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CENTRE FOR TRADE POLICY & DEVELOPMENT

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PRESS STATEMENT ON THE IMF SPECIAL DRAWING RIGHTS INITIATIVE

On August 2nd, 2021, the Board of Governors of the International Monetary Fund (IMF) approved a general allocation of SDRs equivalent to US$650 billion (about SDR 456 billion) to boost global liquidity. The current SDR allocation is the largest in the history of the IMF and will be effective on August 23rd, 2021. The main thrust of this initiative will be to address the long-term global need for reserves, help build confidence, foster the resilience and stability of the global economy, and support liquidity-constrained countries in addressing the impact of the COVID-19 pandemic.

For Zambia, the initiative comes at a time when the country is working to rebuild the economy which slid into a recession in 2020 at the backdrop of the COVID-19 pandemic. Expectedly, this excited many commentators with some mistaking the SDR initiative for the famous 'IMF bail-out package'. While the Centre for Trade Policy and Development (CTPD) is greatly pleased with this development, it is our considered view that Zambia stands to benefit from the initiative if the resources are prudently utilized.

The SDR initiative brings approximately US$ 1.3 billion to the treasury and doubles the country's current foreign exchange reserves. This comes at the backdrop of a deteriorated macroeconomic outlook registered in 2020 through to the first quarter of 2021. Economic growth contracted by an estimated 3 percent in 2020 before taking a recovery path in the first quarter of 2021. External public debt has increased in excess of US$12 billion, with the exchange rate now hovering around K20/US$, partly driving inflation in excess of 23 percent.

It's imperative to note that the SDR initiative comes with no conditions from the IMF in terms of usage, implying that receiving countries have the discretion to apply these resources to sectors of the economy as they deem fit. Therefore, for Zambia, it will be vital to dedicate a

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larger part of the resources to the stabilization of the exchange rate. This will exert a dampening pass-through effect to domestic prices and reduce external public debt service costs thereby creating fiscal space for the stimulation of domestic economic activity.

For the medium to long-term, it is particularly important to note that this is only a one-off disbursement. It is NOT the most anticipated 'IMF bail-out package' which Government has been negotiating for with the IMF. Therefore, for the medium to long-term, Government will need to focus more on concluding a formal program with the IMF as this is key to the successful implementation of the debt restructuring process.

Issued by:

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Editor's Note

The Centre for Trade Policy and Development (CTPD) is a not- for –profit, membership based trade policy and development think tank. The organization was established in 1999 and existed as the civil society trade network (CSTNZ), until 2009 when it was rebranded as the Centre for Trade Policy and Development (CTPD).

The mandate of CTPD is to influence pro-poor trade and investment reforms at national, regional and multilateral levels as well as facilitate the participation of various stakeholders including member organizations in ensuring that trade is used as a tool for poverty eradication.

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