

Hakainde Hichilema's Major Economic Reforms and Debt Restructuring with IMF; Can the newly Elected President rescue Zambia's Economy

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Introduction

Former President Edgar Lungu did not implement crucial transformation reforms and adopt a better market approach, but he never did. Markets reacted with enthusiasm after Zambia bond prices reached their highest level in more than two years. The country's currency, the kwacha, appreciated by 7.8 percent against the U.S. dollar.

The current President -elect Mr Hichilema promised he can bring the country out of its \$12.8 billion debt crunch and bring growth of 10% per annum to the SADC within five years. The road ahead requires him to focus on some priority areas and will call for austerity measures that will affect the struggling population. The crucial setback that they will face is that the restructuring required by the IMF will likely be unpopular, including rolling back subsidies in electricity, petrol prices and reconfiguring the civil service wage bill. The current administration will need to find a way to ring-fence social spending, which declined year-on-year under the previous administration, and mitigate the negative consequences for the country's poorest.

Mr Hichilema said, "Our confidence is anchored on us doing the right thing," he said. "With or without the IMF we have to restore the rule of law. With or without the IMF, we have to stop bleeding public resources by controlling extravagance. With or without the IMF, corruption must be fought. We want to do these things to improve our economy."

The Importance and progress of Zambia's debt restructuring

Zambia's resources were being mismanaged and misallocated by the previous administration for the past years, there was no accountability and transparency. So in order to inspire confidence in investors and to position Zambia on the investment map, the President should grab the bull by its horns. President Hakainde administration engaged with IMF to re-negotiate the deal that former President failed to do for the in years when they were in the office. This deal is crucial to Zambia's economic recovery because the USA and Chinese creditors has call out as a condition for debt restructuring. The crucial reason why this deal is vital for Zambia economy, it is because Zambia's external debt enraged that without this deal by International

Monetary Fund, the country won't have access to international capital or funds. Thus, without these revenues the hard work of the new administration would be in null. This loan depends on the government capacity to maintain fiscal policy more so, to negotiate some debt relief with the G20 common framework agreed in 2020 to assist highly indebted economies like Zambia. There was lack of transparency and openness in relate to China's negotiations with Zambia on this loan there was material irregularities and the conditions laid out send signal to the market The international financial institute has already agreed to disburse fresh loans of \$560 million to the country despite the fact that they were unclear as to what are they for and there is a possibility of getting more funds if they reform policies accordingly.

Initially, it is unclear whether having the many creditors on the table will assist in negotiations and will motivate lenders to lend funds to the Zambia Government. Although it might not change Chinese terms and conditions but it will have some significant influence on decision making and the fact that China would be included in the negotiations as they are major lender. Thus, it is utmost unlikely that China joining such a restructuring arrangement will lead to favorable position to finance Zambia.

Zambia will achieve this new restructuring arrangements and they will be offered more fresh loans from these multilaterals it might not be clear but they will be offered with a grace period open for further open negotiations. Mr. Hichilema as a great negotiator hence he is excited that China agreed to be on the decision-making round table, which would be an advantage to Zambia because they don't have to go back but force the lenders to make decisions whilst all they are at once in the same room. Zambia will reach that debt restructuring agreement with China and West and other international financial institutions and unlock the World bank and IMF. There is a possibility of more funds that will be coming to Zambia due to the fact that Zambia's new reforms and system being put in place by the new President support the recommendations by the IMF, World Bank and China. The decision making to the long waiting debt offering of Zambia got delayed due the COVID 19 crisis, however, the recommendation are being dealt with by Zambia Government and they were in harmony with the new President elect before he became the President. China currently holds unto \$5.78 billion of Zambia's debt, thus, it is of nobility for them to be given the driving city by the negotiators and to be fair in the negotiations. The President as well is trying to prove the fact that he is a fair leader and is willing to treat and handle all parties equally. China felt it was of important that they were given that chair position to deal with such issues.

IMF expectations on Zambia Economic Reforms

Reserve Bank of Zambia will have to maintain safeguarding the independent, fiscal policy and monetary policy should remain essential for the stability of the operation. There is a revision of Reserve Bank of Zambia Act, to make sure its operational are transparent and independent, and monetary policy framework strengthened as required.

These reforms to include adhere to the medium-steps term fiscal sustainability steps

are also being taken to strengthening economic governance and public financial management, together with debt management and debt transparency. Government spending will be controlled, with the determined implementation of public procurement rules and regulations central to ensuring value for money and the transparency use of public resources. These efforts will restore the credibility of the budget, improve the efficiency of public expenditures, and halt the accumulation of arrears. Thereby supporting private sector-led growth. Key legislative reforms, including the planned revision of the Loans and Guarantees Act, will increase public oversight and help address past weaknesses in debt and reduce corruption a comprehensive governance assessment will be undertaken with support from

The crucial key elements decision makers' agenda aim to re-establish fiscal sustainability while re-orientating public resources towards investment in people, particularly the youth. Government expenditure is expected to shift away from inefficient public investment and poorly targeted subsidies, towards greater investment in health and education and the delivery of more social benefits. This shift will be controlled by medium-term agenda to enhance revenue mobilization through policy changes and administrative changes.

Potential Economic Growth Outlook

The road toward massive growth is long and painful. To address the country's debt problems and restructure the economy, President Hichilema needs outside help. His priority was to reach an agreement with the International Monetary Fund on debt restructuring which he already achieved on December 3. They are only waiting for the IMF board to give an approval then there will be open for debt renegotiating. It is not an easy task and they will need to deal the first arrangement then move to debt restructuring. Besides bilateral debt (\$3.5 billion), creditors include Eurobond holders (\$3 billion), multilateral lending agencies (\$2.1 billion) and commercial banks (\$2.9 billion).

President Hichilema will likely make negotiations with creditors easier, there is no other way to transformation except the necessity for painful reforms, including reducing public spending and increasing revenue. The Zambian Government will have to implement unpopular measures like removing energy subsidies, cutting public sector wages and restructuring the state-owned electricity company ZESCO, which owes over \$720 million to independent power producers.

If Zambia's development is to be safeguarded, the country urgently needs a major shift to ensure that it can successfully master the structural and policy challenges that beset it to anticipate and respond to present and future challenges effectively

He said the current energy transition that the world is confronted with and the move towards a low carbon future opens a number of opportunities for Zambia. "The first being the fact that it is highly unlikely that the price of copper is going to suddenly crash; this is not to say that there will not be fluctuations in the price of copper, but this provides opportunity for the government to make longer-term policies based on where and how the price of copper is right now. Copper is essential to the energy transition,

and copper is going to form a key part in how Zambia moves towards, not only regarding debt sustainability, but also a more sustainable economy, and a more sustainable future.”

Zambia’s Copperbelt province is likely to lead the country out of its economic doldrums.



Conclusion and Future Expectations

President Hichilema’s economic reforms would run into tougher than expected political opposition in the short to medium term. Austerity would bite and the positive outcome effects of recovery of the economy will take five to six years to effect change. There would be austerity that will take place, the main Government will secure the deal restructuring, however, it will still implement austerity policies which will lead to discontent in society. In situation where there is weaker political opposition, cooperating with higher copper output and prices, will eliminate those consequences.

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