



CENTRE FOR TRADE POLICY & DEVELOPMENT

Frequently Asked Questions on Zambia's Debt

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Outline

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Q1. What is Public Debt?

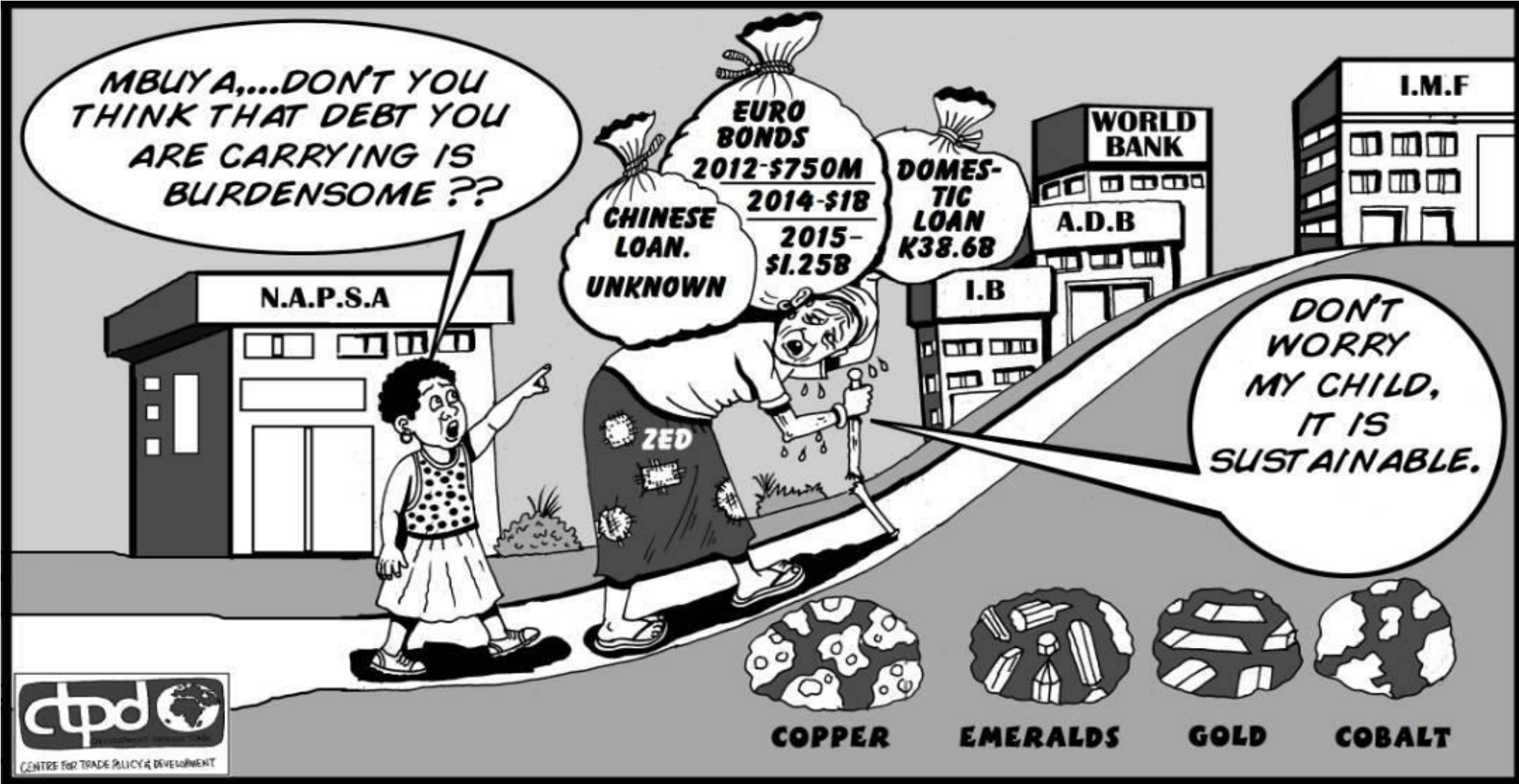
- A country's **Public debt**, also known as **government debt** or **national debt**, is money or credit owed by **any level** of government.
- Since the government represents the people, public debt is considered to be an **indirect debt of the taxpayers** in that country.

(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



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

Toll 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.

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RELAUNCHING A
NATIONAL AIRLINE.
NEWS AT 10 HRS.

NATIONAL
AIRLINE?
IS THAT REALLY
A PRIORITY?



SHALLOW
WELL



THE END

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