

**21<sup>st</sup> February, 2023**

## **IMPLICATIONS OF DELAYED DEBT RESTRUCTURING ON THE LIVELIHOODS OF ZAMBIANS**

Zambia is still battling with a debt distress which has denied the country the opportunity to grow at its full potential. This has worsened the poverty levels as the past few years have seen a rechanneling of resources from key sectors of the economy such as: social security protection; education; health; water and sanitation among others to debt serving. The coming in of Covid-19 further worsened the living conditions in Zambia through disruptions of livelihood as productivity was lost and government's responsibility to meet health needs of its people increased. Zambia therefore needs to grow to its full potential to improve livelihoods of its people and eradicate poverty. It is for this reason that the country desperately needs a debt restructure to unlock investment and improve fiscal space.

Zambia was among the first countries to apply for debt restructure under the G20 Common Framework for debt treatment in early 2021. Progress has been made in this regard as the next step is for the Official Creditor Committee for Zambia to agree with the authorities the specific modalities of how official creditors intend to deliver debt relief consistent with the Fund-program parameters in the form of a Memorandum of Understanding (MoU). The authorities aimed to complete discussions on the MoU by the end of 2022, however, this is yet to be accomplished as the process has lagged. The Zambian government has remained committed to fiscal sustainability. The country has also received support from the International Monetary Fund (IMF) through the US\$1.3 billion extended credit facility and a total of US\$740 million concessional loan from the World Bank (WB). This has helped Zambia return to positive economic growth levels. However, debt restructuring is needed if Zambia is to achieve sustained economic growth.

The Zambian government has implemented a medium term strategy to run for the period between 2023 and 2025. This is intended to improve livelihoods of its people through reduced cost of living; improved and sustained economic growth averaging 4.2 percent; increased domestic revenue and improved reserves in the treasury. For all these to be actualized, Zambia needs investment inflow. The delayed restructuring in Zambia's debt is blocking investment inflow into the country as investors may not perceive Zambia to be credible. This is making it difficult for the government to meet the needs of its people to the required extent due to limitations of resources. It is very important to understand that no nation can grow in isolation as global partnership and trade is very important. Foreign direct investment boosts the countries reserves, increases the country's revenue generation capacity and creates jobs.

The delayed debt restructuring is also contributing to the instability of the Zambian currency. As earlier highlighted, Zambia's huge debt overhang is eroding market and investor confidence. Reduced direct foreign investment reduces the country's forex earnings. For a country that is a net importer like Zambia, high demand for forex to import commodities adds pressure to the country's reserves and leads to the devaluation of the local currency. This has been evident as the Zambian kwacha has been depreciating against major currencies. The depreciation of the kwacha means more of the Zambian currency is needed to import commodities for consumption. This is likely to lead to increased inflation rate, which if not accompanied by increased nominal income (salaries) reduces household's real income implying that household's income can no longer purchase the same quantity of basic needs (food, shelter, clothing, medicine among others) that it previously could. Therefore, the delayed debt

restructuring is likely to contribute to the rising cost of living for an average Zambian as monitored by the monthly study by JCTR on the basic needs and nutrition basket. The rising cost of living is causing households to cut down on the number or quantity of meals per day as well as compromise on nutritional content of these meals. It is also compromising the capacity of households to access decent housing due to reduced real income and therefore worsening the poverty levels in Zambia.

With the aim of speeding up the debt restructure process, the Zambian government needs to step up bilateral engagement with China (Zambia's largest creditor) to help expedite the restructuring process under the G20 Common Framework. The perceived foreign policy shift must not be allowed to jeopardize the debt restructuring negotiations. The interest of the Zambian people must take precedence over the geo-political and economic dynamics between the West and China. Ultimately it is the Zambian people who are bearing the brunt of delayed debt restructuring and who will bear consequences in the event that the debt restructuring deal collapses.

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