BUDGET SUBMISSION

PMRC'S SUBMISSION TO THE PLANNING AND BUDGETING COMMITTEE: ANNUAL BORROWING PLAN FOR THE FINANCIAL YEAR ENDING 31ST DECEMBER 2023

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INTRODUCTION

During the 2023 Budget address it was reported that the stock of public external debt amounted to US $14.87 billion as at the end of June 2022. Of this amount, Government external debt was US $13.25 billion while guaranteed and non-guaranteed external debt for state owned enterprises was US $1.50 billion and US $113.69 million, respectively. Government domestic arrears or pending bills, excluding fuel and electricity, stood at K44.0 billion as at the end of June 2022. In total, Government's debt is US $25.2 billion.

Against the backdrop of unsustainable debt levels, Zambia's Public Debt Management Act, No. 15 of 2022, was approved. It mandatorily requires that all borrowings by Central Government and external borrowing by public bodies be approved by the National Assembly through an Annual Borrowing Plan (ABP). The 2023 APB has been prepared in fulfilment of this Act which mandates the Minister of Finance to lay the ABP before the National Assembly in each financial year. The ABP has been put in place to ensure greater parliamentary oversight in the contraction of debt.

Policy Monitoring and Research Centre (PMRC) was requested to submit a written memorandum providing comments concerning the 2023 Annual Borrowing Plan and its implications on the economy. What follows is a discussion of financing strategies associated with the annual borrowing plan; public debt management objectives; risks in the proposed debt; programmes for which the proposed debt will be used; and PMRCs recommendations.

FINANCING STRATEGIES ASSOCIATED WITH THE ANNUAL BORROWING PLAN

The government has recently unveiled its K167.3 billion budget for 2023 which will be financed through tax and non-tax revenue, grants and debt. Tax and non-tax revenue together with grants are estimated to account for K113.3 billion (≈ 68%) of the budget while K54 billion (≈ 32%) will be financed through debt.

The K54 billion represents the maximum amount that government can borrow in the year 2023. Of this amount K15.6 billion (≈ 29%) will be borrowed from domestic sources and K38.4 billion (≈ 71%) will be borrowed from external sources.

Domestic financing strategies

The K15.6 billion that government intends to borrow from domestic sources in 2023 will primarily be financed from the issuance of Government securities in the form of Government Bonds and Treasury Bills.

External financing strategies

The K38.4 billion (or US $2.22 billion) that government intends to borrow in 2023 will be financed through 4 sources:

- US $770.14 million will come from disbursements on new loans to be contracted in 2023. Government intends to contract new loans amounting to US $ 1.40 billion from which the US $ 770.14 million will be drawn.

- US $420 million from disbursements on already contracted loan.
- US $579.3 million from the IMF SDR General Allocation.
- US $450 million from the IMF Extended Credit Facility.

PUBLIC DEBT MANAGEMENT OBJECTIVES

In order to stem excessive public debt and to formalize decision making responsibilities relating to the contraction of public debt, the Public Debt Management Bill 2022 was developed. The objectives of public debt management are:

- To streamline the reporting of public debt and ensure full disclosure
- To tighten the oversight role of Parliament in contracting debt
- To ensure transparency and accountability in procurement and reporting of public debt
- To restructure debt management by creating a national debt management office as an autonomous office which will be responsible for developing and executing debt management policies that minimize financing costs over the long term and for managing the aggregate cash needs of the Ministry of Finance in the most cost-effective way
- To strengthen public investment management as well as project selection and financing to ensure that any debt contracted for project development gives adequate investment returns to ensure debt sustainability.

RISKS IN THE PROPOSED DEBT

There are several risks associated with the proposed debt. These include but are not limited to:

- The possibility that government domestic debt might crowd-out bank credit to the private sector and negatively impact economic growth.
- An additional risk associated with domestic financing is under-subscriptions in Government bonds and Treasury bills due to the unpredictability of investors' demand which limits the amount of finance government raises.
- Regarding external financing, a major risk is that the process of finalizing loans and receiving funds is delayed which could negatively effect the implementation of programmes in 2023.
- An unexpected depreciation of the Kwacha. If the Kwacha depreciates in relation to that of the lending country, then the real value of interest (as denominated in the domestic currency) will rise.
- Long project maturity period. Certain debt funded projects take a significant period of time before giving a return on the investment. This would leave Government facing the pressure of repaying the debt even before the project starts yielding a stable return.

PROGRAMMES FOR WHICH THE PROPOSED DEBT WILL BE USED

- The programmes for which the proposed debt will be used cover a wide variety of sectors including: agriculture, tourism development, social protection, energy, water supply and sanitation. This is in addition to providing general budget support.

- Notable programmes to be funded include:
  - » The Zambia Growth Pole Project and the Farm Block Transformation Program for which the purpose of borrowing is the development of farm blocks & value chain addition. Farm blocks hold much promise for Zambia. They have potential to promote foreign direct investment, diversification, job creation, value addition and export growth.
  - » The tourism development project for which the purpose of borrowing is tourism industry development. The tourism sector holds much potential to contribute to Zambia's economy through job creation, foreign exchange earnings, contributions to Gross Domestic Product (GDP) and other economic facets. Funding industry development is therefore likely to have a positive multiplier effect.
  - » The Zambia Tanzania Interconnector for which the purpose of borrowing is the expansion of power transmission lines. Given that the country has achieved a surplus in electricity generation capacity of 1,156 megawatts we are in a good position to export power to the East African region. This offers an additional avenue for revenue generation.
  - » The Kabwe Water Supply Emergency Works for which the purpose of borrowing is the provision of water supply and sanitation. This funding can further be used to expand and improve water resources and infrastructure management as well as monitor climate-related risks to water management. This kind of investment puts the country on a path t achieving equitable access to clean water and decent sanitation for all as envisioned by the 8NDP.

RECOMMENDATIONS

- Government is encouraged to continue on a path of transparency concerning debt contraction. Additionally, a year end review should take place which provides details about how much debt has been contracted against set targets.
- Annual borrowing must be set within ceiling of the debt to GDP ratio. Best practice suggests that the debt-to-GDP ratio should, at most, be 40%. This is in order to limit borrowing when the country's economy stagnates. In 2019, for instance, the country's economy had started declining but borrowing continued to rise against the ability of the country to sustain its repayments.
- There is need for greater awareness campaigns/marketing of government securities in order to broaden the investor base and limit the risk of low demand for the securities.
- In order to ensure that there are no delays in receiving external financing, Government should proactively engage external creditors to facilitate timely negotiations and execution of the respective financing agreements.
- Acquired debt must be targeted towards projects and programmes that will generate significant investment returns and ultimately "pay for themselves".