

Sub-Saharan Africa return of the Debt Crisis: Debt Financed Development

A case of Zambia

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Outline

- Background
- Current debt situation in Zambia
- Use of new loans
- Debt Sustainability challenges
- Possible solutions to unsustainable debt

Background

- US\$7.1 billion debt (Debt to GDP ratio of over 100%)
- 2006 debt cancellation under HIPC and MDR Initiatives
- Outstanding debt of US\$0.9 billion

Background

- Debt relief and fiscal space:
 - Abolishment of user fees:
 - increase of primary enrollments
 - 100,000 HIV patients on free ARV's
 - Positive economic growth leading to the lower middle income status

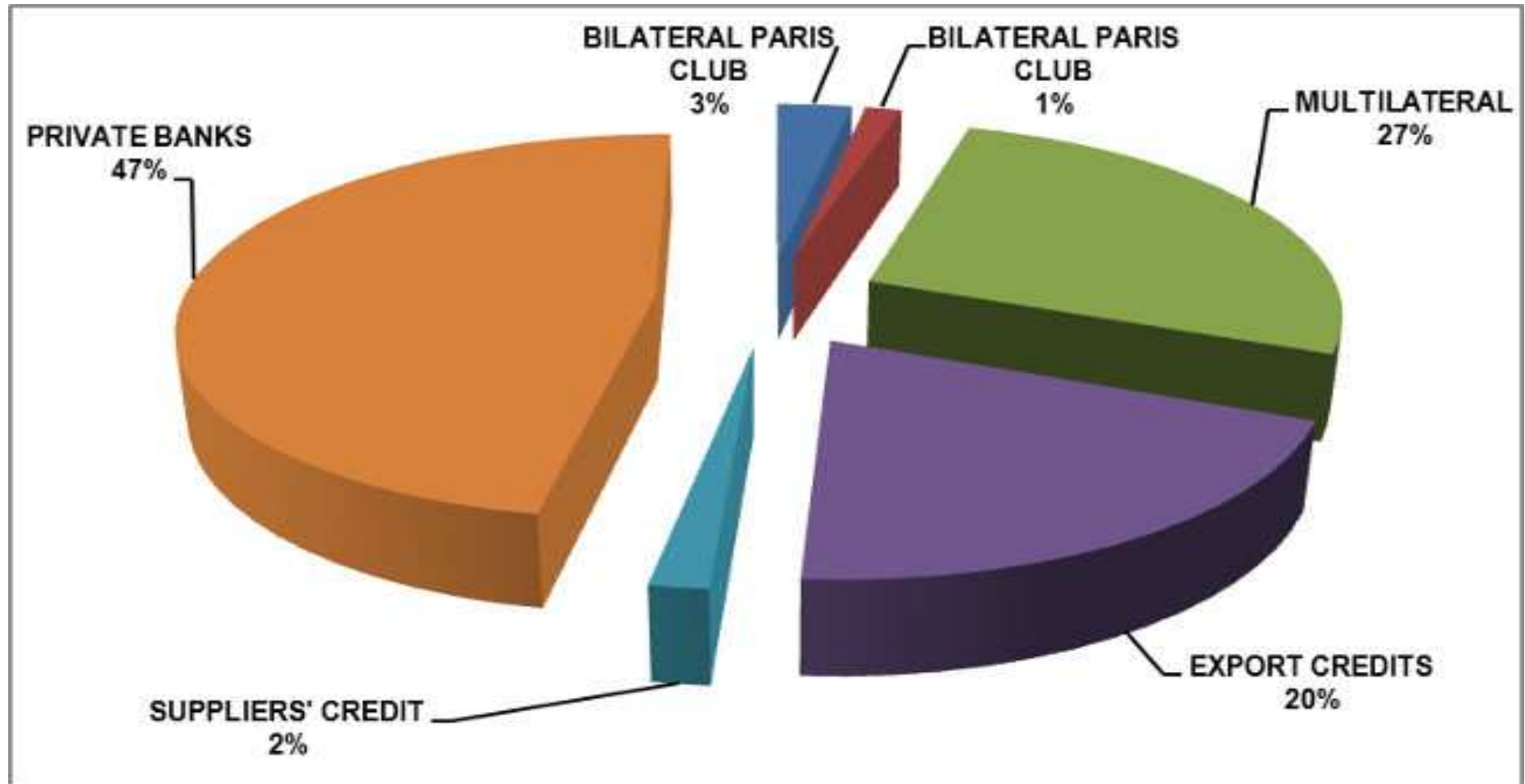


The current debt development and debt dynamics in/of Zambia

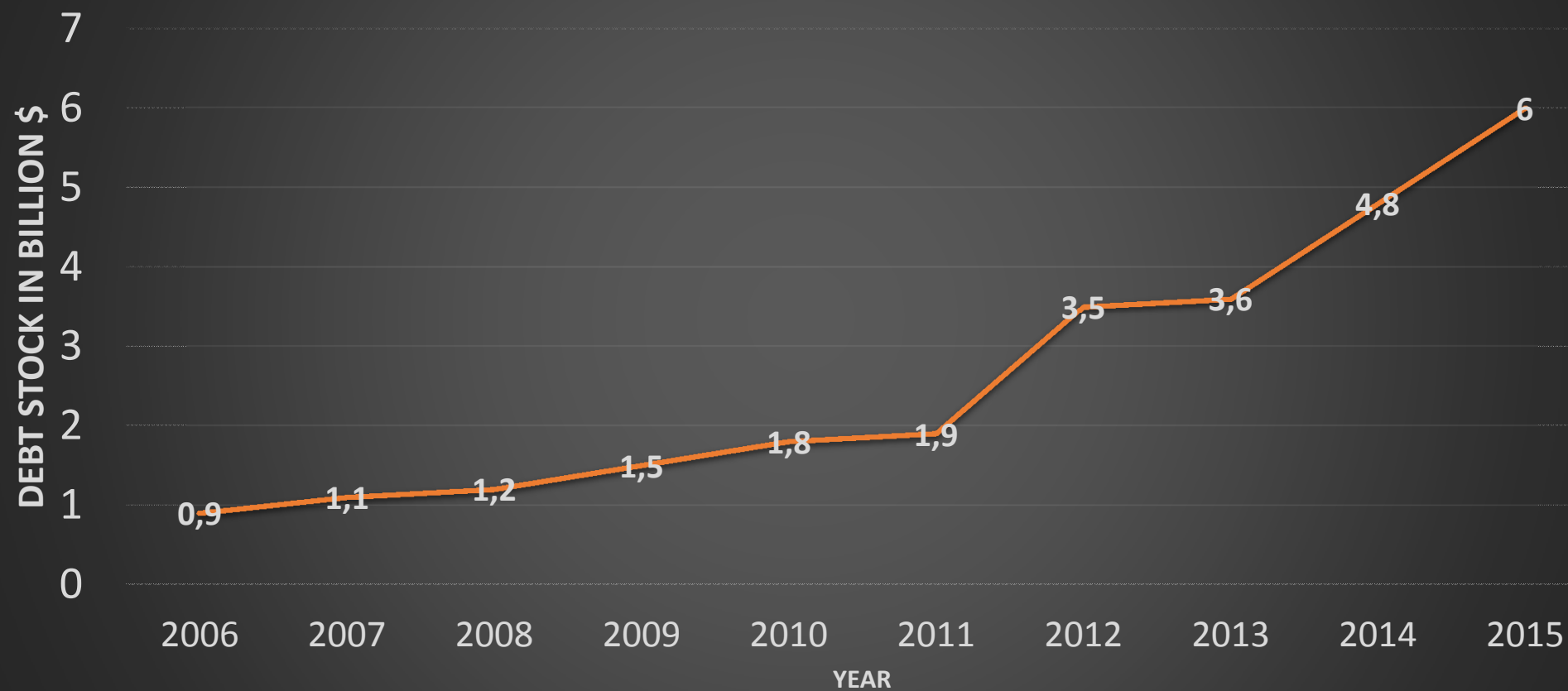
	Public Debt billion\$	Share of GDP
External Debt	4.8	16.3%
Internal Debt	3.36	12.7%
Total Debt	8.18	29.0%

Source: 2015 Mid-year economic and budget review statement; Minister of Finance

Debt Stock and Debt Composition



External Debt Trend



How did we get here?

- Increased domestic spending (expansionary fiscal policy)
 - Budget size doubled in 4 years (ZMW 21 billion – ZMW47 billion)
 - Tax revenue collection hardly increased (below 20% of GDP)
 - Tax relief
 - Increased public workers salaries
- Increased borrowing – both internal and external – (Debt/ GDP of 34%)
- The argument for current borrowing is that it is needed for infrastructure investment which is critical for accelerating growth and development.

How did we get here?

- Increased domestic spending coupled with decline in copper prices has seen surges in external borrowing
- The country's debt rating has been downgraded
- The country's local currency has depreciated against major currencies
- Increase in budget deficit
- The argument for current borrowing is that it is needed for infrastructure investment which is critical for accelerating growth and development.

Why/for what has Zambia taken up new loans after debt relief? Were the loans well-invested?

- **Infrastructure development:**

- Roads
- Railways lines
- Electricity expansion
- Health infrastructure development
- Education infrastructure

- **Increase in public wages**

- **Subsidies**

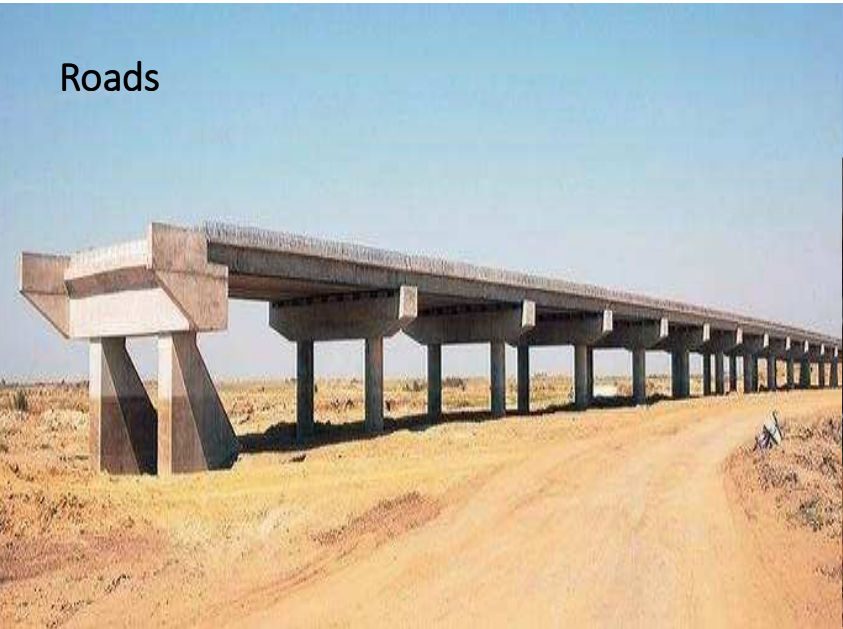
- Fuel
- Maize meal

Why/for what has Zambia taken up new loans after debt relief? Were the loans well-invested?

- Roads infrastructure development
 - Link Zambia 8000 – 2,400 kilometers under construction
 - Link Zambia 400 – township roads



Roads



Universities/ Schools



Medical equipment

Railway lines



Bridges



Electricity Generation

What are current debt sustainability challenges?

- Current debt levels are said to be sustainable – below the 40% threshold
- The rate of accumulation of debt is however worrying
 - US\$4 billion in four years
 - Government has increased the borrowing ceiling from US\$3 billion to about \$6billion
- Composition of debt – private debt is increasing fast – 47%
- Copper prices are declining
- Depreciation of the local currency

Copper prices

Copper Price
2.35 USD/lb
6 Oct '15



Kwacha against the Dollar



SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

What are current debt sustainability challenges?

- The country's debt rating has been downgraded
- Sharp increase in budget deficit
- Electricity supply shortages adversely affecting productivity
- There are questions on how well money borrowed has been invested

Possible solution to debt accumulation

- What should the Government do?
- It is clear that the government cannot suddenly stop borrowing.
- The objective, instead, should be to borrow less, and also cutting down on the use of borrowed funds for government consumption.
- Enhance domestic resource mobilization
- Diversify the economy away from copper/ address electricity deficits

Possible solution to debt accumulation

- Government should borrow more from bilateral donors rather than from open markets which is costly with the depreciating local currency
- Develop a sound debt management strategy/ legal framework
- **Sinking fund?**
 - Government is currently paying US\$125 million annually in interest rate
 - Annual payment expected to increase to over US\$250 million (additional Eurobond) until 2024
- This may hamper government's financing agenda of the SDGs

Thank you for your attention

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