International Monetary Fund

Zambia and the IMF

Press Release:
IMF Executive Board Completes Sixth and Final Review Under the Extended Credit Facility Arrangement for Zambia and Approves US$29.3 Million Disbursement
June 20, 2011

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Zambia: Letter of Intent, and Memorandum of Economic and Financial Policies

June 3, 2011

The following item is a Letter of Intent of the government of Zambia, which describes the policies that Zambia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Zambia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

LETTER OF INTENT

3rd June 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington D.C. 20431
United States of America

Dear Mr. Lipsky,

The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and progress in implementing the Government of the Republic of Zambia's macroeconomic and structural programme under the Extended Credit Facility (ECF) arrangement, approved by the IMF Board on June 4, 2008. It also sets out macroeconomic policies and structural reforms that the Government will pursue for the remainder of 2011.

The Government requests that the seventh disbursement be made available upon completion of the sixth review by IMF Board. This is because programme performance attained in 2010 was on track and all performance criteria were met except for the NDF, for which the Government requests a waiver. The non observance of the NDF ceiling was on account of expenditure pressures to purchase the maize crop, and to conduct continuous voter registration and national census. The Government in 2011 immediately began taking corrective measures as evidenced by the over-performance in the first quarter of 2011.

With regard to indicative targets, two targets, reserve money and clearance of domestic arrears were missed. The latter was 5.7 percent below target. Despite availability of funds, payments to clear domestic arrears could not be effected because of the required procedure for screening claims before payment is made to avoid fraudulent claims.

Structural reforms also remained on track. The Government is on track with the rolling out of the Treasury Single Account by expenditure category with disbursements for wages, grant-financed outlays and external debt service being processed through the TSA system. By end June 2011, the Government intends to have 60 percent of expenditures being executed through the TSA. The implementation of the Financial Sector Contingency Plan is at an advanced stage with institutional and policy arrangements being largely in place while proposals for legislative changes have been made to the Banking and Financial Services Act and to the Bank of Zambia Act. These are being processed for legislation. Further, the Deposit Protection Bill has been finalized and is awaiting Cabinet approval. The remaining 2011 structural reform regarding the Treasury Single Account is broadly on track.

The Government remains committed to reforming the current maize marketing system. In this regard a report proposing changes to the current maize marketing system was prepared and submitted for Cabinet approval at the end of March 2011. The report proposes changes in the medium term. The structural benchmark on the draft Planning and Budgeting Bill was not met because the Bill could not be submitted to parliament for approval following the non approval of the draft constitution by the National Assembly in March 2011. Submission of the Bill to Parliament was contingent upon the approval of the new constitution.

During the period under review, the Government launched the 2011–2015 Sixth National Development Plan (SNDP). The plan's main areas of emphasis are the binding constraints to growth and poverty reduction in Zambia: inadequate infrastructure and human development. Investments in these areas will be increased in line with the Government's strategic objectives of accelerating economic diversification and meeting its Millennium Development Goals through inclusive growth to ensure job creation and poverty reduction.

With the assignment of a credit sovereign rating of "B+" by Fitch and Standard and Poor's in February 2011, the Government intends to enter the sovereign bond markets to raise finances to support the implementation of the Plan. The amount to be raised will take into account the need to maintain debt sustainability objectives.

The ECF arrangement has played an important role towards the consolidation of macroeconomic stability particularly during the global economic and financial crisis. It has also created a platform for accessing technical assistance from the IMF and other institutions and provided important signals on Zambia's economic performance and prospects. With the ending of the current programme in June 2011, the Government is discussing the way forward regarding further programme engagement with the Fund.

The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies and the related Staff Report, including placement of these on the IMF website subject to removal of market-sensitive information, following the IMF Executive Board's conclusion of the review.

/s/

Situmbeko Musokotwane, (Dr.), MP
Minister of Finance and National Planning

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This memorandum reviews economic developments in 2010 and outlines policies that the Government of the Republic of Zambia will pursue for the remainder of 2011.

2. **The ECF arrangement has supported the implementation of both the fifth and sixth National Development Plans.** The Sixth National Development Plan (SNDP) covers the period 2011 to 2015 and is in its first year of implementation. The areas of emphasis under the SNDP are the two main binding constraints to growth and poverty reduction in Zambia: inadequate infrastructure and human development. Investments in these areas will be increased in line with the government's strategic objectives of accelerating economic diversification and meeting its Millennium Development Goals. Our focus will be on inclusive growth so as to enhance job creation and make significant inroads on poverty reduction.

I. RECENT ECONOMIC DEVELOPMENTS

3. **Growth in the Zambian economy in 2010 was strong and broad based.** Initial estimates indicate that real GDP growth in 2010 was 7.6 percent on the back of strong performance in agriculture; mining; and transport, storage and communications. The macroeconomic environment was also favourable, with annual inflation closing the year at 7.9 percent, just below the end-year target of 8 percent. Lending rates declined to19.5 percent at end-December 2010 from 22.7 at end 2009. The exchange rate appreciated slightly against the major international currencies. The international reserves position rose to $1.9 billion at end-December 2010.

4. **Budget performance was broadly in line with projections.** However, higher than expected outlays on the census and on voter registration, and interest payments, led to a higher than programmed net domestic financing. In nominal terms, domestic revenues, however, over performed by 1.8 percent, while grants fell short by 34 percent. Of particular note were higher collections under income taxes, mainly due to collection of tax arrears from mining companies. Total expenditures were 3 percent lower than budgeted, exclusively due to foreign financed spending.

5. **Monetary policy towards the end of 2010 was more expansionary than programmed.** Broad money stood at K17,917 billion at end-December 2010, growing at 29.9 percent on a 12-month basis. The higher broad money growth reflects a recovery in domestic credit and increased net foreign assets of commercial banks consistent with the improvement in external sector performance. Domestic credit to the private sector continued to recover after the global financial crisis, posting a 15.4 percent growth in 2010 compared to a decline of 5.7 percent in 2009. Reserve money stood at K5,181 billion at end-December, growing at 27.8 percent on a 12-month basis. This was higher than the indicative target of K4,379 billion. The higher than projected growth in reserve money was on account of increased BoZ credit to the government to finance the purchase of surplus maize and the

build-up of international reserves. In response to concerns about potential inflationary pressure, the BoZ has undertaken a significant mopping up operation in the first quarter of 2011 that has brought reserve money levels in line with program target.

6. **The BoZ took possession of Finance Bank Zambia Limited (FBZL) on Friday 10th December 2010,** on account of unsafe and unsound banking practices perpetrated by shareholders, and senior management which threatened the viability of the bank. The taking possession was in accordance with the Banking and Financial Services Act. Overall, the BoZ possession of FBZL did not have any negative impact on the banking sector. The interbank market continues to operate with sufficient levels of liquidity.

7. **The BoZ has resolved to proceed with the restructuring/re-organization of the bank after determining that FBZL is solvent.** The restructuring of FBZL will entail a Purchase and Assumption Transaction in which the legal rights of depositors and creditors will be honoured.

8. **The overall balance of payments position remained favorable in 2010, with the current account surplus growing to 3.8 percent of GDP on account of improved terms of trade and stronger exports.** The current account surplus improved to $614.6 million in 2010 from $538.4 million in 2009. This was explained by increased copper and cobalt export earnings buoyed by increased export volumes and higher metal prices on the international market. Non-traditional exports also increased by 32 percent to reach $1,190 million during the year under review. However, a capital and financial account deficit of $425.3 million was recorded, compared to a surplus of $54.9 million in 2009, largely due to a rise in assets held abroad by the private sector.

9. **All performance criteria at end-December 2010 were met except for the NDF ceiling.** In addition indicative targets on reserve money and clearance of domestic arrears were also missed**.** The latter was 5.7 percent below target despite availability of funds, as payments could not be effected because of the required procedure for screening claims before payment is made to avoid fraudulent claims.

10. **There was some progress made with respect to the remaining structural benchmarks.** In line with the approach of rolling out the Treasury Single Account by expenditure category, disbursements for wages, grant-financed outlays and external debt service are being made using the TSA system, with about 42 percent of expenditures being executed through the TSA as of end-December 2010. The implementation of the Financial Sector Contingency Plan is at an advanced stage and the institutional and policy arrangements are largely in place. Proposals for legislative changes have been made to the Banking and Financial Services Act and to the Bank of Zambia Act whilst the Deposit Protection Bill has been finalized and submitted the Ministry of Finance and National Planning (MoFNP). The BoZ is engaging the MoFNP to agree on the outstanding issues concerning legislative arrangements. The maize report was submitted to Cabinet Office at

end-March. While a draft Planning and Budgeting Bill was prepared, submission to Parliament awaited the approval of the new constitution. However, following the nonapproval of the draft constitution by the National Assembly in March 2011, the draft constitution is expected to be resubmitted to Parliament after a period of six months in accordance with Parliamentary Rules and Procedures.

II. Economic objectives and Policies for 2011

11. **The government's macroeconomic objectives in 2011 are to sustain the high levels of growth in the economy, lower inflation and strengthen the economy against external shocks by building up gross international reserves.** Real GDP growth in 2011 has been revised upwards to 6.8 percent from an earlier projection of 6.4 percent. This is expected to be driven by the mining, construction and transport, storage and communication sectors. Inflation is projected to close the year at 7 percent, and Gross International Reserves are projected to rise to at least $2.4 billion, or 3.4 months of prospective imports. However, recent developments in both the global and domestic economy present downside risks. If oil prices remain high or continue rising, this has the potential to drive up inflationary pressures in oil importing countries and slow global growth. On the domestic front, the recovery in private sector credit, from the sharp contraction during the global financial crisis, needs to remain consistent with underlying demand in the economy to avoid fuelling inflationary pressures.

A. Fiscal Policy

12. **Fiscal policy for the remainder of 2011 will remain focused on creating fiscal space to facilitate spending on infrastructure and the social sectors.** On account of projected strong economic growth and improved metal prices, domestic revenues are projected at 19.3 percent of GDP. The increase in revenue will be driven by growth in income taxes, from 9.4 percent in 2010 to 10.1 percent of GDP. This is mainly on account of collections of mining taxes, including tax arrears. The government will continue to improve the performance of revenues by drawing on technical assistance from the Cooperating Partners. It will also conclude the audit of the mining sector. In the medium term, the focus will remain on undertaking a comprehensive reform of the tax policy and administration to improve the performance of customs and excise taxes, to ease the revenue burden on personal income taxpayers.

13. **Expenditures are projected at 24.1 percent of GDP, with 3.4 percent financed using foreign grants and loans.** The wage bill will decline slightly to 7.9 percent of GDP from 8.1 percent. Domestically financed expenditures or the social sectors and infrastructure development in the transport sector will increase to 50 percent of the budget compared to 35.7 percent in 2010. The budget outlay for maize purchases will be K653 billion, a reduction of 46 percent in 2011 (about 0.6 percent of GDP) compared to 2010. The overall fiscal deficit (including grants) is projected to decrease to 2.9 percent of GDP from

3.1 percent recorded in 2010. Domestic financing will be limited at 1.3 percent of GDP, which is 1.5 percentage points below the outturn in 2010.

B. Monetary and Exchange Rate Policies

14. **The government continues to aim at reducing inflation to 7 percent by the end of 2011.** Broad money is projected to expand by 9.3 percent, reflecting a marked tightening in monetary policy to address the strong expansion in liquidity experienced in the second half of 2010 and to contain underlying inflationary pressures. The money multiplier is expected to increase as excess reserves are being mopped up and the gradual trend decline in the ratio of currency in circulation to deposits continues. Consistent with this, reserve money is targeted to decline by 5.6 percent during 2011. Short-term interest rates are expected to return to positive real levels and the yield curve is expected to flatten.

15. **The current reserve money-based program will remain in place,** while at the same time efforts will continue to be made towards the use of interest rates as the main instrument to anchor inflation expectations.

16. **The government will continue to maintain a floating exchange rate regime.** Interventions in the foreign exchange market will be limited to smoothing excessive fluctuations, while allowing for a gradual build up of international reserves.

C. Structural Policies

Public Financial Management

17. **The government remains committed to improving the management of public finances.** The pilot implementation of the Integrated Financial Management System (IFMIS) has been successful in its first pilot site. IFMIS has been in use at the Ministry of Finance and National Planning since January 2010, with most financial transactions being processed through the new system. The rollout of IFMIS to the next seven MPSAs commenced in January 2011. These are: Ministry of Education; Ministry of Transport and Communications; Ministry of Foreign Affairs; Ministry of Works and Supply; the provincial administration in Eastern and North-Western provinces; and the Office of the Auditor General. By end 2011 we envisage rolling out IFMIS to another 8 MPSAs.

18. **Work is ongoing in implementing the Treasury Single Account (TSA) across expenditure categories.** As at end-January 2011, government attained 99.4 percent of the monthly wage bill and 100 percent of foreign debt service transacted through the TSA. This brings the total expenditure processed through the TSA to 40 percent. With regard to the remaining grants, capital and domestic debt expenditure, a plan has been drafted to consolidate domestic debt transactions into the TSA structure, whilst further consultations are underway with various stakeholders for capital transactions. It is expected that the remaining expenditure categories will be processed through the TSA by end-June, 2011 bringing total expenditure processed through the TSA to 60 percent.

Financial Sector Development

19. **The government continued making progress in the implementation of the second phase of the Financial Sector Development Plan (FSDP II).** The FSDP Phase II focuses on three main pillars, namely, (i) enhancing market infrastructure; (ii) increasing competition; and (iii) increasing access to finance. However, implementation of some of the programmes has been delayed due to continuing negotiations for the full financing of the programme.

20. **The BoZ approved the Lender of Last Resort policy in June 2010.** The policy has been aligned to internationally accepted standards to ensure its effectiveness and relevance.

21. **Work on the implementation of the Financial Sector Contingency Plan has largely been finalized.** Some of the institutional arrangements have been established and will be in place by May 2011, whilst the policy framework has been approved.

22. **Work on the legislative arrangement is currently underway and so far, the following has been done;** (1) Amendments have been proposed in the draft Bank of Zambia Act to include the provisions of the LOLR policy; (2) The Deposit Protection Bill has also been finalized and is with the Ministry of Finance and National Planning; (3) Proposals are underway to enhance crisis prevention by the inclusion of Prompt Corrective Actions in the draft Banking and Financial Services (BFSA) Act; (4) Proposals to broaden bank resolution options have also been included in the draft BFSA; and (5) Proposals to include provisions to facilitate cross-border sharing of supervisory information have also been included in the draft BFSA.

23. **The MoFNP is being engaged concerning the legal framework underpinning government's fiscal support** in the event of the failure of a systemically important financial institution or system-wide financial failure.

Maize

24. **The government is committed to address the inadequacies in the current maize marketing system.** A comprehensive review of the current structure of maize marketing has been undertaken and policy recommendations have been finalized and submitted to Cabinet Office. The policy recommendations include measures on maize marketing to be implemented in the short and medium-to-long terms. For the 2011 marketing season, the government expects to purchase a similar share of the market surplus as in 2010 and maintain the current subsidized price and marketing structure since the private sector alone is not yet able to absorb the purchase of the whole maize surplus. Targeting will continue to be undertaken by FRA, in that it will buy maize only from small-scale farmers. FRA will fund this year's maize operations through sales of last year's maize crop (at better prices), additional bank borrowing, and some budgetary reallocation within the existing ceilings for the 2011 budget. Starting in 2012 however, the proposed reform will include a steady shift to

market pricing, focus of the FRA on the purchase of maize for the strategic food reserve function, removal of export and import controls, and diversification within the agriculture sector. The implementation of the recommendations is contingent on Cabinet approval.

Energy Pricing

25. The government remains committed to full cost recovery petroleum pricing as well as moving towards full cost recovery in electricity tariffs.

Sovereign Bond

26. **In March 2011, Zambia was assigned a sovereign credit rating of B+ by Fitch and Standard and Poor's Ratings.** With this assignment, government intends to issue its debut sovereign bond in 2011. The bond issue will be used on infrastructure development, in particular roads and power projects. In this context, the government will carefully consider maturity and exchange rate risks, and the debt sustainability and cashflow implications. The government intends to take appropriate measures for a successful bond issue, which include the procurement of legal and financial advisors, and the use of collective action clauses, and will consider phased issuance.

Debt and Debt Management

27. **The government has been undertaking measures to improve the debt management capacity.** In this regard, a comprehensive strategic plan for the Ministry of Finance and National Planning has been developed that will pave way for the restructuring and re-organization of the Investment and Debt Management department while taking into account the rationalization of staff in the Ministry. The Investment and Debt Management department will be restructured following international best practice to have front, middle, and back offices to improve effectiveness and efficiency of operations. The plan has been submitted for approval by Cabinet Office. In addition, the Procedures and Operational Guidelines Manual for contraction and management of public debt has been developed and will be disseminated to guide effective debt management operations.

Project Appraisal

28. **The government has continued to enhance capacity in project appraisal to ensure value for money in project implementation**. Towards this goal, financing and technical assistance has been arranged from the Development Bank of Southern Africa (DBSA) that is providing capacity building in project appraisal through the DBSA's Vulindlela Academy. The capacity building provides funds for development of capacity across the public sector. The funds will provide experts to train local staff in project management and appraisal and send officers to the institute in cases deemed necessary. In the meantime, the government will continue relying on private sector experts in evaluating projects, carrying out feasibility studies and calculating economic rates of return for the other

sectors. This will compliment government's decision making process when choosing between competing priority projects in view of limited resources.

Successor Programme to the Current ECF Arrangement

29. **Zambia's current ECF arrangement comes to an end in June 2011**. The ECF arrangement has played an important role towards the consolidation of macroeconomic stability, meeting the challenges of the global economic and financial crisis, creating a platform for accessing technical assistance from the IMF and other institutions and provided important signals on Zambia's economic performance and prospects. With these benefits, government is studying the options available after June 2011, such as continuing with the ECF or migrating to other arrangements. In this context, we look forward to the results of the upcoming ex-post assessment exercise.

MEFP Table 1. Zambia: Quantitative Performance Criteria (PC) and Indicative Targets, 2010[1]
(Billions of kwacha, unless otherwise indicated)

	2009	2010											
		March 31			June 30			Sep 30			December 31		
	Prel.	Indicative	Act.	Status	Prog.	Act.	Status	Indicative	Act.	Status	Prog.	Act.	Status
		CR 10/17			CR 10/208	Prel.		CR 10/208			CR 10/383		
		(Cumulative from January 1st, 2010)											
Performance criteria:													
Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia[2,3]	58	405	80	Met	390	209	Met	33	-271	Met	105	-175	Met
Adjusted ceiling		429			576			311			132		
Ceiling on the cumulative increase in net domestic financing (NDF)[2]	6,950	321	60	Met	552	674	Met	1,386	644	Met	2,000	2,205	Not met
Adjusted ceiling		152			738			1,664			2,027		
Ceiling on new external payment arrears[5]	0	0	0	Met	0	0	Met	0	0	Met	0	0	Met
Floor on the cumulative increase in gross international reserves (GIR) of the Bank of Zambia (Millions of U.S. dollars)[2,4]	1,758	-2	-22	Not Met	40	-54	Met	214	217	Met	150	210	Met
Adjusted floor		-7			-76			99			144		
Ceiling on short-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, ZAMTEL, and Zambia Railways Limited (millions of U.S. dollar	…	0	0	Met	0	0	Met	0	0	Met	0	0	Met
Ceiling on medium- and long-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, ZAMTEL, and Zambia Railways Limited (millions of U.S. dollar	398	600	0	Met	600	0	Met	600	106	Met	600	378	Met
Project-specific													
Electricity[8] and road projects[9]	316	600	0	Met	600	0	Met	600	106	Met	600	n.a.	n.a.
Other sectors	82	0	0	Met	0	0	Met	0	0	Met	0	n.a.	n.a.
Sector-specific													
Electricity	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		200	116	Met
Road	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		400	262	Met
Others	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		0	0	Met
Indicative targets (cumulative):													
Floor on payment of domestic arrears of the government	278	59	71	Met	153	128	Not Met	157	167	Met	269	254	Not Met
Increase in reserve money	4,054	239	-134	Met	223	89	Met	264	319	Not Met	325	838	Not Met
Floor on social spending by the government of Zambia	…	930	971	Met	1875	2055	Met	2,838	3,270	Met	3,938	4,161	Met
Memorandum items:													
Cumulative budget support net of Central Government debt service (U.S. dollars)		61	98		204	117		235	120		200	195	
General budget support (Fiscal accounts)[10]		78	108		235	136		288	156		265	259	
Cumulative BoP support net of Central Government debt service (U.S. dollars)		61	56		162	75		194	78		159	153	
General BoP support		78	66		193	95		246	114		223	217	
Central Government debt service obligations (excl. IMF)	…	-17	-11		-31	-20		-52	-36		-64	-65	
Program exchange rate (Kwacha per U.S. dollar)[11]	4,832	4,622	n.a.		4,641	n.a.		4,641	n.a.		4,641	n.a.	

Sources: Zambian authorities; and IMF staff estimates and projections.

[1] The definitions of the items in the quantitative program are contained in the Technical Memorandum of Understanding (TMU)
[2] Adjustors, including for general budget support, are defined in the TMU.
[3] The ceiling will be adjusted for changes in the legal reserve requirements as specified in the TMU.
[4] Reserves are calculated at program exchange rates.
[5] Continuous performance criteria and cumulative from the beginning of 2010.
[6] Nonconcessional loans are those having a grant element of less than 35 percent.
[7] Up until the privatization of ZAMTEL on June 5, 2010.
[8] The electricity projects are: Kariba North bank extension, Itezhi-Tehzi power station, Kafue Gorge Lower;
[9] The road projects are: Mutanda-Chavuma Road, Choma-Chitongo-Namwala Road, Kasama-Luwingu Road.
[10] Includes US$ 41.8 mn of budget support from the EU (V-flex) received from the Bank of Zambia on December 31, 2009 (BOP recording) and disbursed to GRZ government in January 2010.
[11] This exchange rate is not a projection but a rate (fixed at the level of end-2009) that is used for the calculation of program targets, as specified in the Technical Memorandum of Understanding.

MEFP Table 2. Zambia: Targets, 2011[1]

(Billions of kwacha, unless otherwise indicated)

	2010	2011					
		March 31			June 30[2]	Sep 30[2]	Dec 31[2]
	Prel.	CR 10/383	Act.	Status	Target[2]	Target[2]	Target[2]
		(Cumulative from January 1st, 2011)					
Targets							
Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia[3,4]	540	-337	-700	Met	-504	-1,091	-1,906
Adjusted ceiling		-371					
Ceiling on the cumulative increase in net domestic financing (NDF)[3]	9,155	284	-10	Met	855	1,508	1,221
Adjusted ceiling		251					
Floor on the cumulative increase in gross international reserves (GIR) of the Bank of Zambia (Millions of U.S. dollars)[3,5]	1,968	42	-57	Not Met	74	228	418
Adjusted floor		49					
Ceiling on new external payment arrears[6]	0	0	…	…	0	0	0
Ceiling on short-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, and Zambia Railways Limited (millions of U.S. dollars)[6,7]	…	0	…	…	0	0	0
Ceiling on medium- and long-term external debt and on contracting or guaranteeing of nonconcessional debt by central government, BoZ, and ZESCO, and Zambia Railways Limited (millions of U.S. dollars)[6,7]	…	800	…	…	800	800	800
Sector-specific							
Electricity	…	400	…	…	400	400	400
Road projects		400	…	…	400	400	400
Floor on payment of domestic arrears of the government	278	79	102	Met	170	262	341
Increase in reserve money (monthly average)	4,892	-21	-564	Met	-194	-68	-1
Floor on social spending by the government of Zambia	4,161	1,385	…	…	2,769	4,154	5,385
Memorandum items:							
Cumulative budget support net of Central Government debt service (U.S. dollars)	170	26	34		17	17	28
General budget support	217	49	42		56	93	135
Central Government debt service obligations (excl. IMF)	-48	-22	-9		-39	-76	-106
Program exchange rate (Kwacha per U.S. dollar)[8]	4,641	4,641	n.a.		4,641	4,641	4,641

Sources: Zambian authorities; and IMF staff estimates and projections.

[1] The definitions of the items in the quantitative program are contained in the Technical Memorandum of Understanding (TMU)

[2] These targets are outside of the ECF arrangement period.

[3] Adjustors, including for general budget support, are defined in the TMU.

[4] The ceiling will be adjusted for changes in the legal reserve requirements as specified in the TMU.

[5] Reserves are calculated at program exchange rates.

[6] Continuous performance criteria and cumulative from the beginning of 2011.

[7] Nonconcessional loans are those having a grant element of less than 35 percent.

[8] This exchange rate is not a projection but a rate (fixed at the level of end-2009) that is used for the calculation of program targets, as specified in the Technical Memorandum of Understanding.

MEFP Table 3. Zambia: Structural Benchmarks for 2010-11

Measure	Timing	Macro Rationale	Status
Approval by Cabinet of the pay policy reform	End-June 2010	Strengthen payroll management, and increase productivity of the public sector.	Met
Establish a Lender-of-Last Resort Framework and draft legislation and procedures for a financial sector contingency plan in the event of a crisis.	End-June 2010	Strengthen the Central Bank's crisis preparedness.	Met with delay (May 31, 2011)
Submit to parliament the Planning and Budgeting Act.	End-June 2010	Strengthen public expenditure management and budget execution, including improving cash flow management and forecasts.	Reset to end-January 2011. Not Met
Raise the average electricity tariff in 2010 and publicly announce indicative tariffs for 2011 consistent with the policy to reach cost-reflective levels by 2011.	End-June 2010	To ensure an efficient and sustainable power supply. Solving the current problems in the energy sector is essential to achieving the growth objectives of the program.	Met with delay (July 26, 2010)
Prepare a review of tax administration and policy	End-September 2010	Strenghten revenue performance	Met
Adoption of Treasury Single Account so as to cover 60 percent of budgetary expenditures.	End-December 2010	Strengthen public expenditure management and budget execution, including improving cash flow management and forecasts.	Not met. Expected to be met by end-June 2011.
Submit to Cabinet a report on maize pricing policy.	End-March 2011	Preserve macroeconomic stability and minimize disruptions to private sector trading of maize.	Met

Source: Zambian authorities and IMF staff estimates.