



ZAMBIA FLASH NOTE

**IMF update: Debunking the 'ECF programme' canard**

1) Having managed through a combination of stealth and violence to secure nomination as the PF's candidate in Nov. 2014, and then the presidency itself in the Jan. 2015 by-election<sup>1</sup>, Mr. Lungu recently pulled off **an 'impressive' repeat**.

Even more remarkable than his Machiavellian efficiency in the political sphere is the dexterity with which he has induced the notionally efficient market to ignore Zambia's deteriorating fundamentals and dance to his tune. His conductor's baton? - **repeated assurances that a USD 1.2 billion IMF package is virtually in hand**, promising balance-of-payments support.

2) Although these unfounded claims<sup>2</sup> have induced a number of Wall Street houses to assure clients that an IMF program will materialize by year-end at the latest, it is worth stressing that his primary audience was always the Zambian electorate<sup>3</sup>. So it is no surprise that **the mantra of an imminent IMF bail-out was abruptly dropped in mid-September** – i.e. within a week of Mr. Lungu being sworn in for his first 5-year term as president.

3) Two specific factors will have expedited this decision:

- Ever since April, the IMF had been signaling that one of the preconditions for any support programme would be a significant front-loaded fiscal adjustment<sup>4</sup>. The highly problematical circumstances of Mr. Lungu's election 'victory' have clearly left him **bereft of the political capital required to push through this level of austerity**<sup>5</sup>.
- On Sept. 9, the IMF's newly appointed resident representative in Lusaka had issued **a blunt point of clarification** in response to an enquiry from the local press, viz.:  
*"At this stage, however, there have been no formal negotiations on the type of arrangement or potential size of financial support."*

4) In official pronouncements, the imminent IMF 'bail-out' has now been replaced by the notion of a **home-grown 'economic recovery programme'**<sup>6</sup> - as-yet undefined. This was very much in evidence in the statement by newly appointed finance minister Felix Mutati, in the briefing he delivered at Zambia's Washington embassy on Friday 8<sup>th</sup>, viz:

<sup>1</sup> For additional background, see research note, '[Election Count-down](#)', Jan. 6, 2015.

<sup>2</sup> Taken at face value, surprisingly enough and then broadcast by certain wire services.

<sup>3</sup> In Q1/2016, consumer sentiment depressed by the crushing weight of power outages, salary payment arrears and a CPI rate above 20% was already signaling a steep climb for the incumbent PF administration ahead of the August elections. This was when, in a moment of desperation, the beleaguered Lungu government first issued the patently false statement that an IMF bail-out was in the works, promising imminent relief.

<sup>4</sup> For further details, see research note, '[The bond market shrugs off the IMF's warning](#)', Mar. 18, 2016.

<sup>5</sup> For a more detailed discussion of this issue see research note, '[All systems go](#)', Aug. 17, 2016.

<sup>6</sup> Let alone the additional cuts demanded by the level of extra-budgetary, election-driven expenditure in the interim. For example, Mr. Lungu has just created four new government ministries (including one for Religious affairs), whose transparent objective is political patronage.

*“The government will over the next five years work on an intensive economic recovery programme that will among other things implement the removal of subsidies.”<sup>7</sup>*

5) Responding to a question at the IMF’s press briefing on Africa the following day, the recently appointed head of the **Africa Department delivered a crisp assessment of the economic situation**, pulling no punches, viz.:

*“Zambia is one of the countries that although not an oil exporter, of course, heavily relies on copper exports and the decline in copper prices has been a very severe shock to the economy. This has been coupled — with more domestic sources of pressure on the fiscal accounts, particularly **elevated spending in a number of areas**. So, I think the government has recognized the need for adjustment.*

*[...] **The first order of priority is going to be putting in place a significant fiscal adjustment**. This needs to be coupled and supported by monetary policy steps, of course.”<sup>8</sup>*

6) With the risk premium on Zambia’s benchmark eurobonds now at a mere 738 b.p., **the question now is how long it takes the market to remove its rose-tinted spectacles**.

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<sup>7</sup> According to Mr. Mutati, the details of the recovery programme will be announced at the time the draft budget for 2017 is submitted to the National Assembly. This typically occurs in mid-late October, a date which would precede the expected arrival of the IMF’s Article IV mission, interestingly enough. As reported in ‘Government will remove subsidies as part of Zambia’s Economic Recovery Program – Mutati’, by *Lusaka Times*; Oct. 7, 2016.

<sup>8</sup> See IMF, [‘Transcript of African Department Press Briefing’](#); Oct. 8, 2016.

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