

Zambia's 2024 Annual Borrowing Plan

What you need to know



Introduction

Zambia's 2024 Annual Borrowing Plan (ABP): What you need to know.

The Ministry of Finance and National Planning published the 2024 ABP alongside the 2024 National Budget. Publication of the plan is required under section 8 of the Public Debt Management Act no. 15 of 2022 (the Act).

The Act is part of Zambia's response to enhancing debt management having learned lessons from the debt management challenges of the recent past.

I discuss in brief:

1. An overview of Zambia's debt profile and its evolution over time;
2. The objectives of the Act and how the ABP fits into the picture. Note that I focus mainly on the aspects of the Act that promote debt transparency and accountability;
3. Why Zambia still needs to borrow and the nature of the planned borrowings in 2024;
4. The impact of Zambia's debt restructuring on the 2024 annual budget;
5. Positive observations, areas of improvement and opportunities as they relate to Zambia's 2024 borrowing plan.

I look forward to receiving your feedback.



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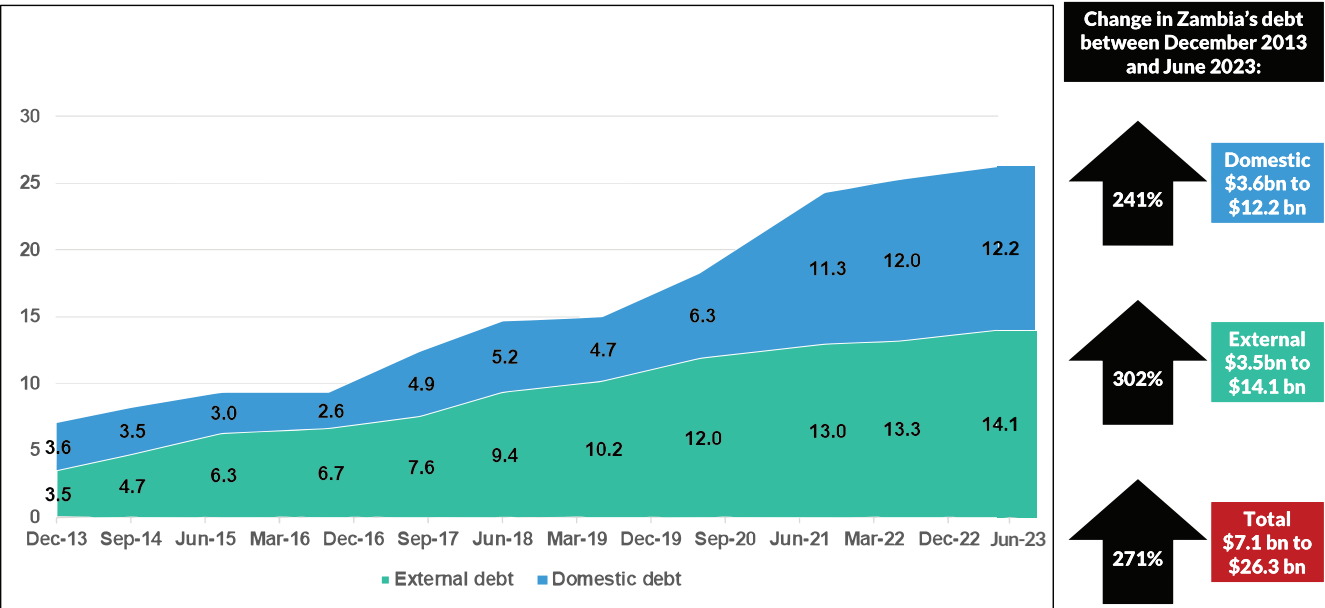
The profile & evolution of Zambia's debt

How has Zambia's debt evolved in the last 10 years?

I analysed the budget speech presentations made by the Ministers of Finance and National Planning wherein amounts owed to domestic and foreign counterparties were disclosed (Figure 1).

The debt owed has increased significantly over the period analysed, December 2013 to September 2023. Domestic debt balances have been presented in US\$ using applicable Bank of Zambia mid rates for ease of comparison.

Figure 1. The evolution of Zambia's external & domestic debt (US\$ billion)



Notes:
 1. The analysis about includes Central Government debt only. It does not include Government guaranteed debt.
 2. Domestic debt comprises government bonds and treasury bills only. Arrears are excluded.

Source: Budget speeches presented by Ministers of finance for the years 2015 to 2024

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The objectives of the Public Debt Management Act no. 15 of 2022 & how the Annual Borrowing Plan fits into the picture

The Public Debt Management Act, 2022 came into effect in August of 2022. The Act is meant to improve the management in Zambia by ensuring enhanced:



TRANSPARENCY



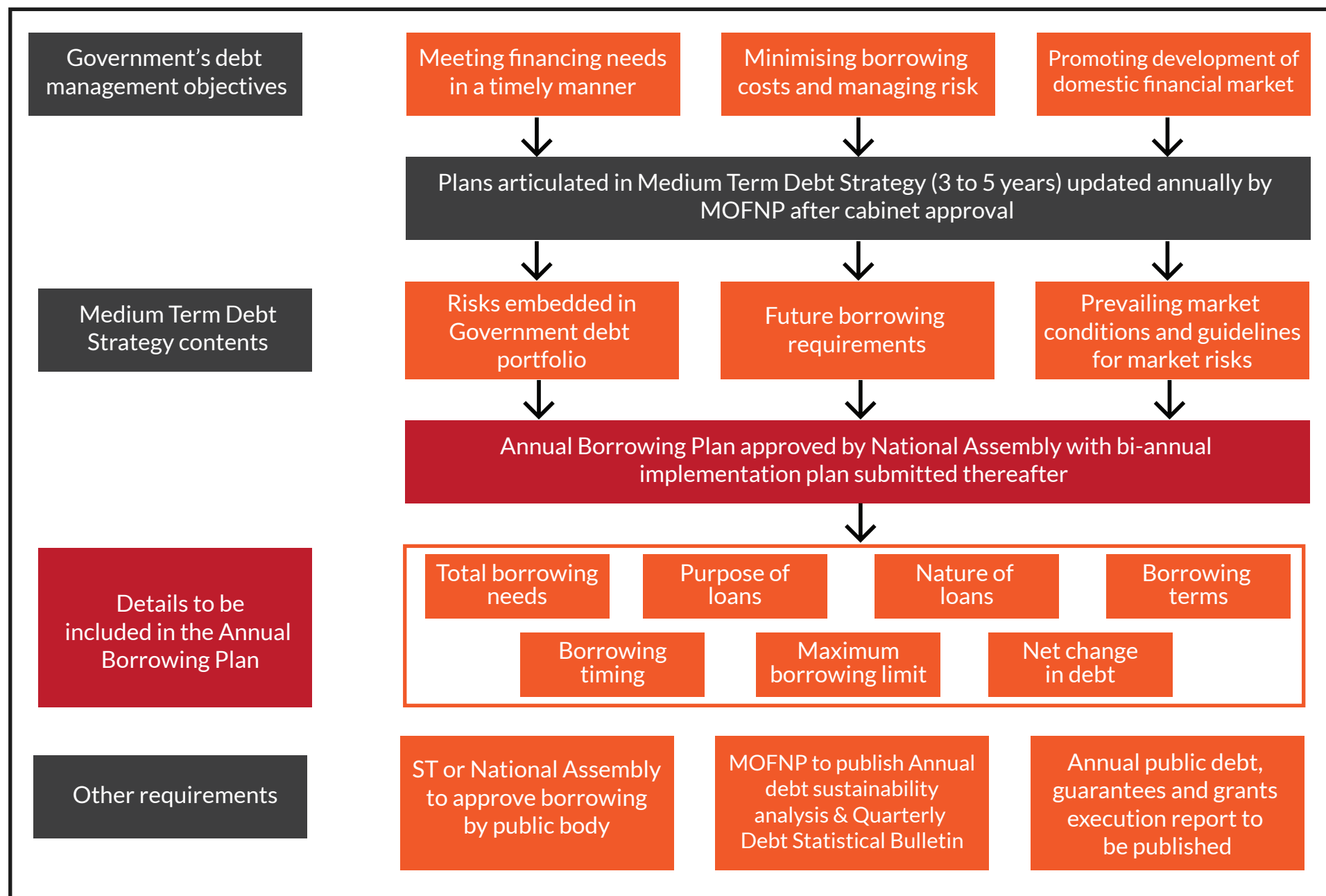
ACCOUNTABILITY



Debt contracted should result in progression as opposed to regression of the country and its citizens in the short, medium and long term. Better transparency and accountability should improve the chances of achieving the desired outcomes.

Figure 2 illustrates the overall objectives of the Act and how the Annual Borrowing Plan fits into the picture.

Figure 2. The Annual Borrowing Plan in context



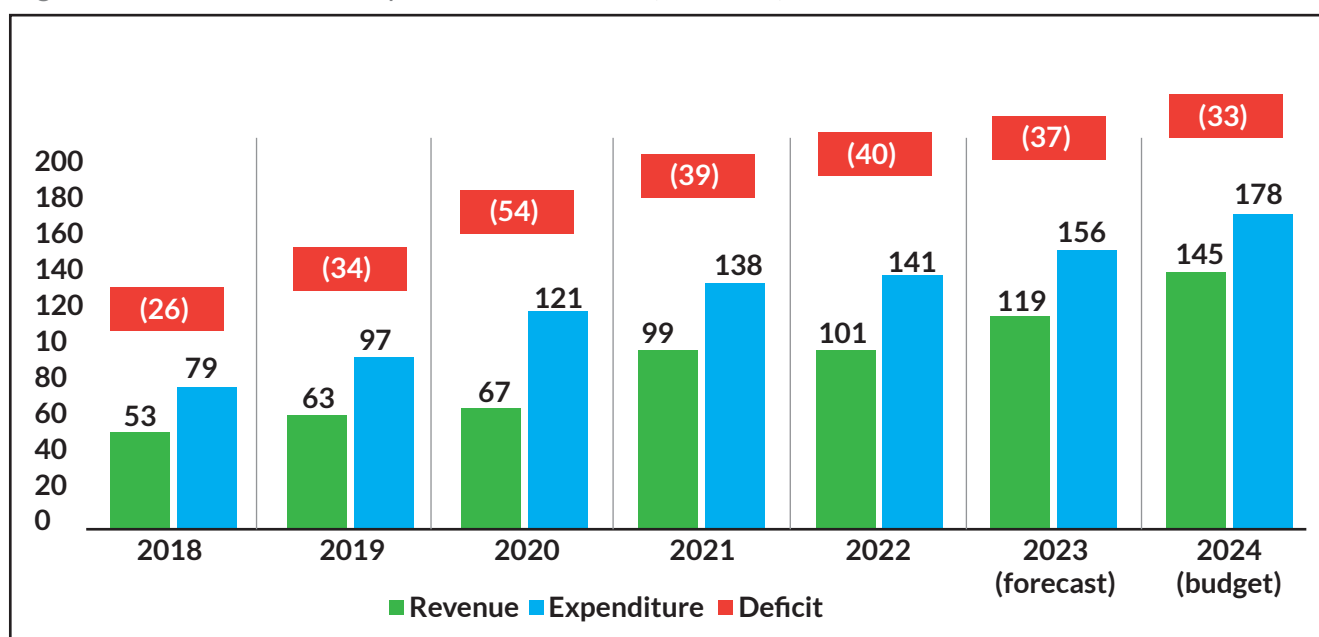
Source: Derived from the Public Debt Management Act no. 15 of 2022

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Why Zambia still needs to borrow and the nature of the planned borrowings in 2024

The country has development needs that are reflected in the planned expenditure for each year. However, those needs almost always exceed the country's capacity to generate its own revenues through tax and non tax revenues. This is not unusual and has been the case for many years. See Figure 3.

Figure 3. Annual Revenue, Expenditure & Deficits (K'billions)

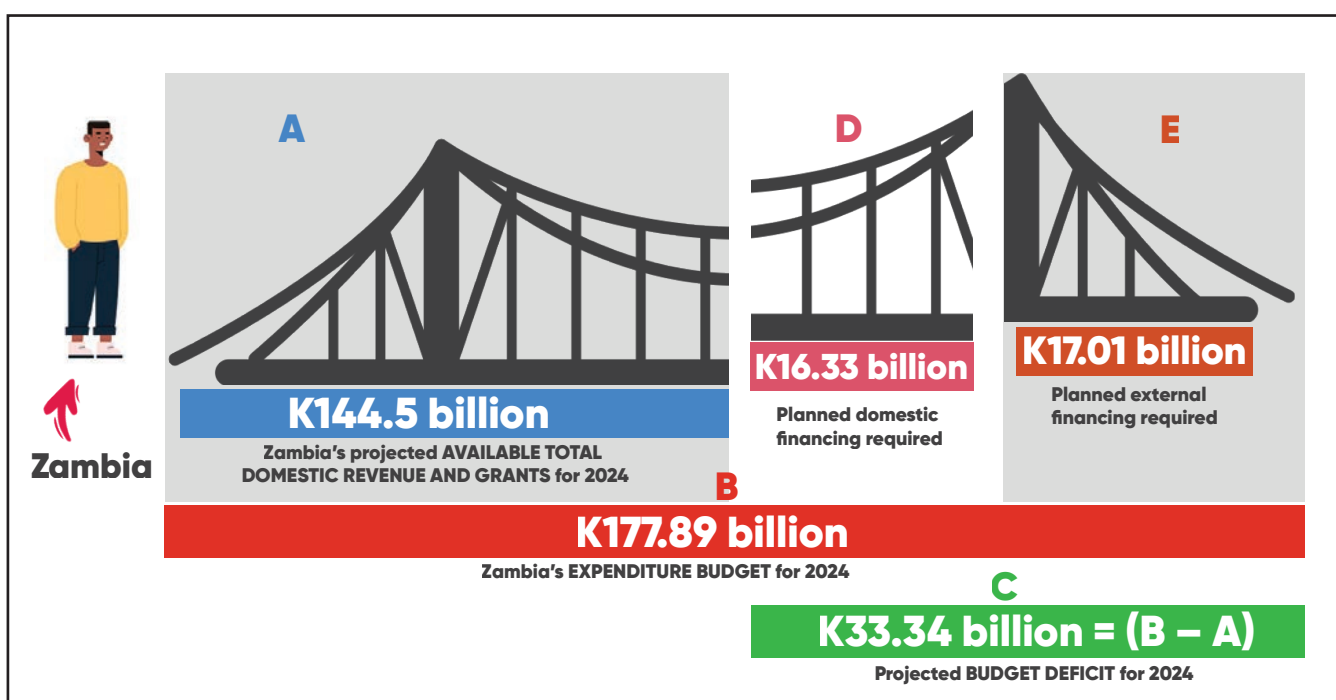


Source: Annual budget speeches and Government financial statements

In order to bridge the gap between the planned expenditure and internal resources available, a country will borrow from domestic and external sources. This is meant to accelerate the achievement of development objectives.

Figure 4 shows how the financing of K 33.34 billion needed for the 2024 budget is derived. The targets for domestic and external financing are set after consideration of factors such as expected GDP outturn, domestic revenues expected, the fiscal deficit target set and borrowing targets defined. The ultimate aim is to borrow sustainably.

Figure 4. How Zambia's 2024 Budget will be funded



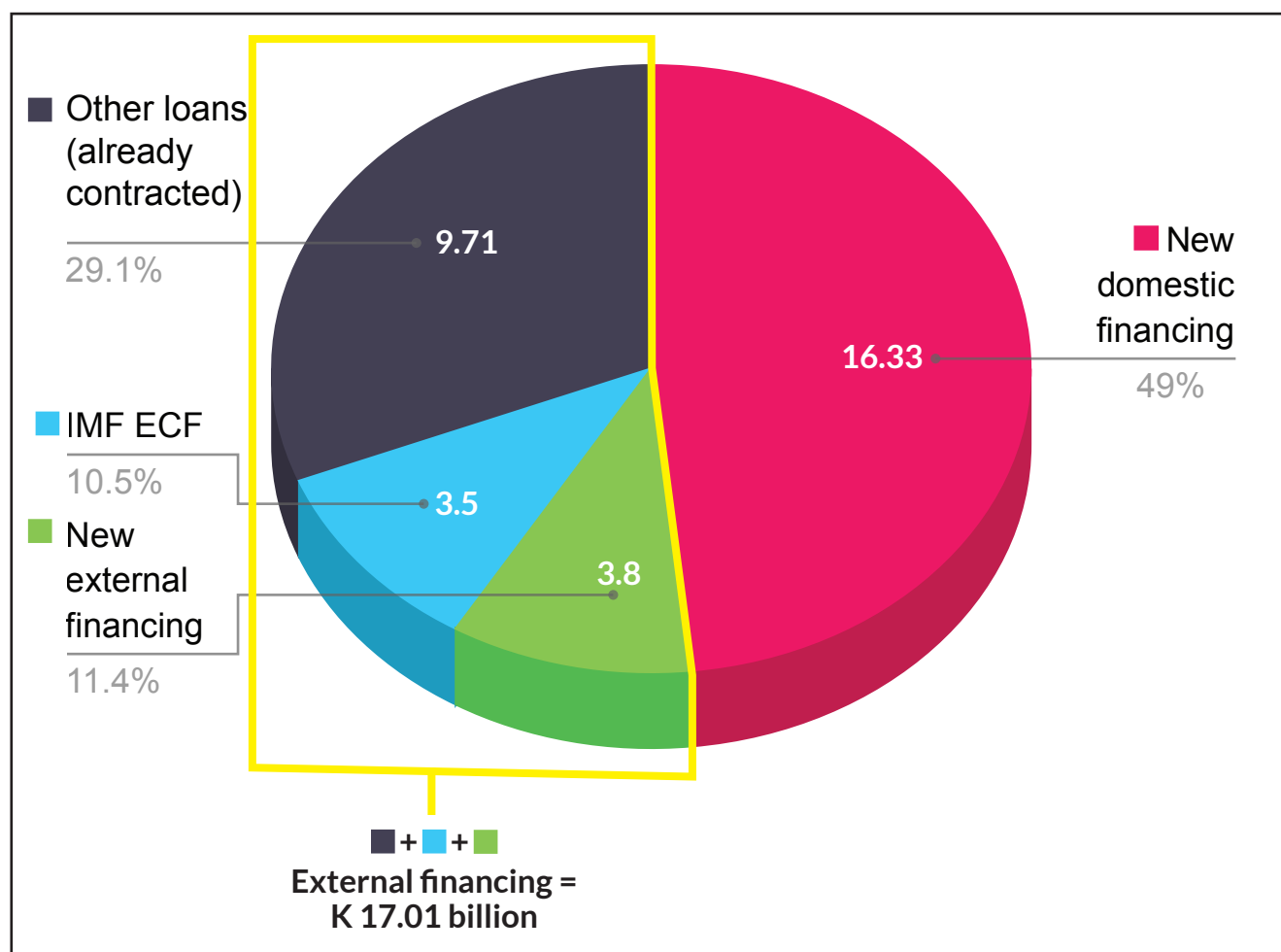
Notes:

1. D & E are the subject of the 2024 Annual Borrowing Plan.
2. The Domestic financing is the net increase after offsetting the refinancing of maturing securities of K 66.87 billion against the gross borrowing of K 83.2 billion.

Source: Derived from 2024 budget speech

Figure 5 shows the nature of the borrowing that will be undertaken.

Figure 5. Analysis of 2024 budget financing (K'billions)



Source: 2024 Annual Borrowing Plan

Financing terms

1. K16.33 billion is the net domestic financing limit set for 2024.

2. Domestic financing cost to be determined by market forces.

3. New external financing is mainly concessional in nature.

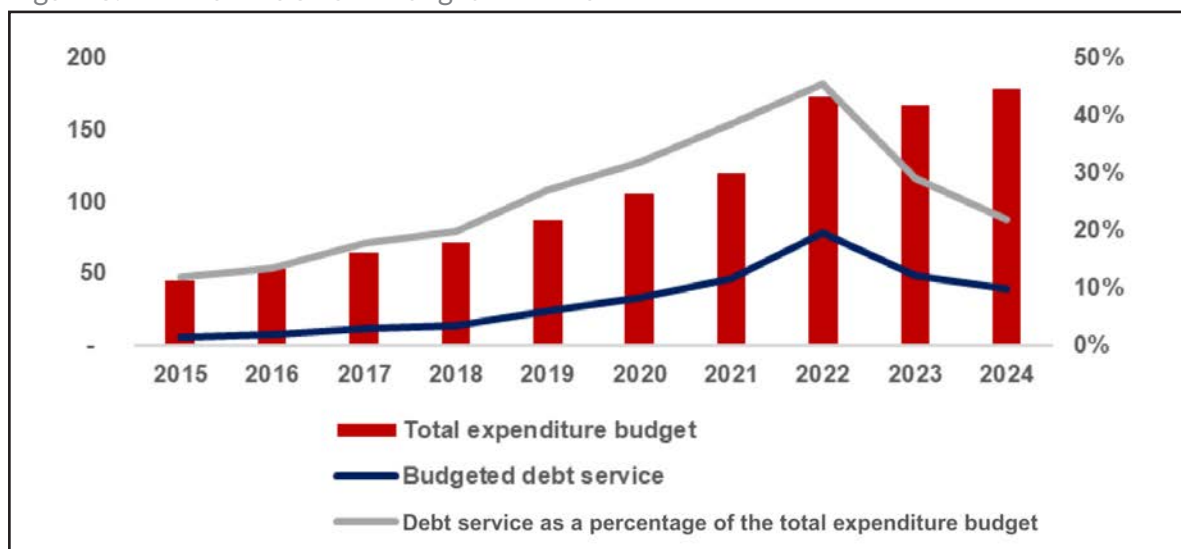
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The impact of Zambia's debt restructuring on the 2024 budget

Figure 6 shows that progressively, a larger proportion of Zambia's expenditure budget was being committed to debt service. This is irrespective of the fact about whether or not it was actually being paid. The peak budget allocation was in 2022 when 45% of the total budget was set aside for debt service. This was largely on account of the 2022 Eurobond of \$750 million that was due for settlement in that year.

Post agreement of the restructuring of external debt owed to official creditors, the total debt service commitment has declined to about 22% of the total expenditure budget. This MAY change after amended debt terms are agreed with private creditors.

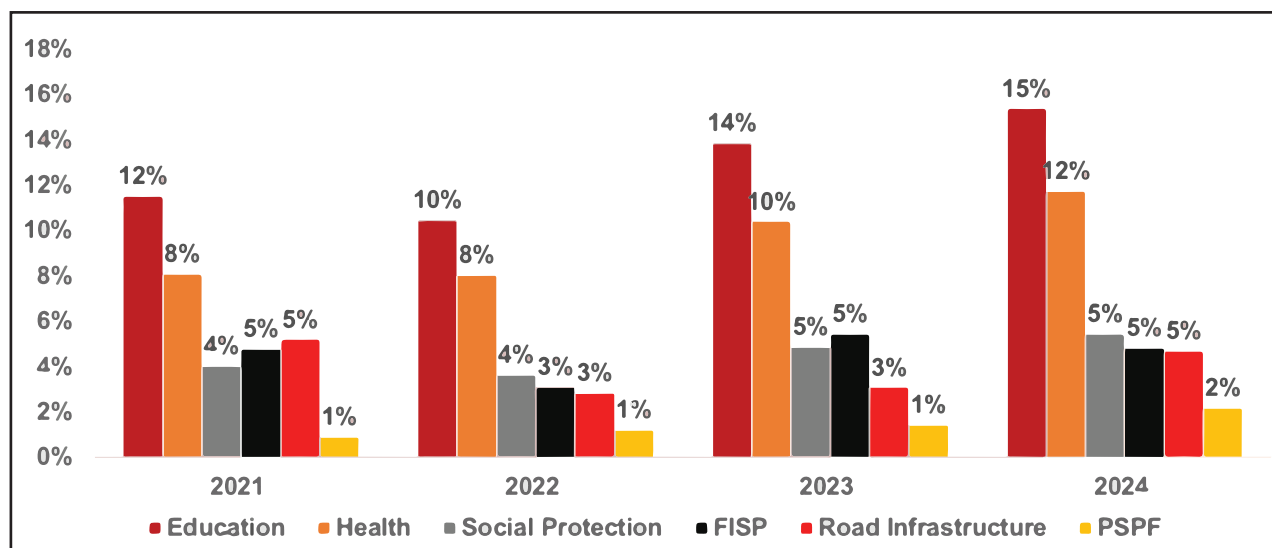
Figure 6. How Zambia's 2024 Budget will be funded



Source: Budget speeches

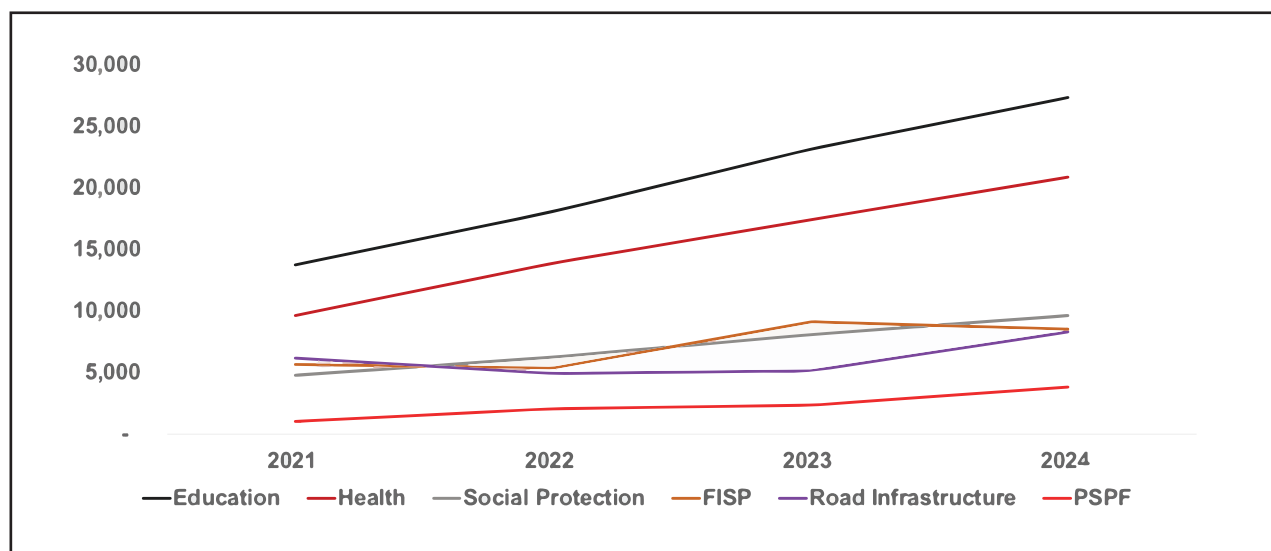
Figures 7 and 8 show that greater allocations have been made to other sectors as planned spending on debt is reduced. Notable is that the overall size of the budget has not reduced significantly meaning that resources are being reallocated to other areas.

Figure 7. Spending on selected areas as % of total budget



Source: Budget speeches

Figure 8. Spending on selected areas (K'millions)



Source: Budget speeches



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Some food for thought

Overall observations and comments

Positive observations

1. **Enhanced transparency** – The plan forms a baseline that will be used to evaluate borrowing in future.
2. **Alignment to the budget** – The amounts disclosed can be traced to the budget easily.
3. **Establishment of limits** – The defined borrowing limit will ensure prudence by the government and any deviations will be subjected to enhanced scrutiny.
4. **Budget realignment** - The reduction in the amounts committed to debt service has enabled a recalibration of Zambia's budget as resources that would have gone to debt service are allocated to other areas. This is likely the case because despite the reduced debt service commitment, the overall size of the budget has not reduced proportionately. Additional resources may be released for other priorities on conclusion of debt negotiations with private creditors.

Areas of improvement

1. **Risk mitigation** - The risk mitigants need to be enhanced. For example, there is no action indicated for the mitigation of foreign currency risk. The Government should consider measures such as hedging as appropriate.
2. **Local debt** - Aside from borrowing, arrears also require special consideration. The Government has partly been financing its operations through the accumulation of arrears to the suppliers of goods and services. It would be in order that the dismantling of these balances be given significant focus to ensure that tangible progress is made towards settlement. The 2024 budget disclosed that arrears amounted to K 77.8 billion as at the end of June 2023. If paid at the current rate budgeted for, this balance will take over 10 years to pay off in full. This is a significant constraint for the local economy.

Matters for further consideration

- 1. Disbursement progress assessment** - Where possible, the drawdown progress relative to the planned progress should be shown. This is essential in those situations where repayment is due to start in the near future whereas expenditure still needs to be incurred.
- 2. Budget adherence** – Ensuring that the Government achieves its budget deficit reduction targets will help reduce the need for financing and, as a result, progressively lower the cost of finance for the private sector.
- 3. Funding use** – Essential to achieving debt sustainability is ensuring that amounts received are, to the greatest extent possible, utilised to stimulate economic activity. Pure social investment may create challenges with repayment when the debts fall due even if borrowing is concessional.
- 4. Responsible borrowing** – Whereas Zambia is focused only on concessional debt, a question does arise as to whether there are economic and commercial opportunities that may arise that could, on their own, justify commercial borrowing terms. This is because concessional financing may not be available for every situation that may arise. Important is that debt is utilised as planned as if properly deployed, it can accelerate development significantly even if commercial in nature. Granted, being under an IMF programme does impose borrowing restrictions. However, evaluation of projects on a case by case basis is something that should be considered.

Conclusion

The Annual Borrowing Plan represents a step forward in Zambia's fiscal management. Hopefully, all stakeholders will take a keen interest in its contents and execution. This is because real transparency and accountability will only be achieved when the general population effectively engages the Government on economic matters regularly.



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