Frequently Asked Questions on Zambia’s Debt

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Outline

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Q1. What is Public Debt?

• A country’s Public debt, also known as government debt or national debt, is money or credit owed by any level of government.

• Since the government represents the people, public debt is considered to be an indirect debt of the taxpayers in that country.

(Source: UNDP, 2007)
Q1. What is Public Debt?

• Public debt has a number of categorizations: These include:
  • 1. External or Domestic
    • Domestic debt or internal debt is owed to lenders within the country while external or foreign debt is owed to foreign lenders.
  • 2. Concessional or commercial
    • Concessional have more generous terms (e.g. from IMF with low interest rates than market loans) while commercial are less generous with market interest rates (e.g. Eurobonds from financial market)
  • 3. Multilateral or bilateral
    • Multilateral debt is from organizations representing a group of countries (e.g. IMF or World Bank) bilateral debt is from single countries (e.g. China)
Public Debt in Zambia

MBUYA, DONT YOU THINK THAT DEBT YOU ARE CARRYING IS BURDENSOME??

CHINESE LOAN. UNKNOWN

EURO BONDS
2012-$750M
2014-$1B
2015-$1.25B

DOMESTIC LOAN K38.6B

DON'T WORRY MY CHILD, IT IS SUSTAINABLE.

COPPER, EMERALDS, GOLD, COBALT
Q2. Is debt Bad for the Country?

“Debt can accelerate growth through investment in growth enhancing projects. However, when debt is accumulated to levels where it causes a debt overhang, it can lead to deceleration in economic growth and provision of social services”

- Mr. Mukuli Chikuba

(permanent secretary-economic management and finance, Ministry of Finance)
Q3. How Much Debt do we have?

• 1. Domestic Debt: K51.87 billion
  This is about K3,700 per Zambian.

• 2. External Debt: K 93.7 billion
  This is about K6,700 per Zambian.

• 3. Public Arrears: K 13.9 billion (unpaid payments which are due)
  This is about K 993 per Zambian

• TOTAL PUBLIC DEBT: K159.5 Billion
  This is about K 11,400 per Zambian

(Source: Ministry of Finance, June 2018)
Q4. When did we accumulate this Debt?

• “Most of Zambia’s current debt was accumulated between 2010 (20 % of GDP) and 2018 (58.2% of GDP) after the Issuance of three Eurobonds on the financial Market”

Eurobonds (Non-Concessional, 7.6% average)
• 2012: $750 million to be paid back in 2022
• 2014: $1 billion to be paid back in 2024
• 2015: $1.25 billion to be paid back over 2025-2027
Q5 Are we able to pay back?

• “Zambia’s public debt has been rising on unsustainable pace and now there is a big risk of debt distress. Zambia’s public debt is much higher than the rest of the countries in the region.. which is very worrying,”

-Dr. Alfredo Baldini
Former Zambia-IMF Resident Representative.
Q6. **What is the cost of paying debt?**

1. Debt payments reduce government spending on important services such as **education** and **health**. For example: In 2018, government spent 10 percent of the budget on debt payments and spent 9 percent on health provision.

2. High debt **reduces** Economic growth and development through lower foreign and local investment.

3. High debt leads to **increased taxes**-government turns to collecting more taxes in order to pay back debt.
Some taxes/tariffs in Zambia

- Tall Gates charge
- Internet calling tariff
- Rentals Withholding tax
- TV levy
- Borehole drilling charge
- Teacher registration charge
- UNZA/CBU students loans
- Road Traffic camera penalty
- Re-registration of vehicles
- PAYE tax
- Customs duty
- Road Tax
- Excise duty
- Health insurance contribution
- Etc., etc., etc.
Q7. What should be done about Zambia’s debt?

To deal with this looming debt crisis, the following should be done:

• 1. Government should **stop contracting more** debt and spend within its means.

• 2. Government should **refinance** (extend the payment plans for debt in order to reduce tax burden on people)

• 3. Government should set up a **sinking fund** (put money aside which will be used to pay back debt in future)

• 4. Government should invest only in economic activities.

• 5. Government borrowing should be **approved by parliament**.

• 6. People should have a **greater voice** in debt and budgeting decisions.
Z-NEWS FM... ZAMBIA TO SPEND $30 MILLION IN RELAUNCHING A NATIONAL AIRLINE. NEWS AT 10 HRS.

NATIONAL AIRLINE? IS THAT REALLY A PRIORITY?

DAILY NEWS DEBT LEVELS ALARMING

MAKESHIFT SCHOOL

SHALLOW WELL

CENTER FOR TRADE POLICY & DEVELOPMENT
THE END

• If you DO NOTHING, they will borrow, but you will pay!