ZAMBIA MEDIUM TERM DEBT STRATEGY (2017-2019)


Investments and Debt Management
MINISTRY OF FINANCE
OUTLINE

1. WHAT IS AN MTDS?
2. STRATEGIES FOR 2017-2019;
   - External Debt
   - Domestic Debt
   - Others i.e. Domestic Arrears; Contingent Liabilities
3. LINK TO DEBT SUSTAINABILITY
4. IMPLEMENTATION OF THE MTDS
1. WHAT IS A MTDS?

A MTDS is a *plan* that Government intends to implement over the medium term in order to achieve a *desired composition* of the debt portfolio which *captures Government’s risk and cost preferences*.

NOTE the key phases;
- plan
- desired composition
- captures Government’s risk and cost preference
# Cost and Risk Indicators for Existing Debt as at End 2016

<table>
<thead>
<tr>
<th></th>
<th>External debt</th>
<th>Domestic debt</th>
<th>Total debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (in millions of USD)</td>
<td>69,234.2</td>
<td>32,110.6</td>
<td>101,344.8</td>
</tr>
<tr>
<td>Nominal debt as % GDP</td>
<td>32.1</td>
<td>14.9</td>
<td>47.0</td>
</tr>
<tr>
<td>PV as % of GDP</td>
<td>29.3</td>
<td>14.9</td>
<td>44.2</td>
</tr>
<tr>
<td>Interest payment as % GDP</td>
<td>1.4</td>
<td>1.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Weighted Av. IR (%)</td>
<td>4.5</td>
<td>10.7</td>
<td>6.5</td>
</tr>
<tr>
<td>ATM (years)</td>
<td>10.0</td>
<td>3.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>2.2</td>
<td>50.6</td>
<td>17.5</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>0.7</td>
<td>7.5</td>
<td>8.2</td>
</tr>
<tr>
<td>ATR (years)</td>
<td>9.9</td>
<td>3.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>2.4</td>
<td>50.6</td>
<td>17.7</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>99.8</td>
<td>100.0</td>
<td>99.9</td>
</tr>
<tr>
<td>FX debt (% of total debt)</td>
<td></td>
<td></td>
<td>68.3</td>
</tr>
<tr>
<td>ST FX debt (% of reserves)</td>
<td></td>
<td></td>
<td>6.2</td>
</tr>
</tbody>
</table>
2. Strategies for 2017-2019

- Domestic Debt
  - Increase proportion of domestic debt budget financing to 60% over medium term
  - 60% Government Bonds; 40% Treasury Bills
  - Lengthened maturities; smooth redemption profile; Average Time to Maturity minimum of 3 years.
  - Expansion of investor base; financial inclusion initiative to promote Government securities; in conjunction with BOZ, targeted outreach programmes will be undertaken.
External Debt

- Reduce proportion of external debt in budget financing i.e. 40% over medium term
- Prioritizing concessional and semi-concessional debt. Aim is to ensure smooth redemption profile with an Average Time to Maturity (ATM) of a minimum of 10 years
- Unconcessional (commercial) debt to be considered only for projects with high economic returns;
- GRZ will proactively explore mechanisms for Eurobond redemptions e.g. dedicated Sinking Fund
Others i.e. Sovereign Guarantees; Domestic Arrears; Capacity Building

- Enhanced monitoring of performance of Sovereign Guarantees. All Guarantees will be recorded on the debt management system.

- Domestic debt arrears arising from various GRZ operations will be paid overtime through budgetary allocations. These will be subject to reconciliation and audits.

- Restructuring of Debt Office

- Specific skills training for debt managers in contemporary debt management such as use of derivatives for hedging purposes.

- Upgrade of DMFAS system to ensure data credibility
3. Link to Debt Sustainability;

(i) Generates a profile of interest costs that are consistent with debt sustainability by;

- Maximizing concessional and semi-concessional external borrowing.
- Restricting non-concessional external borrowing to projects with high economic return.
- Lengthening maturities in the domestic markets and ensuring redemptions are evenly spread over time.
- Fully utilizing medium to longer tenor securities in the domestic markets.
(ii) Manages risks associated with Zambia’s public debt portfolio by:

- Reducing the foreign currency denominated debt and gradually increasing domestic debt in proportional terms over the medium term in order to manage the exchange rate risk, while ensuring no crowding out the private sector.
- Diversifying the GRZ securities investor base to make the securities market more competitive and mitigate auction failures.
(iii) **Strengthens debt management capacity through;**

- Restructuring of the Debt Management Office.
- Capacity building in the use of hedging instruments for debt managers to be able to adequately mitigate risks in the debt portfolio.
4. IMPLEMENTATION

- Published MTDS
- Annual Borrowing Plans
- Periodic Review of Strategy
I THANK YOU...........