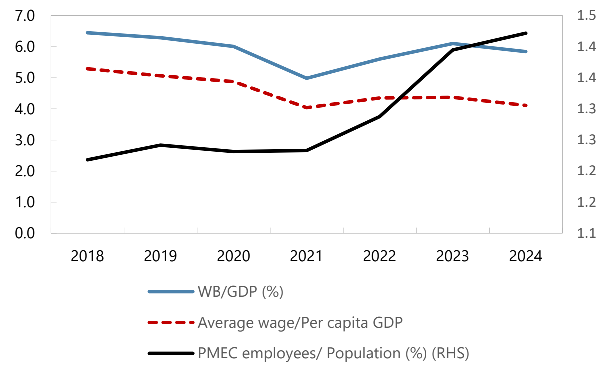


Figure 4. Decomposition of changes in wage bill, 2018-24

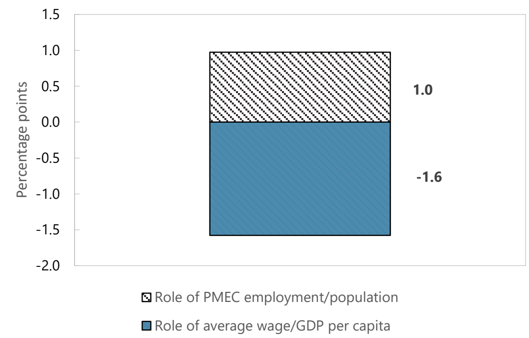


Figure 5. Decomposition of changes in wage bill, 2018-21

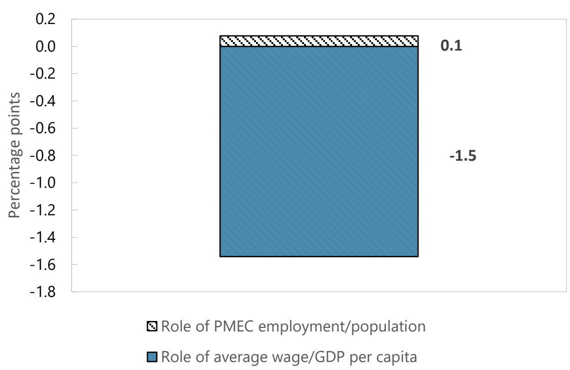


Figure 6. Decomposition of changes in wage bill, 2021-24

Source: IMF Staff calculations using administrative data provided by the MoFNP and WEO (Oct 24)

C. Analysis of the Wage Premia

5. Empirical evidence suggests the presence of a significant public sector wage premium. Data from the 2021 Labor Force Survey (LFS) highlights the presence of a positive premium in favor of public employees. Estimates indicate a premium of 55 percent if central government workers are compared to all other workers in the formal sector, accounting for differences in gender, age and education. The gap increases to 65 percent for general government employees (i.e., including local government employees) and it reaches 95 percent for public sector workers, including employees of the SOE. The wage premium is particularly large among workers with secondary education, ranging from 120 percent for central government employees to 179 percent for public sector employees. Gaps are significantly smaller for civil servants holding a university diploma and are negative both at the bottom and at the top of the education distribution, with the exception of public sector employees with primary education (Figures 7 and 8).

Figure 7: Wage premium, by type of civil service

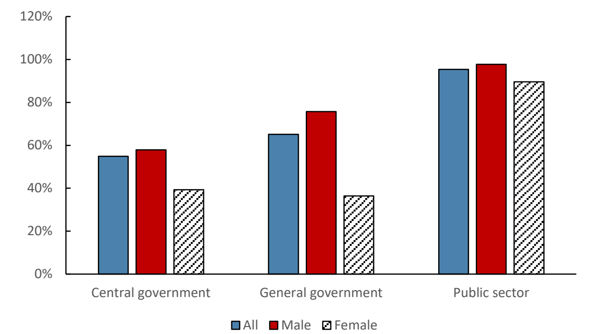
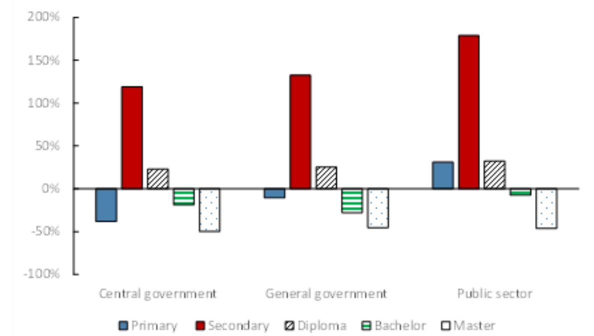


Figure 8: Wage premium, by type of civil service and education



Source: IMF Staff calculations using the 2021 Labor Force Survey

D. Conclusion

6. The Zambian wage bill as share of GDP is lower in 2024 than it was 2018, but an increasing trend is in place since 2021. The country wage bill is larger than that of its peers. In the years 2018-2021, a decline in public wages to per capita GDP ratio contributed to a decline of the wage-bill-to-GDP-ratio. In 2021-2024, the growth of average wages exceeded slightly that of per capita GDP growth, while increases in the size of the civil service drew the increase of the wage-bill-to-GDP-ratio. An analysis of the 2021 LFS data highlights the presence of a public wage premium which is particularly large for employees with secondary education.

7. The recent trend calls for a closer monitoring. Merits to compensate public employees for the losses in purchasing power should be carefully calibrated to prevent further increases in the wage bill, limiting workforce increases. The establishment of a centralized registry of all the civil servants, maintained at the Ministry of Finance, would facilitate a more efficient management of the size of the civil service. Additional efficiency gains could be achieved by addressing the significant wage premium in favor of middle-skilled civil servants and public sector workers. Measures in this sense would not only reduce the wage bill but also contribute to a more efficient allocation of labor and ultimately contribute to the development of the private sector.

Annex V. External Sector Assessment

Overall Assessment: *Zambia's external position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies. The current account deficit narrowed from 3 percent of GDP in 2023 to 2.6 percent in 2024, supported by higher grants, and increased tourism receipts. Stronger copper and gold exports were offset by higher electricity and oil imports, leaving the trade surplus broadly stable at 5 percent of GDP. Given Zambia's large negative net international investment position (NIIP) current account norm should remain positive.*

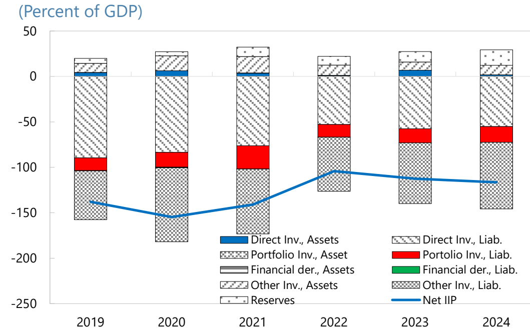
As indicated by the C rating in the Data Adequacy Assessment (Anex VIII), external sector statistics has some shortcomings and would benefit from improved granularity and better consistency between the Balance of Payments and the International Investment Position, and improved accuracy of estimates for direct investment and deposits of Other sectors. Addressing the sizable errors and omissions will also be important.

Potential Policy Responses: *The authorities should continue to implement policies aligned with the ECF-supported arrangement. Strengthening the fiscal balance, attracting FDI, and diversifying exports, including by increasing the value-added component, would help ease pressure on the external balance. Broader structural reforms to improve governance and sustainable growth are essential to enhance resilience to external shocks. Additionally, the authorities should continue building foreign reserves in line with the ECF-program targets, actively advance with the implementation of the debt restructuring, and manage rollover risks over 2025-26.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Despite the ongoing debt-restructuring, Zambia's NIIP deteriorated in 2024, declining to -116 percent of GDP by end-2024 from -112 percent of GDP at end-2023 (-136 percent of GDP on average over 2018-21), driven primarily by lower nominal GDP, as foreign assets increased, and foreign liabilities fell slightly in US dollar terms. In relative terms, foreign assets increased to 29 percent of GDP (from 27 percent at end-2023) and were mainly composed of the BoZ's reserve assets and overseas deposits held by resident mining companies. Foreign liabilities, meanwhile, rose by 6 percentage points of GDP from end-2023 to 146 percent of GDP at end-2024, entirely due to higher external public debt (IMF program and concessional multilateral financing), while FDI liabilities declined modestly.

Figure 1. International Investment Position
(Percent of GDP)



Sources: Bank of Zambia and IMF staff calculations

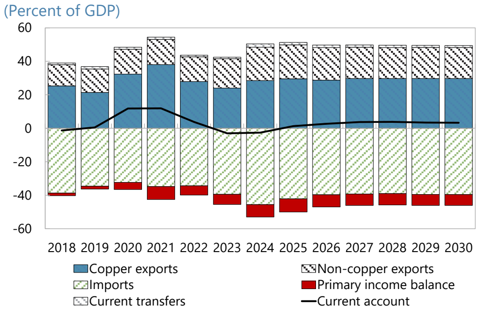
Assessment. The deterioration in Zambia's NIIP since 2023, despite the debt restructuring, poses a significant risk to external sustainability and underscores the need for continued policy adjustment. Over the medium term, the fiscal consolidation efforts envisioned under the ECF arrangement, the successful conclusion of debt restructuring, along with an increase in mining exports and gradual easing of import pressures as power supply normalizes, are expected to support a reduction in foreign liabilities, an

accumulation of foreign reserves, and a stabilization of the NIIP at around -55 to -60 percent of (the median value for low-income countries).					
2024 (% GDP)	NIIP: -116	Gross Assets: 29	Debt Assets: 2	Gross Liabilities: 146	Debt Liabilities: 96

Current Account

Background. The current account deficit is estimated to have narrowed to 2.6 percent of GDP in 2024 from 3 percent in 2023. This improvement primarily reflects increased grants inflows from multilaterals, and stronger tourism receipts. Gains from stronger copper and gold exports in the second half of the year were offset by a surge in electricity and oil imports amid power shortages, leaving the goods trade surplus at 5 percent of GDP. Over the medium term, the deficit recorded over 2023-24 is projected to shift into a surplus averaging 3.5 percent of GDP over 2027-30. This reflects an anticipated reduction in electricity and oil imports as power supply improves, increased copper export from additional investments in the mining sector, and lower debt service following debt restructuring.

Figure 2. Zambia: Components of Current Account
(Percent of GDP)



Sources: Bank of Zambia and IMF staff calculations

Assessment. The EBA-lite methodology estimates a current account norm for Zambia at -5.6 percent of GDP. After adjusting the cyclically adjusted current account deficit to reflect the temporary decline in copper production due to drought-induced power shortages (0.4 percent of GDP), the current account gap is estimated at 2.5 percent of GDP, substantially stronger than the level implied by fundamentals. Considering the contrast between this assessment and Zambia's large negative NIIP, staff adjusted the norm upward to a current account balance level consistent with achieving an NIIP target of -55 percent of GDP (close to the 2023 median level for low-income countries) over the next four to five years. Following this adjustment, the current account gap is recalculated to -3.7 percent of GDP. Consequently, the external position is assessed as weaker than what fundamentals and desirable policies would imply.

Annex V. Table 1. Zambia: EBA-lite Model Results, 2024 (in percent of GDP)

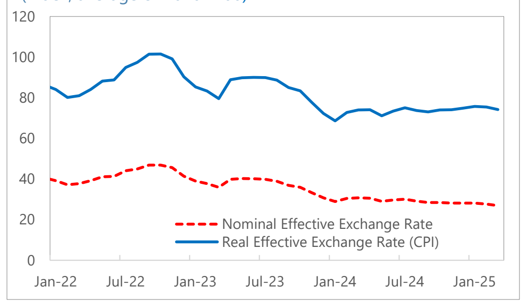
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-2.6**	
Cyclical contributions (from model) (-)	0.9	
Additional temporary/statistical factors (-) 2/	-0.4	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-3.1**	
CA Norm (from model) 3/	**-5.6**	
Adjustments to the norm (+)	6.2	
Adjusted CA Norm	**0.6**	
CA Gap	**-3.7**	**7.9**
o/w Relative policy gap	1.7	
Elasticity	-0.3	
REER Gap (in percent)	**12.9**	**-27.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of shock to copper production due to drought induced power shortages
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. While the average NEER depreciated by 21.5 percent in 2024, the average REER depreciated less, by 13.3 percent, partly offset by higher domestic inflation. The nominal depreciation primarily reflected kwacha weakening due to energy shortages, heightened import demand, and elevated inflation—most notably in the early months. As nominal kwacha weakening eased towards the end of the year, supported by a gradual recovery in mining exports and increased FDI inflows into the mining sector, and as domestic inflation continued to rise, the REER began to appreciate. Effective exchange rate data for Q1 2025 indicate a 5.9 percent nominal depreciation and a 2.6 percent real appreciation relative to the 2024 average.

Figure 3. Zambia: Exchange Rates
(Index, average of 2010=100)



Assessment. The EBA-lite REER model estimates suggest a REER gap of -27.7 percent with a corresponding current account gap of 7.9 percent. This indicates an external position that is substantially stronger than the level implied by fundamentals. Yet, this contrasts with Zambia's large negative NIIP. In line with previous reports, staff continue to place greater emphasis on stock indicators in the overall assessment.

Capital and Financial Accounts: Flows and Policy Measures

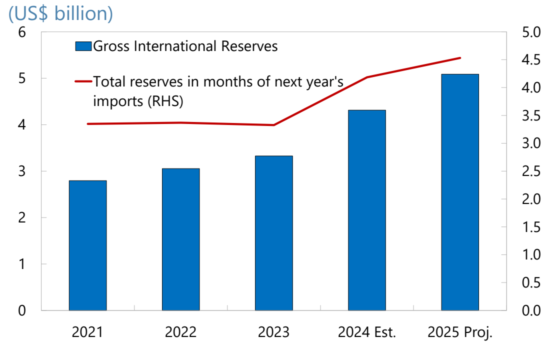
Background. Excluding a one-off private debt transaction recorded in 2024H1, Zambia's capital and financial account inflows were largely supported by higher net FDI into the mining sector, which rose to 3.8 percent of GDP (up from 1.8 percent last year). Portfolio inflows were marginally negative, reflecting the ongoing debt restructuring and limited access to foreign capital markets. Public debt disbursements increased to 1.6 percent of GDP (up from 1.2 percent in 2023), driven by new multilateral financing and greater participation of foreign bondholders in the secondary market.

Assessment. Since Zambia remains excluded from international capital markets due to the ongoing debt restructuring, a meaningful return of portfolio investment inflows is unlikely before 2026 or 2027. The authorities should closely monitor the public debt repayment profile, and conduct timely debt liability management operations, including related to non-resident bondholders of local currency debt. With FDI projected to remain the primary source of private sector financing over 2025-2026, maintaining predictable fiscal and tax policies, alongside governance and broad macro-structural reforms to support private sector development, will be essential to mitigate risks to FDI inflow.

FX Intervention and Reserves Level

Background. The Bank of Zambia's gross reserves increased to $4.3 billion at end-2024 (equivalent to 4.2 months of prospective imports), up from $3.3 billion at 2023 (3.3 months of imports). This increase was supported by multilateral disbursements (including concessional debt) and higher FX statutory reserve requirements. The higher-than-projected increase in imports in 2024H2 kept the reserve coverage ratio below the 4.5 months projected in the Fourth Review. To ease FX pressures and address the FX demand backlog, the BoZ net sold $970 million. The BoZ continues to maintain a managed float exchange rate policy. Gross international reserves rose by almost $400 million from end-2024 to $4.7 billion at end-May—equivalent of 4.2 months of projected 2026 imports of goods and services. To support the currency, the BoZ sold $393.5 million through early June, on a net basis—around ⅓ less than in the same period of 2024.

Figure 4. Zambia: Gross International Reserves
(US$ billion)



Sources: BoZ, IMF Staff calculations

Assessment. At 4.2 months of prospective imports, Zambia's level of reserves is assessed to be above the adequacy threshold commonly applied to low-income countries (3 months of import coverage). It also exceeds the optimal level of 3 to 4 months of imports implied by a cost-benefit analysis of holding reserves, based on the framework for resource rich and credit-constrained economies.[2] However, considering the large negative NIIP, projected sustained energy imports over 2025, heightened financing risks over 2025-26, and Zambia's sensitivity to commodity price volatility, further reserve accumulation toward the five months of imports remains recommended. This will require a combination of growth-friendly fiscal consolidation, a gradual reduction in net FX sales, and continued structural reforms, supported by sustained multilateral disbursements.

[2] For details, refer to the IMF "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations"

Annex VI. Strengthening Labor-Market Productivity to Support Growth and Structural Transformation in Zambia [1]

1. Declining labor productivity and limited employment growth, especially in high-productivity sectors, are major obstacles to Zambia's growth and structural transformation. Labor productivity in agriculture, the largest sector for employment, has declined by nearly 50 percent over the past two decades. At the same time, formal job creation, especially in higher-productivity sectors, has not kept pace with a rapidly growing youth population that remains largely unemployed or trapped in informal work. Widespread informality already affects over 80 percent of workers, limiting their access to training, finance, and social protection. Employment opportunities are primarily concentrated in urban centers, leaving secondary towns and rural areas underutilized despite their potential for high growth and job creation in agribusiness, tourism, and mining (hereafter: *Priority sectors*). [2]

2. Labor productivity and employment growth in the formal sector are hindered by skill mismatches, underinvestment in technical education, and fragmented labor market institutions. Priority sectors face persistent shortages of mid- to high-level technicians due to the prevalence of long, low-return, craft-level vocational training programs that are often misaligned with market demand. Although education spending increased from 10 to 15 percent of the budget in the last two years, funding for Technical Education, Vocational and Entrepreneurship Training (TEVET) remains insufficient. Existing training programs within the TEVET system need to be reoriented toward modular, short-term formats that allow informal and self-employed workers to upskill without exiting income-generating activities. There is also a disconnect between TEVET training providers and labor market needs, leading to many secondary school graduates lacking foundational skills and tertiary graduates occupying low-skill service jobs. Additionally, weak labor market information systems and poor coordination among institutions further undermine information sharing and the effectiveness of employment initiatives and job matching. [3]

3. Decisive and coordinated policy actions are essential to address critical skill gaps, support informal workers, and expand inclusive employment, while enhancing labor market efficiency to sustain growth and structural transformation while safeguarding fiscal space. These actions (Table 1), anchored in demand-driven skills development, are pivotal for improving labor market outcomes. However, with limited prospects for near-term formal wage employment, expanded support for entrepreneurship and self-employment must also be viewed as critical pathways for youth livelihoods. Supportive measures include expanding credit guarantee schemes,

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[1] Prepared by Tiffany Munoz-Zegarra (SPR), with thanks to colleagues in RES, the World Bank Group, and the International Labor Organization for helpful discussions.

[2] Based on World Bank (2024), *Zambia Country Economic Memorandum;* World Bank (2023), *Promoting Skills Development for Youth in Zambia*; ILOSTAT country profile (n.d.); and IFC (2024), *Zambia Country Private Sector Diagnostic*.

[3] World Bank (2023), *Promoting Skills Development for Youth in Zambia*; and Al-Samarrai, S., Woldetsadik, G., & Simumba, J. (2024), "Bridging the Financing Gap: Achieving Education for All in Zambia." *World Bank Blogs*.

group lending models, and mobile money platforms to reach informal businesses without collateral, while also providing incubation support, financial literacy, and digital tools through the TEVET system. Strengthening TEVET, promoting work-based learning and apprenticeships, strengthening labor market institutions and secondary education, and scaling up active labor market policies, alongside targeted incentives for job creation, such as firm-level matching grants or hiring subsidies to offset training costs, can further facilitate skills development, improve job matching, and contribute to employment and economic growth. [4]

Annex IV: Table 1. Labor Market Reform Priorities to Support Structural Transformation

Objective	Key Recommendations
Strengthen Technical and Vocational Training (TEVET)	Increase TEVET's share of the education budget. Link TEVET Fund disbursements to job placement. Expand scholarships for low-income students and redirect merit-based aid to earlier education levels. Encourage co-contributions from higher-skill technician trainees by expanding student loan programs. Promote private sector participation, including by redirecting training levies to TEVET institutions. Introduce short, modular, stackable courses (3-6 months) to enable informal and self-employed workers to upskill without exiting current work. Scale modular programs in mining, agribusiness, tourism, and green energy. Invest in digital and remote TEVET delivery.
Expand Work-Based Learning and Apprenticeships	Update the Apprenticeship Act with the Work-Based Learning Bill (2022). Offer firm-level grants to offset costs and increase employer participation and link provider payments to job outcomes. Pilot dual-training programs in priority sectors. Co-design curricula with employers.
Strengthen Labor Market Institutions and Matching Infrastructure	Launch the National Vacancy & Skills Observatory. Integrate job services into digital Job Hubs. Improve data collection and surveys across labor force and firms Publish dashboards on vacancies and wages. Scale up school-based career counseling. Use tracer surveys to track employment outcomes.
Reform Secondary and Post-Secondary Education Pathways	Introduce vocational tracks in more upper-secondary schools. Scale second-chance and bridging programs. Expand short courses, certifications, hybrid models, and flexible learning options.
Scale Active Labor Market Programs (ALMPs) and Entrepreneurship Support	Provide internships, skills training, and job search assistance for youth. Link e-wallet subsidies to verified participation in training or employment. Support youth entrepreneurship through expanded credit-guarantee schemes, group-lending models, and mobile-money platforms, complemented by mentorship, incubation, and market-access services. Introduce green jobs training in key sectors.

[4] World Bank (2023), *Promoting Skills Development for Youth in Zambia*.

Annex VII. Capacity Development in Zambia FY22-26

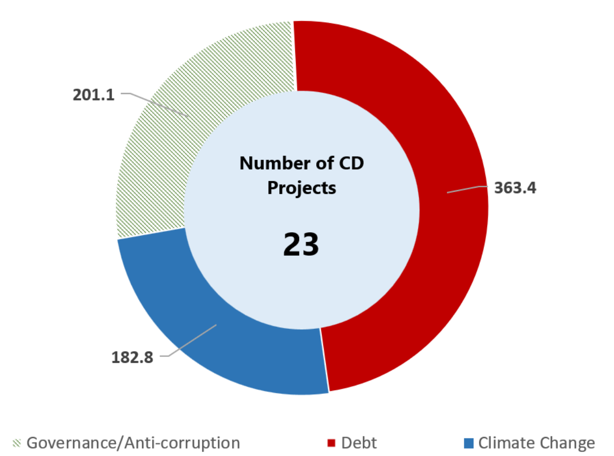
1. **The Fund's capacity development (CD) strategy for Zambia is anchored on the key objectives of the ECF-supported arrangement.** CD in Zambia is strongly supported by experts based at AFRITAC South, and closely coordinated with key development partners, including GIZ and USAID. It covers a comprehensive range of areas, notably in public financial management, monetary policy operations, financial supervision, debt management, and governance reforms.

2. **Authorities value the technical assistance provided by the IMF.** Key accomplishments of past delivered Capacity development include the successful implementation of monetary policy frameworks, and notably the integration of the Forecasting and Policy Analysis System into monetary decision-making, which strengthened policy effectiveness and transparency. Critical capacity has also been built through workshops and the adoption of strategic plans in areas such as debt sustainability analysis, the establishment of a Debt management office, public financial management, and liquidity risk regulations consistent with Basel II/III standards.

3. **During FY26-28, CD priorities will focus on debt issues, governance and climate change, with 23 projects in the pipeline.** CD to improve cash management and fiscal reporting and deepen fiscal risk analysis will continue. An FSSR will help anchor CD needs on financial sector reforms to strengthen financial regulation and supervision. Zambia is a pilot for the integrated fiscal CD strategy, which would help define a multipronged strategy for capacity development. Strengthening capacity to address climate risks and vulnerabilities in the coming year will help build economic resilience. CD on national accounts will culminate with the launch of the rebased national accounts by June 2026.

Priority Areas and Number of Projects, FY25-26

(in thousands of US$)

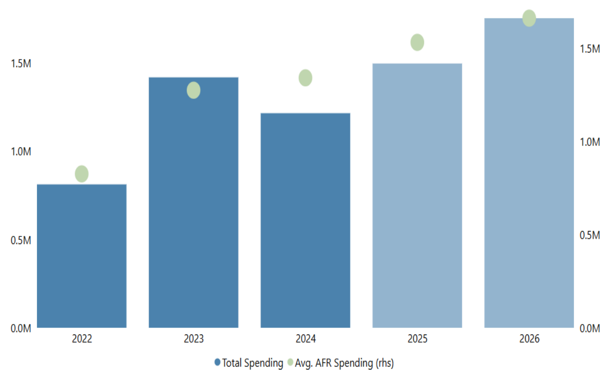


Sources: AFR Customized Capacity Development Dashboard.

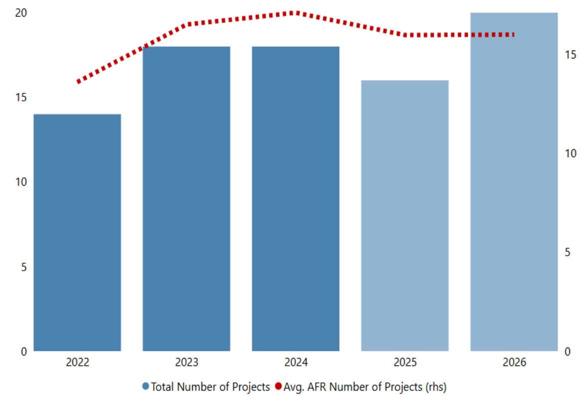
Zambia: Capacity Development Priorities	
Priorities	**Objectives**
Public Financial Management	Strengthening fiscal risk management, enhancing public investment management, wage bill management, and cash management.
External Sector Statistics	Improving Balance of Payments and International Investment Position statistics through training and methodological enhancements.
Tax Policy and Revenue Administration	Enhancing revenue mobilization through VAT reforms, customs administration improvements, implementation of e-invoicing, and comprehensive tax policy reviews. Support on customs and tax administration through enhanced data matching capabilities and strengthened intelligence functions.
Real Sector Statistics	Improving accuracy and timeliness of National Accounts, Price Statistics, and Producer Price Index (PPI) data.
Monetary and Macroprudential Policy	Strengthening monetary policy implementation, enhancing the Forecasting and Policy Analysis System (FPAS), FX intervention methodologies, and cyber risk supervision.
Macro-Fiscal Policy	Building capacity in macro-fiscal forecasting, debt sustainability analysis, and improving fiscal frameworks at sub-national levels.
Financial Supervision and Regulation	Implementing Basel II/III regulatory frameworks, enhancing cyber risk supervision, and financial stability monitoring.
Debt Management	Strengthening debt sustainability analysis capabilities and improving frameworks for effective public debt management.
Governance	Improving legal frameworks on anti-corruption, asset recovery, beneficial ownership transparency, and public sector governance through diagnostic assessments and follow-up actions.
Crisis management and resolution	Building an effective legal and operational framework for managing financial crises and resolving banks.

Figure 1. Capacity Development in Zambia

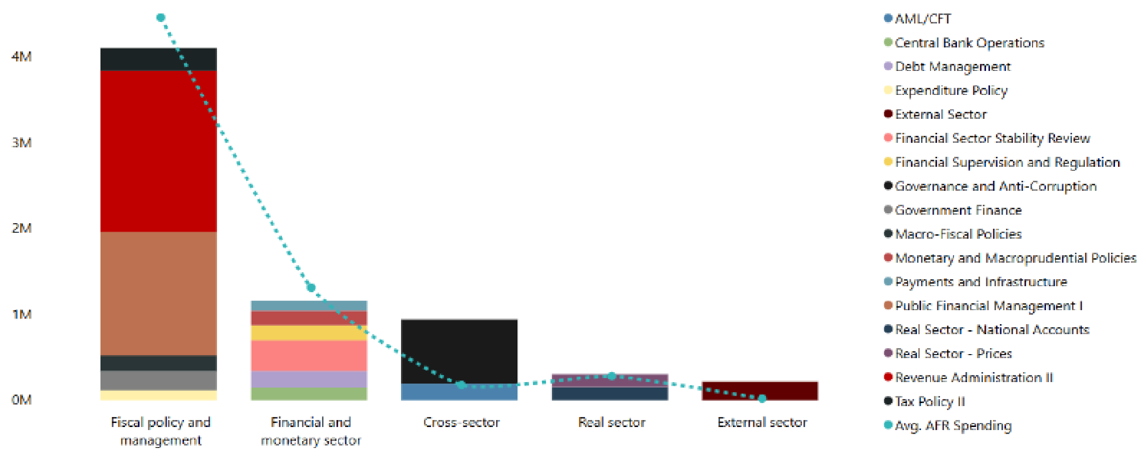
CD Spending
(USD)



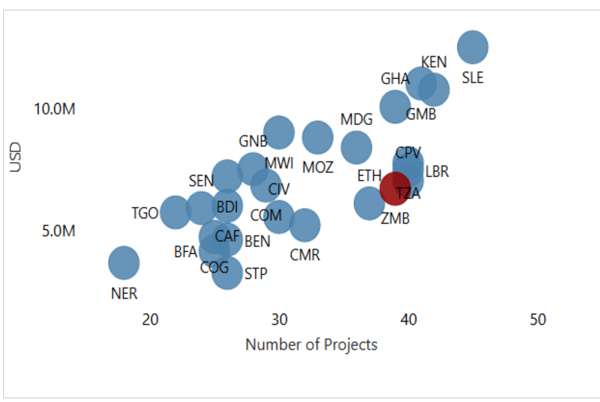
Number of CD Projects



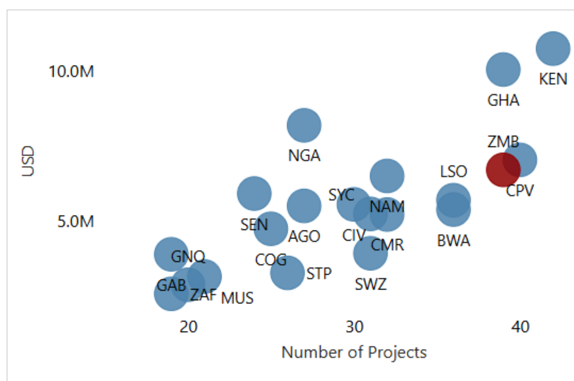
CD Spending by Sector and Workstreams



CD Spending and Number of Projects by AFR ECF Countries



CD Spending and Number of Projects by AFR MIC Countries



Source: AFR Customized Capacity Development Dashboard.
Notes: 1) Includes projects in "Approval", "Execution", and "Complete" stages and Single CD Country. 2) Sector was defined by CD departments, each CD workstream was categorized into Economic and Financial Topic. 3) Current FY and onward data is projection and subject to change. 4) Priority Area weighted spending is calculated by multiplying activity costs with the Priority Area weights. Because not all weights add up to 100 yet in the CDMAP system, the numbers on this page do not necessarily reflect actual/planned total spending but a share.

Annex VIII. Data Adequacy Assessment

Table 1. Zambia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	C	B	C	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	A	B	B		
Granularity 3/	C		B	C	A		
			B		A		
Consistency			C	C		C	
Frequency and Timeliness	A	A	A	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. : While data collection and dissemination have shortcomings, they remain broadly adequate for surveillance. Data are generally shared with the country team in a timely manner, though gaps in coverage and granularity persist. National accounts rebasing is long overdue, and CPI weights and basket are outdated. GFS cover only the budgetary central government, with limited data on extrabudgetary funds and local governments. Reconciliation of above and below the line transactions remains challenging, also due to existence of multiple government accounts. Debt transparency has improved, but more detailed arrears and external debt data would strengthen fiscal analysis. External sector statistics would benefit from improved granularity and better consistency between the balance of payments (BoP) and the international investment position (IIP), as well as the accuracy of estimates for direct investment and deposits of Other sectors (including other financial corporations, nonfinancial corporations, and households) with nonresidents. Moreover, the presence of large errors and omissions continues to indicate significant data gaps in capturing cross-boarder transactions.

Changes since the last Article IV consultation. The Fund has provided technical assistance (TA) to support national accounts rebasing and improve the quality of price statistics. TA has also been provided to enhance GFS, strengthen public sector debt data, and improve external sector statistics. Some improvements have been observed, particularly in external sector statistics, following the 2023 TA missions and the implementation of the BOP tracking system. The National Statistics Office is working on upgrading the national accounts, with the forthcoming rebasing aimed at updating the GDP base year, which currently remains 2010. Work is also underway to expand the national accounts on the expenditure side. In the area of price statistics, the CPI is still based on household expenditure weights from 2002, and efforts are ongoing to update the CPI basket and weights to better reflect current consumption patterns.

Corrective actions and capacity development priorities. Zambia's GDP base year is 2010, CPI weights are based on 2002 household expenditure survey data, and significant discrepancy exists between monetary and government debt statistics. Key priorities include completing the rebasing of the national accounts in a timely manner, expanding institutional coverage of GFS, and further improving the BoP statistics. Ensuring data consistency is also critical to enhance surveillance.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Household and firm-level survey data are sparse and outdated, limiting the ability to monitor social indicators—including poverty and inequality—as well as industrial dynamics. Labor force survey data are also subject to significant delays, hindering timely analysis of employment trends. More detailed disaggregation of primary income component within the current account would improve monitoring and risk analysis.

Table 2. Zambia: Data Standards Initiatives

Zambia participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since June 2016.

Table 3. Zambia: Table of Common Indicators Required for Surveillance

As of June 13th, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data 6/	Frequency of Reporting 6/	Expected Frequency 6/,7/	Zambia8/	Expected Timeliness 6/,7/	Zambia 8/
Exchange Rates	9-Jun-25	9-Jun-25	D	D	D	D	...	N/A
International Reserve Assets and Reserve Liabilities of the Monetary Authorities1/	May-25	Jun-25	D	W	M	M	1M	2M
Reserve/Base Money	Mar-25	May-25	M	M	M	M	2M	7D
Broad Money	Jan-25	Apr-25	M	M	M	M	1Q	7D
Central Bank Balance Sheet	Mar-25	May-25	M	M	M	M	2M	7D
Consolidated Balance Sheet of the Banking System	Jan-25	Apr-25	M	M	M	M	1Q	7D
Interest Rates2/	23-May-25	30-May-25	W	W	M	W	...	5WD
Consumer Price Index	May-25	May-25	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing3/–General Government4/	N/A	N/A	N/A	N/A	A	A	3Q	12M
Revenue, Expenditure, Balance and Composition of Financing3/–Central Government	Mar-25	Apr-25	M	M	Q	M	1Q	2W
Stocks of Central Government and Central Government-Guaranteed Debt5/	Dec-24	Apr-25	Q	Q	Q	A	2Q	1M
External Current Account Balance	Sep-24	Jan-25	Q	Q	Q	A	1Q	3M
Exports and Imports of Goods and Services	Sep-24	Jan-25	Q	Q	M	M	12W	1M
GDP/GNP	Dec-24	Apr-25	Q	Q	Q	A	1Q	9M
Gross External Debt	Dec-24	Apr-25	Q	Q	Q	...	2Q	...
International Investment Position	Dec-24	May-25	Q	Q	A	A	3Q	3Q

1/ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

7/ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

8/ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Appendix I. Letter of Intent

June 30, 2025
Lusaka, Zambia

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431
United States of America

Dear Madam Managing Director,

1. **Despite the severe drought, the Zambian economy proved more resilient than anticipated, with early signs of recovery emerging on the back of improved rainfall, strong copper output, and easing food shortages.** Improved rainfall in early 2025 began to ease food shortages and replenish water levels. Copper output, which accounts for over 70 percent of export earnings, is also showing signs of recovery. As a result, GDP growth is expected to rebound to around 5.8 percent in 2025, supported by the recovery in agriculture and energy, robust copper production, and continued strong economic performance in the services sector.

2. **We remained committed to entrenching fiscal prudence, macroeconomic stability, and debt sustainability, supported by the Extended Credit Facility arrangement.** We reached a higher-than-targeted primary fiscal surplus (cash basis) of 2.9 percent by end-2024 due to tighter domestic financing conditions and expenditure containment. Inflation fell to 15.3 percent in May, from a peak of 16.8 percent in February, amid early signs of easing price pressures supported by lower food and oil prices and past tightening of monetary policy. In May, the Bank of Zambia (BoZ) maintained the policy rate at 14.5 percent, while remaining vigilant to risks. In 2024, the current account deficit narrowed, mainly driven by increased grants and tourism receipts while the financial account improved due to increased foreign direct investment inflows. We exceeded our end-December 2024 Net International Reserve target but we were not able to observe the March 2025 indicative NIR target due to due to higher-than-expected FX demand.

3. **We have made significant progress on implementing a debt treatment plan aligned with IMF program parameters and achieving comparability of treatment as defined by the Official Creditor Committee.** Agreements in principle have now been reached with 94 percent of the creditors within the restructuring perimeter. Implementation is advancing, with some bilateral agreements being signed. Substantive progress has also been made to formalize agreements in principle with commercial private creditors.

4. **We have made good progress in implementing policies that safeguard macroeconomic stability, address Zambia's economic and social priorities, and strengthen governance.** All end-December 2024 quantitative performance criteria (QPCs) and indicative targets (ITs) under the ECF arrangement were met. However, we were not able to observe three end-March 2025 ITs—on non-

mining tax revenues, the clearance of expenditure arrears, and reserve accumulation. Of the 14 structural benchmarks (SBs) relevant for this review, six were met, including publication of the tax expenditure report, debt bulletins, and revised open-access tender procedures. Four SBs were completed with delays, including enactment of the 2016 Public Audit Act and publication of procurement information. As more time was required for consultations with relevant stakeholders, we are requesting new deadlines for four outstanding SBs—on the Anti-Corruption Act, Banking and Financial Services Act, deposit insurance framework, and the Debt Management Office's procedures manual to allow for completion at the next review. Meanwhile, demonstrating our commitment to complete this review, we are also working towards amending the 2025 Budget in line with program commitments (prior action).

5. **We request the completion of the fifth review under the ECF arrangement and of the financing assurances review.** The completion of the fifth review would allow for a disbursement of SDR 139.88 million, half for budget support. The remainder of the program, concluding in October 2025, will continue to be based on end-September ITs, on continuous performance criteria, and on structural benchmarks consistent with our reform agenda. The QPCs and ITs are detailed in Tables 1-2 of the Memorandum of Economic and Financial Policies (MEFP) and in the Technical Memorandum of Understanding (TMU).

6. **The attached Memorandum of Economic and Financial Policies (MEFP) sets out our objectives and commitments under the ECF arrangement.** We will assess progress in continued consultation with the IMF staff and stand ready to take action to achieve program objectives. We reiterate our commitment to consult with the IMF staff prior to adopting any revisions to the policies set forth in this Letter of Intent (LOI) and the MEFP, in accordance with the Fund's policies on such consultation. As stated in the TMU, we will provide all data and information required to assess the policies and measures implemented. Furthermore, we reaffirm our commitment to restoring compliance with the obligations of Article VIII of the Fund's Articles of Agreement. Underscoring our commitment to transparency, we consent to the publication of this LOI, the MEFP, the TMU, and the staff report on the Fifth review, upon approval by the IMF Executive Board.

Yours sincerely,

/s/	/s/
Hon. Dr. Situmbeko Musokotwane, MP Minister of Finance and National Planning **Republic of Zambia**	Dr. Denny H. Kalyalya Governor, Bank of Zambia **Republic of Zambia**

Attachments:

I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

I. CONTEXT

1. Since the approval of the Fourth Review under the Extended Credit Facility (ECF) arrangement in December 2024, the Zambian economy has been recovering from last year's severe drought. Improved rainfall has helped rebuild water levels, and the upcoming agricultural harvest is expected to rebound significantly. This memorandum updates the MEFP attached to the Fourth Review of the program supported by the ECF arrangement approved by the IMF's Executive Board on December 16, 2024.

2. We remain committed to our reform agenda underpinned by the ECF-supported arrangement. Despite the multiplicity of shocks, including the drought in 2024, we continue to take decisive steps to maintain macroeconomic stability, enhance social spending, restore fiscal discipline and debt sustainability, contain inflationary pressures, and facilitate higher and more inclusive growth. We will continue to implement prudent macroeconomic policies and structural reforms to promote sustainable development and strengthen economic resilience.

II. RECENT ECONOMIC DEVELOPMENTS

3. Preliminary real GDP growth reached 4 percent in 2024, reflecting greater resilience to the drought than initially envisaged.

- **Real GDP growth reached 4 percent in 2024, as economic activity rebounded strongly in 2024Q4.** Preliminary data for 2024Q4 showed robust expansions in information and communication, mining, agriculture, and transportation, resulting in year-on-year growth of 8.6 percent, despite ongoing weakness in electricity generation. For the year as a whole, the growth was supported by information and communication, mining, construction and financial services, which helped offset contractions in electricity generation (–29 percent y/y), agriculture (–9.2 percent y/y), and administrative services.

- **Inflationary pressures persisted throughout 2024, driven by rising food prices and the depreciation of the kwacha.** In 2024, the kwacha depreciated by 21.5 percent and 13.3 percent in nominal and real effective terms, respectively. Inflation averaged 15.0 percent, ending the year at 16.7 percent y/y. More recently, headline inflation eased to 15.3 percent y/y in May, after peaking at 16.8 percent y/y in February, as food inflation decelerated to 17.9 percent y/y from 20.6 percent in February. Non-food inflation eased only marginally, to 11.6 percent y/y in May from 11.7 percent in February. The Monetary Policy Committee raised its policy rate by another 50 basis points (bps) to 14.5 percent in February aiming to anchor inflation expectations, following a 50-bps increase in November 2024. In May the Monetary Policy Rate was maintained at 14.5 percent, with inflation then projected to be significantly lower than at the February MPC on account of the bumper maize harvest and projected decline in crude oil prices.

- **According to preliminary data, the 2024 current account deficit narrowed to 2.6 percent of GDP, down from 3 percent of GDP in 2023.** Relative to the small surplus projected at the time of the Fourth Review, the deficit was due to higher-than-projected imports of petroleum products and electricity related to the drought. Higher copper and gold exports partially offset higher imports, leaving the trade surplus broadly unchanged compared to 2023 at around 5 percent of GDP. The financial account was supported by increased FDI inflows underpinned largely by debt transactions. Gross international reserves reached US$4.3 billion at end-2024, equivalent to 4.2 months of prospective imports. By end-May 2025, gross reserves increased further to US$4.7 billion.

- **Public debt at end-2024.** The stock of public and publicly guaranteed (PPG) external debt on a contractual basis stood at US$21.4 billion at end-2024, up from US$21.3 billion at end-2023. The debt stock reflects the impact of the Eurobond exchange haircut and a principal repayment of about US$336.3 million on the restructured bond. The increase was mainly driven by: (i) about US$1.35 billion in new foreign-currency disbursements to the central government, primarily from the IMF and World Bank; and (ii) the accumulation of about US$1.05 billion in interest arrears on foreign-currency denominated central government debt. Nonresident holdings of domestic-currency debt—classified as part of external PPG debt—declined in U.S. dollar terms from US$2.2 billion at end-2023 to US$2.1 billion at end-2024, reflecting exchange rate depreciation and primary market purchase limits. Fuel arrears to non-resident suppliers and ZESCO's arrears to external Independent Power Producers, (IPPs) declined slightly. As a result, external PPG debt rose by about US$118 million over the year. On the domestic side, outstanding government securities declined to K 229.4 billion (33.6 percent of GDP) at end-2024, from K 232 billion (42 percent of GDP) at end-2023.

- **Public debt arrears increased only on claims within the debt restructuring perimeter.** Public and publicly guaranteed external debt arrears (principal and interest) on external PPG debt amounted to US$5.1 billion as of March 2025, increasing by US$0.3 billion since end-2024. There has been no accumulation of external supplier and contractor arrears, nor arrears on ZESCO other external payables (IPPs), relative to end-2024. Expenditure arrears have decreased to K 80.8 billion as of end- 2024 from K 97.8 billion at end-2023, driven by lower electricity sector arrears. Other budgetary arrears have increased mostly due to the FISP (by K 4.4 billion).

- **Delays in mobilizing financing for the fuel arrears liability management operation in 2024 resulted in a partial payment.** In 2024, the Government settled US$103 million in fuel arrears, of which US$26 million was financed through a domestic loan, with the remaining US$78 million paid from own revenues. Since then, we have advanced on the liability management operation to clear costly fuel arrears in 2025.

- **Debt restructuring continues to advance.** We have reached agreements in principle covering 94 percent of the debt under the perimeter of the debt restructuring. We continue to engage in good faith with the remaining commercial creditors to secure agreements in line with program parameters and the comparability of treatment as defined by the Official Creditor Committee (OCC). We are also progressing toward signing agreements with bilateral creditors and expect completion by 2025Q3. Zambia's weighted average sovereign spread stood at 505 bps as of June 9, 2025, after it spiked to 1,055 bps on April 7, 2025 partly due to global trade tensions that triggered risk aversion in emerging-market investors.

- **Liquidity conditions have eased**. While net financing was negative in the first half of 2024, appetite for Government securities improved in 2024H2, with average subscription rates above 100 percent, bringing the annual net domestic financing to 0.7 percent of GDP—down from 3.3 percent of GDP projected at the time of the Fourth Review. Domestic government security issuances in 2025Q1 mobilized 48 percent of the 2025 borrowing plan. The interbank interest rate remains contained around the policy rate while yield rates on Government securities declined due to strong investor appetite. The weighted average yield rate on Government bonds declined to 17.8 percent at end-April 2025 from 21.3 percent at end-December 2024. However, the weighted average yield rate for Treasury bills marginally increased to 13.5 percent from 13 percent over the same period. Private sector credit growth slowed in 2024, driven by reduced economic activity due to the drought. In constant exchange rate terms, private sector credit grew by 9.0 percent in 2024, compared with 17.8 percent in 2023. The statutory reserve ratio on both kwacha and foreign currency deposits remains unchanged at 26 percent.

- **The financial sector remained stable as of end-2024.** The total regulatory capital adequacy ratio rose to 24.4 percent at end-2024, up from 23.5 percent at end-2023. Asset quality also remained satisfactory, with the non-performing loans (NPLs) ratio of 4.1 percent at end-2024 (4.2 percent at end-2023). The NPL ratio improved further to 3.6 percent as at end-2025Q1. Provisions also remained above 90 percent of total non-performing loans during 2024. There are, however, vulnerabilities in the financial system related to the electricity supply deficit, low financial intermediation, elevated share of foreign-currency denominated loans and maturity mismatches. The emerging global policy uncertainty and escalation in the global trade war also have some potential to undermine the stability of the financial system.

III. OUTLOOK AND RISKS

4. The 2025 outlook remains positive with a slightly lower growth trajectory. The prolonged effects of reduced electricity generation and a weaker global economic outlook are expected to weigh marginally on the economy. Real GDP growth is projected at 5.8 percent in 2025—compared to 6.2 percent at the time of the Fourth Review—driven by expanding mining output and a recovery in agriculture. Inflation peaked in February 2025 at 16.8 percent and began to decline, reaching 15.3 percent in May. It is projected to continue easing, closing the year at an average of around 14.0 percent in 2025, supported by lower food and fuel prices. The current account is expected to record a small surplus in 2025, mainly driven by increasing exports underpinned by the mining sector. However, relative to the Fourth Review, the current account surplus has narrowed due to higher-than-projected energy imports. Gross reserves are projected at 4.5 months of prospective imports by end-2025.

5. Medium-term growth prospects remain positive, supported by the dissipation of the drought, rising mining production, prudent macroeconomic policies, and the benefits of ongoing structural reforms. Growth is projected to average 5.5 percent over 2026-31, driven by continued expansions in the mining and services sectors. Supported by sustained growth in mining exports as investments come to realizations, alongside a decline in energy-related imports, the current account surplus is projected to increase to 3.5 percent of GDP over 2027-30. Gross international reserves are expected to stabilize at 5 months of prospective imports, benefiting from the improved external balance.

6. The medium-term outlook is subject to significant downside risks. Commodity price volatility, along with a global slowdown in trade, could lead to external and fiscal imbalances, undermining investment and growth prospects. Heightened geopolitical conflicts pose risks to global supply chains and heightens the risk of inflationary shocks (due to higher food and energy prices), and may disrupt trade, worsening food security. Domestically, risks include subdued mining production, climate-related shocks, and rising social discontent, all of which could weaken the recovery and stall reform momentum. Delays in finalizing the debt restructuring could intensify financing pressures and dampen investor confidence. Delays in pledged investments, including in the mining sector, could weigh on growth prospects. On the upside, completion of the debt restructuring and resurgence in mining investment could bolster confidence and support growth.

IV. MACROECONOMIC POLICIES

A. Fiscal Policy

7. We exceeded the end-2024 target on the primary fiscal balance (cash basis) by a wide margin as tight domestic borrowing led to lower primary spending. The end-2024 primary fiscal balance reached K 20.2 billion against an adjusted target of K 8.3 billion (quantitative performance criterion, QPC). We continued to mobilize additional non-mining revenues, which reached K 131 billion at end-2024, above the indicative target (IT) of K 119 billion. Despite the sharp contraction in spending (1.9 percent of GDP compared to 2023), we protected social spending which reached K 53.8 billion, above the end-December 2024 IT (K 50 billion). We cleared expenditure arrears (K 8.5 billion) above the IT floor (K 4.8 billion) and we exceeded our target for clearing VAT refunds (clearing K 11.6 billion of the pre-2024 arrears stock against a target of K 4.4 billion). However, due to ongoing audits, the end-2024 stock increased to K 17.7 billion (from K 16.4 billion at end-2023). Expenditure arrears amounted to K 80.8 billion at end-2024, down from K 97.8 billion at end-2023. The primary balance (commitment basis) reached 4.3 percent of GDP in 2024, against the 2.5 percent of GDP projected at the time of the Fourth Review. More specifically in 2024:

- **Capital expenditure** was scaled down to 2.1 percent of GDP from the projected 2.9 percent of GDP at the time of the Fourth Review due to lower-than-projected disbursements for foreign financed projects (0.7 percent of GDP) and cuts on domestically financed investment (0.1 percent of GDP).

- **Primary spending**. Primary spending declined to 19.2 percent of GDP in 2024, from 21.3 percent of GDP in 2023. We delayed new hirings, reduced intragovernmental transfers and other operational spending, all amounting to K 5.9 billion (0.8 percent of GDP).

- **Arrears repayment.** The Liability Management Operation (LMO) to repay fuel arrears could not be completed in 2024, as our efforts to secure an uncollateralized domestic FX loan took more time to finalize. We have advanced discussions with local banks and plan to conclude this operation in 2025. We continued to clear expenditure and VAT refund arrears, but the end-2024 stock increased due to new audits. Despite our efforts to not generate new arrears, financing constrains led to new arrears in the FISP program (K 5 billion) that will be cleared in 2025. We will also refrain from generating new external arrears (**continuous QPC**).

- **Subsidies**. In response to the drought, we doubled the budget allocation to the Food Reserve Agency in 2024 to K 3.2 billion to allow for maize imports and— despite program commitments—to cover for a small subsidy on the maize price that was not adjusted fully to cost recovery. We also provided a $30 million subsidy to ZESCO for electricity imports.

- **Financing:** We received US$1,346 million in external financing from cooperating partners of which US$701 million was for budget support. We managed to secure K 4.7 billion in net domestic financing, below the K 16 billion envisaged in the 2024 Budget, due to tight liquidity conditions in the domestic market in 2024H1. We continue to abstain from central bank net credit to the government (QPC) and continue respecting the ceilings on disbursements of contracted but undisbursed external debt and on the present value of new external borrowing (ITs). However, we contracted $57.9 million in new non-concessional external debt in 2024Q4, against the zero ceiling on the contracting or guaranteeing of new non-concessional external debt (QPC).

8. We have adjusted the government-to-government contract with Tanzania and continue implementing reforms to enhance the transparency.

- Given the better-than-envisaged agriculture harvest in 2024, we revised the government-to-government contract to reduce the amount to MT195,000 of maize. FRA has used the imported maize to rebuild the reserve stock. In addition, FRA mopped about MT15,300 of maize to further build the reserve stock at US$350/MT. While the contracts were awarded in June and July 2024, we published with a slight delay in October 2024 all procurement contracts for maize imports as well as contracts for logistics with summary information, including beneficiary ownership, on the websites of FRA and DMMU as contracts are allocated **(continuous SB)**.

- To support transparency and accountability, we are committed to publish an audit report by the Controller of Internal Audit that provides details about the government response to the drought detailing price and services rendered for all FRA and Government activities (procurement and logistics contracts, storage, and distribution), and DMMU procurement contracts **(end-September 2025 SB).**

- We will publish FRA's 2024 audited financial statements by end-September 2025 (**end-September 2025 SB)**.

9. We remain committed to fiscal consolidation in 2025. We project the primary surplus (cash basis) to reach K 9.3 billion (1.1 percent of GDP) in 2025, below the K 14.2 billion (1.9 percent of GDP) envisaged at the time of the Fourth Review as this includes the repayment of the fuel arrears (1.3 percent of GDP). The overall deficit will widen to 5.3 percent of GDP, 1.9 percent of GDP higher with respect to the Fourth Review, to also account for additional interest payments (by 0.7 percent of GDP). To this end, we are committed to an end-June 2025 primary balance (cash basis) of K 7.6 billion (QPC) and an end-September 2025 primary balance (cash basis) of K 6.4 billion (IT). On a commitment basis, the overall balance is expected to improve by 3.1 percent of GDP in 2022-25.

10. We will revise the 2025 budget to accommodate new spending and to reflect the fuel repayment operation in line with program commitments (prior action). With respect to the Fourth Review, additional spending needs of 2.6 percent of GDP (including the fuel repayment operation) will be accommodated through additional revenues 1 percent of GDP, and spending reallocations of 1.1 percent of GDP, and an increase in domestic borrowing of K 4.0 billion (0.5 percent of GDP).

- Additional revenue measures (amounting to ½ percent of GDP in 2025) include halving exemptions on imports of manufacturing inputs in 2025 (revoking them fully in 2026 onwards), doubling the surcharge on imports of domestically produced goods (to 10 percent), increasing excise duties on alcoholic beverages, sugar and sugary drinks, revoking tax exemptions on wheat, and increasing the withholding tax on interest payments of government securities, from 15 to 20 percent.

- Some of the key additional expenditure items that will be reflected in the 2025 revised budget are (i) clearance of 2024 arrears (1 percent of GDP, of which FISP is 0.7 percent of GDP); (ii) higher interest spending (mostly related with the resumed payment of restructured external debt and higher domestic borrowing in 2024Q4 whose interest was not factored in 2025 budget) (iii) upscaled health spending to compensate the USAID downsizing (0.2 percent of GDP), and (iv) increasing the Social Cash Transfer value by 100 percent compared to the pre-drought value (0.1 percent of GDP).

- The reallocation will come from lowering spending for (i) use of goods and services (1.1 percent of GDP); (ii) investment (by 0.1 percent of GDP) and (iii) other transfers, including the transfer for the Food Reserve Agency (by 0.1 percent of GDP).

- We stand ready to adopt additional revenue measures if revenues do not materialize as expected. We will also consult with IMF staff on any changes to our fiscal commitments and commit to using any additional revenues, for arrears repayment or VAT refunds in a rule-based and transparent manner. In addition, we will submit a draft 2026 Budget to Parliament consistent with program parameters (**proposed end-September 2025 SB**).

11. The Government is committed to revamping the fiscal framework to better account for the mining wealth. The Government remains committed to improving fiscal policy formulation. As a resource-rich country, Zambia's fiscal policy is usually procyclical, with mining revenues being prone to volatility due to global commodity prices. An improved management of the resource wealth requires careful calibration of the fiscal policy, with a new fiscal rule and a sovereign wealth fund (SWF) playing an integral part of the fiscal policy framework. The SWF will help stabilize spending during downturns and support inter-generational equity. To align with international best practice and ensure robust fiscal governance, the SWF will be part of the fiscal framework and anchored within the Ministry of Finance to enable integration with public financial management systems, support sound macro-fiscal planning, and ensure that resource revenues are managed transparently, efficiently, and in line with national development priorities. To this end, the authorities have requested IMF capacity development to improve the fiscal framework.

B. Fiscal Structural Reforms

Mobilizing Revenues

12. We will increase domestic revenues to sustain our spending for development. This objective will be achieved by strengthening tax policies and leveraging technology to enhance tax administration and improve tax compliance.

- **Tax Policy**. In 2024, we refrained from introducing new tax expenditures, except for custom duties on maize imports. In 2025, we progressed toward the harmonization of the corporate income tax rates across sectors by increasing from 15 to 20 percent the tax rates applied to sectors "Export of non-traditional products" and "value addition to copper cathodes". Excises applied to tobacco and tobacco products, secondhand motor vehicles and fuels have been indexed to inflation. An Advance Income Tax (AIT) at the rate of 15 percent has been applied on remittances and exports above US$2,000 made through a commercial bank by an account holder without a valid Tax Clearance Certificate. A detailed report on tax expenditures, covering the prior fiscal year, was published in December 2024 (**end-December 2024 SB**). Following our request to the Fund, a diagnostic assessment of Zambia's tax system—mainly covering income tax, value added tax, and excise tax—was produced. We will leverage the recommendations to support our efforts for a wide-ranging reform of the tax system to actualize fiscal objectives in the short to medium term.

- **Tax Administration.** To enhance domestic revenue mobilization and compliance, the Zambia Revenue Authority (ZRA) is modernizing its internal organization and expanding data analytics. The new operating model includes:

    - **Smart invoicing system.** Since January 2025, penalties are enforced in the event of non-compliance on the use of the Smart Invoice System (SIS). Further, effective January 1, 2025, input VAT deductions are restricted to transactions with invoices issued through the SIS, except for exempted invoices envisaged by the Act. As of April 2025, 17,830 out of 20,000

VAT registered business are using SIS; and 17 thousand non-VAT registered business are voluntarily using the SIS.

- **Compliance and corporate risk management (CRM).** A formal governance structure is in place, including a steering committee to provide oversight into all CRM initiatives. As the function matures, it will report onto the Audit and Risk Committee of the ZRA Board. A compliance risk management unit (CRMU) is currently being created and placed under the department of data analytics. We plan to make the CMRU operational—which means starting to conduct audits based on the inputs of the risk unit— by 2025Q2 **(end-June 2025 SB).** ZRA has also commenced working on establishing a Domestic Taxes Risk Management Unit to work closely with the CRMU. A dedicated data quality unit has also been established under the same department covering data integrity. As part of the second phase of the BIDA project, ZRA is developing a compliance risk management tool that integrates third-party data to provide a comprehensive 360-degree view of taxpayer transactions. Following the Road Traffic and Safety Agency (eZAMTIS) and the Patents and Companies Registration Agency (PACRA System). The interface with the Ministry of Lands and Natural Resources (ZILAS) was launched in 2024, with full data validation rules, targeted for completion by end-Q2 2025. Final integration is expected by end-December 2025. Major planned interfaces include the Bank of Zambia (eBoP) in 2025Q2 and the Ministry of Finance and National Planning (IFMIS) in 2025Q3. By 2025Q4, interfaces with the Zambia Public Procurement Authority and the Zambia Information Communication Technology Authority are also scheduled. Internally, work on the Smart Invoice and MOSES systems is progressing. The MOSES connection to BIDA is complete, and report development is ongoing. We have started capturing Gemstones in the MOSES including emerald, aquamarine, beryl, and other precious minerals. We will continue to capture other Gemstones and Industrial Minerals, which will require an upgrade of the system expected to be completed by December 2026

- **Customs-to-customs electronic data exchange.** The system interfaces with the Namibia Revenue Agency will be completed by end-September 2025. For Phase II, we plan to align the implementation to WCO standards such as incorporating the unique consignment reference (UCR) and also integrating the data being exchanged with customs declaration processes**.** ZRA is working on custom-to-custom interfaces with Tanzania and the DRC.

- **VAT refunds.** The pace of VAT refunds has increased from K 1.7 billion to K 2 billion per month since February 2025. The refunds could increase to K 2.5 billion per month depending on revenue performance. Where an overlap exists, we allow for offsetting legacy refund claims with tax debt. To speed up the process, we will implement risk-based audits and prioritize audits of high-risk claims by 2025Q4.

Enhancing Expenditure Efficiency

13. We will calibrate spending while protecting social spending and continue strengthening public finance management. Public expenditure will remain transparent and accountable, to improve efficiency and channel resources to programs and projects that have a direct impact on the lives of the Zambian people.

14. We will continue to target social spending. The revised 2025 budget envisages increasing social spending to a floor of K60 billion, including continued interventions in response to the drought. To support free education policy, we will hire 2,000 teachers in 2025, improving the teacher-pupil ratio at primary to an average of 1:44 in 2025 from 1:54 in 2022, while for secondary to an average of 1:33 from 1:45 in 2022. We plan to hire over 2,000 additional education workers in 2026. In 2025, 2,000 more health workers will be recruited, and we plan to hire over 2,000 frontline health personnel in 2026, bringing the total to over 20 thousand additional health workers since the mass recruitment started in 2022.

- *Social Cash Transfer*. We spent K8.3 billion on social and emergency cash transfers in 2024. The drought-related emergency cash transfer (ECT) will expire in June 2025, as planned. However, we plan to maintain the transfer value of the social cash transfer for regular beneficiaries at K400 per month, raising the program budget to K 9.8 billion.
- *School feeding program*. In 2025, we will expand the program to an additional 36 districts severely affected by the drought, reaching all 106 districts.
- *Cash-for-work (CFW) program*. The CFW program in 2024 (K0.7 billion) provided temporal income to vulnerable individuals in exchange for cash wages (K 600 per month). The CFW will continue till December 2025 within the original adopted budget of K2.0 billion. Targeting of beneficiaries will be strengthened through the establishment of a consolidated of the social register with the assistance of the World Bank by end December 2025.
- *Humanitarian support*. The Disaster Management and Mitigation Unit (DMMU) has coordinated the humanitarian in-kind support to provide food in remote areas, distributing MT41 thousands of maize as of January 2025. No further distribution has been made since February 2025.

15. We continue to implement the e-Voucher system. Total spending under the program in 2025 is expected to increase by 0.7 percent of GDP due to the settlement of arrears from the 2024/2025 farming season. Thus, the overall spending for FISP in 2025 is expected to close at 1.9 percent of GDP. Going forward we will maintain expenditure under the program at 1.1 percent of GDP.

- For the 2024/2025 farming season, 74 districts migrated to the e-voucher with flexible inputs and 42 districts on direct input supply (**end-September 2024 SB**). All districts will be under the e-voucher system during the 2025-26 season,
- During the 2024/25 season, the E-Voucher database in ZIAMIS underwent a significant clean-up. Approximately 212,000 ineligible beneficiaries were removed and replaced with 200,000 better-targeted farmers. ZIAMIS enhancements, including upgraded online payment functionality and

audit trail systems, were completed by end-2024. The independent audit of the 2024 e-voucher rollout will be completed by end-September 2025 (**end-September 2025 SB)**, following full input redemption.

- The Government published summary information on all procurement contracts related to FISP, including beneficial ownership on the Ministry of Agriculture website (**continuous SB**). The contracts for both seeds and fertilizers awarded in June-July 2024 were published with beneficial ownership information except for one company on October 2. As all districts move to the e-voucher, the MoA will not procure direct inputs in the 2025/2026 farming season.

Improving Public Financial Management

16. We will continue to dismantle expenditure arrears in line with our arrears clearance strategy. We have started to repay some of the high-cost fuel arrears to secure NPV savings. This uncollateralized liability management operation is being financed domestically, and its ensuing debt service will be within the budget envelope for arrear clearance.

17. Commitment control system. The transition for provincial and district offices of the Ministry of Health and the rollout to the Ministry of Livestock and Fisheries will start in 2025Q3. We have partially uploaded arrears before 2024 due to insufficient documentation. A verification exercise will be undertaken for arrears accrued before 2024 by end-2025. The amount of arrears recorded in the system amounted to K2.9 billion for 2024. The recording of multi-year commitments in the IFMIS did not commence in January 2025 as planned due to coordination issues, this will be corrected by end November 2025. Navision has been adopted as the Public Finance Management System for all local authorities. A cost benefit analysis will be undertaken to determine the optimal solution to deploy to Local Authorities (LAs) between off the shelf and Open-Source Software Systems, in line with the restructured disbursement linked indicators under the Zambia Devolution Support Program. We envisage that 90 percent of the Local Authorities will produce their Financial Statements in 2026 based on the Uniform Standard Financial Management system. The remaining 10 percent will produce their financial statements using the Unified System in 2027.

18. We remain committed to stepping up efforts to strengthen the public investment management (PIM) and the public-private partnerships (PPPs). Despite being planned for 2024, efforts are ongoing to record in the IFMIS project module investment projects included in the 2025 Budget to facilitate monitoring, including by producing in-year monitoring reports. This is now expected to be finalized in 2026. We have abided by the commitment of not signing new PPP until the approval of the regulatory framework. An IMF Public Investment Management Assessment (PIMA), which incorporates the climate module, took place in October 2024. Following the mission's recommendations, we completed prioritizing public investment projects. GIZ offered technical assistance to prepare manuals and appraisal criteria to prioritize climate projects and with the tagging of climate investment into the budget. The Road Sector Investment Program III (ROADSIP III) through the Road Development Agency (RDA) has been developed and awaits Cabinet approval by August 2025.

19. Improved Cash Management. Despite plans to finalize a survey of government accounts in commercial banks by end-June 2024, we are still receiving information from commercial banks on the survey to ascertain the number of bank accounts held by MPAs. As of end-March 2025, about 2,120 bank accounts in commercial banks have been closed. The daily monitoring of the sweeping arrangements with the BoZ and commercial banks is ongoing. The full operationalization of the Cash Management Unit is being implemented. With support from the IMF in January 2025, we implemented the cash flow forecasting for 2025 (**end-March 2025 SB**). Going forward, the forecasting will be updated with realizations rather than budget commitments by end September 2025.

Enhancing Fiscal Transparency and Reporting Fiscal Risks

20. Budget Execution and Financial Reports. The Government will continue publishing quarterly economic reviews on budget performance. The annual financial report will continue to be published. The Budget Execution Report, expanding on the performance on broad revenue and expenditure categories including social spending, will be produced by end-June 2025.

21. Fiscal risks. We will further expand the Fiscal Risk Statement in 2025, incorporating sensitivity analysis scenarios for the macro, quantifying the impact of those scenarios on fiscal variables, and including quantitative financial information about SOEs and signed PPPs to enhance the understanding of fiscal risks (**end-September 2025 SB**). The Fiscal Risk Management Framework which outlines the guiding principles and practices as well as the institutional arrangements for effective management of fiscal risks, including risks arising from SOEs and PPPs, was approved on April 30, 2025. A Fiscal Risk Unit, placed under the Economic Management Department, is being formalized, and expected to be fully operational by end September 2025.

22. State-Owned Enterprises (SOEs). We will publish the 2023-24 IDC's audited financial statements by end-September 2025. The MoFNP will sign performance contracts with 3 SOEs under direct control of the MoFNP by end-June 2025. The delay stemmed from conflicting legislation assigning oversight to line Ministries instead of the Ministry of Finance. For the remaining 7 SOEs the implementation will be done once the SOE Bill is enacted. With assistance from GIZ, we initiated a review of the performance contracts already signed with IDC, to improve future performance contracts. Based on the recently adopted State-Owned Enterprises policy, we are developing a new SOE Act in line with the SOE policy that will be submitted for Cabinet approval (**end-September 2025 SB**). In addition, to managing fiscal risk from SOEs, the Debt Policy and Strategy under the Debt Management Office will continue to conduct credit risk assessments on all public bodies that intend to borrow. By law, any public institution that intends to borrow requires MoFNP's approval. We conducted nine credit risk assessments, out of which eight entities passed the assessment.

Energy Reforms

23. Implementation of the open access to the TAZAMA pipeline has proven challenging, and we are working on setting the conditions for its success.

- The list of prequalified OMCs for the next 12 months—along with beneficial ownership details—was published on the Tazama and Ministry of Energy websites on May 5.
- The first delivery under the open access framework was initially scheduled for April 1, 2025. However, challenges with storage capacity due to previous March delivery and berthing issues delayed offloading of the delivery. Consequently, we have not been able to implement the open access framework for the full capacity of the pipeline and a product swap had to be implemented to enable first sales under open access only on April 17, 2025 (**end-April 2025 SB**). As of end-May, all OMCs except for one, who were awarded tenders in April and May were able to deliver the allocated quantities through direct pumping and product swaps. The affected OMC had a delayed discharge as the Tanzanian Port Authority installed a bulk flow meter to better monitor equipment on infrastructure.
- An OMC was allowed to sell product during April 1-15, 2025, while awaiting the arrival of product under the open access framework. Despite our commitment to publish direct bidding contracts within one month, we published this contract on June 17, 2025 on the Ministry of Energy website (including volume, price, and beneficial ownership information).
- We have started publishing the results of TAZAMA open access tenders on the Ministry of Energy/Tazama websites within one month of contract award. Disclosed information includes the winning bidder (with price, type and quantities of inputs, total contract amounts and their beneficial owners), as well all unsuccessful bids (with price, type, and quantities of inputs) (**continuous SB**). Due to non-availability of beneficial ownership information at PACRA. TAZAMA now requests OMCs to submit their beneficial ownership information as part of their financial proposals.
- Between July and September 2025, the capacity under the open access will be reduced to MT70,000 to comply with a court order that grants MT35,000 to an OMC to fulfil previous commitments. The sale of all products transiting through the pipeline will match the lowest price on the open access winning bid for the delivery month.
- Emergency procurement will remain an exception, regulated under the open access guidelines. Any nominated OMC will undergo the standard procurement vetting process applied to all OMCs in open tenders. Going forward, there will be no discretionary award of tenders outside the open access framework.
- We commit to no longer grant waivers for the domestic sale of petroleum products outside of the ERB price and in foreign currency. Going forward, diesel imported through the pipeline will be sold by TAZAMA in local currency with domestic retail distribution being priority.
- Contrary to our previous plans, TAZAMA has just started collecting the extra compensation from legacy transportation cost differential for diesel imported through the pipeline between July 2024 and end-March 2025. As of mid-May 2025, we have collected US$0.6 thousand on the legacy debt to be remitted to the Treasury. The revised estimate for this compensation is US$56 million, down from the previously reported US$78 million. We will request all OMCs using the pipeline to pay or have agreed to a repayment schedule on the transportation fee differential by September 1, 2025. Any OMC that builds arrears with respect to the

transportation fee differential will be suspended from participating in future open access tenders.

- Since the implementation of the open access on April 1, 2025, we expect to collect about US$7.1 million per month based on a monthly average throughput of MT90,000. We will publish monthly revenues from the transport differential, including the remits to the Treasury, and monthly throughput volumes by the 15th of the following month on the TAZAMA and MoFNP websites.
- To enhance transparency, MOE/TAZAMA will publish nominations and uplifts from Ndola Fuel Terminal by OMCs monthly. TAZAMA will publish by 15th of the following month on the website, monthly offtake by each OMC including volume and use for the past month and intended uplift per customer category (Retail, Commercial, Mining) for the ongoing month.
- Export/removal in transit permits for fuel imported via the pipeline will only be granted transparently to offload excess fuel. We will introduce a new section under the amended open access guidelines to stipulate the triggers, process and procedures for issuing export/transit permits by end-August 2025. All export/removal in transit permits issued in a month will be published by 15th of the following month on the MOE/TAZAMA website, for each OMC with beneficial ownership and volume granted under each permit.

24. We have strengthened the monthly updates on domestic fuel prices to ensure full cost recovery.

- The Energy Regulatory Board (ERB) will keep publishing the retail and wholesale price structures simultaneously with the fuel price adjustments on a monthly basis (**continuous SB**).
- We issued the Statutory Instrument No. 77 on Energy Regulation (Petroleum Products Price Setting) Regulations on 3rd December 2024 to clearly define the process, formulas, and data sources that will guide the monthly price review of petroleum products. This will ensure cost recovery (plus margin) for Oil Marketing Companies (OMCs) while passing pipeline savings more effectively to consumers.
- The fuel price formula will continue to incorporate the BPS premium for all fuels (both road and pipeline). To enhance transparency, we have also developed detailed implementation guidelines that provide clear instructions for the fuel price formulation.

25. The emergency tariffs in November 2024 paused the application of the pre-approved multi-year tariffs for the period 2023-27. The multi-year tariffs approved in 2023, which aimed at restoring ZESCO financial viability by 2027, will not suffice to restore Zesco's financial viability. From November 2024, emergency tariffs have been implemented to face the emergency caused by the drought, though revenues from these tariffs remain below cost-recovery. Originally introduced for three months period, the emergency tariffs have been extended to end-July 2025. Before reintroduction of the multi-year tariffs, we commit to revise tariffs to take into account recent structural change in the market and lead Zesco to apply cost reflective tariffs by end-2026.

- ZESCO's total outstanding debt amounted to US$2.6 billion in March 2025, from US$2.1 billion at end-2022. On-lent loans from the Central Government amounted to US$384 million, US$207 million to commercial lenders and US$2.0 billion as Government guaranteed loans.
- To improve its balance sheet, ZESCO continues to negotiate the remaining IPP debt; mobilizing long-term domestic financing to repay IPP obligations; and to convert on-lent public loans to equity in close consultation with the MoFNP.

Restoring Debt Sustainability and Improving Debt Management and Transparency

26. The Government is advancing in restoring debt sustainability and reaching the objective of a return to "moderate" risk of debt distress over the medium term. We remain committed to refraining from contracting non-concessional debt (continuous PC) and limit new external borrowing and disbursements of contracted but undisbursed external debt to the central government and ZESCO (ITs). To bring Zambia's risk of debt distress to "moderate" over the medium term, we are advancing in seeking debt relief from our external creditors to bring the debt service-to-revenue ratio to 14 percent by 2025 and maintain it at this level (on average) during 2026-31, while bringing the PV of external PPG debt-to-exports ratio to 84 percent by 2027, a level consistent with our weak debt-carrying capacity and with providing "substantial space" to absorb shocks. Reforms to achieve higher economic growth will improve Zambia's revenue mobilization and debt carrying capacity.

27. We continue enhancing debt management and transparency. We will update the annual borrowing plan consistent with the 2025 Revised Budget, and will continue to publish, on a quarterly basis, the Debt Statistical Bulletin to cover external and domestic debt developments including loans contracted, new disbursements, information on guaranteed loans, non-guaranteed external State-Owned Enterprises (SOEs) debt, domestic and external arrears, and debt and any liabilities arising out of public private partnerships (**continuous end-quarter SB**). The 2025Q1 debt bulletin was published on the MoFNP website at end-May 2025. The Government of Zambia will continue to refrain from any payments on any external debt under the restructuring negotiation before a debt treatment agreement is reached on terms that are comparable with those provided by our official creditors.

28. We have established a Debt Management Office (DMO). The new DMO was operationalized in December 2024 with the appointment of key staff, including the Director of the DMO. However, the DMO is operating on a partial staff complement, with slightly over 50 percent of the staff establishment. To this end, we are working towards ensuring that the DMO has a full staff compliment by 2026. In the meantime, the DMO has continued to receive technical assistance in key debt management areas from institutions such as the IMF, World Bank and MEFMI. In this regard, the DMO has advanced the process of developing a Procedures Manual with the assistance of a GiZ Consultant. The DMO Procedures Manual was initially envisaged to be finalized by end Q1 2025 (**end-March 2025 SB**), however due to the longer than anticipated stakeholder engagements, the manual is now set to be finalized by end July 2026. To aid the new staff acclimatize to the changes introduced by new setup of the DMO, a GiZ consultant has been engaged to undertake a change management exercise which will run until end-2025.

29. We continue to strengthen the institutional framework for debt management. In undertaking the functions of the debt management office prescribed by the public debt management regulations issued in June 2024, we had technical assistance from the World Bank in May 2025 to enhance capacity in conducting credit risk assessments to assess the capacity of public bodies to borrow and to equip the DMO staff to develop a robust credit risk assessment framework.

30. The Government will continue to rely on issuing securities for domestic financing and aim at diversifying its domestic investor base. We will continue to issue the quarterly issuance calendar based on domestic financing conditions, investor appetite and cash management needs. As the non-resident holdings of domestic debt could put pressure on external debt sustainability, we limited the issuances of securities to non-residents in the primary market to 5 percent of the annual issuance of government bonds, with a nominal upper bound of K 1.56 billion in 2024. Similarly, we will limit the annual gross issuance to non-resident holdings to K 1.572 billion in 2025. When conditions allow, we will start reopening benchmark bonds to build liquidity. To provide stable financing to the government and support financial market development, we will further consolidate our efforts at developing the domestic bond market, with technical assistance support from the IMF.

Enhancing Monetary and Exchange Rate Policies

31. The Bank of Zambia (BoZ) remains committed to achieving price stability. As a result of the drought, inflation in 2024 rose mainly due to elevated higher food and fuel prices, elevated electricity tariffs and exchange rate depreciation. We expect inflation to decline in 2025, given positive crop harvest estimates and lower global fuel prices. Despite downside pressures, higher tariffs and heightened global uncertainty could weigh on inflation dynamics. The Monetary Policy Committee will continue to rely on a forward-looking monetary policy framework anchored on the policy rate as a key signal for the monetary policy stance and stands ready to use, when appropriate, all instruments at its disposal in pursuit of the set inflation objective. Decisions on the policy rate will continue to be guided by inflation outcomes, forecasts, and identified risks in bringing inflation back to the 6-8 percent target band by 2026.

32. We will continue to abide by the Monetary Policy Consultation Clause (MPCC) under the program. End-of-period inflation in 2024 reached 16.7 percent, within the inner consultation band. Should actual inflation be higher or lower than the inner consultation band of ±2 percent (Table 1), the BoZ will consult with IMF staff on the reasons for the deviation and the policies to return to target. Should actual inflation be higher or lower than the outer consultation band of ±3 percent (Table 1), a consultation with the IMF Board will be triggered.

33. The BoZ is consulting stakeholders to remove two multiple currency practices (MCPs). The MCPs arise from the use of a lagged official exchange rate (an average of commercial banks' exchange rates) to purchase U.S. dollars from mining companies for (i) mining tax payments to ZRA, calculated as the average mid-rate from the preceding months, and (ii) custom duty receipts to ZRA, calculated as the median of rates from any four leading commercial banks for the two weeks preceding the later of the date of importation, or the making of the first entry for those goods. The most recent impermissible spreads were observed for mining taxes and customs duties on May 23, 2025. Removal of the MCPs is envisaged in October-2025 and will require changes in the regulatory framework.

34. We will maintain a flexible exchange rate regime whilst mitigating excessive volatility. Our commitment to maintaining exchange rate flexibility is consistent with our aim of increasing international reserves. In this regard, mining companies will continue to sell U.S. dollars to BoZ to meet their tax obligations to ZRA and BoZ will continue to utilize these to build reserves. Further, BoZ will continue to support the FX market to mitigate undue volatility.

35. We revised the limit for negotiating the exchange rate in FX transactions to US$5 million in March 2025 to further consolidate transparency and price discovery. Since introducing these guidelines, all FX transactions up to US$5 million are now conducted at board rates that are firm and not indicative. As more FX transactions are taking place at banks' board rates, we have observed adjustments that are more reflective of FX flows than before.

36. The BoZ remains committed to building international reserves. Net International Reserves (NIR) stood at US$1,892 million at end-2024, exceeding the adjusted end-December 2024 NIR QPC (US$1,891 million). However, we missed the end-March 2025 NIR IT due to higher-than-expected FX demand. The central government will continue to transfer all FX-related budget support disbursements (loans and grants) to the BoZ to support reserve accumulation. As the economy continues to recover in 2025, we will maintain our efforts to accumulate reserves in line with the targets established during the Fourth Review (US$2,550 million by end-September 2025).

37. We are taking further steps to modernize the monetary policy operational framework.

- We will review the daily reserve compliance requirement with a view to moving to reserve averaging as conditions allow.
- The process of engaging banks to adopt the ISDA documentation was finalized at end-2024. So far, eight banks have signed the ISDA with BoZ, while agreements with five banks are undergoing internal review. In addition, the process to revise the Global Master Repurchase Agreement (GMRA) by all commercial banks has commenced and is earmarked for completion by the end of the third quarter of 2025. So far, four banks have submitted comments on the revised GMRA.
- Working with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), the Bank has started recalibrating parameters of the Quarterly Projection Model (QPM) to enhance forecasting and policy analysis. The exercise is expected to be completed by 2025Q2 after consideration by the Monetary Policy Committee. The delay in recalibrating the QPM parameters stemmed from scheduling constraints that affected the consultancy timeline,

resulting in completion after the February MPC, with follow-up discussions pending alignment of participants' availability.

C. Strengthening Financial Policies to Safeguard Financial Stability

38. The BoZ continues to strengthen its banking regulatory and supervisory framework.

- The Bank continues to publish its semi-annual Financial Stability Report (FSR). A third edition of the FSR was published in April 2025. The next macro stress test, conducted annually, is at a design stage and results will be published in the fourth edition of the FSR in October 2025.

- To strengthen the identification and analysis of financial stability risks and to help mitigate such risks, we have requested for a Financial Sector Stability Review, which will cover four key topics: (1) regulation and supervision of banks and deposit-taking non-banks (2) systemic risk analysis, analysis of the stress testing framework, and macroprudential frameworks (3) crisis management and resolution, and (4) financial markets infrastructure.

- On expanding the macro-prudential toolkit, we are undertaking several measures:

  - Issuance of the capital regulations which provide guidelines on how to deploy countercyclical capital and conservation buffers which should have been issued by end-October 2024 are expected to be issued by end-June 2025 following approval from the Business Regulatory Review Agency on April 10, 2025.

  - The liquidity coverage ratio (LCR) directives are also expected to be issued sometime in 2025. The LCR will, however, be implemented in a phased manner over a five-year period. The net stable funding ratio (NSFR) regulations will be issued and implemented by June 2026. In the meantime, the Bank has continued to conduct quarterly quantitative impact analysis to assess banks' preparedness to implement the liquidity regulations.

  - The Bank has continued implementing other macro-prudential tools in a gradual manner, including conducting macro stress tests to ascertain the resilience of the system. In addition to the stress test conducted by banks under the internal capital adequacy assessment process (ICAAP), the Bank continued to conduct micro-stress tests.

- To enhance cyber resilience, the Bank has, in addition to the four cyber on-site examinations conducted in 2023, conducted four more examinations as of end-December 2024. In 2025, the Bank conducted targeted inspections to address emerging issues and is following up on the implementation of recommendations made in previous examinations.

39. The BoZ is reviewing the legal and regulatory framework of the financial sector including the Banking and Financial Services Act, 2017 and the National Payment Systems Act,2007. With respect to the BFSA, the recommendations related to financial sector oversight from the IMF's Governance Diagnostic Assessment 2022 and IMF comments on Financial Sector

Assessment Program 2017 have been scoped in the review of the BFSA. For alignment with international standards based on these recommendations, the review of the BFSA will strengthen the legal framework for, amongst others, licensing, ownership changes, corporate governance, auditing, prudential requirements, consolidated supervision, for early intervention, enforcement, and resolution. Following consultations with various stakeholders including an IMF review of the draft bill, the BoZ is working on a revised draft, working closely with IMF staff to address the shortcomings identified on key aspects of the supervisory and resolution framework by end-June. The draft bill is now envisaged to be submitted to Parliament in 2025H2 **(end-March 2025 SB, proposed to be reset to end-September 2025 SB).** The draft National Payment Systems Bill has been submitted to the Ministry of Justice for legislative drafting.

40. The BoZ has taken steps to enhance deposit insurance framework. After establishing the Deposit Protection Fund (DPF) Unit in December 2023, the BoZ is now drafting the regulatory framework on a deposit protection scheme under the 2017 BFSA Section 132 (5) (including its coverage, form of depositor preference and funding). The BoZ will adopt the deposit insurance framework consistent with the Core Principles for Effective Deposit Insurance Systems (**end-April 2025 SB, proposed to be reset to end-September 2025 SB**).

41. To address the potential negative impact by the drought on the financial system, the BoZ has established the Stability and Resilience Facility (SRF) with an envelope of K 5 billion. The facility is available for one year and aims at facilitating affordable bank credit to viable businesses in the agricultural sector and those negatively impacted by the current electricity shortages. Credit under the SRF is provided to eligible Financial Services Providers (FSPs) at 100 bps and 300 bps below the policy rate, for conventional and green loans, respectively. The loans have a maximum maturity of up to seven years. As of end-May 2025, the BoZ has approved K 1.7 billion out of applications for K 4.8 billion.

42. We remain committed to facilitating access to affordable credit to micro, small and medium enterprises (MSMEs). For this purpose, Government has proposed an increased allocation to the Zambia Credit Guarantee Scheme to K 851.7 million in the 2025 Budget from K386 million in 2024. Separately, the BoZ, in collaboration with the National Advisory Board for Impact Investment, will launch the Small Business Growth Initiative (SBGI) establishing a K 5 billion credit guarantee facility, via a BoZ-owned special purpose vehicle under the oversight of the BoZ Board of Directors. The facility will allow banks to lend more to the MSME sector

43. The BoZ will enhance the role of the Kwacha in domestic transactions consistent with the provisions of the law. After finalizing consultations with stakeholders and, in consultation with the IMF staff, the BoZ will issue revised regulations on the use of the kwacha as the settlement currency in domestic transactions, to be effective in 2025.

44. The BoZ implemented a dedicated AML/CFT/CPF supervision unit at end-2023 to support its risk-based approach to AML/CFT/CPF supervision and the effective application of sanctions for failure to comply with ML/TF/PF preventative measures. In this regard, the BoZ participated in one joint examination of a large commercial bank in July 2024 and conducted a second examination on a small commercial bank in November 2024. Two new examinations are ongoing (due by end-June 2025) and two others are planned for 2025H2. In addition, the Financial Intelligence Centre has scaled up efforts to identify illicit funds, coordinating with ZRA on detection, and proceeding with flows freeze when identifying these in the banking sector. Going forward, we are seeking to establish limits on cash operations (up to k 300,000) as a means to constrain illicit flows.

45. The Attorney General will address one of the outstanding issues from the IMFs safeguards assessment with respect to BOZ's holdings of the Government securities. The Attorney General has been requested to provide clarity on the interpretation of (i) the statutory limit in Section 50 of the BoZ Act on the treatment of accrued interest, as well as securitized accrued interest; and (ii) whether rollovers of Government securities are, and under what terms, consistent with applicable laws and regulations, which is expected by end-June 2025 (**proposed end-July 2025 SB**).

D. Scaling Up Structural Reforms to Promote Higher and More Inclusive Growth

46. The Government will continue to promote growth through selective industrial strategies. More specifically,

- **Increasing productivity in agriculture.** Approved in March 2024, The Comprehensive Agriculture Transformation Support Program underpins the government's medium-term agricultural investment strategy. It emphasizes service delivery, irrigation expansion, value addition, and access to finance. Key investments focus on developing farm block infrastructure in Nansanga, Luena, Luswishi, and Shikabeta, incorporating climate-resilient technologies. The National Crop Diversification Strategy was also launched in September 2024, to promote agro-business and food security.

- **Reducing market distortion in agriculture.** The Food Reserve Agency Act is being revised to reduce market distortions and clarify the Agency's role in grain markets, with the aim of encouraging greater private sector participation. The revised Act will streamline the FRA's mandate to maintain the National Strategic Food Reserve at levels necessary for food security and emergency response, as determined by the Agricultural Marketing Council. It will require FRA to operate using market-based prices and define its role strictly as a buyer of last resort to avoid competing with the private sector. The Agricultural Marketing Act will establish the Agriculture Market Observatory as an independent provider of domestic and regional market data, and the AMC as a public-private body offering strategic guidance on FRA purchase targets, trade policy, and any market interventions. Meanwhile, the Agricultural Credit Act will be aligned with the Securities Act to ensure warehouse receipts can function as tradeable financial instruments, supporting commodity trade and enhancing FRA's market operations. We will submit to Parliament the Food Reserve Agency Act, Agricultural Marketing Act, and Agricultural

Credit Act consistent with the policy position papers and incorporating the principle of market-based pricing **(proposed end-September SB)**.

- **In the energy sector, the Government has focused on regulatory reforms and efforts to increase the electricity generation capacity.** The Electricity (Open Access) Regulations are now in effect, enabling independent power producers (IPPs) to access the national grid and sell electricity directly to consumers. Additionally, the Ministry of Energy has streamlined the approval process for solar projects, cutting the timeframe from over six months to just 48 hours, to expedite the addition of 1,000 MW of solar capacity by the end of 2025, including Chisamba (MW100), Choma (MW50), Kasama (MW100) and Kariba (MW100). Phase II of the 300 MW Maamba Thermal Plant, is expected to be completed by end-2025.

- **Expanding mining production.** The Minerals Regulation Commission is expected to centralize oversight of mineral resource development and management. The MRC will be tasked with streamlining licensing processes, enhancing compliance monitoring, and promoting transparency within the sector. To this effect, the Minerals Regulation Commission Act No. 14 of 2024 was assented to law on December 20, 2024. The Minerals Regulation Commission Regulations will be issued by September 2025. The Geological and Minerals Development Bill, aiming at bolstering geological mapping and exploration activities, has been submitted to Parliament. Additionally, the Mines and Minerals Development (local content) Regulations are under review to enhance citizen participation and ensure that mining benefits are more equitably distributed.

47. The government enacted the Green Economy and Climate Change Act in 2024, providing a legal framework to address climate risks and advance sustainable development. The Act incorporates the UNFCCC and Paris Agreement by mandating National Adaptation and Mitigation Plans and five-yearly updates of the national determined contributions (NDCs). It introduces a carbon market regulation through a national registry and fee system aligned with Article 6 of the Paris Agreement; establishes a dedicated climate fund; and mandates greenhouse gases inventory systems to enhance transparency and accountability.

48. The Government has launched the second phase of the GEWEL program (GEWEL 2), supported by a $123 million grant from the World Bank and Global Financing Facility. The project targets 1.5 million vulnerable households, provides nutrition support to 25,000 families, keeps over 107,000 girls in school, and expands livelihoods for 58,000 women. It focuses on cash transfers, women's economic empowerment, girls' education, and building institutional capacity. In recognition of its efforts, Zambia's CAMFED program received the 2024 UNESCO Prize for Girls' and Women's Education.

49. Financial inclusion. The implementation of the National Financial Inclusion Strategy 2024-28 aims to increase financial inclusion to 85 percent by 2028. Zambia is conducting a FinScope Survey in 2025 to assess progress in financial inclusion and guide future strategies. A multisectoral project team has been established to carry out the survey, with enumerators conducting interviews across all ten provinces. The topline findings are expected to be disseminated by end-2025.

50. The Government is taking steps to improve governance, in line with the recommendations contained in the IMF Diagnostic Report on Governance and Corruption.[6]

- The regulation to operationalize the implementation of the Access to Information (ATI) bill will be issued by end-September 2025. The regulations will provide the procedures for submitting and processing the request, and the process for applying exemptions from official fees. Officers responsible for processing access to information requests will be designated in each institution.

- After extensive inter-agency coordination and stakeholder consultations, the work continues to amend the Anti-Corruption Act to strengthen independence of the Anti-Corruption Commission (ACC) and enhance the anti-corruption enforcement. Specifically, the amended ACA will: (i) strengthen the ACC's independence and accountability by introducing a transparent and participatory selection process for the ACC Board and Director General, with a selection mechanism that involves independent experts from civil society; (ii) streamline the powers of the ACC Board vis-à-vis the Director General; (iii) align the definition of "public official" with UNCAC and ensure the criminalization of all corruption offences covered under the Convention, and (iv) introduce dissuasive penalties. Aligned with these elements, the Act will be submitted to Parliament in September 2025 (**end-March 2025 SB, proposed to be reset to end-September 2025 SB**).

- We remain committed to maintaining a sole mining license application system, the existing online application of mining licenses under the Mining Cadaster System to properly scrutinize license and transfer applications, and monitor the associated commitments on safety and environment, work programs, and production.

- The Government has made using the e-GP system mandatory, while Government will amend the Companies Act with respect to the beneficial ownership (BO) requirement aimed at ensuring BO forms are simplified and accurately capture BO related information by end-September 2025.

- Overcoming original delays, the MoPNP issued the Statutory Instruments (Commencement Orders No. 30/2025 and No. 31/2025) associated with the 2016 Public Audit Act and the 2016 State Audit Commission Act, respectively, on May 23, 2025 (**end-January 2025 SB**). Bringing the State Audit Commission Act into force will create a Board, to be established by end-2026, that will provide oversight of the Auditor General's office.

- The Government will continue publishing regular tax expenditure reports detailing measures that result in significant revenue losses. These updates, alongside revenue and expenditure performance reports, will include explanations for any deviations.

- We will finalize legal and regulatory amendments by end-September 2025 (originally planned for March 2025) to operationalize PACRA's beneficial ownership register, including ensuring the availability of accurate, complete, and up-to-date beneficial ownership information and imposing administrative sanctions on entities for non-compliance.

- We are committed to developing a comprehensive legal framework on asset declarations, recognizing its essential role in promoting transparency and accountability. To ensure a robust and effective system, we will introduce clear timeframes for submitting initial, periodic, and final declarations, and mandate disclosing assets owned directly and beneficially. To enforce compliance, we will introduce a range of dissuasive and proportionate sanctions for any breaches of the disclosure obligations, ensuring the integrity and effectiveness of the system.

V. IMPROVING STATISTICS

51. The Government remains committed to strengthening the production and dissemination of high-quality macroeconomic and fiscal statistics. Efforts will continue to focus on improving the estimation of GDP, employment, and government finance statistics, as part of implementing the Second-Generation Strategy for the Development of Statistics (NSDS2). In line with this strategy, sector-specific data systems will be enhanced, including the establishment of Statistics Units and Management Information Systems across Ministries, Provinces, and Agencies (MPAs). These reforms aim to improve the timeliness and granularity of data derived from administrative records and foster more consistent, evidence-based policymaking.

52. ZamStats is progressing with the rebasing of national accounts from the current 2010 base year to 2023, with completion now expected in the first quarter of 2026. The rebasing exercise will incorporate data from the 2022 Living Conditions Monitoring Survey (LCMS), the ongoing 2024/25 Household Budget Survey (HBS), the Economic Census scheduled to conclude by March 2025, and the forthcoming Integrated Agriculture Survey. Supply and Use Tables (SUT) for 2023 are being compiled using the NADABAS system, aligned with a 36-industry, 68-product framework. This comprehensive exercise will also include updated estimates for the informal sector, agriculture, and financial services, and will significantly enhance the accuracy and relevance of GDP estimates. Parallel work is underway to expand quarterly GDP estimates using the expenditure approach. ZamStats is transitioning from a prototype Excel system to full implementation in the NADABAS platform, with integration targeted by April 2025.

53. The electronic Balance of Payments (e-BoP) system now captures all transactions, and since January 2024, it is complemented by the Export Proceeds Tracking Framework. This framework mandates that export proceeds be received through local banks, significantly enhancing the coverage and accuracy of trade in goods and services data. The services module, piloted in late 2024, will go live by mid-2025, while an import-tracking module is under development for rollout in the fourth quarter of 2025.

54. Gaps related to unidentified other flows were identified in the compilation of balance of payments statistics. These are largely attributed to the accumulation of foreign assets by the private sector. Initial flow-of-funds accounts for selected mining companies were completed with assistance from the IMF TA mission. The BoZ revised the balance of payments statistics for 2020-22, following the recommendation from the IMF TA mission on balance of payments statistics to address identified gaps related to other flows and the accumulation of foreign assets by the private sector. In December 2025, the BoZ will release results from the flow of funds study of the manufacturing sector. We are committed to improving the quality of external sector statistics. As part of these efforts, we will work toward publishing more granular and timely balance of payments data.

VI. PROGRAM MONITORING

55. We will continue to strengthen our institutional capacities, with the support of our partners. Building capacity will help strengthen internal monitoring mechanisms and support program implementation. The provision of technical assistance has already contributed to in-depth diagnostics essential in implementing our reform plans, including enhancing cash management. We look forward to receiving more technical assistance as we continue the reform agenda on fiscal framework with a focus on resource revenue management, tax policy recommendations and enhanced assessment of tax expenditure costs and efficiency, administration of local excise (especially alcoholic and other taxable beverages), and the VAT control model.

56. Progress in the implementation of the policies under this program will be monitored through semi-annual reviews of the quantitative performance criteria, indicative targets, and structural benchmarks in the attached Tables 1-2. These are defined in the attached Technical Memorandum of Understanding (TMU), which also sets out the reporting requirements under the ECF arrangement. The sixth review will be based on end-June 2025 test dates and should be completed on or after October 1, 2025.

57. We intend to use half of the IMF financing as budget support and the other half as a buffer to boost Zambia's international reserve position. In line with IMF safeguards policies, this is consistent with the Memorandum of Understanding signed in August 2022 between the Government and the BoZ clarifying our respective roles and responsibilities for servicing the associated financial obligations to the Fund.

Table 1. Zambia: Quantitative Performance Criteria and Indicative Targets, 2024–25[1]

(Millions of Kwacha; cumulative from the beginning of each year; except where otherwise indicated)

	December 2024	December 2024				March 2025				June 2025		September 2025	
	ECF 2nd Review*	ECF 4th Review2/	Adjusted target	Act	Status	ECF 4th Review2/	Adjusted target	Act	Status	Prog.	Proposed	Prog.	Proposed
I. Quantitative Performance Criteria3/													
1. Floor on the central government's primary balance (cash basis)	5,574	-4,698	8,363	20,219	Met	1,829		5,646	Met	7,604		11,500	6,358
2. Ceiling on new central bank credit to the central government4/	0	0		0	Met	0		0	Met	0		0	
3. Floor on the net official international reserves of the Bank of Zambia (millions of US dollars)	2,235	1,750	1,891	1,892	Met	2,100	2,020	1,955	Not Met	2,250		2,550	
II. Continuous Performance Criteria													
4. Ceiling on new external debt arrears by central government, the Bank of Zambia, and ZESCO (millions of US dollars)5/	0	0		0	Met	0		0	Met	0		0	
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by central government, the Bank of Zambia, and ZESCO (millions of US dollars)	0	0		57.9	Not Met	0		0	Met	0		0	
III. Monetary Policy Consultation													
6. Average CPI inflation													
Upper outer band	11.5	17.8				17.6				16.9		14.0	
Upper inner band	10.5	16.8				16.6				15.9		13.0	
Mid-point	9.0	14.8		16.7	Met	14.6		16.5	Met	13.9		11.0	
Lower inner band	7.0	12.8				12.6				11.9		9.0	
Lower outer band	5.5	11.8				11.6				10.9		8.0	
IV. Indicative Targets													
7. Floor on the fiscal revenue of central government excluding grants and mining revenue8/	113,428	118,954		130,993	Met	32,220		31,219	Not Met	71,579		100,000	105,000
8. Ceiling on the present value of new external borrowing (millions of US dollars)6/	75	75		64.2	Met	0		0	Met	0			
9. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars)7/	100	145		51.42	Met	100		2.6	Met	100		100	
10. Floor on social spending by the central government	46,070	50,000		53,830	Met	13,618		15,931	Met	27,291		42,000 .	
11. Floor on the net clearance of arrears on expenditure and tax refunds													
11a. Floor on the net clearance of expenditure arrears9/ (+clearance/-accumulation)	6,800	4,800		8,513	Met	1,471		789	Not Met	3,242		4,700	
12. Floor on the net clearance of arrears of tax refunds9/ (+clearance/-accumulation)	4,430	4,430		11,607	Met	1,027		5,536	Met	2,054		3,500	
V. Memorandum Items													
13. Expected budget grant disbursments (millions of US dollars)	114	114				n.a				n.a		n.a	
14. Expected public sector loan disbursements into the Treasury Single Account at the Bank of Zambia (millions of US dollars)	320					87				174			
15. Expected public sector disbursements, including budget support grants and loans, expected to be channeled into the Treasury Single Account at the Bank of Zambia (millions of U.S. dollars) *NIR Adjustor*	434	564		390		136		0		272	208	408	279
16. Government Debt Service (millions of U.S. dollars) *NIR Adjustor*		873		583		99		43		409	436	449	523
17. Expected liability management operation to clear fuel arrears (millions of US dollars). If the size of this operation is higher (lower), the primary balance will be adjusted downwards (upwards) by the difference expressed in the equivalent kwacha amount. *Primary Balance Adjustor*		600		103		600				600		600	

Sources: Zambian authorities; and Fund staff estimates and projections.
1/ All definitions and adjustors are available in the Technical Memorandum of Understanding (TMU).
2/ IMF CR No. 24/350
3/ Indicative targets for March and September.
4/ Without prejudice to the relevant provisions in the BoZ Act.
5/ Cumulative from the date of program approval.
6/ Excludes borrowing from the IMF, IDA, and the AfDB.
7/ Excludes disbursements from IDA and AfDB.
8/ From June 2023, the indicative target on the floor of revenue will drop the adjustment for VAT backlog, since this is a separate IT.
9/ From June 2023, the indicative targets on the clearance of arrears are split into separate ITs on expenditure arrears and tax refund arrears to better capture progress in each category.

Table 2. Zambia: Prior Actions and Structural Benchmarks Under the ECF Arrangement				
Fifth ECF Review				
Prior Action				
Parliamentary adoption of an amended 2025 Budget in line with program parameters. (MEFP ¶10)				
Structural Benchmarks	***Timeline***	***Considered Met***	***Comment***	***Status***
Publish at the Ministry of Energy (MoE) website revised pipeline open access tender procedures as per international best practices to guarantee transparent and fact-based shortlisting of OMCs and shorten award processing by removing multiple vetting clearances. (MEFP ¶23)	End-December 2024	Tender procedures have been revised as per best international practices and award time has been shortened to ensure winning bidder are announced at least two months before contract start date.	The guidelines were published on the Ministry of Energy website mid-December 2024.	Met
Imports of diesel through the Tazama pipeline are done via open access at the full capacity of the Tazama pipeline. (MEFP ¶23)	End-April 2025	Publish the date of first delivery of low sulphur gas oil procured under the open access guidelines for the full capacity of the pipeline and summary of the underlying contract including the delivery commencement date and delivery volumes on the MoE website.	On April 8, 2025, the open access diesel consignment was received in Dar es Salaam but only started delivery at Ndola on April 17th.	Not met, the open access only for part of the capacity.
Continuous Structural Benchmarks				
Publish a quarterly debt statistics bulletin. (MEFP ¶28)	Quarterly – within 3 months Quarterly (on an ongoing basis)	Report is published online.	The 2024Q4 quarterly debt statistical bulletin was published on February 27, 2025. The 2025Q1 debt bulletin was published on May 29, 2025.	Met

Structural Benchmarks	***Timeline***	***Considered Met***	***Comment***	***Status***
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts. (MEFP ¶28)		Report is published online	As at end-December 2024 no new loans have been contracted	Met
FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor, including beneficial ownership. (MEFP ¶15)	Ongoing – within 3 months of contract award.	Summary information published on Ministry of Agriculture website.	Contracts for Urea and Compound D were awarded in June and July 2024, respectively. The contracts were published on 2nd October 2024.	Not met, completed with a delay
Publish the Tazama open access tender results on the Ministry of Energy website within one month of the contract award, including winning bidder with price, type and quantities of inputs, total contract amounts and their beneficial owners as well all unsuccessful bids with price, type and quantities of inputs. (MEFP ¶23)	Ongoing – within one month of contract award	Full results including unsuccessful tenders are published on a Quarterly basis on MoE website	The publication was done on February 72025 without beneficial ownership. The beneficial ownership was published on May 5, 2025.	Not met, due to delays in publishing beneficiary ownership.
Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Regulatory Board. (MEFP ¶24)	Monthly (Ongoing)	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.	Wholesale and retail price buildups (full detail) are published on the ERB website monthly.	Met

Other Structural Benchmarks				
Adopt the procedures manual for the Debt Management Office. (MEFP ¶29)	End-March 2025	The procedures manual is published on the website of the MoFNP.	The procedures manual is being finalised to align it to the functions of the DMO as provided for in the Public Debt Management Act. The DMO was operationalized beginning 1st January 2025	Not met (proposed for end-July 2025)
Submit to Parliament a comprehensive review of the Banking and Financial Services Act. (MEFP ¶40)	End-March 2025	A draft bill on Banking and Financial Services Act is approved by the Cabinet and submitted to Parliament.	Cabinet approved in principle to amend the BFSA Act. The Regulatory Impact Assessment has been undertaken.	Not met (proposed for end-September 2025)
Adopt the deposit insurance framework consistent with the Core Principles for Effective Deposit Insurance Systems and Basel Supervision Principles. (MEFP ¶41)	End-April 2025	The BoZ adopts a deposit insurance scheme and publishes it on the BoZ website.	BoZ is Still drafting the regulatory framework on a deposit protection scheme under the 2017 BFSA Section 132 (5)	Not Met (proposed for end-September 2025)

Other Structural Benchmarks				
Publish a report with a detailed description and costing of tax expenditures on corporate income tax, personal income tax, customs duty, export duty and excise duty of the previous fiscal year. (MEFP ¶12)	End-December 2024	Full Report published on the MoF website (hyperlink to be included).	The tax expenditure report was published on the MoFNP website on December 31 2024	Met
Bring the 2016 Public Audit Act and the 2016 State Audit Commission Act into force by issuing the statutory instrument by the MoFNP. (MEFP ¶51)	End-January 2025	Statutory instruments were issued	The item will be tabled before Cabinet for further guidance.	Not met, completed in May 2025
Implement a cash flow forecasting plan for 2025. (MEFP ¶19)	End-March 2025	The cash flow forecasting plan is in line with government borrowing plans in 2025	The cash forecasting team underwent a training in January 2025 and developed the Cashflow Forecasting Plan.	Met
Submit to Parliament a revised Anti-Corruption Bill in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption. (MEFP ¶51)	End-March 2025	Anti-Corruption Bill is submitted to parliament and published on the website of the National Assembly.	On 20th September 2024, Cabinet approved to introduce the Bill in Parliament to amend the Anti-corruption Act. The Bill is still undergoing consultation.	Not met (proposed for end-September 2025

Table 2. Zambia: Prior Actions and Structural Benchmarks Under the ECF Arrangement (cont.)			
Sixth ECF Review			
Proposed New Structural Benchmarks	**Objective**	***Considered Met***	***Timeline***
Submit to parliament the revised FRA act, Agricultural marketing bill and Agricultural credit act (MEFP ¶47)	Implement policies, regulations, and procedures conducive to private sector engagement in the production and trade in grains	The revised FRA act, Agricultural marketing bill and Agricultural credit act are submitted to parliament.	End-September 2025
Submit the 2026 Budget in line with program parameters (MEFP ¶10)	Promote fiscal transparency	The 2026 budget in line with program parameters is submitted to parliament	End-September 2025
Submit to Parliament a revised Anti-Corruption Bill in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption. (MEFP ¶51)	Improve governance	Anti-Corruption Bill is submitted to parliament and published on the website of the National Assembly.	End-March 2025, now proposed end-September 2025
Imports of diesel through the Tazama pipeline are done via open access at the full capacity of the Tazama pipeline. (MEFP ¶23)	Improve energy sector efficiency and transparency	Publish the date of first delivery of low sulphur gas oil procured under the open access guidelines for the full capacity of the pipeline and summary of the underlying contract including the delivery commencement date and delivery volumes on the MoE website	Continuous SB

Proposed New Structural Benchmarks	**Objective**	***Considered Met***	***Timeline***
Adopt the procedures manual for the Debt Management Office. (MEFP ¶29)	Improve debt management	The procedures manual is published on the website of the MoFNP (hyperlink to be included).	End-March 2025, now proposed end-July 2025
Submit to Parliament a comprehensive review of the Banking and Financial Services Act. (MEFP ¶40)	Strengthen financial regulation, supervision and resolution	A draft bill on Banking and Financial Services Act is approved by the Cabinet and submitted to Parliament.	End-March 2025, now proposed end-September 2025
Adopt the deposit insurance framework consistent with the Core Principles for Effective Deposit Insurance Systems and Basel Supervision Principles. (MEFP ¶41)	Strengthen financial supervision and stability and protect depositors.	The BoZ adopts a deposit insurance scheme and publishes it on the BoZ website.	End-April 2025, now proposed end-September 2025
Other structural benchmarks			
The ZRA will establish a Compliance Risk Management Unit. (MEFP ¶12)	Improve tax administration and reduce the tax compliance gap	The ZRA board will establish and staff a Compliance Risk Management Unit with clear roles and responsibilities.	End-June 2025
Expand the 2026 Fiscal Risk Statement incorporating sensitivity analysis scenarios for the macro, quantifying the impact of those scenarios on fiscal variables, and including quantitative financial information about SOEs and signed PPPs to enhance the understanding of fiscal risks. (MEFP ¶21)	Quantify and mitigate fiscal risks related contingent liabilities.	The 2026 FRS is published alongside the 2026 Draft Budget Documents	End-September 2025
Submit to Cabinet a new bill on State-Owned Enterprises that incorporates the principles of the SOE policy and clearly defines the role of Ministry of Finance in monitoring SOEs. (MEFP ¶22)	Monitor and manage fiscal risks stemming from SOE-s	Cabinet adopts new SOE act and submits it to Parliament	End-September 2025
Publish FRA 2024 audited financial statements. (MEFP ¶8)	Improve transparency	Final audit report published on FRA website.	End-September 2025

Other structural benchmarks			
Publish the audit report by the controller of Internal Audit on the government's drought response, detailing price and details of service rendered for all FRA and Government activities (procurement and logistics contracts, storage and distribution), and DMMU procurement contracts. (MEFP ¶8)	Ensure accountability and efficiency in the government's drought response in affected districts.	The final audit report published on the MoF website.	End-September 2025
Conduct an independent audit of the 2024-25 e-voucher rollout in all 74 districts, verifying the identity of all FISP beneficiaries, reporting and investigating potential implementation issues, and ensuring transparent and minimal selection criteria for input manufacturers, distributors and agro-dealers/retailers vetting. (MEFP ¶15)	Improve the integrity and transparency of the FISP program.	Audit conducted by an independent auditing firm and full report published on the MoF website,	End-September 2025
Continuous Structural Benchmarks			
FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor, including beneficial ownership. (MEFP ¶15)	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Summary information published on Ministry of Agriculture website.	Ongoing – within 3 months of contract award
Publish a quarterly debt statistics bulletin. (MEFP ¶28)	Improve debt management and transparency	Report is published online.	Quarterly – within 3 months
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts. (MEFP ¶28)	Improve debt management and transparency	Report is published online.	Quarterly (on an ongoing basis)
FRA/DMMU - Publish summary information on all procurement contracts, related to imports of maize as part of 2024 drought response, including beneficiary ownership, on the FRA and DMMU websites as contracts are allocated. (MEFP ¶8)	Enhance transparency and accountability in FRA and DMMU procurement processes.	All FRA and DMMU procurements contracts will use the E-GP procurement platform and be available on FRA and DMMU websites	Ongoing – within one month of the contract award

Continuous Structural Benchmarks			
Publish the Tazama open access tender results on the Ministry of Energy website, including winning bidder and all unsuccessful bids with price, type and quantities of inputs, total contract amounts and their beneficial owners. (MEFP ¶23)	Increase transparency in fuel tendering process.	Full results including unsuccessful tenders are published on a Quarterly basis on MoE website	Ongoing – within one month of the contract award
Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Regulatory Board. (MEFP ¶24)	Promotes transparency, builds trust, and ensures accountability in the pricing process.	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.	Monthly (Ongoing)

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program and reflects the understandings between the Zambian authorities and the IMF.** The TMU also defines the associated reporting requirements.

2. **The exchange rates for the purposes of the program are specified in Table 1 below.**

Table 1. Zambia: Program Exchange Rates
(Rates as of May 31, 2022)

Currency	Zambian Kwacha per currency unit	Currency units per US Dollar
US Dollar	17.28	1.00
GB Pound	21.71	0.80
Euro	18.46	0.94
Rand	1.10	15.67
SDR	23.32	0.74
Renminbi	2.58	6.67

Source: Bank of Zambia.

3. **For the purposes of the program, the central government of Zambia corresponds to the budgetary central government encompassing the activities of the national executive, legislative, and judiciary branches covered by the national budget.** Specifically, it includes Parliament, the Office of the President, the national judiciary, all ministries, departments, agencies, constitutional commissions, and independent offices. See Annex Table 1.

4. **The fiscal year starts on January 1 and ends on December 31.**

QUANTITATIVE PERFORMANCE CRITERIA

1. Floor on the Central Government's Primary Balance (Cash Basis)

DEFINITION

5. **The floor on the primary balance of the central government will be measured from the revenue and expenditure side ("above the line") at current exchange rates and on a cash basis.** Data on net domestic financing (NDF) will be reconciled between the Ministry of Finance and National Planning (MoFNP) and the Bank of Zambia (BoZ). The primary fiscal balance is calculated as the difference between government primary revenue and primary expenditure. Government primary revenue includes all tax and non-tax receipts, including external grants but excluding all interest revenue. Primary expenditure consists of current plus capital expenditure, excluding all interest payments.

REPORTING

6. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

ADJUSTORS

7. If the amount of general budget support grants expected to be disbursed within the fiscal year falls short of the programmed amount, the floor on the primary balance will be adjusted downward by the amount of the shortfall. The kwacha value will be calculated at the current exchange rate. General budget support grants exclude grants linked to externally financed capital projects or those earmarked to fund specific activities and programs.

8. If the amount of fuel arrears repaid as a result of the liability management operation is lower (higher) than the one envisaged in the baseline, the primary fiscal balance (on a cash basis) will be adjusted upwards (downwards) by the difference. The kwacha value will be calculated at the current exchange rate at the time of the loan disbursement.

2. Ceiling on New Central Bank Credit to the Central Government

DEFINITION

9. New central bank credit to the central government is defined as the change in the total stock of outstanding loans and advances by the BoZ to the central government.
It excludes:

- Purchases by the BoZ of debt securities issued by the Government in the open market for purposes of implementing monetary and financial stability policies;

- on-lending of IMF credit; and

- interest accrued on the stock of outstanding loans and advances by the BoZ to the Government, its institutions, agencies, statutory bodies, and local authorities.

REPORTING

10. The data for new central bank credit to the central government will be reconciled with the monthly monetary survey and submitted within 25 business days of the end of the month.

11. Data submissions should include a breakdown of outstanding loans and advances, as well as outstanding amounts of other central bank claims on the government, including debt securities and on-lending of IMF credit.

3. Floor on the Net Official International Reserves of the Bank of Zambia

12. The net official international reserves (NIR) of the BoZ will be calculated as the difference between its gross international reserves and official reserve liabilities.

13. Gross international reserves consist of:

- Monetary gold;
- foreign currency;
- unencumbered foreign-currency deposits at non-resident banks;
- foreign securities and deposits; and
- SDR holdings and Zambia's reserve position with the IMF.

14. Gross international reserves exclude:

- Non-convertible currencies, except for operational balances in Rand with the South African Reserve Bank;
- any encumbered reserve assets including but not limited to reserve assets pledged, swapped, or used as collateral or guarantee for third-party external liabilities;
- reserve requirements on other depository corporations' foreign currency deposits;
- any foreign assets not readily available to or not controlled by the BoZ; and
- any foreign currency claims on Zambian residents.

15. Official reserve liabilities are defined as short-term (one year or less in original maturity) liabilities of the BoZ to non-residents, plus any outstanding use of IMF credit, and swap arrangements (maturing in less than one year) with residents and non-residents. Short-term liabilities exclude liabilities with an asset counterpart that is encumbered (excluded from the asset side as well).

16. All values not in U.S. dollars are to be converted to U.S. dollars using the program exchange rates defined in paragraph 2 above.

REPORTING

17. Daily data on net international reserves, including their components, will be reported by the BoZ on a weekly basis, within 15 business days from the end of each week.

ADJUSTOR

18. If the amount of public sector disbursements expected to be channeled through the Treasury Single Account (TSA) at the BoZ falls short of the programmed amount (e.g., due to disbursement delays or delays in the transfer of the associated funds from GRZ accounts to BoZ gross international reserves), the NIR target will be adjusted downward by the amount of the shortfall. Starting in 2024, if the amount of public sector disbursements expected to be channeled through the Treasury Single Account (TSA) at the BoZ is lower(higher) than the programmed amount, the NIR target will be adjusted downward (upward) by the amount of the shortfall (excess).

19. If the amount of **central government external debt service payment** falls short of the agreed projections, the NIR target will be adjusted upward by the amount of the shortfall. Conversely, if the actual debt service payments exceed the agreed projections, the NIR target will be adjusted downward by an equivalent amount.

CONTINUOUS PERFORMANCE CRITERIA

20. External debt is defined on a residency basis. The term "debt" has the meaning set forth in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).

(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current (i.e., not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time. These payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

4. Ceiling on New External Debt Arrears by Central Government, the Bank of Zambia, and ZESCO

DEFINITION

21. The performance criterion on the non-accumulation of new external debt arrears is defined as a cumulative flow in gross terms starting from the date of program approval (August 31, 2022) and applies on a continuous basis. External debt arrears are defined here as debt service (principal and interest) that is overdue (considering any contractually agreed grace periods) on external debt contracted or guaranteed by the central government, the BoZ, and ZESCO with non-residents. This performance criterion does not cover arrears on debt subject to renegotiation or restructuring.

REPORTING

22. Arrears will be monitored continuously by the MoFNP, including for ZESCO, and the BoZ. The MoFNP will immediately report to the IMF staff any new accumulation of external arrears; otherwise, data will be compiled jointly by the two institutions, and will be reported by the MoFNP on a quarterly basis, within 30 days from the end of each quarter.

5. Ceiling on the Contracting or Guaranteeing of New Non-Concessional External Debt by Central Government, the Bank of Zambia, and ZESCO

DEFINITION

23. The newly contracted or guaranteed external debt by the central government, the BoZ and ZESCO with non-residents is concessional if it includes a grant element of no less than 35 percent. The grant element is the difference between the net present value (NPV) of debt and its nominal value and is expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due. The discount rate used for this purpose is 5 percent. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such that both components constitute an integrated financing package with a combined grant element equal to at least 35 percent. External debt is defined as in paragraph 18 above.

24. For debt carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the three-month U.S. Secured Overnight Financing Rate (SOFR) is 2.38 percent and will remain fixed for the duration of the program. The spread of three-month Euro EURIBOR over three-month USD SOFR is -150 basis points. The spread of three-month JPY Tokyo Interbank Offered Rate (TIBOR} over three-month USD SOFR is -250 basis points. The spread of three-month U.K. Sterling Overnight Index Average (SONIA) over three-month USD SOFR is -50 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over three-month USD SOFR is -50 basis points. [1] Where the variable rate is linked to a benchmark interest rate other than the three-month U.S. SOFR, a spread reflecting the difference between the benchmark rate and the three-month U.S. SOFR (rounded to the nearest 50 basis points) will be added. Given the ongoing transition away from LIBOR, once operationally feasible, this TMU can be updated to reflect the benchmark replacement for JPY LIBOR, the Tokyo Overnight Average Rate (TONAR).

25. This minimum grant element applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

26. New non-concessional external debt is defined as any form of new debt other than concessional debt as defined in paragraph 20 above, contracted or guaranteed by the central government, BoZ, and ZESCO with non-residents.

27. For the purpose of this performance criteria, the ceiling on contracting or guaranteeing of new non-concessional external debt by the central government, BoZ, and ZESCO excludes: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents; (iii) debt contracted from IMF, World Bank and AfDB; iv) short-term trade credits for imports, incurred since the beginning of the calendar year; and v) central bank debt issuance for the purposes of monetary policy or reserves management and FX swaps for the purposes of monetary policy or reserves management.

28. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met in accordance with the terms of the contract and as provided in the national legislation. Contracting of credit lines (which can be drawn at any time

[1]The program reference rate and spreads are based on the "average projected rate" for the three-month U.S. SOFR over the following 10 years from the most recent April 2022 World Economic Outlook (WEO).

and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

REPORTING

29. The MoFNP will immediately report to the IMF staff details of any new external loans contracted or guarantees issued. Detailed data on all new external debt (concessional and non-concessional) contracted or guaranteed by the central government, BoZ, and ZESCO will also be provided by the MoFNP on a monthly basis, within 30 days from the end of each month. The information will include (i) amounts contracted or guaranteed; (ii) currencies; and (iii) terms and conditions, including interest rates, maturities, grace periods, payments per year, commissions and fees, and collaterals.

6. Other Continuous Quantitative Performance Criteria

30. As for any Fund arrangement, continuous QPCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

MONETARY POLICY CONSULTATION CLAUSE

31. The consultation bands apply to the average rate of inflation in consumer prices as measured by the overall consumer price index (CPI) published by ZamStats. If the observed quarterly average rate of CPI inflation (calculated as the average of the 3 monthly year-on-year inflation rates within a quarter) falls outside the outer bands for June and December test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. If the observed quarterly average rate of CPI inflation falls outside the inner bands for each test date, the authorities will conduct discussions with Fund staff.

INDICATIVE TARGETS

7. Floor on the Fiscal Revenues of the Central Government Excluding Grants and Mining Revenues

DEFINITION

32. **The fiscal revenues of the central government include all tax and non-tax receipts but exclude external grants as well as revenues from corporate income tax on the mining sector and the mineral royalty tax**.

REPORTING

33. **Data on fiscal revenues (cash basis) will be provided to the IMF staff, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates.** For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

8. Ceiling on the Present Value of New External Borrowing

DEFINITION

34. **This indicative target is a ceiling to the present value of all new external debt contracted or guaranteed by the central government, the BoZ and ZESCO, including commitments contracted or guaranteed for which no value has been received.** External debt is defined as in paragraph 18 above. The present value (PV) of new external debt is calculated by discounting the future stream of payments of debt service (principal and interest) due on this debt on the basis of a discount rate of 5 percent and taking account of all aspects of the debt agreement including the maturity, grace period, payment schedule, upfront commissions, and management fees. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the nominal value of the debt.

35. **For the purpose of this indicative target, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or kind).**

36. **For the purposes of this indicative target, the ceiling excludes**: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents; (iii) debt contracted from IMF, World Bank and AfDB; (iv) short-term trade credits for imports, incurred since the beginning of the calendar year.; and (v) central bank debt issuance and FX swaps for the purposes of monetary policy or reserves management.

REPORTING

37. The authorities will inform the IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government and will consult with staff on any potential debt management operations.

9. Ceiling on the Disbursement of Contracted but Undisbursed External Debt to Central Government And ZESCO

DEFINITION

38. This ceiling applies to the disbursement of contracted but undisbursed external debt to the central government and ZESCO, and of contracted but undisbursed government-guaranteed external debt to ZESCO. The ceiling is set based on data shared by the authorities with staff on projected disbursements of contracted but undisbursed external debt between 2022 and 2025, after considering the authorities' estimates for the cancelation and rescoping of contracted but undisbursed external loans and applies to this list. External debt is defined as in paragraph 18 above. Disbursements from IDA and AfDB will be excluded from this ceiling.

REPORTING

39. Detailed data on disbursements of contracted but undisbursed external loans of the central government and contracted but undisbursed external loans of ZESCO (government-guaranteed or not) will be provided on a quarterly basis, within 30 days from the end of each quarter, including amounts, currencies, creditors, and project names.

10. Floor on Social Spending by the Central Government

DEFINITION

Social spending is defined as central government expenditure on the Social Cash Transfer, Food Security Pack, Empowerment Fund (Women and Youth), the Public Welfare Assistance Scheme, Water and Sanitation, budget transfers to the Public Service Pensions Fund, the Health Sector, and the Education Sector. It is computed on a cash basis.

REPORTING

40. Data will be provided to the IMF staff, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

11. Floor on the Net Clearance of Expenditure Arrears and Floor on Net Clearance of Tax Refund Arrears by Central Government

DEFINITION

41. Arrears on (i) expenditure and (ii) tax refunds are defined as:

(i) Expenditure Arrears

- **For wages, salaries, and pension contributions: any payments outstanding after the agreed date for payment of staff and for payroll deductions to third parties.**
- **For goods & services and capital spending (including contractor payments): an arrear arises** when the bill has been received and delivery verified, but payment has not been made within the normal period per standard GRZ policy (30 days), or as stated in the supplier's contract.
- **For utilities: if unpaid after the due date.**
- **For subscriptions and leases:** amounts outstanding after the due date.

For the purposes of assessing the indicative target, changes in the stock of expenditure arrears due to ongoing audits, accumulation of penalties or interest, and exchange rate valuation effects will not affect the assessment. The target will be considered as met, when agreed stock at the end of the previous fiscal year is reduced in an amount equal or larger than the agreed pace of rundown of arrears.

(ii) Tax (VAT) Refund Arrears

- **For VAT refunds:** overdue if unpaid one month after the claims were validated and approved for payment.

For the purposes of assessing the indicative target, the impact of newly validated claims for the previous year will be neutralized. This means that the target will be assessed as met if the gross clearance of VAT refunds is equal to (or more than) the sum of new claims submitted for the current year plus the agreed pace of rundown of the previous year's arrears.[2]

REPORTING

42. Information regarding central government arrears on expenditure and tax refunds will be compiled through quarterly audits of the accounts of the ZRA and spending ministries and agencies, conducted by the Internal Audit Department of the MoFNP. The audits will be completed, and data submitted within 90 days from the end of each quarter. For expenditure arrears, arrears denominated in foreign currency will be reported in the original currency of denomination.

43. For the **clearance of VAT refund arrears**, the MoFNP will report separately clearance of the stock of audited VAT refunds accumulated up to the end of the previous fiscal year, as well as accumulation of claims and clearance of newly approved VAT refund in the current fiscal year.

MONITORING AND REPORTING REQUIREMENTS

44. To facilitate the monitoring of the program, the information listed in Annex Table 2 below will be reported to the IMF staff within the timeframe indicated. These data will be provided electronically by email to AFRZMB@IMF.ORG.

Table 1. Zambia: Administrative Units Comprising the Budgetary Central Government

Office of the President – State House
Office of the Vice President
National Assembly
Electoral Commission of Zambia
Civil Service Commission
Office of the Auditor General
Cabinet Office – Office of the President
Teaching Service Commission – Office of the President
Zambia Police Service Commission
Zambia Police Service
Office of the Public Protector
Ministry of Mines and Mineral Development
Ministry of Home Affairs and Internal Security
Drug Enforcement Commission
Ministry of Foreign Affairs and International Cooperation
Judiciary
Disaster Management and Mitigation Unit
Local Government Service Commission
Ministry of Information and Media
Public Service Management Division
Ministry of Local Government and Rural Development
Zambia Correctional Services
Ministry of Justice
Ministry of Commerce, Trade and Industry
Human Rights Commission
Ministry of Small and Medium Enterprise Development
Zambia Correctional Service Commission
Ministry of Finance and National Planning
Smart Zambia Institute
Ministry of Labor and Social Security
Ministry of Water Development and Sanitation
Ministry of Green Economy and Environment
Ministry of Infrastructure, Housing and Urban Development
Ministry of Energy
Ministry of Technology and Science
Ministry of Tourism
Ministry of Youth, Sport and Arts
Ministry of Defense
Zambia Security Intelligence Services – Office of the President
Ministry of Education
Ministry of Lands and Natural Resources
Ministry of Fisheries and Livestock
Anti-Corruption Commission
Muchinga Province
Ministry of Agriculture
Lusaka Province
Copperbelt Province
Central Province
Northern Province
Western Province
Eastern Province
Luapula Province
North-Western Province
Southern Province

Table 2. Zambia: Reporting Requirements

Data Description	Data Freq.	Agency	Reporting Freq.	Date
Monetary and Financial Sector				
1. Reserve money and its components (NDA and NFA) at current	D	BoZ	W	T15
and program exchange rates				
2. Excess reserves	D	BoZ	M	T15
3. Overnight interbank rates	D	BoZ	W	T15
4. Treasury bill and BoZ bill auction results	W	BoZ	W	T15
5. Interest rates	M	BoZ	M	T15
6. Holdings of government and BoZ securities by maturity and	M	BoZ	M	T15
type of investors (local commercial banks, non-banks, and				
foreigners)	M	BoZ	M	T15
7. Monetary survey (incl. the BoZ and ODC surveys)	M	BoZ	M	T15
8. Financial soundness indicators by bank				
External Sector	D	BoZ	W	T15
9. Exchange rates	D	BoZ	W	T15
10. Gross international reserves and foreign exchange purchases				
and sales	M	BoZ	M	T15
11. BoZ FX cash flow	W	BoZ	M	T15
12. FX backlog				
Fiscal	D	BoZ	W	T7
13. Net domestic financing	M	MoFNP	M	T30
14. Revenues from the Tazama pipeline transport cost	M	MoFNP	M	T30
differential	Q	MoFNP	Q	T90
15. Fiscal table including revenue, expenditure, and financing				
16. Social spending	Q	MoFNP	Q	T90
17. Stocks of arrears on expenditure, tax refunds, and domestic				
debt service				
18. Stock of VAT arrears divided by stock of arrears as of end-				
year plus new approved VAT refund claims and payments in				
the current fiscal year.	M	ZamStats	M	T15T90
	Q	ZamStats	BA	
Real Sector				T30
19. Consumer price index and monthly statistical bulletin				
20. National accounts	Q	MoFNP	Q	
External Debt				T30
21. New external loans contracted or guaranteed by the central				
government, BoZ, and ZESCO, or any other agency on their	M	MoFNP	Q	
behalf, with detailed information on the amounts, currencies,				
terms, conditions, and purposes.				
22. Disbursements of contracted but undisbursed external loans				T90
to the central government and contracted but undisbursed				
external loans to ZESCO (government-guaranteed or not)	Q	MoFNP	Q	
Program Monitoring				
21. Report on program performance				

D = Daily, W = Weekly, M = Monthly, Q = Quarterly, BA = Bi-annual, A = Annual; TX = X days after the date of the last observation

INTERNATIONAL MONETARY FUND

ZAMBIA

6/18/2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By | African Department (In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of May 30, 2025)

Membership Status: Joined: September 23, 1965; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	978.20	100.0
Fund holdings of currency	978.20	100.0
Reserve position in Fund	0.02	0.0

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,406.70	100.0
Holdings	2,069.60	147.12

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF arrangements	992.86	101.50

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	08/31/2022	10/30/2025	1271.66	992.86
ECF[1]	06/04/2008	06/29/2011	220.10	220.10
ECF[1]	06/16/2004	09/30/2007	220.10	220.10

Projected Payments to the Fund[2]
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2025	2026	2027	2028	2029
Principal				27.98	127.26
Charges/interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	27.98	127.27

[1] Formerly PRGF

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section. Figures in this section are as of May 31, 2025

Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	Dec. 2000
Assistance committed (1999 NPV terms)[3]	
By all creditors (US$ million)	2,499.20
Of which: Fund assistance (US$ million)	602.00
(SDR equivalent in millions)	468.80
Completion point date	April 2005
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to Zambia	468.80
Interim assistance	351.60
Completion point balance	117.20
Additional disbursements of interest income[4]	39.47
Total Disbursement	508.27

Implementation of MDRI Assistance

I. Total debt relief (SDR million)[5]		402.59
Of which:	MDRI	398.47
	HIPC	4.12

II. Debt relief by facility (SDR million)

Delivery date	GRA	PRGT	Total
January 2006	n/a	402.59	402.59

[3] Net present value (NPV) terms at the decision point under the enhanced framework.

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for assistance. The debt relief covers all debt owed to the Fund as of end-2004 that is outstanding at the time the member qualifies for the relief.

Safeguard Assessments

An updated safeguards assessments of the Bank of Zambia (BoZ) was completed in September 2022 and found that its safeguards framework required strengthening in several areas. Comprehensive legislative reforms were necessary to reinforce the central bank's mandate and autonomy and underpin governance practices. Transparency and accountability mechanisms need to be enhanced through stronger oversight and audit quality procedures. Outstanding credit to government raises financial autonomy concerns, and an interpretation of the statutory limit is needed to ascertain its legal compliance. In addition, the BoZ and the government needed to agree and formalize their respective roles and responsibilities related to the 2021 general SDR allocation in a manner that safeguards the BoZ's autonomy. Furthermore, the process for compilation of program monetary data should be reinforced, including through further assurance by the central bank's internal audit function. Transparency and accountability mechanisms need to be enhanced through stronger oversight and audit quality procedures. The process for compilation of program monetary data should be reinforced.

Legislative reforms to strengthen the central bank's mandate, autonomy, and governance arrangements have been enacted in line with staff's advice, and the BoZ signed a Memorandum of Understanding with the Government clarifying respective roles and responsibilities for servicing the associated financial obligations to the Fund.

Exchange Rate Arrangement

The currency of Zambia is the kwacha. While the de jure exchange rate arrangement is described as floating by the authorities, the de facto exchange rate arrangement is classified as a crawl-like arrangement effective August 31, 2022.[6] The kwacha exchange rate determined in the interbank market. The buying rate of the BoZ is a simple average of the primary dealers' low bid rates, and the BoZ's selling rate is the simple average of the primary dealers' high offer rates. On April 19, 2002, Zambia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

On April 15, 2024, Zambia eliminated an exchange restriction, which was subject to Fund approval under Article VIII, and arose from limitations imposed by the government on access to foreign exchange for the making of payments and transfers for current international transactions, which was evidenced by the existence of external payments arrears accumulated prior to October 4, 1985.

Zambia maintains two multiple currency practices (MCPs) under the IMF's new policy.[7] The official actions giving rise to MCPs were introduced before the approval of the Extended Credit Facility arrangement and have remained unchanged since. They arise from the central bank official exchange rate used to purchase U.S. dollars from the revenue authorities for (i) mining tax receipts,

[6] IMF Annual Report on Exchange Arrangements and Exchange Restrictions (2024).

[7] For details, see Guidance Note for the Fund's Policy on Multiple Currency Practices.

calculated as the average mid-rate from the preceding months, and (ii) custom duties receipts, calculated as the median of rates from any four leading commercial banks for the two weeks preceding the later of the date of importation, or the making of the first entry for those good. The authorities are not requesting approval as they have committed to remove them by October 2025.

Article IV Consultations

Zambia is on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangement. The Executive Board concluded the last Article IV consultation on July 15, 2023

FSAP Participation and ROSC

Zambia has participated in the financial sector assessment program (FSAP); an FSAP mission from the Fund and the World Bank conducted a comprehensive external assessment of the financial system on April 30–May 15, 2002, and July 15–26, 2002. A follow-up FSAP mission was conducted by the Fund and the World Bank in November 2008. More recently, another joint World Bank-Fund FSAP mission was conducted on July 11-August 3, 2016 to assess the stability of the financial system. On June 8-16, 2017, a mission from the Fund was conducted to update the stress tests of the 2016 FSAP. This was followed by a Fund TA mission in 2019 that assisted the BoZ in enhancing the coverage of the existing stress testing framework by incorporating liquidity stress testing.

The fiscal transparency module of a Report on Observance of Standards and Codes (ROSC) assessing compliance with the IMF's Code of Good Practices on Fiscal Transparency—Declaration of Principles was issued to the Executive Board on October 31, 2001. A ROSC data module was issued to the Executive Board on January 18, 2005.

Technical Assistance Missions

Department	Dates	Purpose
FAD	Jun 2023	e-invoicing implementation
	Jun – Jul 2023	VAT control model
	Jul 2023	CRM and CIP for VAT
	Jul - Aug 2023	e-invoicing implementation
	Aug 2024	e-invoicing implementation (follow-up)
	Oct 2023	CRM and CIP for VAT (study tour)
	Oct 2023	VAT control model (follow-up)
	Oct 2023	CRM and CIP for VAT (follow-up)
	Dec 2023	CRM and CIP for VAT (follow-up)
	Jan 2025	CRM and CIP for VAT (follow-up)
	Jan 2025	Cash Forecasting
	Mar 2025	CRM and CIP for VAT (follow-up)
	Mar 2025	2025 FY Planning
	Apr 2025	Debt Reporting and Investor Relations
	Apr 2025	Tax diagnostic
	May 2025	CRM implementation (follow-up)
MCM	Jun 2023	Forecasting and Policy Analysis System
STA	Sept-Oct 2024	Public Sector Debt Statistics
	Jan 2025	Government Finance Statistics (AFS 1)
LEG	Aug 2023	Governance and Anti-Corruption
	Feb 2024	Governance and Anti-Corruption
	May 2025	Governance and Anti-Corruption

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank:

https://www.worldbank.org/en/country/zambia

African Development Bank

https://www.afdb.org/en/countries/southern-africa/zambia

ZAMBIA

July 2, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW — DEBT SUSTAINABILIT ANALYSIS

Approved By
Costas Christou and Martin Cihak (IMF) and Manuela Francisco and Hassan Zaman (IDA)

The Debt Sustainability Analysis (DSA) was prepared jointly by the staff of the International Monetary Fund and the International Development Association, in consultation with the authorities.

Zambia: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress. The analysis is based on a full post-restructuring macro-framework, incorporating the treatment of official bilateral claims agreed with Zambia's Official Creditor Committee (OCC), the completed Eurobond exchange, the agreements in principle (AIP) reached with some external commercial creditors, and under the assumed treatment of residual claims of other external commercial creditors in line with authorities' restructuring strategy and consistent with program parameters and the comparability of treatment principles. Under the baseline, breaches of the overall and some external debt indicator thresholds remain.[1] The present value of external debt-to-exports ratio is expected to decline below the 84 percent threshold—indicating "substantial space to absorb shocks"—by 2027. However, the debt service-to-revenue ratio (DSRR) is projected to breach the 14 percent threshold in 2025 (at 14.7 percent excluding the fuel arrears clearance liability management operation and past due interest on restructured debt)—largely due to exchange rate depreciation. The 2026-31 average DSRR is projected to remain below the threshold, at 13.8 percent, slightly above the 13.4 percent in the previous DSA. Zambia's debt indicators are projected to improve consistent with a moderate risk of external debt distress in the medium term. Shocks to exports and growth would present downside risks to the debt outlook.

[1] Zambia's debt-carrying capacity is weak based on the composite indicator (CI). The composite indicator is calculated using data from the April 2025 WEO and the 2023 CPIA, the latest available.

PUBLIC DEBT COVERAGE

1. As in the previous DSA, the coverage of Zambia's public and publicly guaranteed (PPG) debt for the purpose of the DSA includes the following : (i) central government domestic and external debt, including arrears to external suppliers (fuel and contractors) and central government guaranteed external debt; (ii) the nonguaranteed external debt of Zambia Electricity Supply Company (ZESCO), the fiscally important state-owned utility;[2] and (iii) the domestic and external arrears of the same enterprise. Central bank external debt (including outstanding Fund credit), together with the debt of social security funds guaranteed by the central government, is also included in the coverage.[3] As in previous DSAs, local governments and SOEs without government guarantees are excluded from the DSA coverage.

2. The DSA also incorporates the non-guaranteed external debt of the Zambia Electricity Supply Company (ZESCO), including its domestic and external arrears. In accordance with the LIC-DSF Guidance Note, given the significant fiscal risks posed by ZESCO, a fiscally important state- owned utility, its non-guaranteed external debt, outstanding payables to domestic (US$256 million at end-2024), and external (US$81 million at end-2024) independent power producers (IPPs), are included in the DSA perimeter.[4] The authorities are taking steps to restore ZESCO's financial viability over the medium term. As progress is made, the inclusion of its non-guaranteed debt in the DSA debt perimeter will be reassessed.

3. The DSA is conducted on a residency basis. In line with the LIC-DSF Guidance Note, non- resident (NR) holdings of domestic-currency debt (as recorded by the authorities) are treated as external debt for the purpose of this DSA, while recognizing the underlying measurement challenges. End-December 2024 data indicate that the stock held by non-resident increased to K 57.6 billion (US$2.09 billion or 25.1 percent of the outstanding domestic-currency government securities) from K 56.4 billion by end-2023. The authorities are restricting participation of NRs in the primary market given debt sustainability risks. In 2024-25, a limit of 5 percent of the face value of gross domestic bonds issuance in the primary market will be applied in line with the agreement on the restructuring perimeter reached with the OCC in June 2023.

[2] The government guaranteed debt of ZESCO and other SOEs has always been included in the DSA and is now also part of the authorities' officially published debt metric. ZESCO's contingent risks to the sovereign relate to its persistent and large cash deficits. See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (2018).

[3] As of end-December 2022, this debt consists solely of an outstanding government guaranteed external loan to the Public Service Pension Fund of US$52.7 million.

[4] ZESCO generated sufficient revenues in 2023 and fully amortized its nonguaranteed external debt by end-2023.

Text Table 1. Zambia: Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

Public debt coverage and the magnitude of the contingent liability tailored stress test
B. Please customize elements of the contingent liability tailored test, as applicable.

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	1.4	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		8.4	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

4. **Zambia sought debt treatment under the G20 Common Framework following its 2020 default and the accumulation of external arrears.** This followed Zambia's default on its sovereign Eurobonds in 2020 and the accumulation of arrears to both official bilateral and other commercial external creditors. To address debt sustainability challenges, the authorities requested a debt treatment under the G20 Common Framework (CF) in January 2021, which is now incorporated in the DSA given that agreements have been reached with most creditors, and good-faith negotiations are ongoing with the residual ones.

5. **Progress on debt restructuring with official creditors has advanced.** The Official Creditor Committee (OCC) under the CF, formed in June 2022, reached agreement on a memorandum of understanding (MoU) on terms of the debt restructuring in October 2023. The MoU, signed by all OCC members, reflects the agreed debt treatment consistent with program parameters announced in June 2023. As of May 2025, three bilateral debt restructuring agreements (France, India, and Saudi Arabia) under the OCC deal have been signed. Although the OCC MoU has been signed, debt service under the OCC agreement did not commence in 2023 as envisaged, pending the signature of bilateral agreements between Zambia and each OCC member. As signatures began in late 2024 and are expected to be completed in 2025, debt service—including past dues—is expected to begin in 2025.

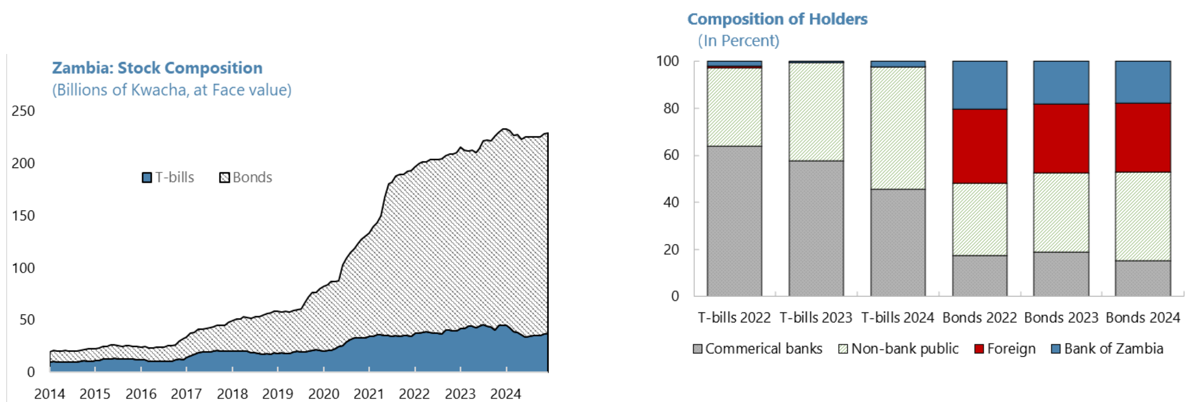
6. **Commercial debt restructuring has moved forward in parallel.** The authorities completed the Eurobond exchange on June 11, 2024, aligning with program parameters and Comparability of Treatment (CoT) requirements set by the OCC. Further, the authorities reached agreements in principle (AIPs) with four major external commercial creditors—Bank of China, Industrial and Commercial Bank of China, China Development Bank, and Polytech—consistent with program parameters and CoT requirements established by the OCC. The authorities have also reached AIP with other commercial creditors, bringing the agreed deals to about 94 percent of the external debt in the restructuring perimeter compared to about 90 percent in the previous DSA. These agreements are considered sufficiently credible to be included in the baseline.

7. The creditor composition of external debt (see text Table 2) reflects the representation of the official creditors in the OCC. Official representatives of some countries with eligible claims represented in the OCC made requests to classify their claims backed by an official export-credit agency as commercial claims, in particular China requested to classify all Sinosure-backed commercial claims as private.[5] These claims are therefore included as part of commercial creditors' claims, and the arrears related to these claims are considered as arrears to the private sector for the purpose of the application of Fund's policies.

8. Zambia's external public and publicly guaranteed (PPG) debt on contractual basis rose to US$21.4 billion by end-2024.[6] The debt stock also reflects the haircut from the completed Eurobond exchange and a principal payment of about US$336.3 million on the restructured bond. The increase was driven by: (i) about US$1.35 billion in new foreign-currency denominated disbursements to the central government—mainly from the IMF and World Bank; and (ii) a buildup of about US$1.05 billion in interest arrears on central government foreign-currency denominated debt. Fuel arrears owed to non-resident suppliers and ZESCO's arrears to external IPPs declined marginally as the authorities made some payments. Overall, external PPG debt ended the year about US$118 million higher (see Text Table 2). However, nonresident holdings of domestic-currency debt declined in dollar terms to US$2.1 billion by end-2024 partly due to primary market purchase limits and exchange rate depreciation.

9. Zambia remains without access to international capital markets. After peaking at 6,954 basis points on March 20, 2023, weighted average spreads on Eurobonds have narrowed to 534 basis points (bps) by June 3, 2025. In parallel, the share of NR holders of domestic debt increased to 25 percent at end-2024, up from about 24 percent at end-2023, though still lower than the peak of around 29 percent in 2022 (see Text Figure 1).

Text Figure 1. Zambia: Central Government Domestically Issued Securities
(end-2024)



Sources: Zambian authorities and IMF staff estimates.

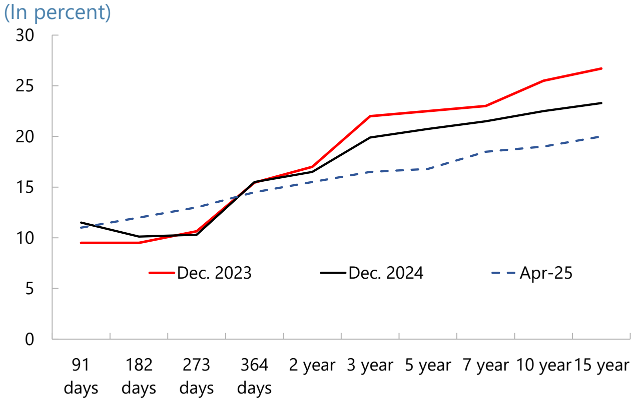
[5] Under the Debt Service Suspension Initiative (DSSI), China requested to classify its national development bank, the China Development Bank, as a commercial creditor—consistent with the classification requested under the Common Framework.

[6] Although an MoU has been signed with official creditors and an AIP reached with the majority of commercial creditors, the authorities report on a contractual basis until the agreements are finalized and implemented.

10. Outstanding domestically issued government securities declined in 2024. Government securities stood at K229.4 billion at end-2024 (33.6 percent of GDP) compared to K232 billion at end-2023 (42 percent of GDP) due to financing constraints. However, the stock of NR holdings increased by 2.3 percent in nominal terms, from K 56.4 billion (10.1 percent of GDP) at end- December 2023 to K 57.6 billion (8.4 percent of GDP) at end-December 2024. By end-April 2025, NR holding further rose to K 59.2 billion in nominal terms, although it declined as a share of GDP to 7.3 percent.

11. Yields on government securities diverged in 2024, with short-term rates rising while long-term rates declining (Text Figure 2). Successive monetary policy tightening in 2024, along with a 900-basis point increase in the Statutory Reserve Requirement (SRR) in February, pushed yields higher, particularly at the shorter end of the yield curve. The 91-days T-bill yield increased by 200 bps in 2024. In contrast, yields on longer-term bonds declined markedly in 2024—by 150 bps to 341 bps—reflecting improved market sentiment due to progress in debt restructuring and renewed demand from NR investors in the secondary market. The decline in bond yields continued through February 2025.

Text Figure 2. Zambia: Government T-Bill and Bond Rates
(In percent)



Sources: Bank of Zambia, IMF Staff Computation

Table 1. Zambia: Public and Publicly Guaranteed Debt Stock—Creditor Composition and Contracted Debt Service[1] (as of end-2024)

	Debt stock (end of period) [2]				Debt service [3]			
	2023	2024			2025	2026	2025	2026
	(In US$)	(In US$)	(Percent total debt)	(Percent GDP) [10]	(In US$)		(Percent GDP)	
Total	30,970	30,932	100.0	123.9	2,323	2,078	7.9	6.1
External Foreign-Currency Debt	19,121	19,340	62.5	77.4	732	729	2.5	2.1
Multilateral creditors[4]	4,147	5,299	17.1	21.2	195	212	0.7	0.6
IMF	563	1,295	4.2	5.2				
World Bank	2,252	2,522	8.2	10.1				
ADB/AfDB/IADB	917	1,045	3.4	4.2				
Other Multilaterals	415	437	1.4	1.7				
o/w EIB	207	240	0.8	1.0				
o/w IFAD	132	123	0.4	0.5				
Bilateral creditors[5]	6,456	6,640	21.5	26.6	206	115	0.7	0.3
Paris Club	1,524	1,564	5.1	6.3	42	21	0.1	0.1
o/w: Israel	488	500	1.6	2.0				
o/w: UK	249	303	1.0	1.2				
Non-Paris Club	4,932	5,075	16.4	20.3	164	94	0.6	0.3
o/w: China	4,174	4,271	13.8	17.1				
o/w: India	345	359	1.2	1.4				
Eurobonds	3,715	2,739	8.9	11.0	237	357	0.8	1.1
Commercial creditors	3,313	3,395	11.0	13.6	94	45	0.3	0.1
Fuel arrears	897	713	2.3	2.9	n/a	n/a	n/a	n/a
Arrears to external contractors	492	475	1.5	1.9	n/a	n/a	n/a	n/a
ZESCO external IPP arrears	101	81	0.3	0.3	n/a	n/a	n/a	n/a
			0.0	-				
Domestic-Currency Debt	11,849	11,591	37.5	46.4	1,591	1,349	5.4	4.0
Held by residents, total	6,852	6,225	20.1	24.9	1,262	881	4.3	2.6
Held by non-residents, total	2,191	2,090	6.8	8.4	329	468	1.1	1.4
T-Bills	1,746	1,355	4.4	5.4	168	-	0.6	-
Bonds	7,297	6,960	22.5	27.9	1,423	1,349	4.8	4.0
Loans	-	-	-	-				
Domestic budget arrears and ZESCO domestic IPP arrears	2,806	3,276	10.6	13.1	n/a	n/a	n/a	n/a
Memorandum Items:								
Collateralized debt[6]	2,428	2,318	7.5	9.3				
o/w: Related								
o/w: Unrelated								
Contingent liabilities	n/a		n/a	n/a				
o/w: Public guarantees								
o/w: Other explicit contingent liabilities[7]								
SOE guaranteed external debt[8]	1,560	1,606	5.2	6.4				
SOE non-guaranteed external debt (ZESCO)[8]	-		-	-				
Total external PPG debt[9]	21,312	21,430	69.3	85.8				
Nominal GDP	27,578	26,326			29369	33945		

1/ Debt stock is based on end-December 2024 data from the authorities on a contractual basis—before debt treatment, except for the Eurobond (reflecting post-restructuring terms) and for France and Saudi Arabia, where bilateral agreements were signed under the OCC MoU—and IMF staff estimates. It includes arrears on principal and interest, but excludes

2/ Includes direct debt to central government, SOE guaranteed debt and non-guaranteed debt of ZESCO

3/ Post-restructuring debt service; creditor classification according to the OCC representation.

4/ "Multilateral creditors" are simply institutions with more than one sovereign as a shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

5/ Includes loans to central government and loans backed by guarantee from an official export-credit agencies, except Sinosure backed commercial claims.

6/ Based on latest available data, as of end-December 2022, there was around $2.5 billion of disbursed external foreign-currency debt (including non-guaranteed debt of ZESCO) with some form of security or escrow arrangement that could be considered as collateralized debt, including debt with a government guarantee or third-party (exporter) guarantee as security. Almost all this debt is in arrears and, where the security or escrow provides for a claim on funds in a specific account, the authorities have reported zero balances in those accounts. The exception is the non-guaranteed external debt of ZESCO which is collateralized with receivables and which is being serviced. Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

7/ Based on information received, there are no such contingent liabilities. Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

8/ Reflected in external foreign-currency public debt in this table.

9/ Total PPG external debt comprises total external foreign-currency debt, domestic-currency debt held by non-residents, fuel arrears, arrears to external contractors, and ZESCO non-guaranteed external debt and arrears.

10/ The debt-to-GDP ratios are calculated from the value in national currency by converting outstanding debt in US dollars at eop exchange rate, and nominal GDP at average period exchange rate.

MACROECONOMIC ASSUMPTIONS

The macroeconomic framework underpinning this DSA aligns with the baseline of the combined Fifth Review of the ECF program and the 2025 Article IV consultations. Key changes from the previous DSA include an upward revision in real GDP growth, stronger fiscal adjustment, a deteriorated external sector over the medium term, and a more depreciated exchange rate.

12. Recent developments. The Zambian economy has remained resilient despite the severe drought, with real GDP growth in 2024 revised upward to 4 percent from 1.2 percent during the Fourth Review. Fiscal performance in 2024 has been constrained by domestic financing, leading to stronger-than-envisaged fiscal balance. The end-December 2024 primary balance (cash basis) reached 2.9 percent of GDP (K20.2 billion), exceeding the adjusted program target of 1.2 percent of GDP as tight domestic financing reduced investment and expenses. As arrears clearance progresses, the primary balance (commitment basis) improved to 4.3 percent of GDP in 2024 from 1.5 percent in 2023.

13. Growth. Medium-term growth assumptions for 2025-34 are broadly unchanged on average from the previous DSA. Mopani Copper Mines and Konkola Copper Mines have become operational and are expected to raise production in the coming years, boosting copper and cobalt output. Copper production is expected to ramp up in 2026-28, relative to the previous DSA, as expansion projects yield results and support medium-term growth. Growth is expected to average around 5.2 percent over 2025-34. Structural, fiscal, and institutional reforms are expected to lay the foundation for sustained long-term growth driven by a competitive private sector. The implementation of ZESCO's turnaround plan—including the introduction of a five-year electricity tariff schedule and the extension of the November 2024 emergency tariff increase to July 2025—should help support ZESCO's financial sustainability and attract investment in electricity generation capacity, in line with the Ministry of Energy's Integrated Resource Plan approved in November 2023. The Comprehensive Agricultural Transformation Support Program should help boost agricultural productivity and build climate resilience. Redirecting expenditure away from inefficient subsidies to education, health, and social protection will help build human capital.

14. Inflation. Near-term Inflation projections have been revised upward compared to the previous DSA, reflecting inflation outcomes and lingering inflationary pressures arising from supply shocks in 2024. In 2024, the Bank of Zambia (BoZ) raised its policy rate by a cumulative total of 300 basis points to address rising inflation and currency depreciation. In 2025, inflation is expected to average 14.2 percent, with end-year inflation projected at 11.1 percent. In contrast to the previous DSA, inflation is now expected to fall within the BoZ's target band by end-2026.

15. External. The medium-term outlook for the external position has slightly deteriorated compared to the previous DSA. In 2024, the current account deficit is estimated at 2.4 percent of GDP, compared to a surplus of 0.7 percent of GDP projected in the Fourth Review. Stronger copper and gold exports were offset by higher electricity and oil imports due to the drought. In the coming years, the ramp-up in copper production is expected to support the current account. FDI flows are projected to remain broadly in line with previous update. The BoZ increased gross reserves and met the end- December 2024 NIR target. The external position is projected to improve following the debt restructuring and the continued implementation of policies under the program that will sustain fiscal consolidation, improve business confidence, and attract further foreign direct investment. The improved current and financial accounts are expected to support accumulating FX reserves. However, the non-interest current account surplus is projected to be lower than in the previous DSA, averaging 4.7 percent of GDP, due to expected sustained higher imports and lower projected copper prices.

Text Table 2. Zambia: Macro and Debt Assumptions

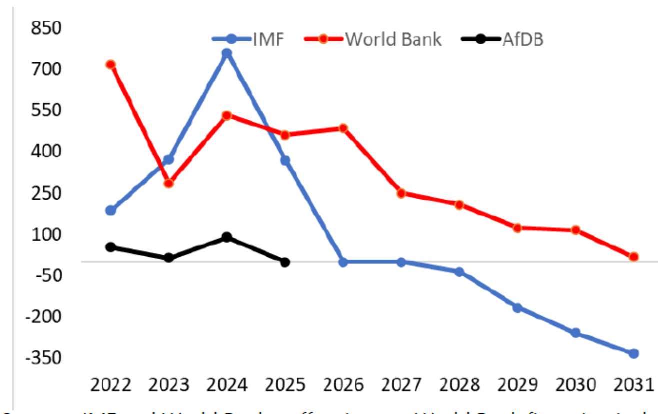
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	(Annual percentage change)									
Real GDP Growth										
December DSA	1.2	6.2	6.6	6.2	5.1	4.8	4.7	4.7	4.7	4.7
Current DSA	4.0	5.8	6.4	6.5	5.1	4.8	4.8	4.8	4.7	4.7
Inflation (Annual Average)										
December DSA	14.9	12.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Current DSA	15.0	14.2	9.2	7.4	7.0	7.0	7.0	7.0	7.0	7.0
Inflation (End of Period)										
December DSA	16.4	7.6	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Current DSA	16.7	11.1	7.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0
GDP Deflator										
December DSA	19.2	9.7	5.2	6.4	7.0	6.2	6.4	6.4	6.4	6.4
Current DSA	18.8	11.5	6.9	6.3	6.9	6.7	6.4	6.4	6.4	6.4
	(Percent of GDP)									
Primary Balance (on Commitment Basis)										
December DSA	2.5	3.3	3.1	2.9	2.7	1.8	1.8	1.3	1.6	1.2
Current DSA	4.3	4.1	4.3	5.0	4.4	3.6	2.9	2.7	2.6	2.5
Primary Balance (on Cash Basis)										
December DSA	0.5	1.9	1.8	1.7	1.7	1.6	1.6	1.2	1.4	1.1
Current DSA	2.9	1.2	2.7	3.6	3.3	2.9	2.7	2.6	2.6	2.5
Non-Interest Current Account Balance										
December DSA	2.8	6.6	6.3	8.6	8.7	8.2	7.8	7.1	7.5	7.4
Current DSA	0.0	3.9	4.6	5.4	5.4	4.9	4.7	4.1	4.6	4.5
Net FDI Inflows										
December DSA	3.7	3.7	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Current DSA	3.7	3.7	4.5	3.8	3.8	4.3	4.3	4.3	4.3	4.3
	(In Percent)									
Average nominal interest rate on external debt										
December DSA	2.5	2.7	2.6	2.4	2.5	2.5	2.5	2.4	2.4	2.3
Current DSA	2.5	3.4	2.8	2.8	2.9	2.9	3.0	2.8	2.7	2.5
	(Millions of dollars)									
Project Loan Disbursements										
December DSA	426	412	443	249	219	731	1065	1088	835	951
Current DSA	426	364	442	276	213	160	718	1008	907	836

16. **Fiscal.** Fiscal consolidation is expected to continue in 2025, with a primary surplus target of 1.1 percent of GDP (2.4 percent of GDP—excluding the fuel arrear operation). In 2025, the 0.2 percent of GDP needed for stop-gap USAID health spending is expected to be covered through higher revenues and spending reallocations in the revised budget. The authorities are advancing in seeking domestic financing toward repaying fuel arrears. Revenue excluding grants (adjusted for the VAT backlog) is projected to rise to 21.9 percent of GDP in 2025, up from 19.6 percent in 2019, supported by the elimination of fuel tax exemptions (1.2 percent of GDP), base broadening, and a mining sector rebound. These efforts aim for a cumulative improved primary balance (commitment basis) of 9.3 percent of GDP over the program period.

17. **Financing**. Financing assumptions are guided by the debt conditionality under the ECF program.

- **External financing:** Concessional borrowing—primarily from the IMF, the World Bank and the African Development Bank—will comprise an important part of the financing mix (Text Figure 3). Over the program period of 2022-25, external financing comprises disbursements of US$1.6 billion on contracted but undisbursed priority project loans, about US$2.3 billion of new financing from the World Bank (including grants), US$1.7bn financing from the IMF, and US$393 million from the African Development Bank.[7] The World Bank is assumed to disburse US$1.135 billion over 2025–26, in line with the previous DSA. Under the program, Zambia will not undertake non-concessional borrowing unless an exception is granted in line with the IMF's Debt Limit Policy or World Bank Sustainable Development Finance Policy. However, two non-concessional loans were contracted: a US$50 million BADEA loan in October (27 percent grant element) to support a trade-enhancing road to Angola, and a US$7.9 million loan in November 2024 from the International Fund for Agricultural Development (25.2 percent grant element) to support agriculture. Going forward, the authorities have committed to consult with Fund staff on grant elements prior to signing future loan agreements. Access to international markets is assumed to be lost through the medium term, and nonresident participation in the domestic debt market is expected to remain limited, as the authorities will continue to restrict their participation in new issuances to safeguard external debt sustainability.

Text Figure 3. Zambia: Net Financing from IFIs, 2022–31
(US$ million)



Sources: IMF and World Bank staff estimates. World Bank financing includes grant disbursements from new operations approved in FY24-FY26.

[7] Beyond the IDA20 replenishment cycle (July 2022 through June 2025), IDA financing figures are based on assumptions. Actual financing will depend on IDA replenishment volumes, country performance, and other operational factors. Actual performance-based allocations (PBA) will be determined annually and will depend on (a) total IDA resources available; (b) the number of IDA-eligible countries; (c) the country's performance rating, per- capita gross national income, and population; (d) implementation of IDA's Sustainable Development Finance Policy (SDFP); and (e) the performance and other allocation parameters for IDA borrowers. IDA allocations and terms could significantly change because of adjustments to the IDA Grant Allocation Framework in new IDA cycles.

- **Domestic financing:** Domestic borrowing will remain a key source of financing. In 2024H1, tight liquidity reduced demand for T-bills, with subscription rates dropping to 57 percent from over 100 percent in 2023, as banks limited rollovers in response to the BoZ's liquidity tightening. Conversely, bond demand remained stable, with subscription rates rising marginally to 91 percent from 88 percent in 2023, alongside a special bond issuance of K 8.5 billion for reserves compliance in June 2024. Non-bank investors in bonds, such as NAPSA, offset banks' reduced exposure in T-bills, while NR holders reached the 5-percent annual limit on bond purchases by end-March 2024. Despite improved subscription rates for both T-bills and bonds in 2024H2, net domestic financing declined to 0.7 percent of GDP in 2024 compared to 1.6 percent of GDP in 2023. In 2025, authorities aim to raise K19.4 billion in net domestic financing. Over the medium term, average real interest rates are projected to remain at around 1.9 percent for T- bills and 6.3 percent for bonds, with nominal rates expected to decline as inflation returns to target. Consequently, net issuance of domestic debt (excluding short-term debt) is anticipated to be slightly negative in the coming years, indicating that the government is containing its domestic financing needs.[8] However, the domestic debt-to-GDP ratio is projected to converge with the median LIC level only by 2031 (Figure 6).

18. **As in the previous DSA, the baseline incorporates the authorities' comprehensive debt restructuring agreements under a weak debt-carrying capacity.** As of May 2025, restructuring agreements covering about 94 percent of claims within the restructuring perimeter have been completed.

- **Official Creditors:** Official creditors, represented by the G20 CF OCC, agreed on a debt treatment consistent with the financing assurances provided in June 2022. Embedded in a MoU, all parties signed. This agreement entails a fully quantified two-stage approach that includes a state-contingent treatment with a trigger linked to Zambia's debt carrying capacity (DCC). In the base case, consistent with Zambia remaining assessed as having a weak DCC, official creditors will significantly lengthen the maturity of their claims and reduce their interest costs consistent with the parameters of the ECF-arrangement. The state-contingent clause will be evaluated at end-2025. If, at this stage, Zambia's economic performance and policy making warrants an upgrade to a medium DCC, the upside treatment will be triggered, with some acceleration of principal payments and higher interest payments to official creditors. This treatment will remain anchored in the LIC-DSF and meet the corresponding DSA thresholds at medium DCC, i.e., the PV of external debt-to-exports at "substantial space to absorb shocks" threshold at 108 percent by 2027 and maintaining the external debt service-to-revenue ratio at or below the 18 percent threshold over 2026-31.

- **Eurobond:** The Eurobond exchange agreement completed on June 11, 2024, similar to the OCC treatment, features an upside scenario activated by a dual trigger linked to Zambia's DCC and/or the 3-year moving average of exports and fiscal revenues in U.S. dollars, relative to IMF staff

[8] Net domestic debt issuance is estimated as public gross financing need minus gross external financing, asset drawdowns, adjustments, and domestic debt amortization, excluding short-term debt issued and matured within the same year.

projections from the second ECF review.[9] The state-contingent clause will be assessed from January 2026 to December 2028. One note includes a state-contingent clause; if triggered, it accelerates payments and increases coupon rates. The upside treatment is anchored in the LIC DSF and meets DSA sustainability targets at medium DCC, as does the OCC treatment. In the

- **Commercial Creditors:** In late 2024, the authorities announced agreements in principle with two of the major commercial creditors—Industrial and Commercial Bank of China and China Development Bank—on terms that are in line with program parameters and CoT principle. Two additional AIPs—with Bank of China and Polytech—were reached in 2025. Similar to the OCC treatment, the agreement outlines a state-contingent treatment triggered by Zambia's DCC. In the base case, where Zambia remains classified with a weak DCC, creditors will extend claim maturities and lower interest costs consistent with the parameters of the ECF- arrangement. The state-contingent clause will be assessed on June 30, 2026. If Zambia's economic performance and policymaking then justify an upgrade to a medium DCC, the upside treatment will be activated, leading to accelerated principal payments and higher interest payments. The authorities have also reached AIP with other smaller creditors.

- **Outstanding commercial creditors:** Consistent with the IMF's Lending into Arrears policy, the authorities are making good faith efforts to reach a debt restructuring agreement with the residual external commercial creditors, on terms that are in line with program parameters and the CoT principle. The outstanding debt to these residual external creditors is US$0.74 billion, 6 percent of the public debt under restructuring.[10] The authorities remain committed to delivering a treatment consistent with the DSA parameters and on comparable terms with the OCC. The residual arrears with these creditors can be considered as treated on comparable terms and deemed away for the purpose of the DSA (in line with LIC DSF Guidance Note).

19. Similar to the previous DSA update, the baseline includes the authorities' strategy for clearing arrears, particularly fuel arrears to external suppliers. The authorities announced a liability management operation to achieve net present value savings on these arrears, which totaled US$897 million at end-2023, with only 48 percent as principal and the rest as accrued interest and penalties. The operation was to be financed through a dollar-denominated loan from domestic banks, using their foreign-held assets. While initially expected to be finalized in 2024, limited financing constrained progress: authorities secured only US$26 million out of the originally envisaged US$450–500 million but have since advanced discussions with domestic banks to mobilize additional financing. The operation is now expected to be completed in 2025, which will improve the medium-term debt service profile as the operation generates significant NPV savings.

20. At the operational level, debt sustainability will also be supported by the debt conditionality under the IMF program and the IDA Sustainable Development Finance Policy. These stipulates a zero ceiling on new non-concessional external borrowing by the central government during the program period. The program sets a ceiling on the PV of new concessional external borrowing as well. The Indicative Target

[9] IMF Country Report No. 23/439.

[10] The remaining claims exclude claims under audit of about US$400 million.

(IT) on the present value of new external borrowing is set in line with the expected borrowing plan for 2024-25 (see Text Table 4). In 2025, no other new external borrowing is expected, except the financing from the IMF, World Bank, AfDB, and issuances on domestic market.

Text Table 3. Zambia: Projected Borrowing Plan[1/]
January 1, 2023 to December 31, 2025

PPG external debt	Volume of new debt in 2023-25		PV of new debt in 2023-25 (program purposes)		PV of new debt in 2023-25 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By Sources of Debt Financing	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
Concessional Debt, of which	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
IFI debt	175.0	100	71.9	100	71.9	100
Other	0.0	0	0.0	0	0.0	0
Non-Concessional Debt, of which	0.0	0	0.0	0	0.0	0
By Creditor Type	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
IFI	175.0	100	71.9	100	71.9	100
Other	0.0	0	0.0	0	0.0	0
Uses of Debt Financing	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
Infrastructure	175.0	100	71.9	100	71.9	100

1/ In line with the TMU definition of debt ceilings, it does not include new financing from IMF, World Bank, AfDB and projected issuances of local-currency debt to NRs.

Sources: IMF staff calculations based on authorities' reported data.

21. Downside risks to the outlook. A slowdown in major economies—driven by trade or investment shocks or rising geopolitical tensions—could dampen global demand and depress copper prices, worsening Zambia's external and fiscal balances. Recent U.S. tariffs could further weigh on commodity prices, including copper, by dampening demand and raising uncertainty. Rainfall variability also remains a key risk to Zambia's sustainable growth, affecting critical sectors such as agriculture, electricity, and mining, and potentially aggravating external vulnerabilities. Rising temperatures and uncertain precipitation patterns, likely driven by human-induced climate change, could increase the risk of drought in Zambia.[11, 12] Although the authorities' reform agenda aims to mitigate these risks over time, their materialization would increase debt vulnerabilities.

[11] In a plausible worst-case scenario, hotter and drier climate models suggest a likely decrease in precipitation and worsening annual variability. https://climateknowledgeportal.worldbank.org/country/zambia

[12] A World Bank Group Country Climate and Development report is currently in preparation, which would provide more detailed insights into the macro-economic impacts of climate change through long-term climate modeling.

22. Upside risks. These stem mainly from faster global and domestic growth, a speedy resolution of the remaining aspects of the debt restructuring, greater confidence effects, including stronger and broader reform momentum, higher copper prices, and realization of announcements to invest in mineral development.

23. Realism tools suggest that baseline scenario projections are reasonable. The DSA realism tools (Figure 3, 4) highlight the large size of the programmed fiscal adjustment relative to outcomes in other LIC programs, and the likelihood of a diminished growth contribution from public investment over the forecast period. However, the risk that the adjustment proves infeasible is mitigated by the demonstrated track record of the authorities to take needed measures. The unusual relation between the fiscal adjustment and the growth projections in 2024 and 2025 under the baseline is due to the impact of the drought shock, and respectively, the rebound expected in 2025.

COUNTRY CLASSIFICATION AND DETERMINIATION OF SCENARIO STRESS TESTS

24. Zambia's debt-carrying capacity under the Composite Indicator (CI) rating is assessed as weak, unchanged from the previous DSA.[13] The latest CI score, 2.58 (as of April 2025), remains below the 2.69 threshold for medium debt-carrying capacity. Accordingly, debt sustainability is assessed using the thresholds applicable to countries with weak debt-carrying capacity.

25. The DSA includes stress tests that follow standardized settings. Zambia has a significant reliance on commodity exports that triggers the commodity price shock, but the natural disasters shock does not apply. Given significant Eurobond issuance in the past, the market financing tool applies.

Text Table 4. Zambia: Composite Indicator and Thresholds

Debt Carrying Capacity and Thresholds

Country	Zambia
Country Code	**754**

Debt Carrying Capacity	**Weak**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.58	2.62	2.62

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in %	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.198	1.23	48%
Real growth rate (in percent)	2.719	4.743	0.13	5%
Import coverage of reserves (in percent)	4.052	26.558	1.08	42%
Import coverage of reserves^2 (in percent)	-3.990	7.053	-0.28	-11%
Remittances (in percent)	2.022	0.965	0.02	1%
World economic growth (in percent)	13.520	2.973	0.40	16%
CI Score			2.58	100%
CI rating			**Weak**	

New framework	Cut-off values			
Weak	CI <	2.69		
Medium	2.69	≤ CI ≤		3.05
Strong	CI >	3.05		

[13] The composite indicator is calculated using data from the April 2025 WEO and the 2023 CPIA, the latest available.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

26. Three external debt indicators breach their respective thresholds under the baseline, signaling a high risk of external debt distress. External debt service relative to revenues breaches its threshold in 2025 and 2026, and again in 2031. Unlike in the previous DSA, the debt service-to- revenue ratio breaches the threshold in 2025, primarily due to exchange rate depreciation which reduces revenues in U.S. dollar terms by about $316 million, although revenue in kwacha is projected to be about 4.9 percent higher than in the previous DSA. Higher-than-projected debt service to NRs, projected past due interest (PDI) payment on the restructured debt, and the delayed fuel arrears LMO also contribute to the breach.[14] The breach remains after excluding the fuel arrears LMO (US$ 391 or 6 percent of revenue) and PDI (3 percent of revenue), with the ratio projected at 14.7 percent in 2025. The 2026-31 average is, however, projected to be below the threshold—at 13.8 percent compared to 13.4 percent in the previous DSA (Table 1). While the PV of PPG external debt-to-GDP remains above its 30 percent threshold through 2030, measurement of this indicator is challenged by the authorities' ongoing rebasing of the GDP series. However, the PV of external debt-to-exports is projected to fall below the 84 percent "substantial space to absorb shocks" threshold by 2027. At the same time, the external debt service-to-exports ratio is expected to remain well below its threshold throughout the forecast horizon, averaging 6.8 percent over 2025–31.

27. The thresholds for all four external debt indicators are breached by large margins under stress tests (Figure 1). The standardized exports shock is the most extreme for all external debt indicators. Under the standardized exports shock, the PV of PPG external debt-to-exports ratio peaks at 262 percent in 2026 and remains well above the threshold throughout the long term. The market financing tool does not signal debt vulnerabilities in Zambia, but its relevance is limited as Zambia has currently no access to international capital markets.

PUBLIC DEBT SUSTAINABLITY ANALYSIS

28. The PV of total PPG debt-to-GDP ratio remains above its benchmark through the medium and long term (Figure 2). While on a declining trajectory, the ratio remains elevated— averaging over 55 percent over 2025-34—before falling below the 35-percent threshold in 2036. The elevated domestic debt vulnerabilities contribute to the breaches of the total PPG debt-to-GDP ratio (Figure 6). The most extreme shock scenario for this indicator is the one on exports, whereas the growth shock would impact the total debt service-to-revenue indicator the most.

[14] Although the OCC MoU was signed, debt service did not begin in 2023 as envisaged, pending bilateral agreements with each OCC member. With signatures starting in late 2024 and completion expected in 2025, PDI is set to be settled in 2025.

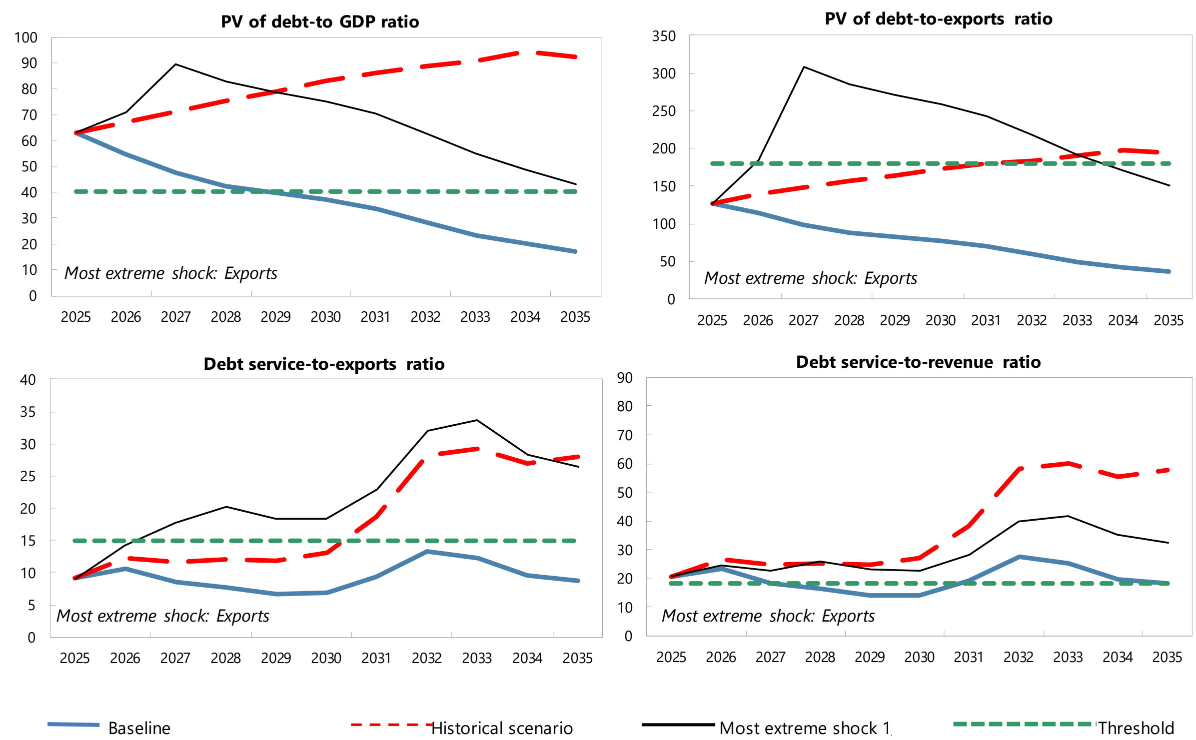
RISK RATING AND VULNERABILITIES

29. Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress. Under the baseline, there are remaining breaches of the overall and some external debt indicator thresholds. Zambia's debt indicators are, however, projected to improve and reach the targets identified in Zambia's 2022 ECF Request as being consistent with a moderate risk of external debt distress in the medium term.

30. The medium-term assessment is supported by the authorities' strong commitment to restore debt sustainability. The government remains dedicated to maintaining a primary surplus over the medium term, including through additional revenue mobilization. Key measures include indexing excise taxes to inflation and refraining from introducing new tax expenditures. The authorities are also streamlining tax exemptions and adjusting excise and import duties to enhance revenues. Ongoing efforts to strengthen tax policies and enhance tax administration through technological advancements will bolster domestic revenue mobilization. Initiatives to reduce informality will support efforts to broaden the tax base. Furthermore, underscoring the government's strong commitment to fiscal consolidation and debt sustainability, the authorities are advancing debt management and transparency initiatives. These include publishing a quarterly debt bulletin and a medium-term debt management strategy for 2024–26, updating annual borrowing plans, and establishing a Debt Management Office expected to be fully operational in 2025.

31. In an alternative scenario where Zambia's debt-carrying capacity is upgraded to medium, the upside treatment agreed with the OCC and private commercial creditors, with higher debt service, is activated. Keeping the baseline macro framework unchanged, the evolution of the debt profile under this scenario is illustrated in Text Figure 4 with steady decline in the PV of external debt-to-exports, which falls below the "substantial space to absorb shocks" threshold of 108 percent by 2027 and that the external debt service-to-revenue ratio stabilizes at an average of about 17.4 percent over 2026-31, below the threshold of 18 percent. The external debt service-to- exports ratio will also remain well within safe limits, averaging 8.2 percent over 2026-31. The temporary breaches beyond 2031 of the external debt service-to-revenues threshold are judged to be distant and are mitigated by the fact that, in the event of an upgrade, the current macro baseline does not account for the likely improvement in economic conditions under this scenario. Overall, while the outlook under these conditions is still uncertain, all external debt burden indicators improve to levels that should be broadly aligned with Zambia reaching a moderate risk of external debt distress over the medium term, even if that might imply the need to use judgement (see Text Figure 4). That assessment will only be confirmed if this state of the world materializes.

Text Figure 4. Zambia: Alternative Baseline, Upside Case Treatment – Indicators of PPG External Debt, 2025-2035 1/



1/ Includes the agreed treatments and the authorities' strategy for the other commercial creditors. Sources: IMF staff projections based on the main elements of the agreed treatments and the authorities' restructuring strategy.

32. Risks to the debt outlook are significant. This DSA hinges on the Zambian authorities' commitment under their program to take credible steps toward restoring medium-term debt sustainability, including through macroeconomic stabilization and stronger economic growth. However, delays or slippages in fiscal adjustment—or adverse weather and external shocks—could severely derail the debt trajectory, potentially jeopardizing the gains made to date and heightening the risk of renewed debt distress. Continued exchange rate depreciation will increase the debt service burden, calling for additional revenue measures to improve the indicator. While these risks are partly mitigated by the authorities' track record of robust policy implementation since August 2021, sustained commitment and timely execution remain critical.

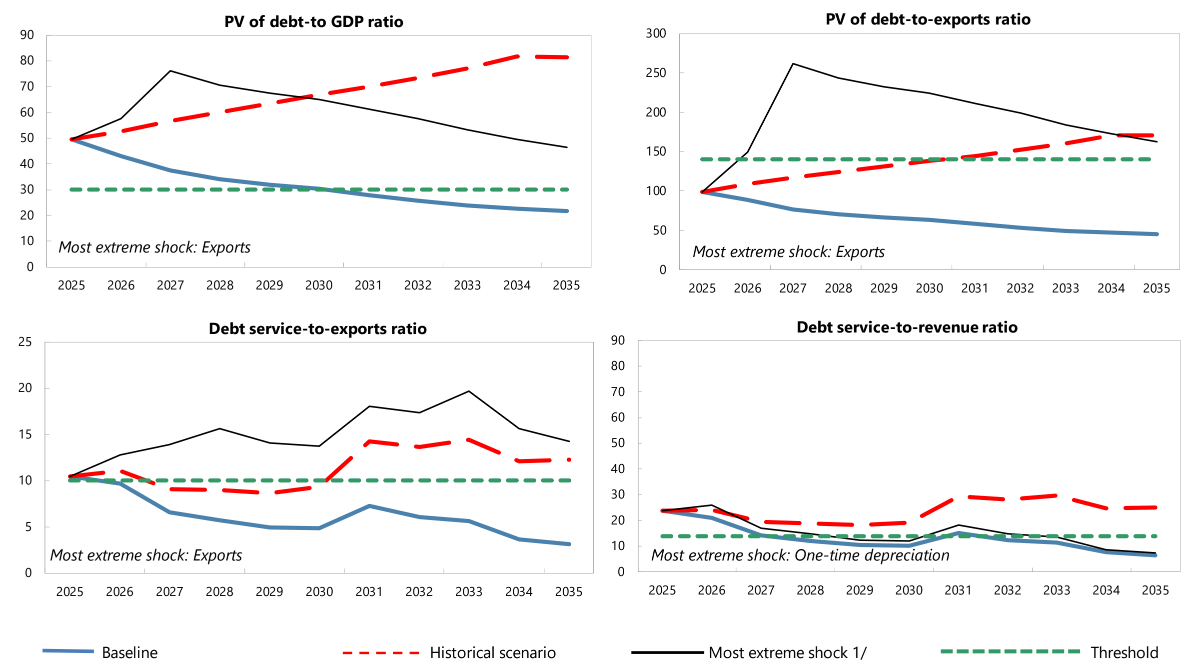
33. Reforms to support debt sustainability are also underway to further mitigate risks. The Public Debt Management Act, approved August 2022, provides greater oversight on borrowing plans and issuances of debt guarantees, establishes the debt management office, and enhances debt reporting and transparency.[15] This will be supported by ongoing efforts to strengthen public financial management, including cash management and management of fiscal risks (including PPPs).

[15] Zambia's Debt Management Act (2022).

AUTHORITIES' VIEWS

34. **The authorities agreed with staff's debt sustainability assessment and reaffirmed their strong commitment to restoring sustainability.** They expressed their commitment to implementing a combination of fiscal and structural reforms, alongside the completion of external debt restructuring consistent with the DSA and IMF program objectives. They recognized the need for credible and sustained policy efforts to reduce vulnerabilities and support durable growth. The authorities noted the considerable progress made in concluding agreements with both official and commercial creditors and reiterated their determination to finalize the remaining deals in line with IMF program parameters and the CoT principle. To reinforce fiscal consolidation and underpin debt sustainability, they have revised the 2025 budget to include new revenue measures aimed at broadening the tax base and mobilizing additional resources.

Figure 1. Zambia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2025–35



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price 2/	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.4%	4.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

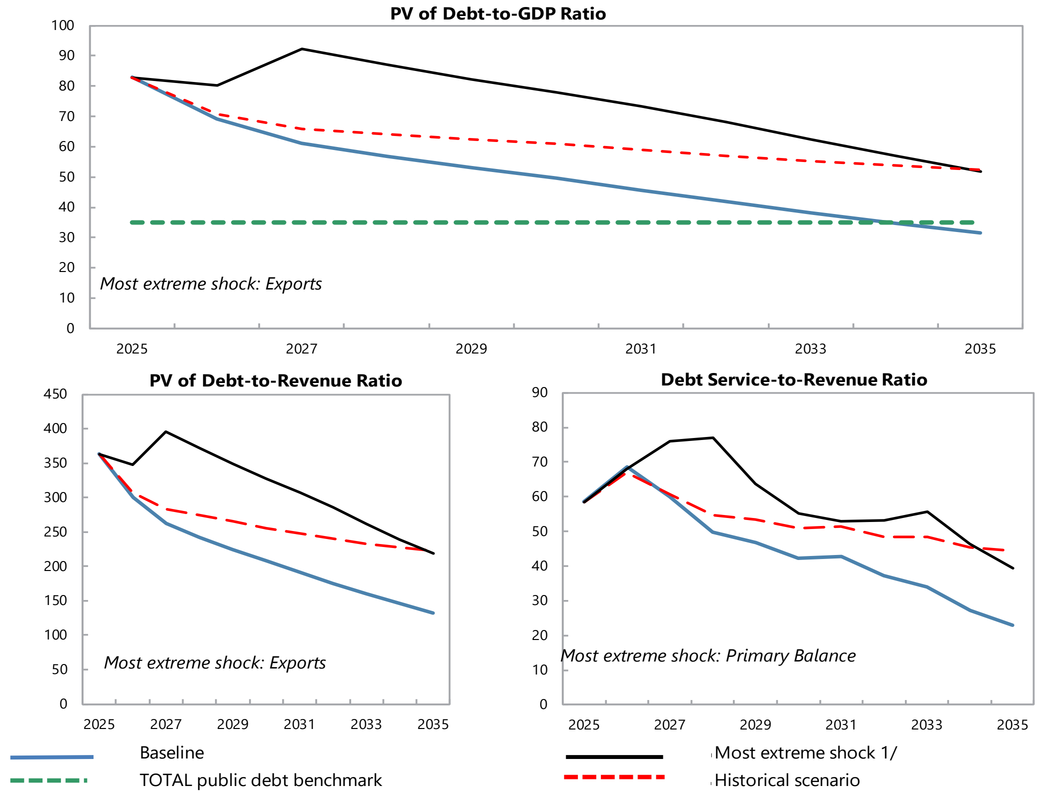
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Zambia: Indicators of Public Debt Under Alternative Scenarios, 2025–35



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	27%	27%
Domestic medium and long-term	32%	32%
Domestic short-term	41%	41%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.4%	4.4%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.3%	6.3%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	1.9%	1.9%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

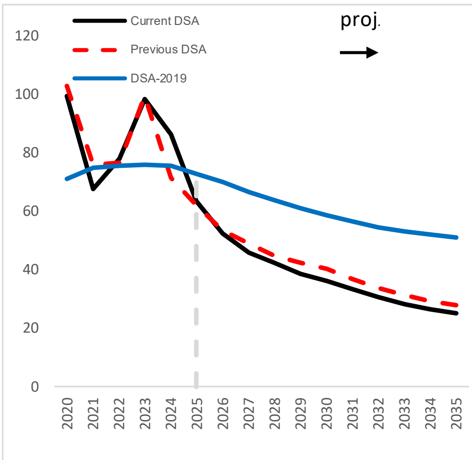
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Zambia: Drivers of Debt Dynamics – Baseline Scenario

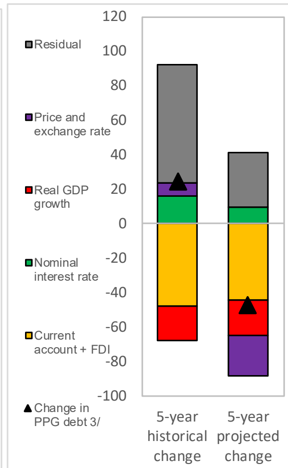
Gross Nominal PPG External Debt

(In Percent of GDP; DSA vintages)



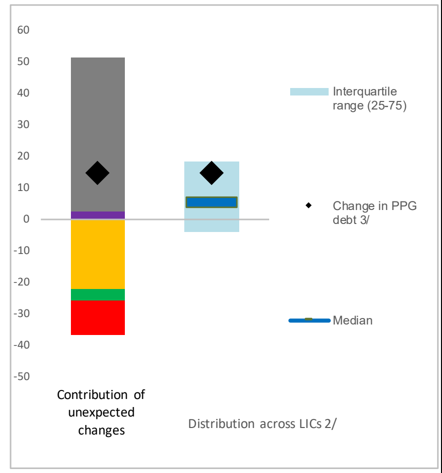
Debt-creating flows

(In Percent of GDP)



Unexpected Changes in Debt 1/

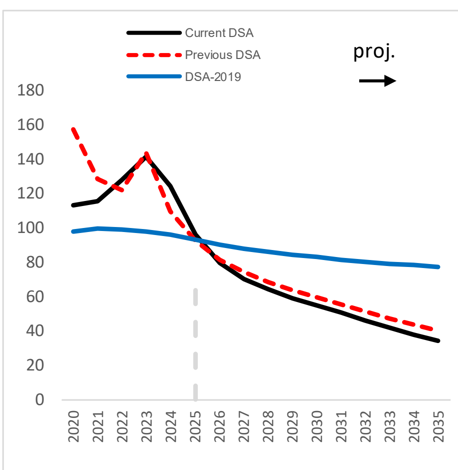
(In Percent of GDP, past 5 years)



Public Debt

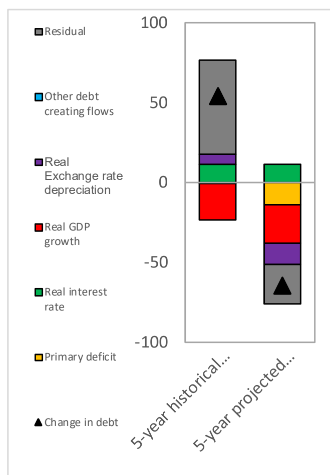
Gross Nominal Public Debt

(In Percent of GDP; DSA vintages)



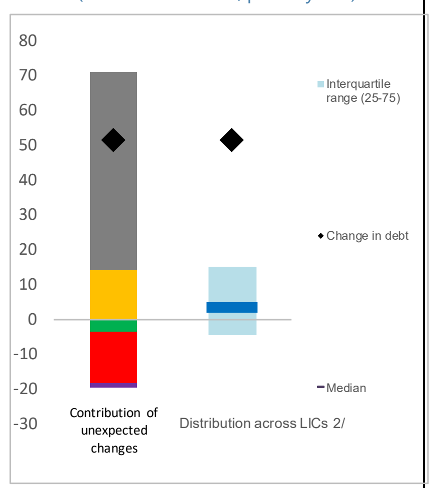
Debt-creating flows

(In Percent of GDP)



Unexpected Changes in Debt 1/

(In Percent of GDP, past 5 years)



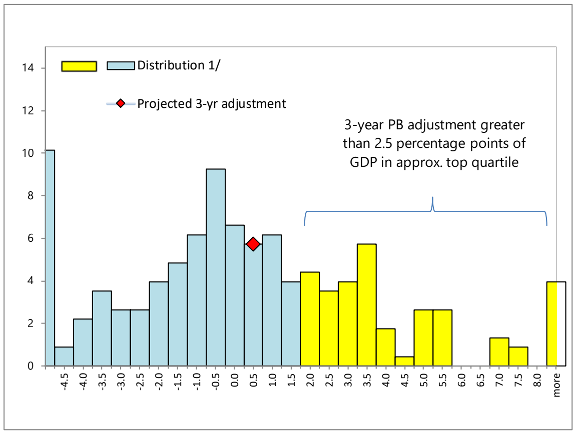
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

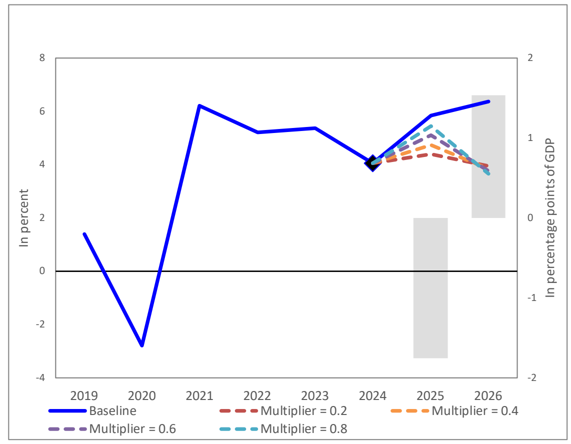
Figure 4. Zambia: Realism Tools

3-Year Adjustment in Primary Balance
(In Percent of GDP)



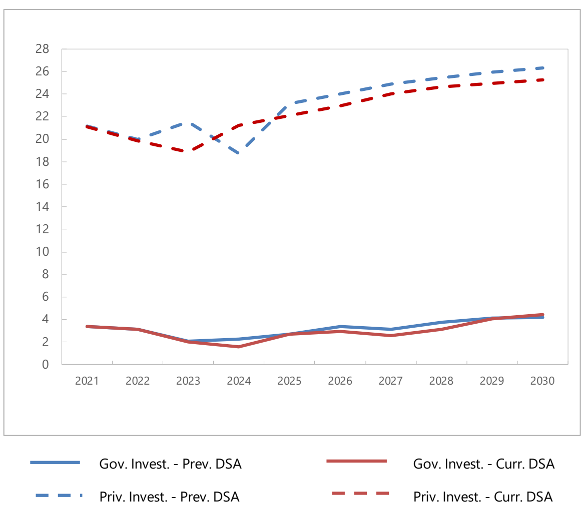
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(In Percent of GDP)



Contribution to Real GDP growth
(In Percent, 5-year average)

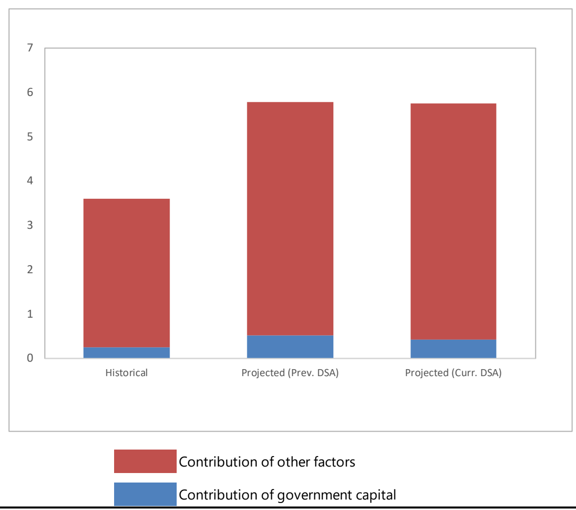
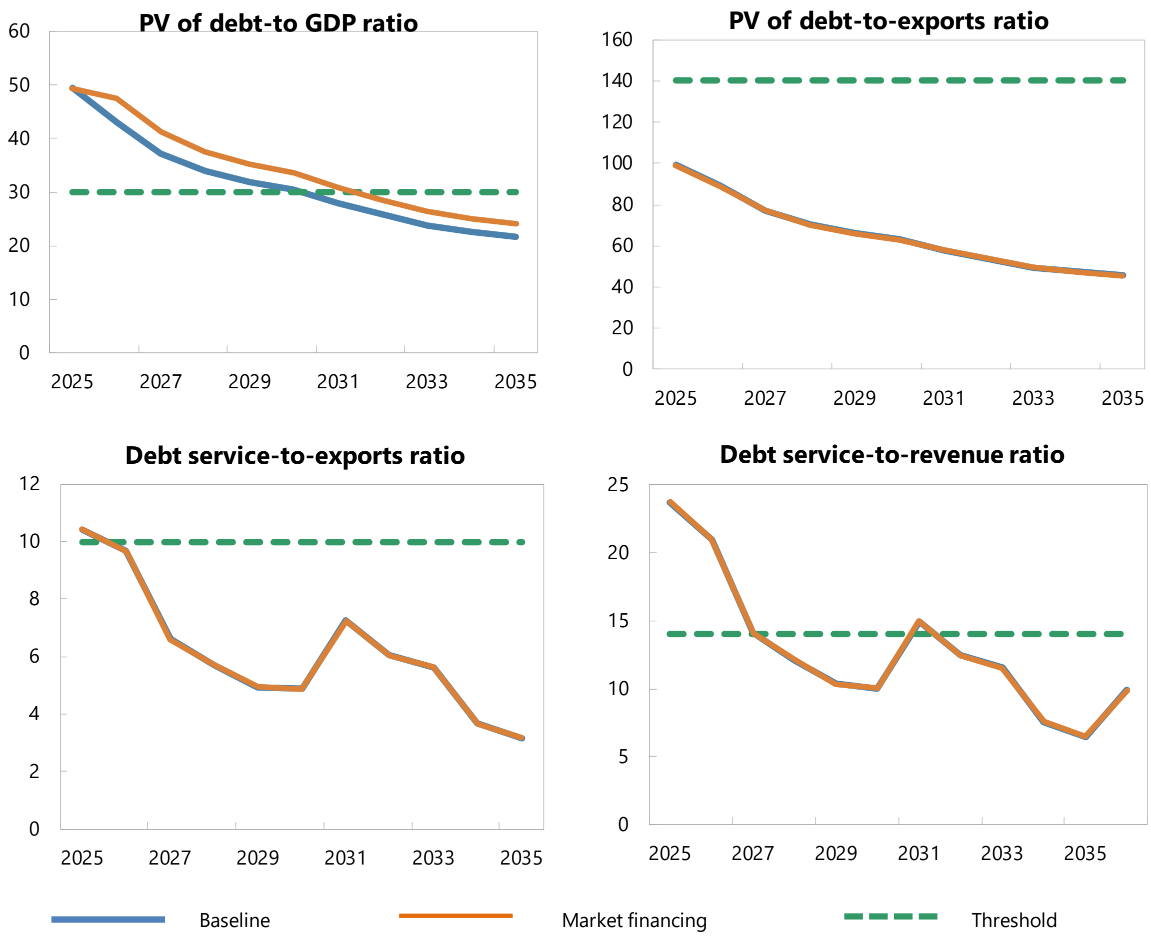


Figure 5. Zambia: Market-Financing Risk Indicators

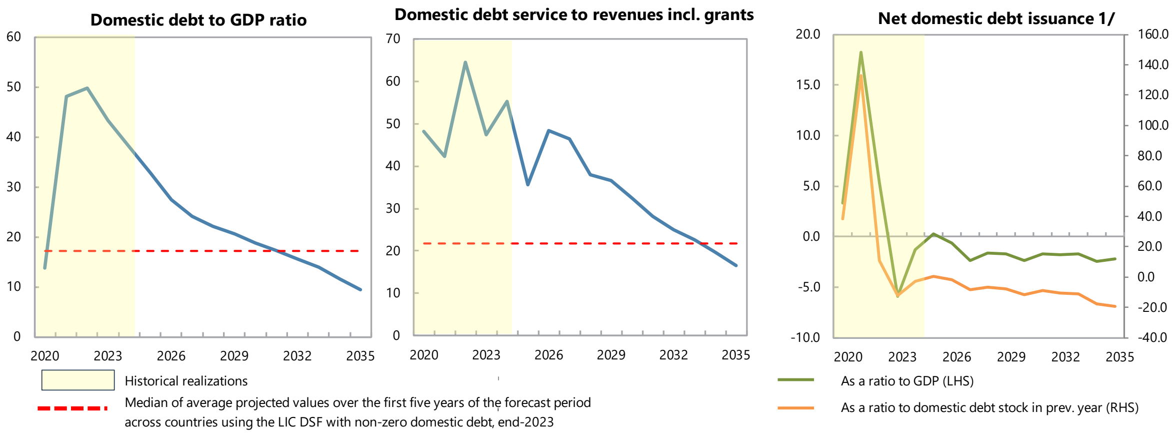
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	13	536
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Figure 6. Zambia: Indicators of Domestic Public Debt, 2020–2035



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	44%
Short-term	56%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	6.3%
Avg. maturity (incl. grace period)	6
Avg. grace period	5
Domestic short-term debt	
Avg. real interest rate	1.9%

Sources: Country authorities; and staff estimates and projections.

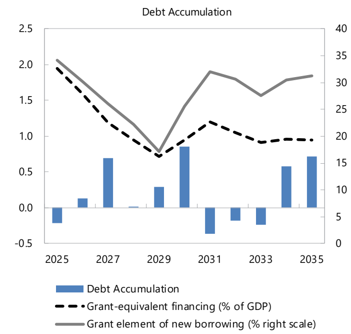
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

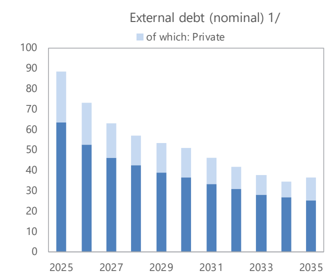
Table 2. Zambia: External Debt Sustainability Framework, Baseline Scenario, 2022–43

(In Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2043	Historical	Projections
External debt (nominal) 1/	**105.8**	**126.5**	**114.8**	**88.2**	**73.2**	**62.9**	**56.8**	**53.2**	**50.9**	**36.3**	**34.1**	**110.6**	**52.9**
of which: public and publicly guaranteed (PPG)	**78.1**	**98.4**	**86.2**	**63.4**	**52.5**	**46.0**	**42.3**	**38.7**	**36.4**	**25.3**	**10.7**	**67.2**	**38.5**
Change in external debt	0.6	20.7	-11.7	-26.6	-15.0	-10.3	-6.1	-3.6	-2.3	1.8	-0.9		
Identified net debt-creating flows	**-29.3**	**5.4**	**2.3**	**-10.9**	**-12.1**	**-11.6**	**-10.6**	**-9.8**	**-9.5**	**-9.0**	**-6.2**	**-4.5**	**-10.0**
Non-interest current account deficit	**-5.9**	**-1.6**	**0.0**	**-3.9**	**-4.6**	**-5.4**	**-5.4**	**-4.9**	**-4.7**	**-4.6**	**-3.1**	**-3.6**	**-4.7**
Deficit in balance of goods and services	-8.3	-2.1	-2.8	-7.7	-8.5	-9.1	-9.2	-8.7	-8.6	-8.5	-5.1	**-2.9**	**-8.6**
Exports	42.7	41.5	48.4	49.8	48.2	48.4	48.2	48.2	48.2	47.7	27.9		
Imports	34.4	39.5	45.6	42.1	39.7	39.3	39.0	39.6	39.6	39.2	22.9		
Net current transfers (negative = inflow)	-1.0	-0.9	-2.2	-1.5	-1.5	-1.4	-1.4	-1.3	-1.2	-1.2	-0.8	**-1.3**	**-1.3**
of which: official	0.0	-0.5	-1.3	-0.8	-0.8	-0.7	-0.7	-0.6	-0.5	-0.5	-0.4		
Other current account flows (negative = net inflow)	3.4	1.4	5.0	5.2	5.4	5.1	5.2	5.0	5.0	5.1	2.8	**0.5**	**5.2**
Net FDI (negative = inflow)	**-0.7**	**-1.8**	**-3.8**	**-3.8**	**-4.5**	**-3.8**	**-3.8**	**-3.8**	**-3.8**	**-3.8**	**-2.3**	**-2.5**	**-3.9**
Endogenous debt dynamics 2/	**-22.8**	**8.8**	**6.1**	**-3.1**	**-2.9**	**-2.4**	**-1.3**	**-1.0**	**-0.9**	**-0.6**	**-0.9**		
Contribution from nominal interest rate	2.1	4.7	2.4	2.9	1.9	1.7	1.6	1.5	1.5	0.9	0.7		
Contribution from real GDP growth	-4.2	-6.0	-5.4	-6.0	-4.9	-4.1	-2.9	-2.6	-2.4	-1.5	-1.6		
Contribution from price and exchange rate changes	-20.7	10.2	9.1	...	...	...	...	...	...	...	...		
Residual 3/	**29.9**	**15.3**	**-14.0**	**-15.7**	**-2.9**	**1.3**	**4.5**	**6.2**	**7.2**	**10.8**	**5.3**	**13.1**	**2.8**
of which: exceptional financing	-8.0	-4.5	-1.2	-10.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**55.4**	**49.5**	**42.9**	**37.3**	**33.9**	**31.9**	**30.4**	**21.7**	**8.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**114.4**	**99.3**	**89.0**	**77.1**	**70.3**	**66.0**	**63.0**	**45.5**	**31.6**		
PPG debt service-to-exports ratio	**26.3**	**22.7**	**6.6**	**10.4**	**9.7**	**6.6**	**5.7**	**4.9**	**4.9**	**3.2**	**5.8**		
PPG debt service-to-revenue ratio	**56.1**	**45.2**	**14.8**	**23.7**	**21.0**	**14.1**	**12.1**	**10.4**	**10.0**	**6.5**	**7.0**		
Gross external financing need (Million of U.S. dollars)	1284.2	2425.5	710.3	196.6	-481.5	-1190.8	-1525.6	-2445.4	-2583.0	-6246.8	-5879.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.2	5.4	4.0	5.8	6.4	6.5	5.1	4.8	4.8	4.7	4.8	**3.4**	**5.2**
GDP deflator in US dollar terms (change in percent)	25.4	-10.3	-8.3	5.4	8.7	9.8	4.7	2.3	2.7	2.8	3.1	**-2.3**	**4.3**
Effective interest rate (percent) 4/	2.6	4.2	1.8	2.8	2.5	2.7	2.8	2.9	3.0	2.9	2.2	**2.3**	**2.8**
Growth of exports of G&S (US dollar terms, in percent)	6.1	-8.0	11.3	14.8	11.8	17.4	9.6	7.4	7.6	7.3	0.0	**3.0**	**9.6**
Growth of imports of G&S (US dollar terms, in percent)	70.8	8.6	10.3	3.1	8.9	15.8	9.3	8.7	7.8	7.3	0.0	**3.8**	**8.2**
Grant element of new public sector borrowing (in percent)	...	...	...	34.2	30.1	26.1	22.2	17.1	25.6	31.3	34.9	**...**	**27.9**
Government revenues (excluding grants, in percent of GDP)	20.0	20.8	21.8	21.9	22.2	22.6	22.7	23.1	23.4	23.3	23.3	**18.5**	**23.0**
Aid flows (in Million of US dollars) 5/	226.5	373.2	196.5	540.8	729.4	602.8	491.2	392.1	668.1	832.7	1100.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.9	1.6	1.2	0.9	0.7	0.9	1.0	0.7	**...**	**1.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	49.2	47.5	46.2	53.5	48.0	40.7	47.2	53.2	**...**	**46.4**
Nominal GDP (Million of US dollars)	29,164	27,578	26,326	29,369	33,945	39,699	43,699	46,856	50,428	72,686	133,528		
Nominal dollar GDP growth	32.0	-5.4	-4.5	11.6	15.6	17.0	10.1	7.2	7.6	7.7	8.1	**1.2**	**9.7**
Memorandum items:													
PV of external debt 7/	...	...	84.0	74.3	63.6	54.1	48.4	46.4	45.0	32.8	32.2		
In percent of exports	...	...	173.4	149.1	131.9	111.9	100.4	96.2	93.2	68.7	115.3		
Total external debt service-to-exports ratio	25.6	29.4	13.4	16.8	16.1	12.9	12.0	7.4	7.2	-0.3	3.3		
PV of PPG external debt (in Million of US dollars)			14582.0	14524.9	14564.5	14800.9	14803.2	14929.4	15327.8	15754.4	11782.1		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.2	0.1	0.7	0.0	0.3	0.9	0.7	-0.6		
Non-interest current account deficit that stabilizes debt ratio	-6.4	-22.4	11.7	22.7	10.4	4.9	0.6	-1.4	-2.4	-6.4	-2.1		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

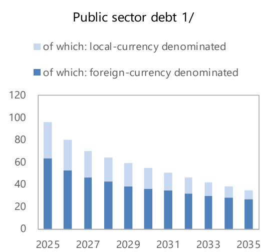
7/ Assumes that PV of private sector debt is equivalent to its face value.

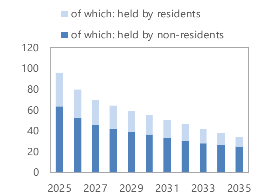
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Zambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–43
(In Percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2043	Historical	Projections
Public sector debt 1/	127.8	141.6	124.3	96.3	79.9	70.1	64.4	59.3	55.1	50.7	46.4	42.1	38.2	34.6	11.9	90.0	57.9
of which: external debt	78.1	98.4	86.2	63.4	52.5	46.0	42.3	38.7	36.4	33.4	30.8	28.2	26.6	25.3	10.7	67.2	38.5
Change in public sector debt	12.0	13.8	-17.4	-28.0	-16.3	-9.8	-5.7	-5.1	-4.3	-4.4	-4.3	-4.2	-4.0	-3.6	-2.0		
Identified debt-creating flows	5.4	17.4	-18.2	-12.7	-11.3	-8.2	-4.1	-4.1	-3.7	-3.8	-3.8	-3.9	-3.8	-3.5	-2.1	2.7	-5.7
Primary deficit (cash basis)	3.6	-0.6	-2.9	-1.2	-2.7	-3.6	-3.3	-2.9	-2.7	-2.6	-2.6	-2.5	-2.5	-2.1	-1.3	1.5	-2.6
Revenue and grants	20.4	21.9	22.2	22.8	23.0	23.3	23.4	23.6	23.8	23.8	23.8	23.8	23.7	23.7	23.6	18.9	23.5
of which: grants	0.4	1.1	0.3	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4		
Primary (noninterest) expenditure	22.0	21.3	19.2	21.6	20.3	19.7	20.2	20.7	21.1	21.2	21.3	21.3	21.3	21.6	22.3	20.2	20.9
Automatic debt dynamics	1.8	18.0	-15.2	-11.5	-8.6	-4.6	-0.8	-1.2	-1.0	-1.1	-1.3	-1.3	-1.3	-1.3	-0.8		
Contribution from interest rate/growth differential	-0.3	-5.1	-8.7	-6.0	-2.8	-2.1	-1.0	-0.8	-0.7	-0.9	-1.1	-1.2	-1.1	-1.1	-0.6		
of which: contribution from average real interest rate	5.4	1.4	-3.2	0.9	2.9	2.8	2.5	2.2	1.9	1.6	1.2	0.9	0.8	0.6	0.0		
of which: contribution from real GDP growth	-5.7	-6.5	-5.5	-6.9	-5.8	-4.9	-3.4	-3.0	-2.7	-2.5	-2.3	-2.1	-1.9	-1.7	-0.6		
Contribution from real exchange rate depreciation	2.1	23.2	-6.5	...	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	6.7	-3.6	0.8	-20.8	-10.8	-4.1	-1.5	-1.3	-0.8	-0.8	-0.7	-0.6	-0.3	-0.3	-0.1	7.1	-3.8
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	...	...	96.4	82.9	69.1	61.2	56.8	53.1	49.6	45.7	41.8	38.1	34.6	31.4	10.2		
PV of public debt-to-revenue and grants ratio	...	...	435.3	363.3	300.5	262.7	242.4	224.7	208.1	191.5	175.3	160.0	145.7	132.5	43.1		
Debt service-to-revenue and grants ratio 3/	119.5	90.4	69.9	58.5	68.5	60.1	49.7	46.7	42.3	42.7	37.3	33.9	27.1	22.9	9.4		
Gross financing need 4/	25.9	19.2	12.5	13.5	13.0	10.4	8.3	8.1	7.5	7.6	6.3	5.6	4.0	3.3	0.9		
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	5.2	5.4	4.0	5.8	6.4	6.5	5.1	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.8	3.4	5.2
Average nominal interest rate on external debt (in percent)	5.7	4.9	2.5	3.4	2.8	2.8	2.9	2.9	3.0	2.8	2.7	2.5	2.4	2.3	2.0	4.7	2.8
Average real interest rate on domestic debt (in percent)	5.3	-0.8	-6.6	-0.7	8.0	9.4	9.2	8.6	8.1	7.3	6.4	5.8	5.6	5.4	3.0	6.5	6.7
Real exchange rate depreciation (in percent, + indicates depreciation)	3.3	35.3	-7.7	...	...	...	...	...	...	...	...	...	...	...	...	9.0	...
Inflation rate (GDP deflator, in percent)	6.1	7.1	18.8	11.5	6.9	6.3	6.9	6.7	6.4	6.4	6.4	6.4	6.4	6.5	6.7	11.6	7.0
Growth of real primary spending (deflated by GDP deflator, in percent)	9.4	2.1	-6.1	19.1	-0.2	3.5	7.7	7.4	7.0	5.4	5.0	4.8	4.5	6.1	6.4	4.4	6.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-8.4	-14.4	14.4	26.8	13.6	6.2	2.4	2.2	1.5	1.8	1.7	1.7	1.5	1.4	0.7	-8.3	5.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Zambia: Sensitivity Analysis for Key Indicators and Publicly Guaranteed External Debt, 2025–35

(In Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of debt-to GDP ratio											
Baseline	**49**	**43**	**37**	**34**	**32**	**30**	28	26	24	23	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**49**	**53**	**57**	**60**	**63**	**67**	**70**	**73**	**77**	**82**	**81**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**49**	**43**	**37**	**34**	**32**	**30**	28	25	23	22	21
B. Bound Tests											
B1. Real GDP growth	**49**	**47**	**44**	**40**	**38**	**36**	**33**	**31**	28	27	26
B2. Primary balance	**49**	**45**	**44**	**41**	**40**	**39**	**36**	**34**	**33**	**32**	**31**
B3. Exports	**49**	**58**	**76**	**71**	**68**	**65**	**61**	**58**	**53**	**50**	**47**
B4. Other flows 3/	**49**	**47**	**44**	**41**	**38**	**37**	**34**	**32**	29	28	26
B5. Depreciation	**49**	**51**	**44**	**40**	**38**	**36**	**33**	**30**	28	27	26
B6. Combination of B1-B5	**49**	**59**	**59**	**54**	**52**	**49**	**46**	**43**	**39**	**37**	**35**
C. Tailored Tests											
C1. Combined contingent liabilities	**49**	**45**	**40**	**37**	**35**	**33**	**31**	29	27	26	25
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**49**	**49**	**48**	**46**	**44**	**44**	**42**	**39**	**37**	**36**	**35**
C4. Market Financing	**49**	**47**	**41**	**37**	**35**	**34**	**31**	29	26	25	24
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	99	89	77	70	66.0	63.0	57.9	54	49.54	47	45
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	99	109	117	125	131	139	**145**	**153**	**161**	**171**	**171**
A2. Alternative Scenario : Contingent Liabilities + FX debt	99	89	77	70	66	62	57	53	49	46	44
B. Bound Tests											
B1. Real GDP growth	99	89	77	70	66	63	58	54	50	47	45
B2. Primary balance	99	93	91	86	83	80	75	71	68	66	64
B3. Exports	99	**149**	**262**	**244**	**233**	**224**	**212**	**199**	**184**	**173**	**162**
B4. Other flows 3/	99	98	92	84	80	76	71	66	61	58	55
B5. Depreciation	99	85	74	67	63	60	55	51	47	45	43
B6. Combination of B1-B5	99	131	102	**141**	134	128	120	111	103	97	92
C. Tailored Tests											
C1. Combined contingent liabilities	99	93	82	76	72	69	64	61	57	55	53
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	99	110	107	100	96	93	87	83	79	76	74
C4. Market Financing	99	89	77	70	66	63	58	54	50	47	45
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**10**	10	7	6	5	5	7	6	6	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**10**	**11**	9	9	9	9	**14**	**14**	**14**	**12**	**12**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**10**	10	7	6	5	5	7	6	6	4	3
B. Bound Tests											
B1. Real GDP growth	**10**	10	7	6	5	5	7	6	6	4	3
B2. Primary balance	**10**	10	7	7	6	6	8	7	7	5	5
B3. Exports	**10**	**13**	**14**	**16**	**14**	**14**	**18**	**17**	**20**	**16**	**14**
B4. Other flows 3/	**10**	10	7	6	6	5	8	7	7	5	4
B5. Depreciation	**10**	10	6	6	5	5	7	6	5	3	3
B6. Combination of B1-B5	**10**	**12**	**11**	**10**	9	9	**12**	**12**	**11**	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	**10**	10	7	6	5	5	8	6	6	4	3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**10**	**11**	8	7	6	6	9	8	8	6	5
C4. Market Financing	**10**	10	7	6	5	5	7	6	6	4	3
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**23.7**	**21.0**	**14.1**	12.1	10.4	10.0	**15.0**	12.4	11.5	7.5	6.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**24**	**24**	**19**	**19**	**18**	**19**	**29**	**28**	**30**	**25**	**25**
A2. Alternative Scenario : Contingent Liabilities + FX debt	**24**	**21**	**14**	12	10	10	**15**	12	11	7	6
B. Bound Tests											
B1. Real GDP growth	**24**	**23**	**17**	**14**	12	12	**18**	**15**	14	9	8
B2. Primary balance	**24**	**21**	**15**	14	12	12	**17**	**15**	**14**	11	10
B3. Exports	**24**	**22**	**18**	**20**	**18**	**17**	**22**	**21**	**24**	**19**	**18**
B4. Other flows 3/	**24**	**21**	**15**	13	12	11	**16**	**14**	14	10	9
B5. Depreciation	**24**	**26**	**17**	**15**	12	12	**18**	**15**	14	9	7
B6. Combination of B1-B5	**24**	**23**	**19**	**17**	**15**	**15**	**20**	**19**	**19**	14	12
C. Tailored Tests											
C1. Combined contingent liabilities	**24**	**21**	**14**	13	11	11	**16**	13	12	8	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**24**	**24**	**17**	**16**	14	13	**19**	**16**	**16**	12	11
C4. Market Financing	**24**	**21**	**14**	12	10	10	**15**	12	12	8	6
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 5. Zambia: Sensitivity Analysis for Key Indicators of Public Debt, 2025–35

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	**83**	**69**	**61**	**57**	**53**	**50**	**46**	**42**	**38**	35	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**83**	**71**	**66**	**64**	**62**	**61**	**59**	**57**	**55**	**54**	**52**
B. Bound Tests											
B1. Real GDP growth	**83**	**76**	**77**	**76**	**75**	**75**	**75**	**74**	**74**	**74**	**75**
B2. Primary balance	**83**	**76**	**78**	**73**	**69**	**66**	**62**	**58**	**54**	**51**	**47**
B3. Exports	**83**	**80**	**92**	**87**	**82**	**78**	**73**	**68**	**62**	**57**	**52**
B4. Other flows 3/	**83**	**73**	**68**	**64**	**60**	**56**	**52**	**48**	**44**	**40**	**36**
B5. Depreciation	**83**	**82**	**71**	**65**	**59**	**54**	**48**	**43**	**38**	33	28
B6. Combination of B1-B5	**83**	**74**	**75**	**71**	**69**	**66**	**63**	**60**	**58**	**55**	**53**
C. Tailored Tests											
C1. Combined contingent liabilities	**83**	**76**	**67**	**63**	**59**	**55**	**51**	**48**	**44**	**40**	**37**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**83**	**73**	**71**	**73**	**74**	**76**	**76**	**76**	**76**	**76**	**76**
C4. Market Financing	**83**	**69**	**61**	**57**	**53**	**50**	**46**	**42**	**38**	35	31
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	363	301	263	242	225	208	192	175	160	146	133
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	363	308	283	274	265	256	248	240	233	227	222
B. Bound Tests											
B1. Real GDP growth	363	328	328	320	317	314	312	311	311	312	313
B2. Primary balance	363	330	335	313	294	276	259	243	228	213	200
B3. Exports	363	348	395	372	349	327	307	286	262	240	219
B4. Other flows 3/	363	318	293	272	253	235	218	200	183	167	152
B5. Depreciation	363	357	304	276	251	227	203	180	158	138	119
B6. Combination of B1-B5	363	320	321	304	290	277	265	253	242	232	223
C. Tailored Tests											
C1. Combined contingent liabilities	363	331	289	267	248	232	215	199	184	170	157
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	363	349	333	340	337	333	327	319	318	319	321
C4. Market Financing	363	301	263	242	225	208	192	175	160	146	133
Debt Service-to-Revenue Ratio											
Baseline	58	69	60	50	47	42	43	37	34	27	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	58	67	61	55	53	51	51	48	48	45	44
B. Bound Tests											
B1. Real GDP growth	58	74	75	69	69	67	68	66	68	64	63
B2. Primary balance	58	68	76	77	64	55	53	53	56	46	39
B3. Exports	58	69	62	55	52	47	48	44	44	37	32
B4. Other flows 3/	58	69	61	51	48	43	44	39	36	29	25
B5. Depreciation	58	68	60	51	47	43	45	39	35	27	22
B6. Combination of B1-B5	58	68	65	65	61	56	55	51	51	45	41
C. Tailored Tests											
C1. Combined contingent liabilities	58	68	76	58	52	47	46	46	42	33	28
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	58	76	69	60	68	68	68	64	64	64	65
C4. Market Financing	58	69	60	50	47	42	43	37	34	27	23

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

ZAMBIA

July 21, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW; —SUPPLEMENTARY INFORMATION

Prepared By African Department

The information below has become available following the issuance of the Staff Report. It does not alter the thrust of the staff appraisal.

1. **Recent economic indicators point to strong growth and declining inflation, supported by a favorable agricultural season**. The economy grew by 4.5 percent in the first quarter of 2025, boosted by strong performance in the agriculture and mining sectors. Mining output increased by 17.5 percent y/y during January-May, while the ongoing harvest has helped ease food prices, contributing to a further decline in inflation to 14.1 percent y/y in June. Revenue collection data for January-May show an overall strong performance in line with the budget, despite the increased pace of clearing VAT refund arrears, partly through netting off against current tax obligations.

2. **On July 17, the authorities adopted the amended 2025 budget in line with program parameters —a prior action for the completion of the Fifth Review**. The amended budget envisages a total of 0.5 percent of GDP in revenue measures and spending reprioritization to offset fiscal pressures stemming from higher interest payments on restructured debt, sustained support for social cash transfers, and other unanticipated needs—including stop-gap health spending following the suspension of USAID funding and advancing expenditures related to the electoral process.

3. **The 2025 Country Policy and Institutional Assessment (CPIA) release confirms an improvement in economic management.** Since the circulation of the Staff Report and Debt Sustainability Analysis (DSA) to the Executive Board, staff have been informed of the World Bank's release of the 2025 CPIA Report, covering the period from January to December 2024. Consistent with the analysis presented in the

Staff Report, the CPIA score has improved from 3.24 to 3.28, primarily driven by improvements within the economic management cluster.

4. **The updated CPIA has a minimal impact on the composite indicator (CI) used in the debt-carrying capacity assessment.** As the CPIA feeds into the CI used in the DSA, staff recalculated the CI score using the new data. The improved CPIA raised the CI marginally from 2.58 (as reported in the Staff Report) to 2.59, remaining below the 2.69 threshold for medium debt-carrying capacity. This marginal change does not alter the DSA assessment.

Statement by Mr. Ubisse and Ms. Motsumi on Zambia
July 25, 2025

Introduction

1. Our authorities thank Fund management and staff for their constructive engagement during the successful Fifth Review under the Extended Credit Facility (ECF) arrangement and the 2025 Article IV consultation. They are grateful to Ms. Vera Martin and her team for their dedication and candid discussions.

2. Zambia has demonstrated remarkable resilience, with growth averaging above 4 percent in the past two years and significantly exceeding the 2024 projection. This stronger-than-expected performance highlights the economy's adaptability and the authorities' effective policy response, particularly in mitigating drought-related disruptions and sustaining activity in key sectors. Inflationary pressures are beginning to ease, aided by timely monetary policy tightening and the ongoing harvesting season, while the external sector remains resilient, supported by increased inflows, improved investor sentiment, and a stronger reserves position. These gains reflect continued progress under the Eighth National Development Plan (NDP), with the ECF serving as a key anchor to advance macroeconomic stability and reforms for fiscal and debt sustainability. The authorities have also made remarkable progress on debt restructuring, with agreements reached with bilateral creditors and bondholders, in line with program parameters and terms set by the Official Creditors Committee (OCC). Discussions with OCC creditors are advancing well, with final agreements expected by the third quarter of 2025. Agreement in principle has now been reached with approximately 94 percent of creditors within the restructuring perimeter, up from 90 percent previously reported.

3. While the ECF arrangement has delivered plausible milestones on macroeconomic stability and debt sustainability, poverty and inequality remain deeply entrenched, and past growth has not delivered sufficiently inclusive outcomes. That said, the authorities remain committed to tackling social challenges more directly and have made some progress under the current ECF program. Over 2 million pupils are benefiting from the free education policy, and more than 42,000 teachers have been hired since 2021, while 4.5 million children now receive school meals in 106 districts. Drug availability in health centers and hospitals has improved from 37 percent and 46 percent in 2021 to 85 percent and 76 percent, respectively. Over 18,000 health workers have been recruited, 164 health facilities and 123 maternity annexes have been built, helping raise skilled birth attendance to 82 percent. On social protection, a total of 2.5 million household beneficiaries was reached by end-2024, and the Social Cash Transfer program expanded from 800,000 in 2021 to 1.3 million households, with the transfer amount doubled to 400 kwacha per month. An additional 952,570 households received drought emergency support. Cash for Work has been rolled out in 123 constituencies out of 156, providing much-needed temporary income and local services. The Girls' Education and Women's Empowerment initiative reached 262,000 girls and expanded to cover 200,000 women in 116 districts, up from 76 districts. The Constituency Development Fund (CDF) has delivered over 812,000 desks and continuous skills training, bursaries, loans, and grants to the youth and women.

4. The authorities view continued engagement with the Fund beyond the current ECF as vital to support progressive growth and reforms. The authorities, therefore, are considering options as the ECF program comes to an end on October 31, 2025, to enshrine the gains made under the program.

Program Performance

5. The authorities have made significant progress in advancing program objectives while navigating emerging challenges. All end-December 2024 quantitative performance criteria (QPCs) and indicative targets (ITs) were observed, reflecting a strong commitment to sound macroeconomic management. However, three end-March 2025 ITs related to non-mining revenue, arrears clearance, and net international reserves (NIR) were not observed. The authorities have instituted corrective measures, including efforts to step up domestic revenue mobilization and channel all FX-related budget support to the Bank of Zambia (BoZ). Of the fourteen structural benchmarks assessed, six were observed on time. Four were implemented with delays, while four remain outstanding due to the need for further stakeholder consultations. On July 17, the authorities adopted the amended 2025 budget, a prior action for the Fifth Review, introducing revenue and spending measures to offset fiscal pressures.

Recent Economic Developments and Outlook

6. Supported by rising mining output and high ICT growth, real GDP growth is projected to accelerate to 4.0 percent in 2024, significantly higher than the 1.2 percent growth projected at the time of the fourth review. The outlook remains positive, with growth expected to average 5.8 percent in 2025 and 5.5 percent over the medium term. Further recovery in mining investment, a rebound in agriculture, an improved electricity supply, and timely debt restructuring are expected to bolster growth. Conversely, the authorities are conscious of downside risks that could derail the momentum, including external shocks, subdued mining activity, climate vulnerabilities, and potential delays in debt restructuring and investment. Inflation stood at 16.7 percent in December 2024 and rose marginally to peak at 16.8 percent in February 2025 before declining to 14.1 percent in June, driven mainly by lower food and fuel prices. Inflation, which at the time of the recent Service Level Agreement consultations in May and early June was projected to average 13.8 percent in 2025 and 8.8 percent in 2026, is now expected to decline much faster than was projected. This reflects the more recent appreciation of the exchange rate and higher-than-anticipated maize supply.

7. Meanwhile, supported by increased donor inflows and inbound tourism, the current account deficit narrowed from 3.0 percent of GDP in 2023 to 2.6 percent in 2024 and is expected to record a surplus of 1.3 percent in 2025. Gross international reserves, measured in months of import cover, rose from 3.3 months at end-December 2023 to 4.3 months at end-December 2024 and are expected to rise to 4.6 months in 2025.

Fiscal Policy and Debt Management

8. The authorities remain committed to revenue-based fiscal consolidation while aligning spending with development priorities. As of end-2024, the primary balance surplus exceeded, for the second consecutive period, the program target by a wide margin. However, for 2025, the primary surplus is projected at 1.1 percent of GDP, below the 1.9 percent anticipated in December 2024, reflecting a revised budget accommodating clearance of fuel arrears, higher interest and health spending, and an increase in social cash transfers. To address these spending pressures, the authorities are working on reallocating expenditures and lowering expenses on the use of goods and services, non-critical investment, and other transfers, mindful of the well-being of citizens. In addition, they will continue to prioritize strengthening tax policy and administration, leveraging technology to enhance compliance. On tax policy measures, they recently approved halving duty relief on imported manufacturing inputs, doubling the surcharge on imports of domestically produced goods, increasing excise duties on alcohol, sugar, and sugary drinks, revoking tax exemptions on wheat,

and raising withholding tax on interest payments of government securities from 15 to 20 percent. Significant progress has been made to enhance compliance and efficiency, including the full rollout of the Smart Invoice System and operationalization of a risk-based audit unit at the Zambia Revenue Authority (ZRA). Following the interface between the Integrated Financial Management Information System and ZRA, the authorities mandated that, effective July 31, 2025, all vendors to public institutions in Zambia must provide a valid taxpayer identification number (TPIN), thus enhancing tax compliance.

9. The authorities have strengthened public investment management and fiscal oversight. Following the publication of the 2024–2026 Public Investment Strategy, the 2025 update was released in December 2024, reinforcing strategic planning for public investments and public-private partnerships (PPPs). Cash management has improved significantly, with over 2,120 bank accounts closed, the operationalization of the Cash Management Unit, and the implementation of cash flow forecasting as of March 2025. As part of advancing fiscal transparency and risk management, the authorities published, in June 2025, a detailed Budget Execution Report. They also expanded the Fiscal Risk Statement to include macroeconomic scenarios, State-Owned Enterprises (SOEs), and PPPs data. The performance contracts for key SOEs were signed by the end of June 2025, and a new SOE Act to clarify oversight and strengthen accountability will be submitted to Cabinet for approval by September 2025. Audited financial statements for the Industrial Development Corporation (IDC) will be published by September 2025. The Fiscal Risk Management Framework, which guides principles and practices for effective management of fiscal risks, was approved in April 2025, and a dedicated unit is expected to be operational by September 2025.

10. The authorities are advancing in restoring debt sustainability, targeting a return to "moderate" risk of debt distress over the medium term. Public debt remained broadly stable at end-2024, with total public and publicly guaranteed external debt at US$21.4 billion, slightly higher than the previous year. The authorities remain committed to refraining from non-concessional borrowing and are on track with pursuing external debt restructuring, aiming to maintain the debt service to revenue ratio at an average of 14 percent over the medium term. The Debt Management Office (DMO) became operational in December 2024, and with assistance from cooperating partners, including the World Bank and the German Corporation for International Cooperation (GIZ), capacity is being built to strengthen the institutional debt management framework. The authorities will continue to rely on issuing securities for domestic financing while diversifying the domestic investor base.

Monetary and Exchange Rate Policies

11. The BoZ remains committed to price stability and anchoring inflation expectations through its forward-looking monetary policy framework. The bank will continue using the policy rate as its primary instrument to steer inflation back toward the 6–8 percent target band by 2026, guided by forecasts, actual outcomes, and evolving risks. The Monetary Policy Committee (MPC) raised the policy rate by a cumulative 300 basis points in 2024 and further by 50 basis points in February 2025, bringing the rate to 14.5 percent. The rate was maintained in May, as the current stance was deemed appropriate with risks still tilted to the downside. The monetary policy framework continues to be enhanced, with updates to its forecasting model and policy analysis. Further, the BoZ has been expanding market infrastructure through the use of International Swaps and Derivatives Association (ISDA) agreements and the Global Master Repurchase Agreement (GMRA), as well as revising FX market practices to improve transparency and price discovery. Furthermore, the BoZ undertakes to maintain operations of the foreign exchange markets in line with the country's flexible exchange rate regime, which supports external resilience and reserve accumulation in line with the program. Preparations are underway to eliminate multiple currency practices by October 2025.

Financial Sector Policies

12. Financial stability risks have declined since October 2024, aided by improved macroeconomic conditions. The banking sector remains broadly stable and resilient to economic shocks, with capital adequacy remaining above regulatory requirements and a lower ratio of banks' non-performing loans (NPLs) reflecting reduced credit risk.

13. The BoZ continues to enhance oversight by upgrading systemic risk analysis and expanding macroprudential tools to address existing vulnerabilities. Thus far, capital regulations governing countercyclical capital buffers and conservation buffers are in the final stages of issuance following regulatory reviews. Liquidity Coverage Ratio (LCR) guidelines will be issued by the end of 2025 and be phased in over a five-year period, while Net Stable Funding Ratio (NSFR) regulations are scheduled for implementation by June 2026. Ongoing quarterly impact assessments ensure banks are well prepared for these changes. Cyber resilience supervision has been strengthened, with four on-site inspections conducted in 2024. The BoZ is also enhancing market conduct and AML/CFT supervision, in coordination with relevant stakeholders.

14. The BoZ launched the Stability and Resilience Facility (SRF) in December 2024 to primarily safeguard financial stability by availing credit to sectors affected by drought and energy shortages. The Small Business Growth Initiative (SBGI), to be launched

later in the year, aims to support risk sharing in financial markets, thereby enhancing access to affordable credit, especially for small and medium enterprises. Efforts to promote Kwacha-based transactions are progressing well, and supporting regulatory reforms will be introduced gradually during 2025. Several structural benchmarks, including amendments to the Banking and Financial Services Act, issuance of deposit insurance regulations, and finalization of the resolution and supervision framework, have been rescheduled to end-September 2025 in consultation with Fund staff.

Structural Reforms and Governance

15. The authorities remain committed to advancing structural reforms that boost productivity while fostering inclusive and private sector–led growth as a foundation for sustained development and job creation. The authorities are advancing reforms in agriculture to reduce market distortions, promote market-based pricing, expand access to agricultural finance, and strengthen governance.

16. On mining, the Minerals Regulation Commission was established in December 2024 to enhance licensing, oversight, and transparency in the sector. The Geological and Minerals Development Bill has been submitted to Parliament, while mining regulation reviews are underway to increase citizen participation and equitable benefit-sharing.

17. To improve transparency in the energy sector, the authorities published the revised TAZAMA Pipelines Limited (TAZAMA) tender procedures in December 2024, streamlining the vetting process and ensuring fair, efficient selection of Oil Marketing Companies (OMCs). An open access regime for imported fuel has been adopted, and as of April 2025, fuel delivery contracts are now publicly disclosed. On June 26, 2025, the authorities received a dividend from TAZAMA, reflecting the entity's improved performance and stronger governance. The authorities remain committed to maintaining open access to the pipeline infrastructure to foster competition, lower costs, and uphold transparency in the energy sector. A similar open access framework has been introduced in the electricity sector, enabling direct trade by independent power producers. Solar project approval timelines have been cut significantly from six months to two days to alleviate supply pressures from ZESCO.

18. The implementation of key governance and anti-corruption reforms are advancing well. The Statutory Instrument associated with the 2016 Public Audit Act and the State Audit Commission Act were issued in May 2025, enabling the establishment of the board to oversee the Auditor General's office. On July 2, 2025, the Cabinet approved the Superior Court Bill, which sets the required number of judges at the main courts to address the backlog of cases and improve judicial efficiency. The

authorities aim to finalize the legal amendments to operationalize the beneficial ownership register under the Patents and Companies Registration Agency (PACRA) by the end of September 2025.

Conclusion

19. The authorities reaffirm their full ownership and commitment to the ECF-supported program. They remain focused on safeguarding macroeconomic stability, restoring debt sustainability, and fostering inclusive and private sector-led growth. They view the continued engagement with the Fund and development partners as vital to overcome challenges and secure lasting stability, stronger institutions, and better living standards for all Zambians.