Brief on the Effectiveness of the Extended Credit Facility (ECF) Program on Budget Support and Debt Sustainability

Parliamentary Budget Office
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LIST OF ACRONYMS AND ABBREVIATIONS

Extended Credit Facility	ECF
International Monetary Fund	IMF
Ministry of Finance and National Planning	MoFNP
Public Debt Management Act	PDMA
Gross Domestic Product	GDP
Debt Sustainability Analysis	DSA
Highly Indebted Poor Countries	HIPC
Public Finance Management	PFM
Structural Benchmarks	SBs
Oil Marketing Cooperations	OMCs
State-Owned Enterprises	SOEs

1. INTRODUCTION

This brief evaluates the effectiveness of Zambia's International Monetary Fund (IMF) Extended Credit Facility (ECF) in supporting the National Budget and economic recovery. It reviews the ECF conditionalities applicable for debt sustainability and growth. Further, it identifies gaps and risks to programme targets and assesses adherence to Zambia's Public Debt Management Act No. 15 of 2022**.** The Public Debt Management Act No. 15 of 2022 is a strong legal framework providing for the raising of loans and grants, issuing of guarantees and the approval of loans by the National Assembly.

In the aftermath of debt relief under the Highly Indebted Poor Countries (HIPC) Initiative in the mid-2000s, Zambia began on a relatively strong fiscal position. However, a convergence of factors subsequently resulted in the rapid and unsustainable build-up of public debt. Notably, the Government increasingly shifted away from concessional financing towards costly commercial and non-concessional borrowing to fund large-scale infrastructure projects, in many cases without adequate parliamentary oversight or approval. Following Zambia's reclassification as a lower-middle-income country, access to concessional financing diminished, prompting greater reliance on non-concessional borrowing.

This resulted into Zambia's public debt becoming unsustainable by 2020. Debt servicing was consuming over 40.0 per cent of government expenditure thereby negatively affecting the ability of the Government to fund essential social services. This culminated in Zambia becoming the first African country to default on its sovereign debt during the Covid-19 pandemic in November 2020.[1]

In August 2022, Zambia entered a 38-month Extended Credit Facility (ECF) arrangement amounting to US$1.3 billion. This was in response to Zambia's unsustainable debt levels meant to restore debt sustainability, promote economic growth and strengthen governance. According to IMF assessments, including the Fifth Review of the IMF Programme in 2025, Zambia's public debt was deemed to be sustainable. However, the country remains at high risk of debt distress in the near term due to breaches of Debt Sustainability Analysis (DSA) thresholds. The IMF projects that, as debt restructuring is completed and economic growth strengthens, Zambia's risk of external debt distress will decline to a moderate level over the medium term.

[1] Civil Society for Poverty Reduction – Analysis of Zambia's Debt Sustainability Post Debt Restructuring

2. EFFECTIVENESS OF THE IMF PROGRAMME AND ITS CONTRIBUTION IN SUPPORTING ZAMBIA'S NATIONAL BUDGET AND ECONOMIC RECOVERY

According to the International Monetary Fund (IMF), Zambia has entered several Extended Credit Facility (ECF) arrangements, including programmes approved in 2004, 2008 and most recently on 31 August 2022. The latest programme was adopted following Zambia's default on its debt service obligations in 2021, which affected both public and private external creditors.

The ECF, approved in August 2022 and augmented in June 2024, seeks to restore macroeconomic stability after the 2020 Eurobond default, place public debt on a sustainable path through fiscal consolidation and debt restructuring, rebuild foreign reserves, and create fiscal space for priority spending and inclusive growth. It is anchored on quantitative performance criteria, structural benchmarks, and policy conditionalities focused on revenue mobilisation, public finance management reforms and debt restructuring.

IMF assessments indicate that Zambia's public debt is now considered sustainable, although the country remains at high risk of debt distress due to near-term breaches of Debt Sustainability Analysis thresholds. The IMF projects that, as restructuring is completed and economic growth strengthens, Zambia will move to a moderate risk of external debt distress over the medium term.

The 2025 IMF Article IV Consultation and Fifth Review report that programme performance has been broadly satisfactory, with most quantitative performance criteria for end-2024 and end-March 2025 met. Several structural benchmarks were completed, while others were implemented with delays. The review concludes that the programme's conditionalities are appropriate for supporting debt sustainability, but notes that implementation gaps, political-economy constraints, and vulnerability to shocks, such as drought, electricity disruptions and global commodity price volatility, continue to pose significant risks. [2] The IMF-supported programme has had several effects. Some of these effects are set out hereunder.

2.1. Economic Recovery: Restoring Macroeconomic Stability

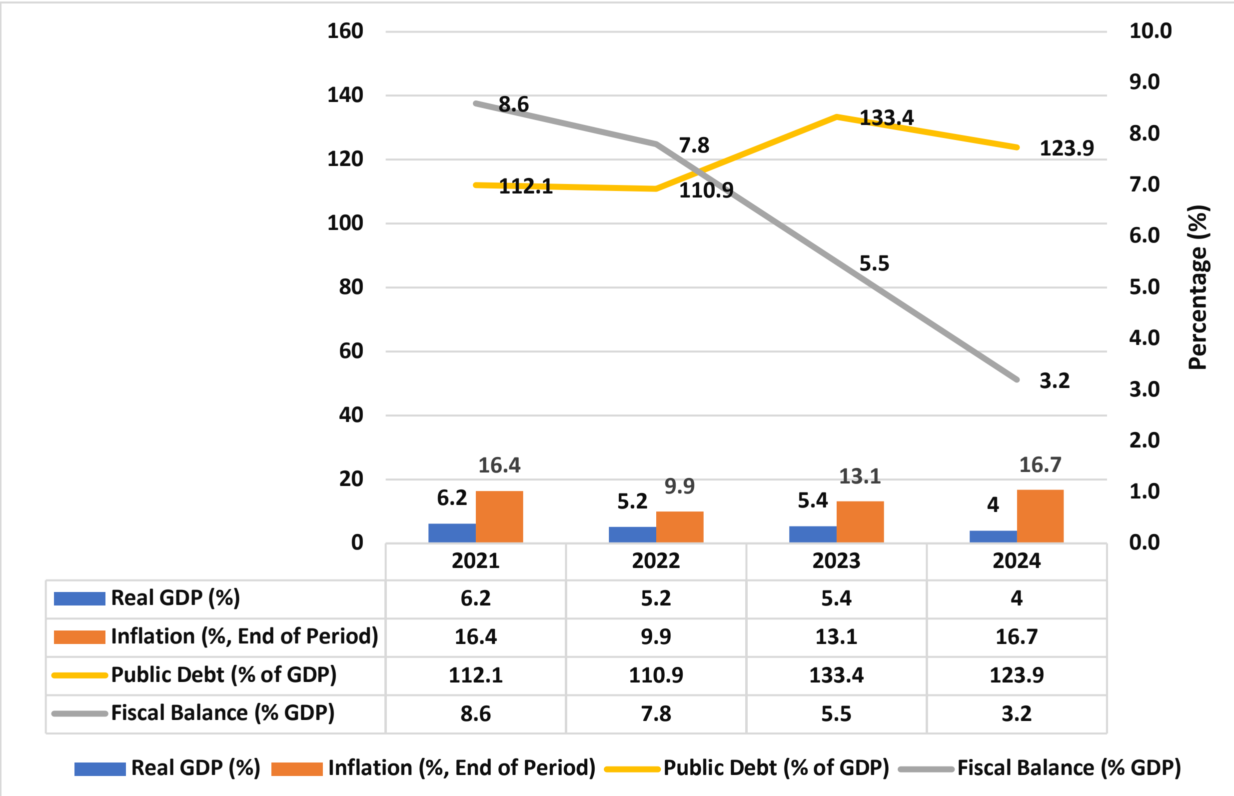
In 2020, Zambia's economy contracted by about -2.8 per cent, largely due to the severe disruption caused by the COVID-19 pandemic. In 2021, the economy rebounded strongly with growth of about 6.2 per cent**,** reflecting a recovery from the pandemic downturn and a gradual lifting of COVID-related restrictions. Under the IMF Programme, growth was conservatively projected to reach 3.0 per cent in 2022 and settle around 4.5 to 5.0 per cent over the medium term as confidence strengthens and investment grows. [3]

As shown in the figure below, subsequent recovery continued in 2022 and 2023, supported by the IMF programme. Growth in 2024 was impacted due to external shocks such as the 2023/2024 drought and load-shedding, which continue to pose risks. Growth in 2025 was projected at 5.8 percent, supported by a good agricultural harvest, stronger mining output, and improved electricity supply. In 2026, the economy is further projected to grow by 6.4 percent, due to expected

[2] IMF Executive Board Concludes 2025 Article IV Consultation and Completes Fifth Review Under the Extended Credit Facility with Zambia
[3] International Monetary Fund – Country Report No. 22/292. P.9

strengthening in mining and agriculture sectors, the country's major economic drivers, in addition to improved macroeconomic stability.

Figure 1: Key Economic Indicators under Restructuring (2021 to 2024)



	2021	2022	2023	2024
Real GDP (%)	6.2	5.2	5.4	4
Inflation (%, End of Period)	16.4	9.9	13.1	16.7
Public Debt (% of GDP)	112.1	110.9	133.4	123.9
Fiscal Balance (% GDP)	8.6	7.8	5.5	3.2

Source: Constructed by PBO using data extracted from Annual Economic Reports (2021 to 2024) and ZAMSTATS-Quarterly Statistical Bulletins.

The fiscal balance reflects the gap between government revenue and expenditure with persistent deficits posing risks to macroeconomic stability and debt sustainability. Between 2021 and 2025, Zambia's fiscal position followed an uneven but overall consolidation path.

In 2021 and 2022, the fiscal deficit remained elevated at 8.6 per cent and 7.8 per cent of GDP, from about 13.0 per cent in 2020. This was largely driven by strong expenditure pressures, weak revenue mobilisation, and heavy debt service burdens compounded by the effects of the COVID-19 shock. Fiscal policy during this period was largely expansionary, heightening macroeconomic vulnerabilities. Following the introduction of the IMF-supported programme, the deficit narrowed to 5.5 percent of GDP in 2023, reflecting the start of fiscal consolidation through expenditure rationalisation, stronger revenue measures, and structural reforms. Consolidation deepened in 2024, with the deficit falling further to 3.3 percent of GDP, signalling improved fiscal discipline and reduced borrowing needs.

In 2025, the deficit was projected to widen to 5.3 percent of GDP, pointing to renewed fiscal pressures, likely linked to increased development and social spending.[4] In 2026, the fiscal deficit is projected to reduce to 2.1 per cent of GDP, compared to 13.3 per cent and 8.6 per cent recorded in 2020 and 2021.

Despite the positive gains in some economic indicators, challenges remain such as high inflation and cost of living as Households face high food prices and kwacha instability. In addition, election-related costs, FISP arrears, and high interest payments have potential to further limit fiscal space.

2.2. Budget Support and Fiscal Performance

The completion of the Fifth Review released about US$184 million bringing total disbursements under the programme to US$1.55 billion. This provides room for government operations during tight financing conditions.

2.2.1. Protection of Social Spending

The IMF supported programme incorporates social spending floors to protect allocations to health, education and targeted social protection, which are critical for recovery and poverty reduction. Measures such as support for vulnerable women and the youth through cash-for-work initiatives, Constituency Development Fund (CDF) loans, and other government programmes have helped cushion households from the effects of fiscal consolidation under the Extended Credit Facility.

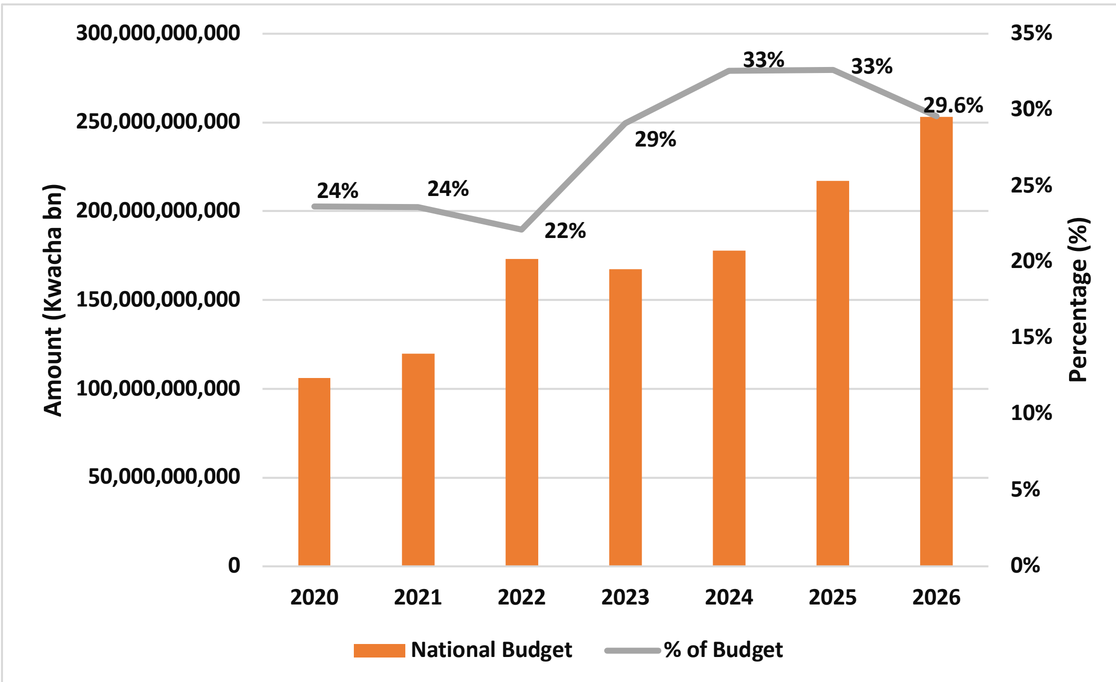
IMF-supported debt restructuring from other emerging and low-income countries shows that debt sustainability improves only when structural reforms are sustained and coupled with economic growth. In Zambia, controlled wasteful expenditure, improved revenue mobilisation and lower debt service obligations reportedly created fiscal space to recruit large numbers of teachers and health workers, while also increasing allocations to constituency funds and social cash transfers.[5]

Debt restructuring generated substantial cash-flow which is estimated at about US$2 billion annually thereby allowing for higher social spending. This was reflected in the 2023 budget, which increased allocations by 25.0 per cent to health, 28.0 per cent to education, and 29.0 per cent to social protection. As a result, social sector allocations reached a peak of about 33.0 per cent of the national budget between 2023 and 2025. However, projections indicate a decline to 29.6 per cent in 2026 highlighting ongoing trade-offs in fiscal prioritisation.

[4] International Monetary Fund – Country Report No. 22/292. P.11

[5] https://www.lusakatimes.com/2025/03/04/imf-program-expires-october-2025-what-are-its-achievements-and-failures

Figure 2: Budget Allocation to Social Sectors - 2020 to 2026



Source: Constructed by PBO using data extracted from Budget Speeches (2020 to 2026)-Ministry of Finance and National Planning

While the Government remains committed to macroeconomic stability and structural reforms, the rising cost of living reflected in average inflation of about 12.0 per cent between 2022 and 2024 risks eroding real incomes, particularly for vulnerable groups. As Zambia implements the IMF programme, fiscal consolidation must therefore be accompanied by strong safeguards for social spending.

2.2.2. Revenue Mobilization

Through the Extended Credit Facility, the IMF advised the Government to strengthen domestic revenue mobilisation through a mix of policy and tax administration reforms to reduce the fiscal deficit. These recommendations have been partly implemented, and reforms are ongoing. The Zambia Revenue Authority has intensified efforts to narrow the compliance gap and strengthen tax administration, including improved use of data across government agencies. It is also rolling out an Electronic Invoicing System for VAT to curb tax fraud. Despite these measures, the tax base remains narrow and although internal controls in the VAT refund process have improved, the clearance of VAT refund arrears continues to pose challenges.[6]

[6] IMF Country Report No. 24/190 – June 2024

Domestic revenue performance has strengthened, with revenues projected to remain above 20.0 per cent of GDP. In 2024, domestic revenues reached 21.8 per cent of GDP up from 19.8 percent in 2020. As a result, the fiscal balance on a cash basis improved between 2022 and 2024, with the deficit narrowing from 7.8 per cent to 3.3 per cent of GDP.

2.3. Debt Sustainability and Restructuring

The IMF's Debt Sustainability Analysis (DSA) post restructuring shows a dramatic improvement, with Debt to GDP ratio projected to fall from over 120 per cent to 70 -75 per cent by 2025. In addition, the IMF's DSA has projected Debt Service to Revenue ratio to plummet from over 40.0 per cent to well below 20.0 per cent, which is a key benchmark for sustainability.

Table 1: Key Debt Metrics and Projections (2025)

Indicator	2015-2019 Trend	2020-2020 Crisis	2023-2025 Projection
External Debt ($billion)	Rapid increase to $24.3 billion	Peak default (2020)	Decline to $23 billion (Restructuring)
Debt to GDP (%)	120%	Sustained>100%	70-75%
Debt Service/Revenue	>40% (Unsustainable)	Default	<20% (Post restructuring)

Source: Constructed by PBO using data extracted from Annual Economic Reports – Ministry of Finance and National Planning

2.3.1. Improved Debt Sustainability but Risk of Debt Distress

The ECF provided the framework and credibility needed for negotiations under the G20 Common Framework which has been essential in restructuring official and private external debt, thereby making Zambia's medium-term debt outlook more attractive to potential investors in key economic sectors such as mining, tourism and agriculture. In addition, the framework reduced the debt service burden by restructuring it over a longer period for repayment. This had resulted in Debt as a percentage of GDP reducing from about 120 per cent between 2015-2020 to about 91.9 per cent in 2025, reflecting successful debt-restructuring agreements covering a large share of external debt and IMF aligned fiscal policies. This is a material improvement to fiscal sustainability prospects and a clear program success if realized. [7]

The IMF's Fourth Review however has stated that while Zambia's Public Debt is assessed as sustainable, it also flags "high risk of overall and external debt distress" if reforms and debt-restructuring are not fully implemented. Zambia's debt distress is characterized not just by the amount of debt, but by its complex and fragmented creditor structure. This complexity has been a major factor in prolonging the ongoing debt restructuring process, which is currently at 92.0 per cent as of 2025 and only about 8.0 per cent left to be restructured. The delay is evident with debt owed to creditors such as AFRIEXIM Bank because of a dispute in restructuring what is owed to the Institution.

[7] Zambia Economic Update: Leveraging energy transition minerals for economic transformation

2.3.2. Unlocking External Financing

Following Zambia's default on a US$42 billion Eurobond payment in 2020, its credit rating was downgraded to CCC-, making Zambia's access to international financial markets very limited. After progress in debt restructuring, Zambia's credit rating was upgraded to CCC+ in December 2025, indicating that the country has exited a state of default, though it remains below investment grade and is still considered a high-risk destination for investors, despite a stable outlook. This improvement reflects agreements in principle covering about 94.0 per cent of Zambia's restructured debt. In summary, moving from CCC– to CCC+ shows progress in restoring debt sustainability and confidence, but it does not indicate strong creditworthiness.

Despite the improvement in credit rating and a debt restructuring of 94.0 per cent, Zambia has outstanding obligations of about US$45 million owed to Afreximbank and US$543 million to the Eastern and Southern African Trade and Development Bank, both of which are central to the restructuring process. These institutions dispute their treatment under the restructuring framework, arguing that their preferential creditor status, comparable to that of Bretton Woods institutions such as the IMF and World Bank, should exempt them from being treated as commercial creditors and subject to comparative treatment.

2.4. Structural and Governance Reforms

In the Fourth Review of the Program, the IMF has further revealed that the programme 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.[8] It has been stated that the Government has made progress in Structural Reforms such as Public Financial Management, mining licensing, energy sector reforms and climate policy. The following have been highlighted:

i. **Enhancing Agriculture Productivity:** This will require Expanding the e-voucher scheme and advancing implementation of the Comprehensive Agriculture Transformation Support Program (CATSP), which are key to improving input delivery and productivity. In addition, the Smallholder Agricultural Finance Facility (SAFF) poses significant fiscal risks which may need to be redesigned.

ii. **Reforms for State-Owned Enterprises:** ECF conditionalities aimed at reforming State-Owned Enterprises (SOEs), including ZESCO and the introduction of cost-reflective tariffs, are expected to enhance long-term efficiency in key sectors and lower contingent fiscal risks. However, in the short to medium term, the speed of SOE reforms may lead to transitional gaps in service delivery such as power supply reliability, which could significantly affect mining operations unless accompanied by complementary investments or interim support measures.[9]

[8] International Monetary Fund (IMF) – 2025 Article IV Consultations
[9] Ministry of Mines and Minerals Development

iii. **Promoting Energy Sector Competition:** Although the introduction of open access for fuel imports through the TAZAMA pipeline is a positive step, further measures—such as monthly revenue reporting to the Treasury, timely fuel delivery by successful Oil Marketing Companies (OMCs) and publication of all contracts are needed to enhance competition and transparency. The open access regime, which commenced on 1 April, also faced initial implementation challenges, as winning OMCs began delivering diesel only from mid-April

iv. **Enhancing Transparency in Mining licensing:** The ECF's emphasis on efficiency and reduced subsidies has created both opportunities and constraints for Artisanal Small-Scale Miners (ASM). For example, stronger governance and conditional funding encourage formalization, but limited fiscal space has reduced immediate grant support for ASM. Further, progress on value-addition for ASM depends on targeted public investments which have been constrained by fiscal consolidation priorities[10]. The establishment of a one-stop-shop Licensing, Mineral and Appeals Tribunal and the planned Minerals Regulation Commission are expected to centralize and strengthen regulatory oversight across the mining value chain.

v. **Improving Governance:** Despite progress, greater transparency, integrity, and accountability remain critical for macroeconomic stability. According to the IMF Fifth Review, anti-corruption oversight is still weak and viewed as selective, while submission of the IMF-aligned Anti-Corruption Act to Parliament has been delayed.

vi. **Strengthening Climate Resilience:** Zambia's debt crisis was compounded by climate-related vulnerabilities, which added complexity to the debt restructuring process. A severe drought in 2024 reduced agricultural production by about 15.0 per cent and lowered hydroelectric power generation by 30.0 per cent undermining food security, energy supply, and export performance. These shocks weakened debt sustainability through several channels such as lower agricultural exports reduced foreign exchange inflows, higher food imports widened the current account deficit and emergency response measures placed additional pressure on the fiscal balance.[11]

Based on the above, strengthening climate resilience is essential to safeguard development gains and reduce fiscal and economic vulnerabilities to climate shocks. Despite the macroeconomic stability during the period of the ECF, climate shocks can affect key sectors which play an important role in the country's economy.

3. GAPS AND RISKS ASSOCIATED WITH MEETING IMF PROGRAMME TARGETS

In assessing Zambia's Extended Credit Facility, it is necessary to look beyond headline compliance with IMF conditionality and examine whether the reforms undertaken were sufficiently deep to sustain fiscal and debt stability once the programme ends. The Extended Credit Facility is

[10] Ministry of Mines and Minerals Development
[11] Civil Society for Poverty Reduction – Analysis of Zambia's Debt Sustainability Post Debt Restructuring

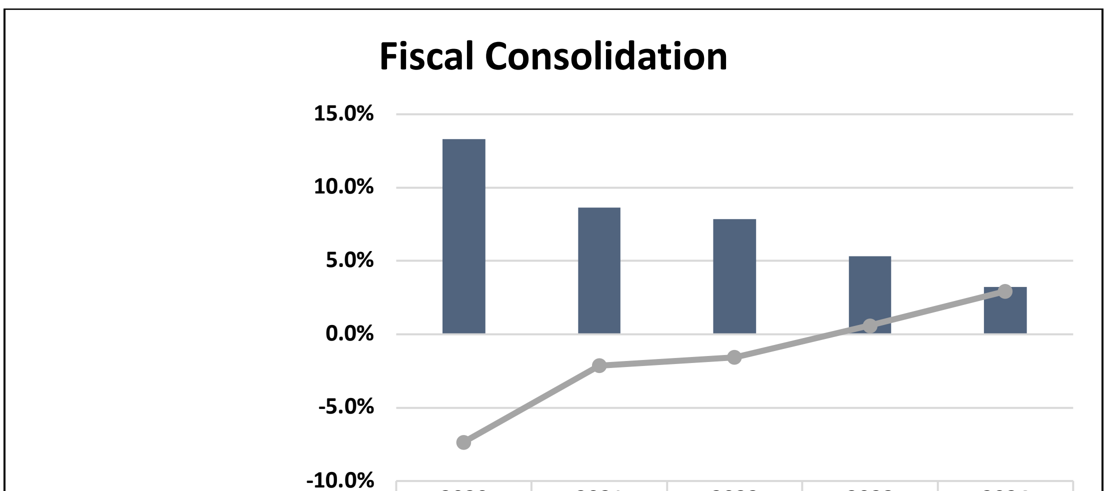
implemented through Quantitative Performance Criteria, which are binding numerical targets; Indicative Targets (ITs), which are non-binding benchmarks used to monitor progress; Structural Benchmarks (SBs), which are time-bound institutional and policy reforms and Prior Actions, which are measures required before programme approval or review completion. Together, these constitute the programme's conditionality. While Zambia broadly met most QPCs and ITs, performance against the programme's core objectives reveals specific gaps and risks that require attention, as assessed below.

3.1. Restoring Medium-Term Fiscal Sustainability

Under the Extended Credit Facility, Zambia achieved significant fiscal consolidation, with the overall fiscal deficit on a cash basis declining from about 13.3 per cent of GDP in 2020 to approximately 3.2 per cent of GDP in 2024, in line with programme targets. Over the same period, the primary balance improved from a deficit of 7.3 per cent of GDP in 2020 to a surplus of 2.9 percent of GDP in 2024.

The primary balance measures the Government revenues minus expenditures excluding interest payments, and is important because it shows whether current fiscal policy is sufficient to cover day-to-day spending without relying on new borrowing. The improvement in both the fiscal deficit and the primary balance reflects stronger expenditure discipline, tighter cash management, and adherence to approved budget ceilings. Figure 1 below illustrates the trends in the fiscal deficit and the primary balance.

Figure 3: Fiscal Consolidation Under the IMF Extended Credit Facility



	2020	2021	2022	2023	2024
Fiscal Deficit (% of GDP)	13.3%	8.6%	7.8%	5.3%	3.2%
Primary Balance (% of GDP)	-7.3%	-2.1%	-1.6%	0.6%	2.9%

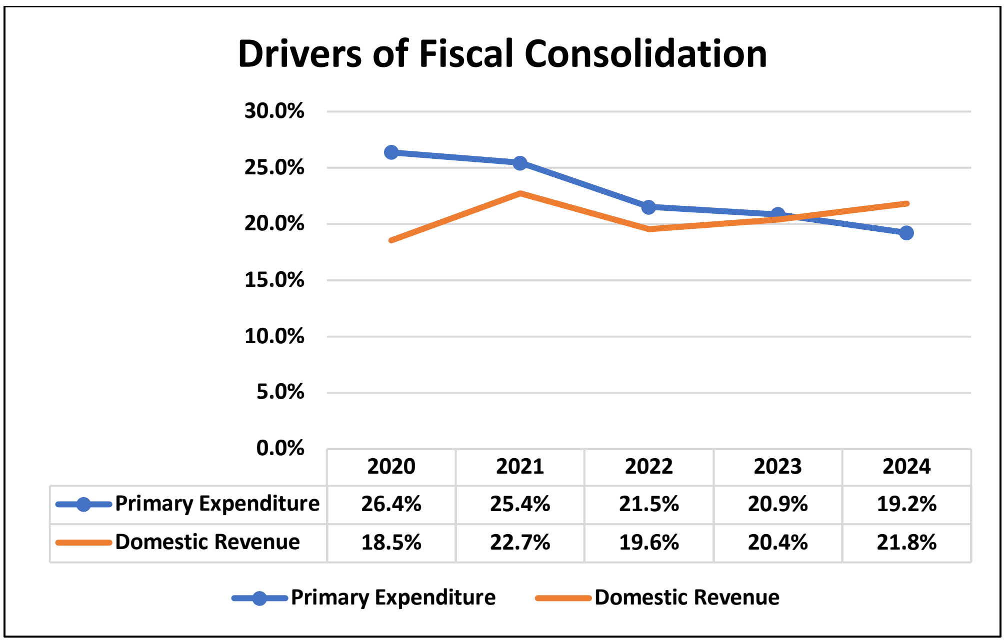
Source: Ministry of Finance Annual Economic Reports

However, the sustainability of this adjustment remains a concern, as fiscal consolidation was achieved largely through expenditure compression rather than durable, revenue-based consolidation. As a result, fiscal sustainability remains highly sensitive to revenue underperformance and commodity price volatility. Once IMF oversight ends, renewed pressure to increase spending, particularly on the public sector wage bill, subsidies and social protection, could weaken the fiscal position if revenue mobilisation is not strengthened.

Figure 2 below illustrates the drivers of fiscal consolidation. It shows that primary expenditure, which captures Government spending excluding interest payments, declined from 26.4 per cent of GDP in 2020 to 19.2 per cent of GDP in 2024, largely due to compressed capital and investment spending. Primary expenditure is an important indicator because it shows the part of spending that the Government can directly control through policy decisions.

Over the same period, domestic revenue increased from 18.5 per cent of GDP in 2020 to 21.8 per cent of GDP in 2024. While these revenue gains indicate progress in domestic revenue mobilisation, the evidence shows that fiscal consolidation has been driven mainly by spending suppression rather than sustained revenue growth.

Figure 1: Drivers of Fiscal Consolidation



Source: Ministry of Finance Annual Economic Reports

3.2. Enhanced Social Spending

The Extended Credit Facility explicitly sought to protect and expand social spending during periods of fiscal adjustment to cushion the most vulnerable. Zambia generally performed well in this regard, with social spending floors largely met across programme reviews, including expenditures on education, health, and social cash transfers.

However, during the Fourth Review, the end-September 2024 indicative target on social spending was narrowly missed, mainly due to expenditure reprioritisation in response to the drought. By the end of September 2024, the Government had spent K39.0 billion on social programmes, representing 8.1 per cent below the target of K42.5 billion. While the IMF assessed this deviation as small, it nonetheless highlights a structural vulnerability, namely that social spending remains exposed to fiscal liquidity pressures during periods of economic shock.

In the absence of stronger revenue buffers such as strengthening domestic revenue mobilisation through the broadening of the non-mining tax base and rationalisation of tax exemptions, there is a risk that the social spending gains achieved under the Extended Credit Facility may not be fully safeguarded once the programme comes to an end.

3.3. Restoring Debt Sustainability and Improving Debt Management and Transparency

A major achievement of the Extended Credit Facility was the progress made in restoring Zambia's debt sustainability. The Government completed the restructuring of Eurobonds in 2024, reached agreements in principle with official bilateral creditors and advanced negotiations with most private creditors. By the end of 2025, approximately 94.0 per cent of Zambia's external debt had been restructured. As a result, public debt declined from over 130 per cent of GDP in 2023 to a projected level of below 95.0 per cent of GDP by 2025.

Accordingly, Zambia has officially moved out of external debt default, as reflected in upgrades by international credit rating agencies following progress in debt restructuring and improved macroeconomic management. Fitch Ratings upgraded Zambia's Long-Term Foreign-Currency Issuer Default Rating to 'B-' from 'Restricted Default', with a Stable Outlook[12], while S&P Global Ratings upgraded the country's long and short-term foreign currency sovereign ratings to 'CCC+/C' from 'SD/SD', also with a Stable Outlook[13].

These rating upgrades represent the most significant improvement in Zambia's credit standing since the onset of the debt crisis and signal that the country is now considered less risky and better positioned to meet its debt obligations.

Notwithstanding these improvements, Zambia remains at high risk of overall and external debt distress, reflecting limited fiscal space, reliance on favourable growth assumptions, and continued exposure to external shocks. During the programme period, a waiver was required in 2024 to contract non-concessional external debt, underscoring ongoing pressures on borrowing discipline.

Accordingly, while the legal and policy framework for debt management has been strengthened, there remains a material risk of a return to non-concessional borrowing practices once IMF conditionality and monitoring are withdrawn, unless strong domestic discipline and oversight are maintained.

3.4. Strengthening Monetary Policy and Re-Building External Resilience

The Extended Credit Facility contributed significantly to restoring monetary policy credibility in Zambia. Inflation declined from an average of 22.1 per cent in 2021 to 10.9 per cent in 2023, before rising to 15.0 per cent in 2024 due to higher food prices and exchange rate depreciation. Inflation subsequently moderated, although marginally, to an average of 13.98 per cent in 2025,

[12] fitchratings.com/research/sovereigns/fitch-upgrades-zambia-to-b-outlook-stable-28-11-2025
[13] Zambia Foreign Currency Ratings Raised To 'CCC+/C | S&P Global Ratings

reflecting decisive monetary tightening by the Bank of Zambia. Throughout the programme period, the IMF consistently assessed monetary policy as appropriately tight and data dependent. Nevertheless, inflation remained above the Bank of Zambia's target band of 6 to 8 per cent, underscoring persistent inflationary pressures.

Progress in rebuilding external buffers was more uneven. Gross international reserves increased from 3.3 months of import cover equivalent to US$3.3 billion at end-December 2023 to 4.2 months of import cover equivalent to US$4.3 billion at end-2024, and further to US$5.2 billion equivalent to 5.2 months of import cover, by November 2025. Despite this improvement in gross reserves, Zambia repeatedly missed intermediate Net International Reserves accumulation targets during the programme period, including those for end-June 2023 and end-March 2025.

At end-March 2025, Net International Reserves stood at US$1.96 billion against a target of US$2.0 billion, representing a marginal underperformance of 3.2 percent, largely attributed to higher-than-expected foreign currency demand. Net International Reserves provide a more accurate measure of external strength than gross reserves, as they reflect usable foreign exchange resources after deducting foreign currency liabilities.

The key risk is that, as Zambia exits the Extended Credit Facility, the absence of IMF disbursements and monitoring may increase pressure to draw down reserves to manage exchange rate volatility, thereby heightening vulnerability to balance-of-payments shocks.

3.5. Safeguarding Financial Stability

Safeguarding financial stability was a key objective of the Extended Credit Facility. Throughout the programme period, financial soundness indicators remained stable, supporting the IMF's assessment that the banking system remained resilient.

The banking sector's capital adequacy ratio increased from 22.8 per cent at end-2022 to 24.4 per cent at end-2024, well above the statutory minimum of 10.0 per cent, while non-performing loans declined from 11.6 per cent at end-2020 to 4.1 per cent at end-2024, and further to 3.6 per cent by end-March 2025, reflecting improved asset quality and economic recovery.

Private sector credit growth rebounded strongly in 2022 by 35.0 percent but slowed from 17.8 percent in 2023 to about 9.0 per cent in 2024 due to drought-related economic disruptions. Importantly, private sector credit remained low at an average of 13.2 percent of GDP over the period 2020 to 2022, well below the Sub-Saharan Africa average of 31.4 per cent, constraining private sector-led growth[14].

In this regard, prolonged tight monetary conditions and persistently low private sector credit constrains investment and limits the economy's growth potential.

3.6. Improving Statistical Capacity

Improving the quality, coverage, and timeliness of fiscal and debt data was a cross-cutting objective of the Extended Credit Facility. Progress was achieved through the timely publication of

[14] Domestic credit to private sector (% of GDP) - Sub-Saharan Africa, Zambia | Data

Quarterly Debt Statistical Bulletins by the Ministry of Finance and National Planning and improved coordination among institutions responsible for debt reporting.

However, delays in fully enforcing Integrated Financial Management Information System (IFMIS) commitment controls and weaknesses in reporting Government arrears indicate that data gaps persist at the spending agency level, reducing the accuracy of fiscal reporting and risking the cover-up of emerging fiscal pressures which could undermine timely policy action and effective parliamentary oversight.

4. ASSESSMENT OF ZAMBIA'S ADHERENCE TO THE PUBLIC DEBT MANAGEMENT ACT NO. 15 OF 2022

The Public Debt Management Act No. 15 of 2022 provides a robust legal framework for ensuring debt sustainability through borrowing limits, transparency requirements, and strengthened oversight mechanisms. Zambia's performance under the Extended Credit Facility demonstrates broad compliance with the objectives and principles of the Act.

All domestic and external borrowing during the programme period were submitted to the National Assembly for scrutiny and approval through the Annual Borrowing Plan. In addition, the regular publication of debt statistics enhanced accountability and public scrutiny. In this regard, the Ministry of Finance and National Planning consistently published the Debt Statistical Bulletin, Medium-Term Debt Strategy and the Debt Sustainability Analysis.

Furthermore, updates on the implementation of the Annual Borrowing Plan and the Annual Public Debt, Guarantees and Grants Execution Report were submitted to the National Assembly in accordance with Sections 10 and 42(2) of the Act.

The effectiveness of the Public Debt Management Act No. 15 of 2022 during the programme period was reinforced by IMF structural benchmarks including requirements for the Government to publish quarterly debt statistics bulletins and summary information on financing agreements for all newly contracted external loans by the central Government, including guaranteed loans and guarantees on existing loan contracts.

In this context, sustaining prudent debt management beyond the Extended Credit Facility period will require continued fiscal discipline and strong parliamentary oversight to preserve the gains achieved under the programme.

5. CONCLUSION

Zambia's engagement under the IMF Extended Credit Facility (ECF) has played a critical role in stabilising the economy after years of unsustainable borrowing and the subsequent 2020 sovereign default. The programme has supported the restoration of macroeconomic stability, strengthened policy credibility, and provided a coherent framework for fiscal consolidation and debt restructuring. Notable progress has been recorded in economic growth, domestic revenue mobilisation and deficit reduction relative to the crisis period. Crucially, the ECF has also helped safeguard priority social spending during fiscal adjustment, easing the potential social costs of consolidation.

Despite these achievements, the gains remain fragile. Although public debt is now assessed as sustainable, Zambia continues to face a high risk of debt distress in the near term, highlighting the urgency of completing the debt restructuring process and resolving outstanding creditor issues. Implementation delays in structural reforms, together with vulnerability to external shocks—such as climate risks, energy constraints, and commodity price fluctuations—continue to threaten programme outcomes. Persistently high inflation, cost of living pressures, and inequality further underscore the limitations of macroeconomic stabilisation alone in addressing underlying social and development challenges.

Sustained reform commitment beyond the ECF period is therefore essential. Strengthening public financial management, enhancing debt transparency, broadening the tax base and deepening governance and anti-corruption reforms are key to locking in fiscal discipline and preventing a return to debt distress. While the Public Debt Management Act of 2022 provides a strong legal foundation, its effectiveness will depend on consistent implementation, adequate institutional capacity, and robust parliamentary oversight. As Government transitions from the current ECF to a successor programme, it will be prudent to sustain fiscal consolidation measures especially as the country prepares for the 2026 General Elections. This will translate into lasting debt sustainability, inclusive growth, and improved living standards for all Zambians

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