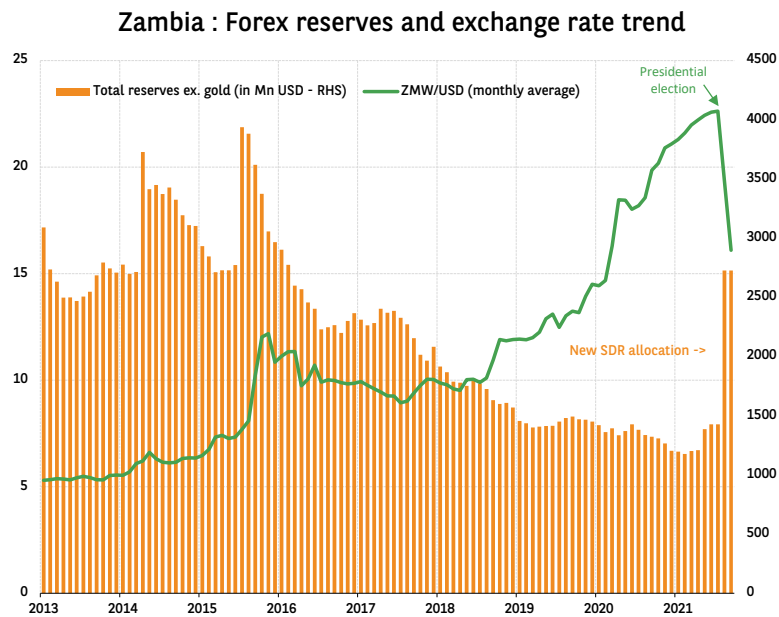


8 September 2021

ZAMBIA: A RELIEF FOR AN OVER-INDEBTED ECONOMY

Sara Confalonieri



Source: Central Bank of Zambia

Following the 12 August presidential election in which opposition leader Hakainde Hichilema defeated incumbent President Edgar Lungo, Zambia's macroeconomic situation has become clearer thanks to progress towards strengthening relations with the IMF with a long-awaited loan agreement on a financing programme in the coming months.

External liquidity has increased with the new allocation of Special Drawing Rights (SDRs) on 23 August 2021. The allocation amounts to USD 1.3 bn, the largest amount behind South Africa, Nigeria and DRC. FX reserves now account for 7% of GDP and cover around 4.7 months of imports, up from 2.5 months before the allocation. Moreover, the current account surplus has grown as a result of an increase in copper prices and weak imports, reducing pressure on overall external financing. Additionally, increased non-resident portfolio investment flows into government securities have provided further FX liquidity, and recently eased the pressure on the local currency (the kwacha has risen by 40% against the dollar since mid-July).

Nevertheless, the financial help of the Fund is critical in order to address the country's default sustainably. The new president has committed to greater transparency on the amount of public borrowing, which should be higher than official figures since some debt was acquired without parliamentary approval. According to the latest figures provided by the previous government, the total debt stock was already very high at almost 130% of GDP at the end of 2021. Mr. Hichilema also needs to reach a deal as soon as possible with foreign creditors about external debt restructuring, as the country must repay USD 750m worth of eurobonds maturing next year.

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