CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investments Law, Public Finance Managment, Extractives and Human Development.

TODAYS TOPIC

TACKLING OF ZAMBIA'S DEBT BEYOND SIGNED MOUs WITH BILATERAL AND PRIVATE CREDITORS

ZAMBIA recently took a significant step toward managing its debt crisis by signing a memorandum of understanding (MOU) with its bilateral creditors to restructure $6.3 billion of its loans. This agreement, which includes a three-year grace period for interest payments and extended maturities, brings hope for the country's financial stability and potential increase in social sector spending. However, the journey towards debt sustainability is far from over. In this week's opinion piece, I focus on steps towards fiscal discipline and debt management in Zambia.

While the MOU with official creditors represents a positive development, Zambia continues to grapple with challenges in concluding discussions related to the restructuring of its private debt, including Eurobonds. As per the Ministry of Finance and National Planning's data, as of December 2022, Zambia's total external debt reached a significant $14 billion. This underscores that, despite successfully restructuring $6.3 billion, the nation still contends with an outstanding external debt of over $7 billion. This pending debt places considerable pressure on Zambia's financial stability and underscores the need for swift resolution to secure the nation's economic future and debt sustainability.

One of the most effective ways to halt the accumulation of public debt is by raising resources domestically. Zambia's 2024 national budget outlines a shift in financing sources, with foreign financing reducing by 55.3 percent and planned domestic borrowing experiencing only a minimal increase. The reliance on domestic revenue, primarily through taxes, is projected to account for 64 percent of the total 2024 budget, a significant increase from the previous year. This shift is a positive move, indicating the government's commitment to reducing external debt reliance. However, it necessitates a more detailed and feasible plan to ensure success, particularly given the government's commitment to financing 79 percent of the budget internally.

To ensure fiscal discipline and sustainable debt management, there are several crucial steps that Zambia needs to take to ensure long-term financial stability:

a) Accelerate the Restructuring of Private Debt: While progress has been made with official creditors, there's an urgent need to accelerate discussions on restructuring the country's private debt, which includes Eurobond debt. This step is crucial to achieving comprehensive debt sustainability.

The nation must expedite discussions on private debt and Eurobonds, adhere strictly to the Annual Borrowing Plan of 2024, and enhance domestic resource mobilization. A well-defined and feasible plan for achieving a higher percentage of internal financing is vital.

b) Adhere Strictly to the Annual Borrowing Plan of 2024: It is important for the Government to adhere to the annual borrowing plan to prevent the accumulation of additional debt. This also calls for increased transparency to maintain fiscal discipline.

c) Enhance Domestic Resource Mobilization: The government must take proactive steps to raise resources domestically. The 2024 national budget reflects a shift in financing sources, with a reduction in foreign financing and an increase in planned domestic borrowing. This is a positive move, but it necessitates a detailed and feasible plan, considering the government's commitment to finance a significant portion of the budget internally.

d) Promote Tax Compliance and Reduce Tax Evasion: With a substantial portion of domestic revenue expected to be sourced from taxes, it's imperative for the government to implement measures that promote tax compliance and reduce tax evasion, especially in the mining sector.

In conclusion, while Zambia has taken a crucial step in restructuring its public debt, there are still hurdles to overcome. The nation must expedite discussions on private debt and Eurobonds, adhere strictly to the Annual Borrowing Plan of 2024, and enhance domestic resource mobilization. A well-defined and feasible plan for achieving a higher percentage of internal financing is vital. Furthermore, focusing on tax compliance and evasion reduction will be pivotal in ensuring financial sustainability for Zambia.

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