
Press Release

15th January 2020

Tilting the Scale in Favour of Borrowing and Its Risks

Zambia's external debt has been on the rise in the past few years. According to the Ministry of Finance data, Zambia's domestic debt stock in terms of securities and bonds rose to K60.3 billion as at June 2019 compared to K15.1 billion in 2011. Against this backdrop and even more alarming, over the years, is the component of external debt that rose from US\$3.2 billion in 2011 to \$10.23 billion as at the end of June 2019. The current debt-to-GDP ratio thus stands at over 50% of GDP. Cognizant of the burgeoning public debt, its negative implications and the need for its prudent management, Government put in place the 2017-2019 Medium Term Debt Management Strategy (MTDS). One of the intents of the strategy was to reduce the rate of accumulation of foreign denominated debt. But what the country has witnessed over the years is rising external debt contraction and the corresponding increase in interest payments. In view of this state of affairs, the 2017 International Monetary Fund (IMF) Debt Sustainability Analysis (DSA) indicated that Zambia was at high risk of debt distress.

It is therefore very surprising and saddening that on Monday 13th January 2020, the Zambia Daily Mail carried a headline titled "Borrowing is Beneficial.." citing the 2020 World Bank Global Prospects report without highlighting the risks that come with borrowing. These risks that the World Bank highlighted in its report are the major concerns of most critiques of Zambia's borrowing including JCTR. We therefore note with concern that such publicity has the potential to be detrimental to the calls for the prudent financial management of public resources. The JCTR wishes to therefore emphasise that the World Bank report should not be misconstrued to mean borrowing has no limits. Evidence both globally and domestically indicates that rising debt can be detrimental to the national economy.

The socio-economic distress from Zambia's debt overhang is abundantly evident. For example, analysis conducted in 2018 by the Zambia Institute for Policy Analysis and Research (ZIPAR) highlights how detrimental rising debt can be to the economy. In 2018, fiscal authorities spent K6.2 billion as external debt interest payment due to the huge external debt and the resultant increase in debt service obligations. Most notable is that this was 49 percent or K2.0 billion over-budget. The effect of this was seen when three socially oriented programmes - Social Benefits (pensions, social cash transfer and so on), Strategic Food Reserve, and Water and Sanitation experienced a combined 66 percent (or K2.0 billion) budget cut. The JCTR notes with concern that because external debt service default comes with onerous consequences, the country chose to 1) compromise its food security position and 2) further marginalise the poor and vulnerable people.

Therefore, while it is true that external debt (given certain prerequisites) is critical in financing growth-enhancing investments such as infrastructure, health care and education, it is however also evident that excessive accumulation of debt holds potential for adverse economic and social consequences. It is for this reason that the 2020 World Bank Global Prospects report highlights the need for strong regulatory and supervisory regimes, good corporate governance and improved debt transparency and debt management among others at the backdrop of every country's debt

management efforts. These aspects, which are lacking in Zambia, are key in containing the many risks that come with external debt and in identifying vulnerabilities early.

It is for this reason that Civil Society Organisations (CSOs) like the JCTR have for many years made clarion calls for government to rein in on its borrowing. Concerns have been raised in times past and continue to be raised on the weaknesses in Zambia's debt management framework with emphasis on the Loans and Guarantees (Authorisation) Act, Cap 366. Additionally, year in, year out, Auditor Generals' reports continue to highlight limited financial discipline in public investment and improper usage of public resources in Zambia. This has resulted in scattered investment, waste, and loss of investment capital. Yes, funds sourced through external debt have helped the country increase its road, rail, and bridge infrastructure but at a huge cost as resources have been inefficiently invested.

As JCTR, we are not against Zambia's borrowing per say. However, we will continue to advocate for transparency in debt contraction and prudent utilization of debt resources to avert unnecessary debt burden on Zambians. We are of the view that the debt-related stress that the country is now facing, signifies an emergent silent social crisis. JCTR urges the Government to not wait for a full blown debt crisis to manifest itself through defaults on debt service obligations before prudent decisions are made. It remains imperative that action is taken to indeed slowdown external debt contraction, postpone and cancel some pipeline loans. Otherwise, the poor and vulnerable will continue to bear the brunt of our poor public resource management