Jesuit Centre for Theological Reflection (JCTR)

Memorandum on

The Effectiveness of Zambia's Extended Credit Facility on Budget Support and Debt Sustainability

Submitted to

The National Assembly Committee on Planning and Budgeting

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1.0 Organizational Background

The Jesuit Centre for Theological Reflection (JCTR), a faith-based research, education and advocacy institution established in 1988 under the Ministry of the Society for Jesus. JCTR works towards advocacy for equity, social and economic justice to enable Zambia to make significant strides where human and pro-poor national development remain key. The Centre works to generate evidence and undertake analysis of pertinent and topical issues to advocate for pro-poor policies, programs and practices aimed at promoting good governance and economic development that address poverty and inequalities in Zambia.

Specifically, in the context of public finance management. Over the years, we have on various occasions been awarded the opportunity to analyze and input into the budget process. JCTR was also instrumental in seeing the cancellation of Zambia's debt in the early 2000s and has continued to undertake and lead advocacy work at both local and national levels aimed at addressing transparency and accountability regarding debt contraction, debt management, illicit financial flows, tax evasion, domestic resource mobilization and promoting prudent use of public debt resources. Interventions that we hope will contribute towards seeing Zambia attain its long-term objective of being a prosperous middle-income nation. This submission is grounded in JCTR's mission to promote social and economic justice.

2.0 Overview of the Extended Credit Facility (ECF) Program

In December 2021, the Zambian Government and the IMF reached a staff-level agreement under the ECF for the period 2022 to 2025. Through this agreement, the IMF formally approved a US$1.3 billion ECF arrangement for Zambia. The facility was aimed at restoring macroeconomic stability while promoting greater economic resilience and inclusive growth (IMF Press Release No. 21/356)[1].

The approval of the ECF came against the backdrop of a prolonged period of macroeconomic deterioration in Zambia. Persistent fiscal imbalances led to widening budget deficits and a rapid accumulation of both external and domestic public debt. These vulnerabilities were compounded by a series of adverse internal and external shocks. For example, in 2022, the country experienced a severe drought which disrupted agricultural production and hydropower generation, while the COVID-19 pandemic caused a sharp contraction in economic activity in 2020. In addition, global spikes in fuel and fertilizer prices triggered by heightened geopolitical tensions further increased fiscal pressures.

By 2021, Zambia's public and publicly guaranteed debt had risen to an estimated 133 % of GDP, including approximately US$ 20 billion in external public and publicly guaranteed debt and over US$ 2.2 billion in accumulated arrears. Macroeconomic conditions had significantly weakened, with inflation peaking at about 25 % in mid-2021, international reserves declining to 1.9 months of import cover, and the exchange rate experiencing pronounced volatility. These challenges underscored the urgency of external financial support and comprehensive macroeconomic reforms under the IMF-supported program.

The program financing was such that Zambia's balance-of-payments gap of US$11 billion is fulfilled through US$8.4 billion in debt relief from restructuring, US$1.3 billion in IMF financing, disbursed semi-annually over seven reviews and US$1.28 billion from the World Bank and additional support from other partners. Each IMF disbursement was allocated 50% for budget support and 50% for reserve accumulation, as governed by a Memorandum of Understanding between the Ministry of Finance and National Planning and the Bank of Zambia.

The Jesuit Centre for Theological Reflection (JCTR) through its debt justice advocacy would like to underscore that debt sustainability cannot come at the expense of human dignity. It is therefore imperative that fiscal reforms work hand in hand with targeted pro-poor policies to ensure that economic recovery is both inclusive and Just. Grounded in JCTR's mission to promote social and economic justice, this submission aims to:

[1] https://www.imf.org/en/news/articles/2021/12/03/pr21356-imf-staff-reaches-staff-level-agreement-on-extended-credit-facility-arrangement-with-zambia?

1. Assess the effectiveness of the IMF-supported ECF in supporting Zambia's national budget and economic recovery
2. Appreciation of ECF conditionalities which are essential for debt sustainability and growth and their effects on poverty reduction strategies
3. Identify risks and gaps associated with meeting IMF program targets which may have impacted economic recovery and the livelihoods of ordinary citizens
4. Assess Zambia's Adherence to the Public Debt Management Act (2022)
5. Propose recommendations to strengthen public debt management

3.0 Effectiveness of the IMF Program and Contribution to Zambia's National Budget and Economic Recovery

Under the ECF program, each IMF disbursement was set to be split 50% for budget support and 50% for reserve accumulation, governed by a Memorandum of Understanding between the Ministry of Finance and National Planning and the Bank of Zambia. The program, anchored in the Eighth National Development Plan, aimed to respond to the country's most pressing structural challenges, particularly the unsustainable public debt burden, persistent fiscal imbalances, weak public financial governance and high vulnerability of poor households to economic shocks. The Memorandum of Economic and Financial Policies (MEFP) outline the Zambian government's reform strategy under the program. The MEFP serves as the operational roadmap through which these objectives are to be achieved. Therefore, the effectiveness of the program was assessed by examining its impact on the national budget and economic recovery, in line with its stated objectives.

3.1 Restoring Medium-Term Fiscal Sustainability

To restore medium term fiscal sustainability, the government committed to achieve this objective through the elimination of subsidies, particularly in fuel, along with the reform of agricultural support programs. Key targets and areas of reform include;

- **Fiscal Consolidation**: The program aimed to rectify Zambia's macroeconomic imbalances through a significant, front-loaded fiscal consolidation, with the expectation that the primary balance would improve from -6.0% of GDP in 2021 to a +3.2% surplus by 2025. The primary balance improved with fiscal consolidation, however, the surplus target remained moderate due to repayment of arrears.
- **Fuel Subsidy Reform:** Core expenditure reforms involved the removal of explicit fuel subsidies, which previously accounted for 3.9% of GDP during 2020 to 2021. anchored in cost-reflective pricing and tax policy normalization this was fully

delivered. VAT/excise duties on fuel were reinstated in late 2022 through SI No. 29 2022 and the open-access procurement was instituted through SI No. 41 2023.

- **Agricultural subsidy reform** through the transition from FISP to CATSP: The agricultural subsidy reform from FISP toward CATSP was partially delivered. The transition advanced in phases[2] to improve targeting and reduce fiscal costs.
- **Roll out IFMIS-based commitment controls**: systematically clear legacy arrears with audits and a published clearance strategy. To stop the accumulation of new arrears, the government committed to fully roll out the Integrated Financial Management Information System (IFMIS) based commitment controls across all ministries, provinces, and agencies, moving from roughly 30% recorded commitments to full compliance. The rollout of IFMIS is underway, however the system has faced challenges with uneven compliance across MPSAs, harmonization of data and real time tracking of expenditure.
- **Revenue Mobilization:** The program emphasized the mobilization of domestic revenues and the strengthening of commitment controls to prevent the accumulation of new arrears. Anticipated revenue mobilization included an increase in non-grant revenues equivalent to 3.25% of GDP by 2025, driven by broadening the VAT base, harmonizing corporate income tax rates to 25 to 30%, increasing excise duties on various goods and enhancing tax administration through electronic fiscal devices and improved audits. The revenue performance has been positive with the Zambia Revenue Authority meeting or exceeding its set targets. Key tax policy measures implemented include progressed reinstatements VAT/excise, which were completed while broader base-widening continue[3] [4]. Tax administration reform was centered on digital compliance with the Smart invoicing system which is ongoing. The Revenue Action Plan to mobilize additional revenue by 2025 was finalized however, outcomes are dependent on continued implementation. Despite the positive outturn in revenue, challenges persist with widespread informality, fraud and tax evasion and low compliance rates.

Several targets were met or partially implemented, indicating progress towards fiscal sustainability. However, risks persist, and the social impact of the reforms implemented under this objective have been significant.

[2] https://www.agriculture.gov.zm/wp-content/uploads/2022/12/FISP_Action_Plan_27.12.2022-Final-7.pdf

[3] https://www.zra.org.zm/wp-content/uploads/2023/08/Excise-Guide.pdf

[4] https://www.zra.org.zm/wp-content/uploads/2023/08/VAT-Guide-2023.pdf

3.2 Restoring Debt Sustainability and Improving Debt Management and Transparency

Zambia pursued a comprehensive debt treatment under the G20 Common Framework. The restructuring was designed to restore debt sustainability by reducing the external debt service-to-revenue ratio to 14% by 2025, lowering the present value of the external debt-to-exports ratio to 84% by 2027, which is consistent with a medium-term moderate risk rating. Between 2022 and 2025, Zambia moved from full debt distress to a fragile but improving debt sustainability position. While nominal debt levels remain high, the reduction in the debt-to-GDP ratio reflects restructuring outcomes, fiscal consolidation and growth recovery. To achieve this objective, the following reforms were set:

- **Halt non-concessional borrowing:** The government's pace of borrowing slowed down following the suspension of the contraction of non-concessional loans. Zambia has, however continued to borrow concessionally from multilateral creditors such as the IMF, World Bank and African Development Bank but is monitoring its borrowing pace through the indicative target on the present value of new external concessional borrowing.
- **Cancellation of undisbursed loan projects:** Non-priority loan-funded projects were cancelled in accordance with the Government's capital expenditure plan. A total of 12 projects were cancelled, while 6 projects were sustained using general Government funding, and 61 priority projects were set to proceed with concessional financing. This resulted in savings amounting to US$2 billion[5].
- **Enact Public Debt Management Act**: To enhance transparency, parliamentary oversight and accountability in public debt management, the government repealed and replaced the Loans and Guarantees Act and introduced the Public Debt Management Act of 2022. Publish quarterly debt bulletins.

Zambia achieved or partly achieved a number of fiscal objectives and policies under the program, indicating a positive performance. The ECF provided predictable balance-of-payments support, which helped stabilize the exchange rate, rebuild international reserves and anchor the national budget within a credible macro-fiscal framework. IMF program reviews indicate that quantitative performance criteria and indicative targets were largely met, especially on domestic financing limits and fiscal balances. This credibility unlocked additional concessional financing from cooperating partners, easing pressure on the Treasury. Zambia narrowed its overall fiscal deficit through a combination of expenditure controls and improved revenue performance. Budget credibility improved, with greater predictability in releases, particularly for priority social and economic sectors, compared

[5] https://www.mofnp.gov.zm/wp-content/uploads/2022/07/MEASURES-TAKEN-REGARDING-SOME-LOAN-FINANCED-PROJECTS.pdf

to the pre-ECF period. The real GDP growth recovered to above 4%, supported by mining, agriculture, and services. Inflation, while volatile due to climate and exchange-rate shocks, has been better anchored by tighter monetary-fiscal coordination under the program.

3.3 Enhance Social Spending

Under this objective, the program aimed to create fiscal space for social spending to cushion vulnerable households from the social costs of adjustment. It was recognized that subsidy reforms and expenditure rationalization, while necessary for fiscal sustainability, carry significant distributional consequences. As such, the program committed to protecting and gradually expanding social protection, health and education spending, with the aim that increased and better-executed social expenditure offsets the adverse impacts of subsidy removal and rising living costs for low-income households. As a result between 2022 and 2025 under the ECF, notable progress has been observed as highlighted below:

Improved Investment in the Education Sector

The government has made significant strides in strengthening both access and human resource capacity in the education sector. This has been actualized through commitment to increase in budgetary allocation. Since 2022, more than 42,000+ teachers have been recruited. The government also expanded the free education policy to the secondary school level. The impact of these interventions is that they have removed key financial barriers that parents previously faced and as a result, over 2 million children have returned to school. The recruitment of teachers has improved the teacher-to-pupil ratio, hence improving the learning outcomes of learners. Ultimately, these interventions have significantly contributed to greater equity in access to education and reinforced the government's commitment to building human capital. In addition, the government has continued to utilize other budgetary instruments, notably the Constituency Development Fund (CDF), to address infrastructure deficits arising from increased enrolment. By 2025, a total of 2,800 classrooms had been constructed, helping to ease congestion and support the effective delivery of education services.

The government has also increased allocation and spending on Early Childhood Education (ECE), rising by 26% from K702 million to K885 million, enabling expanded provision of learning materials, school grants and feeding initiatives, an important boost for foundational learning outcomes. In addition, significant progress has been made under the Keeping Girls in School Programme. In 2022, only 54,780 girls were benefiting from the programme, however, during the implementation of the Extended Credit Facility (ECF), the government successfully scaled up coverage to 262,444 girls. This expansion reflects a strengthened commitment to improving girls' retention, completion, and overall participation in education.

Improved Investment in the Health Sector

The health sector has also received considerable attention. Since 2022, the government was able to recruit over 18,305+ health workers and subsequent years government has progressively been recruiting health workers between 1,500 and 2,000 per year. In terms of budget allocation, the sector allocation has increased to over K23.2 billion up from K9.7 billion in 2022. These investments have contributed to improved service delivery and strengthened health system capacity. Nevertheless, public spending on health remains below the internationally recommended benchmark of 15% of total government expenditure, indicating persistent financing gaps in the sector.

Increased funding to Social Protection Programs

Between 2022 and 2026, the social protection budget recorded an increase in allocation from K6.3 billion to K15.7 billion. Between 2025 and 2026, the overall allocation declines from K16.2 billion in 2025 to K15.7 billion in 2026 and its share of the national budget falls from 7.4% to 6.2%. As a result of this expanded financing, especially during the first year of the ECF implementation, the government has been able to scale up the number of beneficiaries covered under existing social protection schemes, while also introducing new interventions such as the Cash for Work (C4W) program.
Under the Social Cash Transfer (SCT) program the number of beneficiary households increased from 994,000 in 2022 to 2,515,671 in 2025. Similarly, the Food Security Pack (FSP) beneficiaries increased from 80,000 in 2021 to 244,000 households in 2025. In the same period, women's empowerment initiatives under the GEWEL project were strengthened through budgetary support. These interventions have provided a safety net for many households who otherwise could have fallen into extreme poverty and deprivation.

Budgetary Allocation Trend – 2022 to 2026

The figure below illustrates the trend in budgetary allocations to social sector programmes. While some sectors have seen a reduction in their share of the national budget, several have recorded increases in nominal allocations. These increases have enabled the government to expand coverage under key programs such as the Keeping Girls in School (KGS) initiative and the Social Cash Transfer (SCT), as well as to finance new interventions like the Cash for Work (C4W) programme.

Similarly, increased funding to the education and health sectors has supported investments in human resources through large-scale recruitment of personnel, helping to ease staffing constraints and improve the delivery of social services.

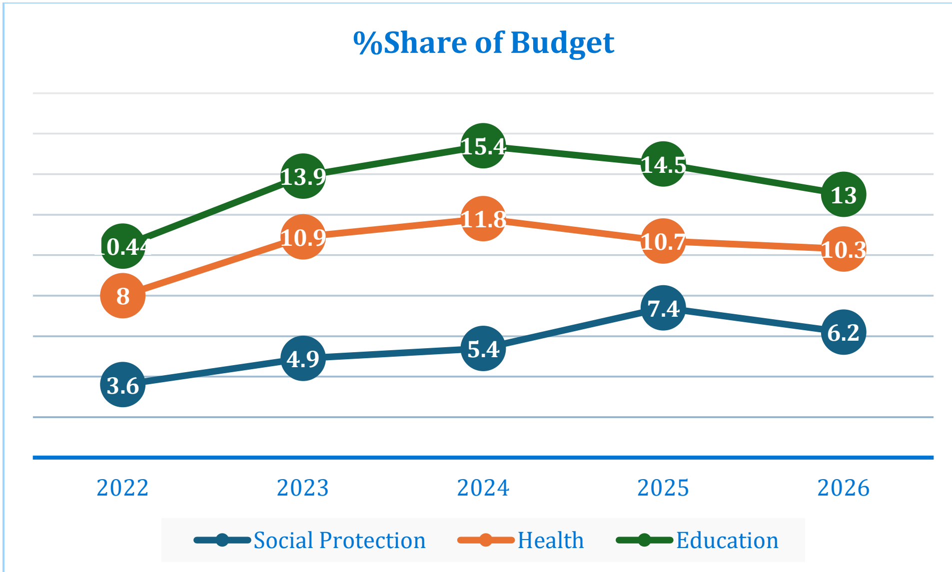

Figure 1 Social Spending as a Share of National Budget

3.4 Strengthening Governance

Governance reform and anti-corruption measures represent a core pillar of the ECF program. The program requires Zambia to improve public financial management, enhance debt transparency, reform public procurement systems, and strengthen oversight of state-owned enterprises and public-private partnerships.

The State-Owned Enterprise Challenge

The Auditor General's report highlights serious governance failures across Zambia's SOE portfolio, with the extent of financial distress emphasizing the need for urgent reform.[6] The IDC portfolio alone consists of thirteen subsidiaries (57%) operating with negative working capital, including ZESCO at a negative K11.9 billion and ZCCM-IH at a negative K34.4 billion. Additionally, sixteen subsidiaries have not produced audited financial statements since 2021. Out of 19 non-financial SOEs assessed by the Ministry of Finance and National Planning, 10 were categorized as high risk, 7 as moderate risk, and 2 as low risk in 2022.[7] ZESCO and ZAMTEL are at high risk and carry a significant portion of total SOE liabilities, with ZESCO alone accounting for more than 50%. Despite these challenges, Zamtel has achieved a remarkable turnaround, recording its first profit in nearly 20 years, K2.3 billion for the 2024 financial year, with an additional K354 million in the first half of 2025.

[6] Office of the Auditor General. (2024). *Report of the Auditor General on the accounts of parastatal bodies and other statutory institutions for the financial year ended 31 December 2023*. Government of the Republic of Zambia.
[7] Republic of Zambia, Ministry of Finance and National Planning. (2025, February). *2022 consolidated annual report for state-owned enterprises in Zambia*. Government of the Republic of Zambia.

Legislative Reform Framework

Since 2021, Zambia has pursued an ambitious package of legal and institutional reforms anchored in a comprehensive governance and anti-corruption diagnostic designed to expose systemic weaknesses across public investment management, procurement, debt management, and SOE oversight. This reform trajectory has translated into a series of significant legislative interventions, including the Bank of Zambia Act of 2022, Public Debt Management Act of 2022, the Public Procurement Act of 2022, the Public-Private Partnership Act of 2023, and the Access to Information Act of 2023. Additionally, the commencement orders for the Public Audit Act and State Audit Act were released, each aimed at tightening fiscal discipline, improving transparency, and strengthening accountability. Within the parastatal sector, the tabling of the State-Owned Enterprises Bill in Parliament marks a critical attempt to rationalise SOE governance through centralized oversight and clearer public interest obligations, while recent transparency reforms have expanded the institutional mandate of the Human Rights Commission. Taken together, these measures signal a deliberate shift toward rules-based governance and institutional accountability, even as their ultimate impact will depend less on statutory design than on the credibility, independence, and integrity of their implementation.

These reforms serve a dual purpose: improving efficiency and value for money in public spending whilst rebuilding public trust by ensuring scarce resources flow towards genuine development priorities rather than being lost to leakage and mismanagement.

Progress on IMF Governance Diagnostic Recommendations

IMF Recommendation	Status	Key Progress	Outstanding Issues
1. Access to Information Law	Fully Implemented	• Access to Information Act No. 24 enacted • Human Rights Commission designated as oversight body • Commencement Order issued (June 2024) • Regulations, rules and guidelines issued • Zambia formally requests to be admitted into the Open Governance Partnership	• The two-year transition period limits enforcement until 26th June 2026 • Problematic provisions (e.g. Section 30 discretion to withhold) • Procedural rather than substantive consultation with civil society • Very low sensitisation, especially in rural areas.
2. Merit-Based Appointments	Partially Implemented	• Financial Intelligence Centre Director General appointed through transparent Board-led process • Anti-Corruption Act review underway (may address appointment procedures)	• Lack of appointment reforms for Anti-Corruption Commission, Drug Enforcement Commission or Director General of Public Prosecutions • President retains appointment powers with parliamentary ratification often a formality • Frequent leadership changes at ACC (2024 resignations/dissolution)
3. Judiciary Independence & Efficiency	Partially Implemented	• Economic and Financial Crimes Court rules developed (five-month case resolution target) • Service charter, communication strategy and prosecution guidelines created • Policy to broadcast public interest cases • Criminal Procedure Code (Amendment) Act, 2023 allows the Chief Justice to issue SIs on offences, procedure, hearing and determination of cases • The Superior Courts (Number of Judges) Act, 2025 increasing the number of judges • Judicial Training Institute of Zambia Act, 2023	• No constitutional amendments to strengthen judicial independence • President retains powers to appoint and remove judges • Need for greater independence of the Judicial Service Commission for the hiring of judicial staff and Judicial Complaints Commission for their removal • No progress on comprehensive Judicial Reform Strategy

4. Beneficial Ownership Register	Implemented	• Register operationalized through PACRA • Treasury Circular No. 15 (August 2024) enhanced disclosure requirements in procurement • Companies (Amendment) Act, 2025 addressing some of the concerns in the Financial Action Task Force Mutual Evaluation Report of Zambia-June 2019	• Need to assess new periodic review and verification mechanism for accuracy of data • PACRA not prosecuting non-compliant companies due to cost and a dwindling budget for "Prosecutions and Collaborations " • Complex declaration forms being streamlined
5. E-Government Procurement	Partially Implemented	• Public Procurement Act 2022 Government Procurement (E-GP) System use • Registered entities increased • Helpdesk and e-learning modules established • Procurement transparency benchmarks tied to publication requirements were delivered, with delays • OCDS framework adopted	• No written time-bound action plan developed • High staff turnover requires repeated training • Implementation challenges: inflated prices, poor financial management, collusion persists • Internet connectivity issues affect usage
6. IFMIS Mandate	Not Implemented	• Integrated Financial Management Information Systems (FMIS) rolled out to all 61 central government budgetary institutions	• No mandate issued requiring FMIS use for all transactions • Many Ministries, Provinces and Spending Agencies continue parallel paper-based processes • Large expenditures still conducted outside FMIS • Internet connectivity issues affect usage
7. Tax Expenditure Reports	Not Implemented	• First and second Tax Expenditure Reports published (December 2024; December 2025) • 2025-2027 Medium Term Budget Plan proposes Tax Expenditure framework	• No policy directive mandating regular future publication • No form or legal commitment to annual reporting
8. VAT Internal Audits	Partially Implemented	• Increased depth and frequency of audits in high-risk areas (VAT refunds) • Advanced audit technologies adopted • Risk-based approach implemented • 320 VAT fraud cases under investigation	• General coverage not increased due to resource constraints • Customs warehouse management not prioritised as high-risk • Limited funding and minimal budgetary increases to ZRA despite revenue generation role
9. Mining Licence Scrutiny	Partially Implemented	• Mining Cadastre digitized - online application process launched (December 2023) • Enforcement of defaults and licence cancellations • Minerals Regulation Commission Act, 2024 • Geological and Minerals Development Act, 2025	• Limited monitoring of safety and environmental commitments causing in mining accidents and deaths • Mining pollution ongoing (Copperbelt, Kabwe, Kafue River incidents) • Non-compliance with licence conditions widespread • Software lags in digitised system • Historical records still in hard copy

10. Public Audit Act	Not Implemented	• Statutory instrument to operationalise Public Audit Act No. 29 of 2016 and State Audit Commission Act No. 27 of 2016 issued (Commencement Orders No. 30/2025 and No. 31/2025 respectively)	• Evidence of potential political interference in audit work (TI-Z Rapid Assessment, 2025) • Appointment of the members of the State Audit Commission
11. Government-Owned Financial Institutions	Not Implemented	• Plans to develop new corporate governance directives • Increased minimum capital requirements (SI 62 of 2025) • Bank of Zambia Strategic Plan for the period 2024 – 2027. • Bank of Zambia Act, 2022 passed (29 July 2022)	• No specific recent supervisory enhancements • Ineffective supervision evidenced by institution collapses • Cumulative losses drain public resources • Non-performing loans to politically influential persons • Performance-based remuneration not implemented • Development Bank of Zambia was previously put under the possession of the Bank of Zambia

3.5 Strengthening Monetary Policy and Re-Building External Resilience

Before the program, Zambia faced persistent macroeconomic weaknesses marked by high and volatile inflation, low international reserve buffers and distortions in the foreign exchange market. Monetary and exchange rate policies were constrained, limiting their effectiveness in supporting macroeconomic stability and external resilience. The program was therefore designed to address these challenges by strengthening monetary and exchange rate policy frameworks.

Monetary Policy Rate: During the implementation of the ECF program, the Bank of Zambia has adopted a tight monetary policy stance to promote financial market stability and ensure that the gains from contractionary fiscal policy are not eroded by inflation. In response to rising inflationary pressures and to keep inflation within the target band of 6–8 %, BoZ has, on a quarterly basis, either maintained or increased the Monetary Policy Rate (MPR). This has helped keep inflation under control.

Gross Domestic Product (GDP): In the period under review, JCTR noted that economic growth depicts a strong post-crisis recovery, reflecting recovery effects after the pandemic-induced contraction and improved macroeconomic conditions. In 2021, the economy rebounded sharply from negative growth, recording real GDP growth of 6.2% due to increased economic activity. This growth momentum continued in 2022 with real GDP growth of 5.2% and a significant rise in nominal GDP, reflecting improved macroeconomic stability and favorable external conditions.

Growth remained resilient in 2023 at 5.4%, although nominal GDP declined slightly, partly due to exchange rate movements and easing price pressures. In 2024, economic growth slowed to an estimated 3.8–4.0%, mainly as a result of a severe drought that disrupted agriculture and hydropower production. In 2025, the IMF and World Bank projected the growth to be between 4.5–5.8%, supported by recovery in key productive sectors and continued macroeconomic reforms. This anticipated rebound is supported by improved climatic conditions, recovery in agriculture, and energy supply. Overall, the trend reflects an economy that is gradually stabilizing, though still vulnerable to external shocks, particularly climate-related risks.

The figure below depicts the trend in economic growth between 2021 and 2025.

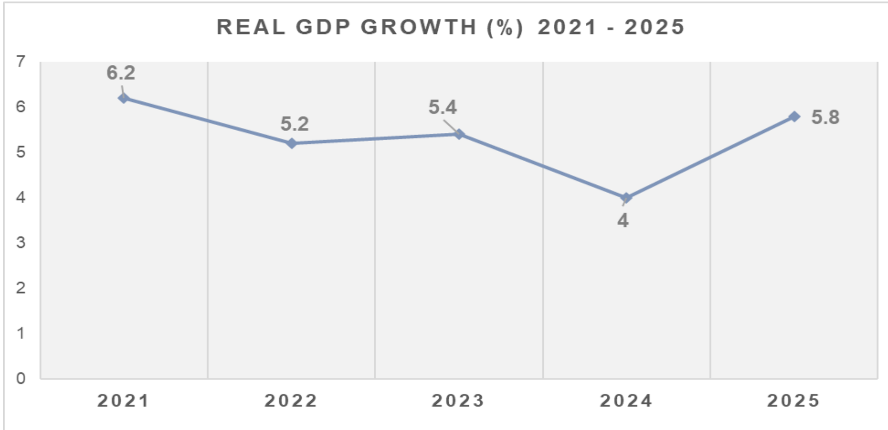

Figure 2 Authors Own Construction using IMF/World Bank Economic Growth Projections

Inflation: As the ECF was rolled out in 2022, the average annual inflation fell sharply to 10.99% from 22.02% and remained largely stable at 10.89% in 2023. This improvement was largely driven by reforms supported under the ECF program such as tighter control of public spending, reduced reliance on deficit financing, and a firm monetary policy stance aimed at keeping inflation expectations in check. Efforts to strengthen public financial management and improve debt sustainability also helped rebuild confidence, leading to a more stable exchange rate, which is particularly important for controlling inflation in an import-dependent economy.

In 2024, average annual inflation rose 16.8%. This increase was mainly a result of external and supply-side shocks rather than weaknesses in policy implementation. Severe drought conditions disrupted agricultural activities and the generation of power, thereby pushing up food and energy prices. This experience shows that while the ECF can improve economic discipline and resilience, it cannot fully shield the economy from climate-related shocks and other external pressures.

By 2025, inflation was moderate at 11.2 %, supported by continued implementation of ECF reforms, a sustained tight monetary policy and an anticipated recovery in agriculture and energy supply.

Overall, the average annual inflation trend suggests that the ECF has been instrumental in stabilizing prices and restoring policy credibility, even though underlying structural challenges and external shocks continue to pose risks to long-term price stability.

Exchange Rate

Between 2022 and 2025, the Zambian kwacha experienced periods of both stability and volatility, reflecting the country’s macroeconomic reforms under the IMF-supported Extended Credit Facility (ECF) and its exposure to external shocks. In 2022 and 2023, the kwacha remained relatively stable, supported by tighter fiscal and monetary policies, improved investor confidence and expectations of debt restructuring.

However, in early 2024 and into early 2025, the currency depreciated sharply, reaching around K28.69 per US dollar due to climate-related shocks, reduced export earnings, increased import demand and tight global financial conditions. From mid-2025, the kwacha recovered strongly to about K20 per US dollar, driven by stronger foreign exchange inflows, increased international reserves, ECF reforms and the implementation of the export tracking framework, earning recognition as one of the world's best-performing currencies during this period (Bank of Zambia, 2025; IMF, 2022–2025; Bloomberg, 2025).

Trend of the Kwacha Fluctuations between February 2022 to October 2025

Source 1 World Food Programme: Zambia – Exchange Rates

4.0 ECF Conditionalities, Debt Sustainability and Poverty Reduction

Conditionalities are the policy commitments and reform measures that Zambia agreed to implement under the ECF program. These conditions are intended to ensure that the program's objectives, such as restoring macroeconomic stability, fiscal discipline and debt sustainability, are achieved.

4.1 ECF Conditionality and Debt Sustainability

The Extended Credit Facility program between Zambia and the International Monetary Fund is underpinned by a structured framework of conditionality designed to restore and safeguard Zambia's debt sustainability. Conditionalities consist of quantitative performance criteria, indicative targets, and structural benchmarks that collectively aim to address the macro-fiscal imbalances exposed by Zambia's 2020 sovereign default and to create a credible path toward renewed fiscal health and economic stability. These conditionalities are specified in successive IMF ECF staff reports and press releases associated with Zambia's program reviews.

Complementing the quantitative measures, structural benchmarks targeted institutional weaknesses that had previously undermined Zambia's debt management and public financial governance. Benchmarks included the formulation and publication of a Medium-Term Debt Strategy, enhanced debt data reporting practices, and strengthened commitment controls to prevent the accumulation of arrears. These benchmarks align with the IMF's 2024 Operational Guidance Note on Conditionality, which emphasizes the importance of tailored, institution-strengthening reforms to support medium-term macroeconomic stability.

The ECF structural benchmarks also resonate with Zambia's domestic legal framework for debt governance, particularly the Public Debt Management Act No. 15 of 2022, which mandates the preparation of key reports including the MTDS, Annual Borrowing Plans, and the regular publication of comprehensive debt statistics. By reinforcing these processes, ECF conditionality has advanced the institutionalization of debt management practices, reducing reliance on ad hoc decision-making and enhancing transparency.

Challenges in meeting some structural benchmarks on time, often due to capacity constraints or external shocks illustrate the institutional depth required to sustain reforms beyond periodic IMF reviews. Structural reforms related to revenue administration, public procurement, and the incorporation of SOE contingent liabilities while part of the program's structural benchmarks emerged as areas requiring further work beyond the ECF's timeframe. As a result, continued parliamentary oversight and legal enforcement of debt management provisions are essential to sustain the gains achieved under the ECF and to ensure that Zambia's debt strategy remains conducive to social and economic development.

In conclusion, ECF has been instrumental in arresting debt accumulation and restoring fiscal discipline, creating the conditions for enhanced macroeconomic stability and creditor confidence. However, debt sustainability from a holistic development and social justice perspective must be pursued through robust domestic implementation of the agreed reforms, strong adherence to the Public Debt Management Act and deliberate efforts to safeguard and expand social investment in ways that support equitable and inclusive recovery.

4.2 ECF Conditionality and Poverty Reduction

During the ECF program implementation period, Zambia has demonstrated strong compliance with quantitative targets and many structural benchmarks. The IMF noted that all end-December 2024 performance criteria and most early-2025 indicative targets were met under the fifth review. The authorities reaffirmed their commitment to sustaining social spending alongside fiscal consolidation and structural reforms[8].

Nonetheless, critical challenges and social implications have emerged. First, capacity constraints have slowed implementation of some reforms, particularly those requiring extensive institutional change, such as enhancing public financial management and implementing debt office procedures[9]. It was noted that several structural benchmarks were completed with delays or reset for future reviews[10]. Second, external shocks, most notably the drought in 2024 that resulted in the declaration of a national hunger crisis and exacerbated the energy crisis, shifted some fiscal and policy focus towards emergency responses, including scaled-up social protection interventions supported by World Bank financing to protect vulnerable households[11].

Despite macroeconomic stabilization, poverty remains pervasive. 60% of the population is still living in poverty with 48% living in extreme poverty with little evidence of a rapid decline in poverty rates during the program period. A significant issue is that structural reforms often lack explicit social impact assessments. This leads to important questions regarding how fiscal consolidation and efficiency measures affect the most impoverished Zambians, particularly in light of the nation's ongoing high poverty rates.

In terms of social outcomes, the program did include protective measures such as social spending floors for key programs. National budgets show continued expansion of the Social Cash Transfer program with coverage rising from around 574,000 households in 2017 to over 1.3 million by 2024, a substantial scale-up that aligns with ECF commitments to shield the vulnerable. However, large segments of extremely poor households remain unreached, with estimates suggesting nearly 635,000 households still living in extreme poverty outside program coverage[12]. National budget analysis further indicates that while allocations to education and health increased in nominal terms, their share of total spending has declined, and social protection envelopes have contracted slightly in real terms suggesting that fiscal consolidation continues to constrain social spending capacity amid inflationary pressures and competing priorities.

[8] IMF Executive Board Concludes 2025 Section IV Consultation and Completes Fifth Review Under the Extended Credit Facility with Zambia

[9] The Public Debt Management Processes and Procedures manual was published on 31st July 2025 https://www.mofnp.gov.zm/?wpdmpro=public-debt-management-processes-and-procedures-manual

[10] IMF Executive Board Concludes 2025 Section IV Consultation and Completes Fifth Review Under the Extended Credit Facility with Zambia

[11] World Bank Grant to Support Scaling up Social Protection for Vulnerable Zambians Affected by the Drought

[12] PDF-REPORT_FOLLOW UP PERFORMANCE AUDIT REPORT ON THE IMPLEMENTATION OF THE SCTP IN ZAMBIA, 2018 TO 2023_D.pdf

While protective mechanisms like the SCT program have positive welfare effects, including improved food security, school participation and household liquidity, these gains are modest relative to the overall scale of poverty and have not yet translated into broad-based improvements in income or living standards for the majority of Zambians

Overall, Zambia's ECF conditionalities have played a critical role in restoring macro-fiscal stability and debt sustainability, thereby reducing the risk of economic crises that tend to disproportionately harm the poor. However, the impact on poverty reduction has been mixed. While core social programs were protected and expanded, constrained fiscal space, persistent inflation and high baseline poverty have limited the depth and scale of welfare gains.

5.0 Gaps, Risks, and Implications for Livelihoods

Despite progress in debt restructuring and improvements in macroeconomic fundamentals, risks still remain. High debt service obligations continue to crowd out social spending, while climate shocks and commodity price volatility pose fiscal risks. These challenges directly affect livelihoods, particularly among low-income households.

Risk Area	Key Risk Description	Impact on ECF Objectives
Debt Sustainability Risks	High risk of overall and external debt distress persists despite restructuring covering about 94%. Public debt is projected at 91.9% of GDP for 2025 which is still above the recommended threshold of 35% and remains vulnerable to exchange rate depreciation, fiscal slippages, and commodity price shocks.	Threatens debt sustainability, market confidence, and program credibility
Fiscal Risks & PFM Gaps	Missed revenue and arrears clearance targets, accumulation of fuel and FISP arrears, rising interest costs, weak cash management and commitment controls undermine fiscal discipline.	Risks derailment of fiscal consolidation and crowding out of investment
Structural Reform & Governance Gaps	Delays in key legal and institutional reforms (Anti-Corruption Act). Weak anti-corruption oversight, incomplete beneficial ownership reforms, and SOE governance gaps.	Undermines reform momentum, investor confidence, and program effectiveness.
External Sector & Exchange Rate Risks	Missed reserve targets, FX market inefficiencies (high thresholds, capped spreads) impair price discovery, exposure to commodity price volatility, and reserves below adequacy benchmarks.	Heightens external vulnerability and exchange rate volatility.

Climate & Environmental Risks	Recurrent droughts and floods disrupt agriculture, power generation, food prices, and growth. This creates fiscal pressures from emergencies. Climate risks are not fully integrated into public investment management and fiscal risk analysis	Threatens growth, revenues, and social stability
Social & Political Risks	High poverty and inequality amid inflation and cost-of-living pressures. The 2026 elections may weaken reform commitment and fiscal discipline	Risks reform reversals and delays in policy actions
Data & Institutional Capacity Gaps	Weak coverage and quality of debt, fiscal, BoP, and national accounts data. The central government's focus limits general government oversight. outdated GDP/CPI bases.	weakens surveillance, monitoring, and policy calibration

Implications for livelihoods

Although the Extended Credit Facility program has contributed to macroeconomic stabilization and improved fiscal discipline, the adjustment path has had significant livelihood implications, particularly for low-income households. The austerity measures of the program often affect those who are economically disadvantaged and disproportionately affect women [13]. Under the program, policy reforms that resulted in the removal of fuel subsidies reflected in the increased cost of transportation and essential food items and increased operational costs.

Increased Cost of Living

The rising cost of living has been a critical issue affecting citizens particularly low income households. The Jesuit Centre for Theological Reflection's Basic Needs and Nutrition Basket (BNNB) reflected increased costs of basic essential items between January and December 2025. The rise in commodity prices was largely driven by seasonal factors and increased costs of transportation.

[13] Action Aid (2023) Analysis of Zambia's IMF Programme and Fiscal Austerity Impacts on National Government Policy and Commitments to Free Education

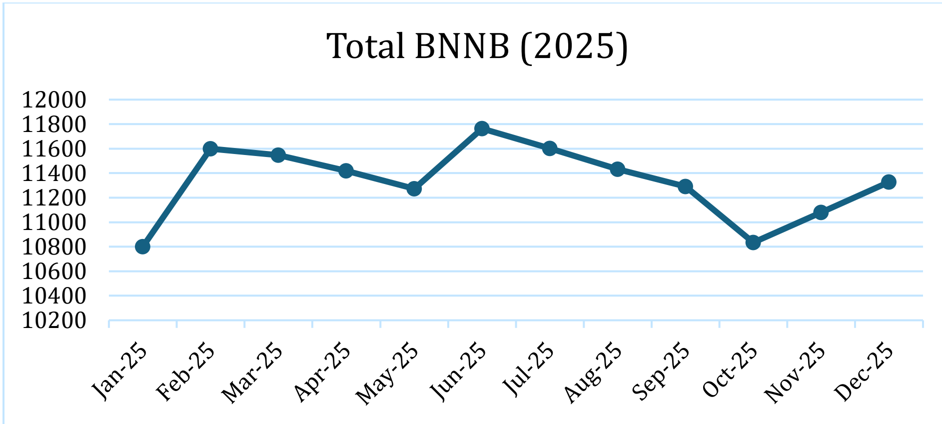

Figure 3 Basic Needs and Nutrition Basket Data January – December 2025

These increased living costs are further reflected in the day-to-day lives of citizens, as highlighted in the study report *'Assessing the Social and Economic Implications of Zambia's Debt Management Reforms Report'* commissioned by JCTR

"The cost of living keeps increasing and this had made it difficult for them to sustain themselves and their families. They stated that even basic commodities such as a "pamela" (a common term for a small portion of mealie meal packages in a small plastic bag) have had their prices go up. It is very difficult to survive especially for single headed households by women. Some of them work in industries located in the outskirts of Lusaka, but with the increase in transport fares, it is difficult to balance between feeding the family at home and paying for transportation to work. Some have even tried to start small businesses, but there is a general feeling that there is no money in the economy and as a result, making sales is often challenging"

Focus Group Discussion in Chawama Compound, Lusaka

Source 2 Extract from the ' ***Assessing the Social and Economic Implications of Zambia's Debt Management Reforms Report'***

Reduced Employment Opportunities and Household Income: The report further highlights challenges in employment in the formal and informal sectors and household incomes. It is observed that while the government conducted employment in health, education and defence sectors, there remain several unemployed people. Additionally, the economic challenges related to increased fuel prices and erratic power supply resulted in the loss of jobs.

Operational Challenges for Business Owners: Business owners and operators are faced higher operational expenses due to elevated fuel and electricity costs, the depreciation of the kwacha, and a decrease in money supply. This situation was worsened by the drought, which has led to significant load shedding in the nation. As a result, to sustain their operations, some informal businesses, including barbershops, salons, and printing shops, have had to either extend their working hours or rely on alternative energy sources like electric generators, which can be quite expensive to run. Transport workers, including bus drivers and taxi drivers, reported that the rise in fuel prices had negatively impacted on their operations, making it challenging for them to achieve their cash flow targets.

"The high fuel prices have had a negative impact on us drivers. One of the biggest challenges is that even when the government adjusts fuel prices at the end of the month, Yango does not increase ride prices to account for the rising fuel costs or the required float for us to get rides. Additionally, vehicle owners do not adjust our targets when fuel prices increase. For example, regardless of whether fuel prices go up or down, my weekly cashing target remains K2,000. However, when fuel prices rise, I sometimes only make around K1,800, making it difficult to meet my cashing target and cover my personal expenses. At times, I even have to use part of my salary to reach the cashing target."

Taxi Driver

Source 3 Extract from the 'Assessing *the Social and Economic Implications of Zambia's Debt Management Reforms Report'*

Key positive developments observed by communities during the program period include developments in community infrastructure, explaining that new schools and health centres had been constructed, employment opportunities had emerged and cooperatives had been formed through government programs linked to the Constituency Development Fund.

6.0 Adherence to the Public Debt Management Act No. 15 of 2022

Zambia's debt crisis highlighted the systemic challenges in oversight, transparency and accountability in the country's public debt management. The Public Debt Management Act (2022) was enacted to strengthen the legal framework guiding debt management and address the shortcomings of the Loans and Guarantees (Authorization) Act of 1969, which lacked oversight and accountability mechanisms, insufficient provisions for transparent reporting, and did not have comprehensive strategies for debt management.

In 2022, the LGAA was repealed and replaced by the Public Debt Management Act No. 15 of 2022. This law introduced substantial improvements to address the shortcomings of the LGAA. It enhances the transparency of public debt, strengthens parliamentary oversight of loan acquisition, and formalizes public debt management operations.

The Medium-Term Debt Strategy: section 4 of the Act states that the Minister of Finance shall prepare, submit to Cabinet for approval, and publish the Medium-Term Debt Strategy by the second Friday of July. The approved MTDS will be updated at least once a year on a rolling basis subject to cabinet approval.

The MTDS for the years 2023 – 2025, 2024 - 2026 and 2025 – 2027 were published and available on the MoFNP website. Of notable concern is that publication timelines and Cabinet approval dates were inconsistently disclosed. The Act does not explicitly provide for parliamentary approval of MTDS. This weakens transparency and limits Parliament's ability to assess debt sustainability beyond a fiscal year.

Establishment of the Debt Management Office: Sections 5 to 7 provides for the establishment and operationalization of a Debt Management Office (DMO) within the Ministry of Finance. The DMO has been operational since December 2024 and the Public Debt Management Processes and Procedures manual was published on 31st July 2025 (Public Debt Management Processes and Procedures Manual). The office is responsible for carrying out functions as outlined under Section 6 of the Act. These include preparing and producing MTDS, Debt Statistical Bulletins, DSAs, annual borrowing plan (Reports available on the MoFNP website https://www.mofnp.gov.zm/?page_id=4072) and IMF review reports.

Although the DMO has made progress in improving debt data transparency, challenges remain regarding data granularity and aligning borrowing with sustainable, project-based growth. Key strengths include increased parliamentary oversight and better data quality, while ongoing needs focus on full system integration and expanding debt reporting scope.

Annual Borrowing Plan: Section 8 states that the Minister shall table an Annual Borrowing Plan at least 90 days before the financial year and obtain explicit Parliamentary approval.

The annual borrowing plan is included within the Budget Estimates, but there are no consistent, stand-alone resolutions for the Annual Borrowing Plan. This limits the time to scrutinize the funding and debt strategy. Additionally, parliament can only approve the overall borrowing plan and not the specific loans, which raises concerns about the effectiveness of scrutiny and the assessment of risks associated with individual debt components. These limitations dilute Parliament's role in providing oversight and create risks of implicit approvals.

Section10 Submit bi-annual updates on the implementation of the Annual Borrowing Plan. Updates referenced in fiscal reports, but not always as formal bi-annual submissions.

Limits Parliament's ability to track deviations and monitor fiscal and debt developments during the fiscal year

Power to raise loans: Section 11 & Second Schedule. Observe 65% of GDP public debt ceiling (effective after 5-year transition) Debt-to-GDP though above the ceiling is projected to maintain a downward trend in the medium to long term (IMF DSA). The ceiling is not yet legally binding.

Guarantees and Indemnities: Sections 31 to 32 require obtaining Parliamentary approval before issuing guarantees. Guarantees issued after 2022 were tabled before Parliament, while legacy guarantees persist and continue to expose the budget to financial shocks. Section 34 states that total guarantees should be kept below 10% of GDP. According to IMF fiscal risk statements, there has been no breach of this limit since the Act was implemented. However, there is a risk of breaching this threshold if the financial performance of SOEs deteriorates.

Publication of Reports: Section 40 requires that the annual Debt Sustainability Analysis (DSA) be conducted and published. While annual DSAs are conducted, there are some delays in publication. IMF-validated DSAs are available in the review documents, but minor timing delays reduce the effectiveness of oversight. Section 41 provides for the publication of quarterly Debt Statistical Bulletins. The Ministry of Finance and National Planning regularly publishes these bulletins, which enhance transparency and program monitoring.

Overall, a solid institutional setup and transparency measures have largely been established. However, there are recurring gaps in ex-ante parliamentary controls and time-bound reporting. Transparency regarding debt statistics and DSAs is improving, and the DMO is now operational. Nevertheless, practices related to the annual borrowing plan and timely, formal reporting to Parliament are the main points of contention. Additionally, the statutory debt ceiling poses a significant compliance challenge once it becomes binding. Therefore, even with enhanced debt management, there is still a need to strengthen adherence to the Public Debt Management Act and its debt sustainability thresholds.

7.0 Conclusion

Overall, the ECF program has been effective in restoring macroeconomic stability and re-establishing policy credibility following Zambia's debt crisis. Fiscal discipline has improved, regressive subsidies have been removed, and debt governance has been strengthened through the Public Debt Management Act. However, the program's effectiveness is uneven. While macro-fiscal reforms and legal changes have largely been delivered, implementation gaps persist in social spending execution, SOE reform, and domestic revenue mobilization. Cost-of-living pressures continue to affect vulnerable households. The main challenge is not in designing policies but in their implementation, execution, and accountability. The MEFP should be viewed as a tool for public accountability, allowing for a systematic assessment of budget outcomes, debt trends, and social impacts, even after the program period has ended.

8.0 Recommendations

In light of the identified risks to the effective implementation of the ECF program, and to safeguard macroeconomic stability, debt sustainability and inclusive growth, the following key recommendations are proposed for Parliamentary consideration:

1. **Integrate Climate Risks into Fiscal and Investment Frameworks**

Climate risk is now one of Zambia's largest recurrent fiscal risks. Climate-related fiscal risks should be systematically integrated into public investment management, project appraisal, and fiscal risk analysis. Parliament should promote increased investment in climate adaptation to reduce future emergency spending, disaster risk financing, and early warning systems to mitigate the macroeconomic and social impacts of recurrent droughts and floods.

2. **Protect Livelihoods and Manage Social and Political Risks**

In the context of fiscal consolidation and cost-of-living pressures, Parliament should ensure the protection of priority social spending and improved targeting of social protection programs. Enhanced public communication and stakeholder engagement are essential to build consensus around reforms, particularly in the lead-up to the 2026 general elections, to minimize the risk of reform reversals

3. **Strengthen Debt Sustainability and Borrowing Discipline**

Parliament should ensure the completion of the remaining external debt restructuring and enforce strict adherence to approved borrowing limits under the Medium-Term Debt Strategy and Annual Borrowing Plans. Priority should be given to concessional financing, while debt management institutions should be strengthened to improve debt recording, risk analysis, and transparency, including oversight of SOEs and contingent liabilities. A key aspect of strengthening debt sustainability will be to prepare for compliance and ensure that the statutory debt ceiling is binding by 2027.

4. **Close Fiscal and Public Financial Management Gaps**

Government should fully operationalize IFMIS-based commitment controls across all spending entities to prevent the accumulation of new arrears. Parliament should require the implementation of a transparent, audited arrears clearance strategy, strengthened cash management practices, and improved coordination between fiscal and monetary authorities. Revenue administration should be enhanced and expenditure reprioritised toward high-impact social and economic investments.

5. **Accelerate Structural Reforms and Improve Governance**

Delayed legal and institutional reforms, including anti-corruption legislation, should be expedited to sustain reform momentum and investor confidence. Parliament should strengthen oversight of anti-corruption institutions, public procurement processes, and SOE governance to reduce fiscal risks, improve accountability, and enhance program effectiveness.

6. **Reduce External Sector and Exchange Rate Vulnerabilities**

Authorities should improve the functioning of the foreign exchange market by reducing administrative distortions and allowing effective price discovery. International reserves should be rebuilt to adequate levels, while a flexible exchange rate regime should be maintained to absorb external shocks. Parliament should also support policies aimed at diversifying exports beyond copper to reduce vulnerability to commodity price volatility.

7. **Strengthen Data Quality and Institutional Capacity**

Government should invest in strengthening national statistical systems, including updating GDP and CPI base years, expanding coverage to general government, and improving debt, fiscal, and balance of payments data. Improved inter-agency coordination and data transparency are critical to effective surveillance, monitoring, and policy calibration under the ECF Program. The institutional capacity gaps in data quality also affects reforms like e-procurement, IFMIS, SOE monitoring, and beneficial ownership verification.

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