

ZAMBIA FLASH NOTE**The Article IV Report - a damning assessment**

1) Issued late on Friday, the **2019 report pulls few punches** in its damning assessment of Zambia's mismanaged economy, viz.:

- **Staff recommendations** to rein in the fiscal deficit and reduce debt vulnerabilities were **not implemented**¹ [para. 4].
- **Growth is expected to slow markedly** in 2019 and remain subdued going forward ... pushing growth down to 1.5% by 2023 [para. 13].
- **Arrears to suppliers are rising**, with delays also seen in remitting some public employees' pension contributions, controls, and 1% of GDP pushing the deficit to 9% of GDP (commitment basis)² [para 7 & 18].
- **Public debt** is on an unsustainable path with the debt ratio projected to increase from 78% in 2018 to **91½% in 2019** [para.11].
- **External imbalances are projected to widen**, adding to pressure on reserves, which are seen dropping to 1.3 months' cover in 2020 and then declining steadily to 0.5% in 2024 [para. 14].
- A **large front-loaded and sustained fiscal adjustment**³ is **urgently needed** to reduce debt-related vulnerabilities [para. 41].

2) Arguably, the coup de grâce is to be found in Footnote 7 that reads, **"This assumes no additional IFI support"** [para. 17]. **Evidently, this represents the Staff's base case**, with all that that implies. So much for Dr. Ng'andu's honeymoon ...

3) Yet somehow, **the stark message does not appear to have got through to the ruling party**, judging from its Facebook posts on the report⁴, viz:

- **Directors welcomed the Cabinet decision in late May** to indefinitely postpone the contracting of all new non-concessional loans, cancel some committed but undisbursed loans and enhance the control and management of disbursements of foreignfinanced loans, and to strictly adhere to public financial management rules under the 2018 PFM Act.
- The report commended government's efforts to deal with various risks in the economy. The report further highlights that **poor weather conditions and the USA-China trade war** was having an effect on economic growth of the country.

This remarkable interpretation brings to mind only one thing: **the much maligned ostrich.**

¹ Only hours before the Report was published, that the Government submitted a parliamentary motion to withdraw Bill No. 7 of 2019 under which the existing VAT would have been replaced by a sales tax – against the repeated admonitions of the IMF. However, this was no more than a procedural move as the Bill is to be reintroduced in September, with a view to launching the sales tax in January 2020.

² Including audited but unpaid VAT refund claims equivalent to 1% of GDP, the stock of domestic expenditure arrears stood at 5½% of GDP at end-2018.

³ The insistent phrase appears a total of six times.

⁴ See **"Quotes from the IMF Report"**, posted at 0313hrs, Aug. 3, 2019.

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