



Press Release No. 09/147
FOR IMMEDIATE RELEASE
May 1, 2009

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes First and Second Reviews under the PRGF
Arrangement with Zambia and Approves US\$ 256.4 Million Increase in Financial
Support and US\$ 160.1 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the first and second reviews of Zambia's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The Executive Board also approved an increase in financial support under the program by SDR171.185 million (about US\$ 256.4 million) to SDR 220.095 million (about US\$329.7 million) to help Zambia cope with the global economic slowdown and financial crisis. The completion of the combined reviews allows for the immediate disbursement of an amount equivalent to SDR 106.91 million (about US\$ 160.1 million), bringing total disbursements to SDR113.897 million (about US\$ 170.6 million).

The three-year PRGF arrangement for Zambia was originally approved in June 2008 (see [Press Release No. 08/134](#))

Following the Executive Board's discussion, Mr. Takatoshi Kato Deputy Managing Director and Acting Chair, stated:

“Zambia’s program implementation and recent economic performance have been adversely affected by a number of exogenous shocks. In particular, the international food and fuel price increases shocks in the first half of 2008 pushed inflation above the program target, while a steep fall in copper prices related to the current global economic and financial crisis has severely compressed export proceeds and government revenue. The Zambian authorities have responded appropriately to these shocks.

“Fiscal policy has struck the right balance between high-priority infrastructure spending to promote medium-term economic growth and diversification, and safeguarding short-term macroeconomic stability. The authorities have appropriately scaled back investment and recurrent spending, while protecting priority social spending. They are seeking to strengthen public expenditure management, particularly by establishing a treasury single account and improving the execution of capital projects,” Mr. Kato said.

“The floating exchange rate has served Zambia well in helping the economy adjust to the external shocks. However, the volatility of the kwacha underscores the need to reduce Zambia’s vulnerability to fluctuations in copper prices, through continued vigorous implementation of structural reforms to diversify the economy.

“The recent decline in inflation is welcome. The authorities plan to adhere to a firm monetary policy so as to reduce inflation to single digits by 2010. They have made progress in strengthening financial regulation and supervision and implementing the Financial Sector Development Plan. The banking sector overall remains adequately capitalized and liquid. Nevertheless, continued vigilance is needed in light of the global financial crisis and pressures on the exchange rate, particularly to safeguard against increased credit risk and adverse balance sheet effects. Intensification of contingency planning and crisis preparedness at the central bank will be important. The authorities are also seeking to enhance the population’s access to financial services, including credit.

“Zambia’s public debt sustainability outlook is favorable. The authorities have adopted a new public debt management policy and strategy to help ensure that the public debt remains sustainable. In this regard, caution will be needed in contracting new nonconcessional external debt.

“The authorities are also implementing a new electricity sector strategy to improve the reliability of the electricity supply, given the strategic importance of this sector. Determined implementation of the strategy will be essential to attract private investment and to improve the efficiency and governance of the state-owned power utility,” Mr. Kato said.