

Article

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WILL ZAMBIA'S RESCHEDULED DEBT REDUCE THE COST OF LIVING?

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The Outlook

In recent years, Zambia's debt crisis threatened to destabilise the country's economy with an undesirable effect, leading to an unprecedented rise in the cost of livelihood for its citizens as the value of the Kwacha depreciated. Much to the population's relief, the ruling UPND government reached a debt restructuring agreement with its official creditors in June of this year, which paves way for the commercial creditors to follow suit on comparable terms in order to assist Zambia to bring its debt to sustainable levels.

Under this agreement (reached after years of negotiations that led to the country defaulting on debt obligations), Zambia will be able to restructure its debt in a way that reschedules repayment for \$6.3 billion including \$1.3 billion in arrears of the total \$18.6 billion external debt in a 20-year period (the first three years will be a grace period in which only payments on interests are due). This deal makes it manageable for the country to focus on economic recovery and growth through the development agenda.¹

It is yet to be seen if the debt restructuring is going to have an impact on the cost of living. The cost of living as measured by the JCTR's Basic Needs and Nutrition Basket (BNNB) for a family of five (5) across the 16 towns monitored in June 2023 stood at K6, 783.26; that is K2, 568.26 above the national average income of K4, 215. Lusaka, the Capital City, remained the most expensive place to live in, amassing a basket worth K9, 239.45 (K5, 024.45 above national average) whilst Kasama (the least expensive town) clinched K4, 546.87.

Benefits for an Ordinary Zambian

It is expected that the debt **rescheduling agreement** may bring some relief to the common person in Zambia through reduction of the cost of living in the medium term. This owes largely to the fact that the country's debt burden crippled government's budget, making it difficult to invest in infrastructure and social spending for the larger population living below the poverty line. With the rescheduled debt, government is now graced with the elasticity to allocate resources towards these key areas which will lead to improved livelihoods.

In terms of the currency, the Zambian kwacha, which has been under immense pressure due to the debt distress and fiscal uncertainties may stabilise, leading to lower inflation and affordable

¹ Zambia seals \$6.3 billion restructuring in breakthrough for indebted nations – Reuters, June 23, 2023.

prices for goods and services which, all things being equal, might help to reduce the cost of living for the average household.

There is More Work to be Done

It is important to note that the debt rescheduling agreement does not completely resolve Zambia's economic challenges for her 19.6 million population. Zambia quite sadly still faces significant structural and administrative issues that will need to be addressed in order to achieve sustainable economic and development goals in the given grace period. The country must enhance its productivity and value addition to generate more revenue from its resources. The country must also address two greatest enemies to development; poor debt management and resource wastage through corruption, financial crimes and illicit financial flows.

Debt rescheduling does not come risk free. In fact, should the UPND government fail to follow through on its commitments to reduce debt levels whilst implementing economic reforms and fighting corruption with draconian measures, the country may relapse to similar or even graver situation in the future.

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