

IMF OFFICE IN ZAMBIA

2017 IMF Article IV on Zambia What implications for Public Debt?



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Outline

1. Main take-aways from the 2017 Article IV for Zambia
2. Main take-aways from the 2017 DSA
3. Risks and Policy Advice

On October 6, 2017, the Executive Board of the IMF concluded the Article IV consultation with Zambia and issued a press release. All the related Staff reports have been published on October 25 on www.imf.org public website.

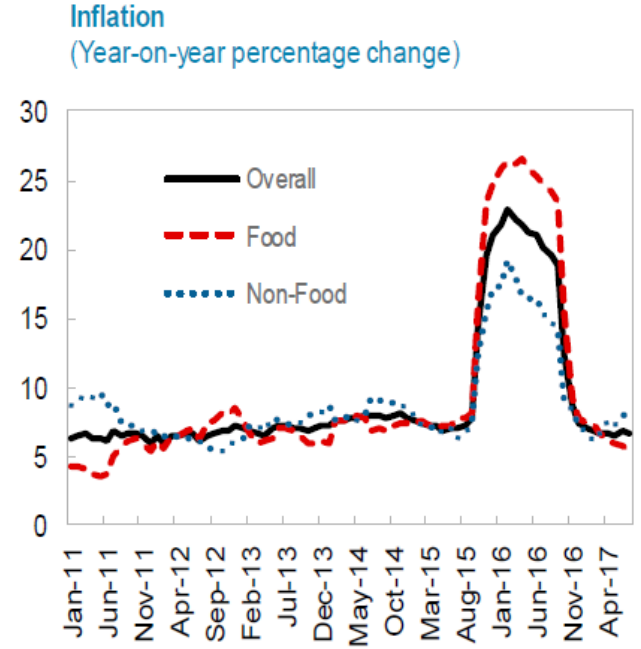
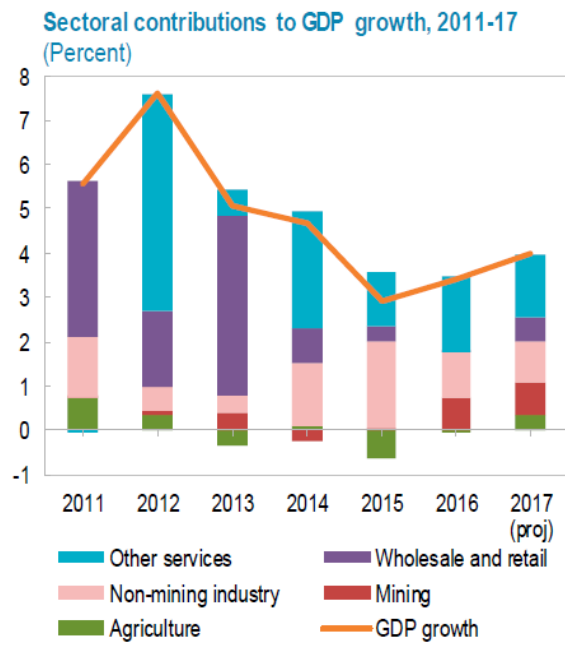
<http://www.imf.org/en/Publications/CR/Issues/2017/10/25/Zambia-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45358>



The screenshot shows the IMF website header with the logo and the text "INTERNATIONAL MONETARY FUND". Below the header is a navigation menu with "HOME", "ABOUT THE IMF", "RESEARCH", and "COUNTRIES". A blue banner below the menu reads "PRESS RELEASE NO. 17/394". Underneath, the word "Resources" is visible. A photograph of the Executive Board meeting is shown, with the caption "Executive Board" below it. On the right side, there are social media icons for Twitter and Facebook, and a vertical list of text including "IM", "Cc", "Oct", "On C", "conc", "The", and "drive".

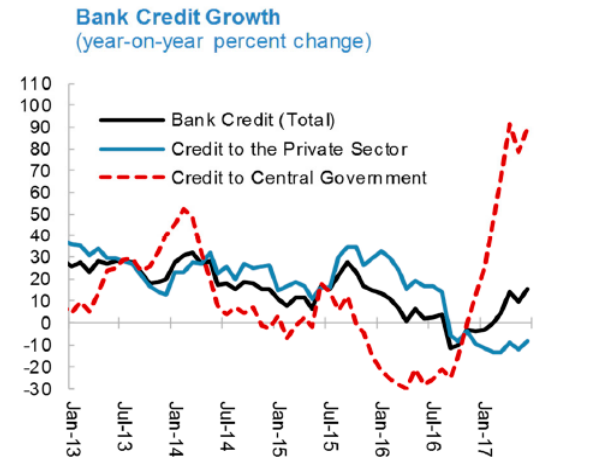
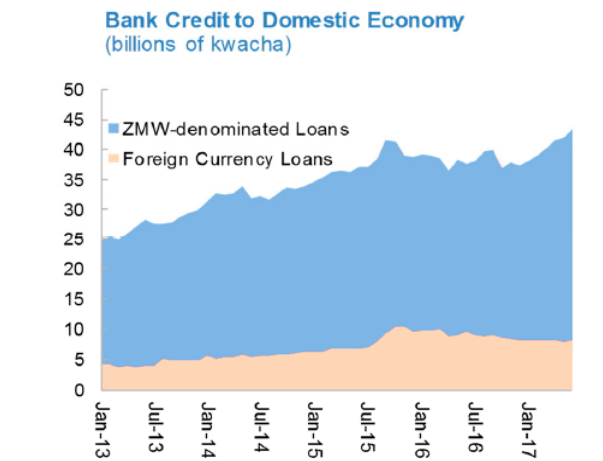
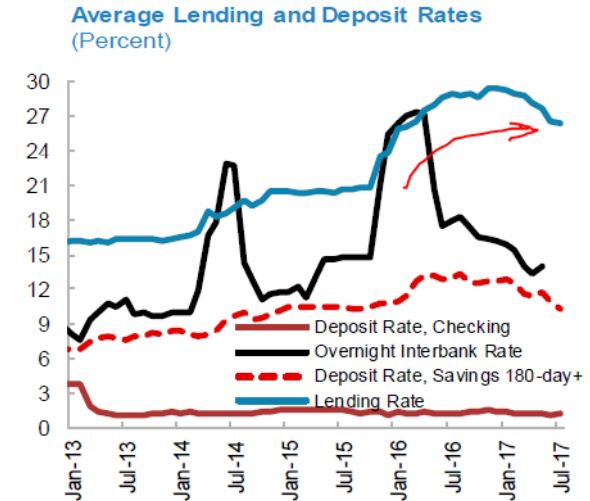
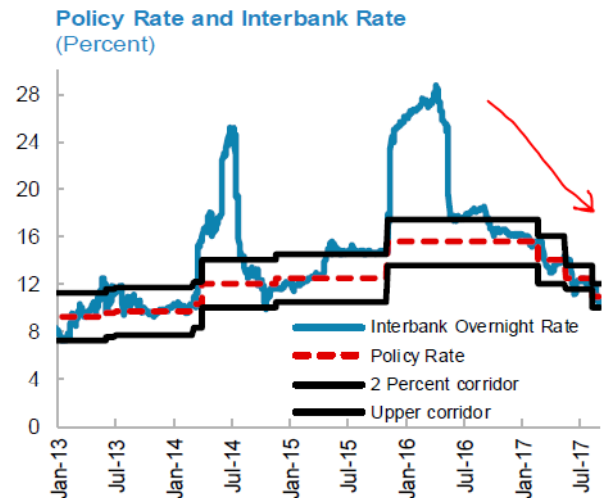
4. Main takeaways from the Article IV - Zambia

- The near-term **outlook** for the Zambian economy **has improved in recent months**, driven by good rains and rising world copper price.
- Tight **monetary policy** succeeded in **stabilizing the exchange rate and slowing down y-o-y inflation** to 6.6 percent in September 2017,

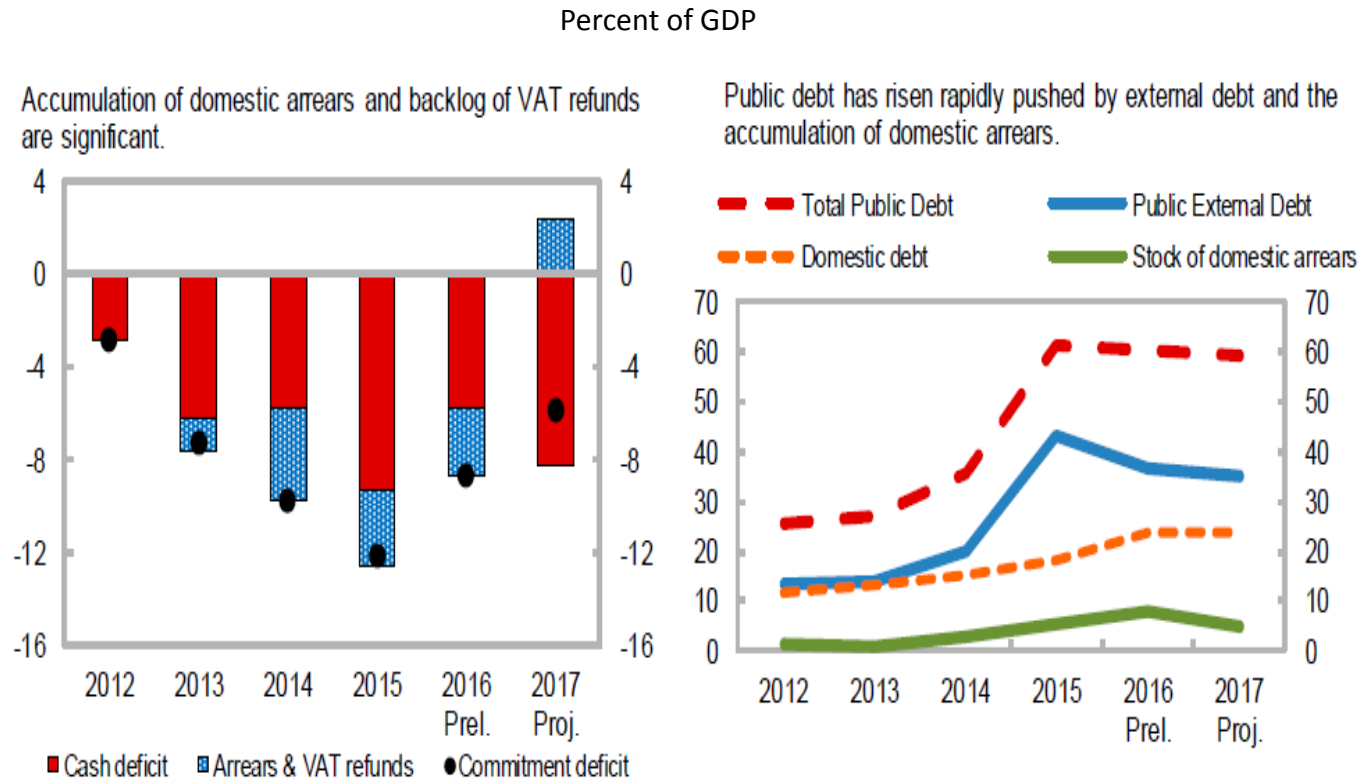


4. Main takeaways from the Article IV - Zambia

- Despite recent unwinding, monetary policy tightening contributed to sharp rise in lending rates...
- ...with GRZ domestic arrears, rise in NPLs (12.1 percent of totals loans July 2017) and a plunge in the growth of credit to the private sector



4. Main takeaways from the Article IV for Zambia



Sources: Zambian authorities and IMF estimates and calculations.

- **Public debt has been rising at an unsustainable pace** and has crowded out lending to the private sector and increased the vulnerability of the economy.
- The outstanding public and publicly guaranteed debt rose sharply from 36 percent of GDP at end-2014 to **60 percent at end-2016**, driven largely by external borrowing and the impact of exchange rate depreciation.

Risks



Domestic

- **High:** delayed fiscal adjustment/Sharply rising Public debt
- **Medium to High:** Policy Inconsistency - the government should speak with one voice on key objectives and policies.
- **Medium** Rising political tensions - Maintain the relative political stability enjoyed by Zambia over the years to sustain investor confidence in the economy.

External



- **High: tighter and more volatile global financial conditions** - Increased external commercial borrowing costs will squeeze fiscal space for priority spending.
- **Medium: Volatility in global copper prices** - Maintain exchange rate flexibility and build resilience against external shocks by strengthening the efforts to diversify the economy.



PRESS RELEASE NO. 17/394

Resources



Executive Board

The IMF Directors Views

- Directors expressed concern at the pace at which public debt, especially external debt, has increased and now put **Zambia at high risk of debt distress**.
- OK the need to address infrastructure gaps, but to maintain debt sustainability, it is **critical to slow down on the contraction of new debt, especially non-concessional loans**, strengthen debt management capacity, and improve project appraisal and selection processes.

<http://www.imf.org/en/News/Articles/2017/10/10/pr17394-imf-executive-board-concludes-2017-article-iv-consultation-with-zambia>

Zambia DSA Conclusions: 2013-17

Risk of debt Distress (current policies)

Augmented by significant Risks
stemming from domestic public and/or
private external debt?

2017

2015

2013

High

Moderate

Low

Yes

Yes

No

2017 joint IMF-WB DSA for Zambia: further
downgrading

October 2017

Main Joint IMF-WB DSA Take-aways

#1 The present value (PV) of PPG external debt breaches the 40 percent of GDP threshold; it rises from 37 percent in 2016 to 42.6 percent by 2019 and to a peak of 44.3 percent in 2022.

#2 The debt-service-to-revenue ratio temporarily breaches its 20 percent threshold in 2022 and 2024 when Eurobond payments fall due.

#3 All indicators breach their respective thresholds in the case of extreme shocks.

#4 The fixed primary balance scenario, which keeps the primary deficit-to-GDP ratio unchanged from 2016 (at 2.2 percent), shows the **debt ratio rising throughout the forecast period**, highlighting the urgent need for fiscal consolidation.

Evolution of Debt Indicators (2017 DSA – Art. IV)



Text Table 1. Evolution of Debt Indicators

	2011	2012	2013	2014	2015	2016
Percent of GDP						
Total External debt	15.9	17.3	20.5	28.5	91.5	78.5
Public and publicly guaranteed	8.4	13.7	13.8	20.1	43.1	36.5
Central Government	6.5	11.6	11.3	16.6	37.6	32.1
BoZ	1.9	1.6	1.4	1.3	1.5	0.8
Publicly guaranteed	0.0	0.5	1.2	2.3	3.9	3.5
Private and Parastatal	7.5	3.6	6.7	8.4	48.4	42.0
Private	7.5	3.6	6.7	6.0	44.4	39.8
Parastatal	0.1	0.0	0.0	2.4	4.0	2.3
Total Public debt	20.8	25.4	27.1	35.6	61.4	60.5
Domestic debt	12.4	11.7	13.2	15.5	18.3	24.0
Securities	11.4	11.2	12.2	11.7	10.7	11.9
T-bills	6.0	5.9	6.1	5.6	5.3	6.0
T-bonds	5.4	5.3	6.0	6.1	5.4	5.9
Other 1/	1.0	0.6	1.1	3.8	7.6	12.1
External debt	8.4	13.7	13.8	20.1	43.1	36.5
Composition of Central Government's External Debt (percent)						
Multilaterals	59.7	33.6	35.5	27.1	20.2	20.5
Bilaterals	9.4	3.2	2.1	3.0	3.3	6.2
Private banks/investors	0.0	34.7	32.5	45.7	51.2	46.3
Suppliers' Credit	31.0	28.5	30.0	24.3	25.3	26.9
Composition of Domestic Debt (percent)						
Securities	92.6	93.2	79.0	74.4	57.0	49.8
T-bills	48.5	48.8	40.0	71.7	28.3	25.1
T-bonds	44.1	44.4	39.1	38.8	28.7	24.7
Other 1/	7.5	6.8	21.1	25.6	43.0	50.2

Sources : Zambia authorities and IMF staff calculations.

1/ Includes accumulation of domestic arrears and financing from BoZ and commercial banks.

IMF Policy Advice and Authorities views

Fiscal consolidation

- Debt dynamics improve substantially under an **adjustment policies** scenario.
- Fiscal consolidation, restraint on non-concessional borrowing, and strengthened debt and public investment management capacities are needed to put debt on a sustainable path.

Authorities views

- **The authorities broadly agreed with the DSA assessment.**
- They will publish the Medium-Term Debt Strategy which will guide government borrowing, with a view to ensuring that public debt remains at sustainable levels.
- **In this context, they will seek to**
 - (i) maximize concessional loans and
 - (ii) strengthen parliamentary oversight of public borrowing through an amendment to the Loans and Guarantees Act.

Macro-Fiscal Scenarios (2017 DSA – Art. IV)



Text Table 4. 2015 AIV DSA vs. Current DSA (assumptions)

	2016	2017	2018	2019	2020	2021
	(Percentage Change)					
Real Growth						
2015 DSA	6.2	6.9	7.0	6.8	6.8	6.5
Current Policies DSA	3.4	4.0	4.5	4.5	4.5	4.5
Adjustments Policies DSA	3.4	4.0	4.5	5.0	5.5	5.5
Inflation (deflator, av.)						
2015 DSA	7.3	6.3	5.2	4.8	4.8	5.0
Current Policies DSA	14.3	7.9	8.1	8.1	7.8	8.0
Adjustments Policies DSA	14.3	7.9	6.8	6.3	6.0	6.0
	(Percent of GDP)					
Budget Deficit						
2015 DSA	6.0	5.0	4.0	3.4	2.9	2.9
Current Policies DSA	5.7	8.0	7.8	7.2	6.5	5.3
Adjustments Policies DSA	5.7	7.3	5.9	4.0	3.2	2.4
Net FDI						
2015 DSA	6.6	6.6	6.6	6.6	6.6	6.2
Current Policies DSA	7.3	6.3	6.1	6.0	5.8	5.8
Adjustments Policies DSA	7.3	6.3	6.1	6.0	5.8	5.8
Current Account Balance						
2015 DSA	1.4	2.5	3.0	3.3	3.4	3.2
Current Policies DSA	-4.4	-3.6	-2.8	-1.5	0.0	-0.2
Adjustments Policies DSA	-4.4	-3.0	-1.5	0.1	1.2	1.4



Thank
you
Very
much

Natotela
Sana

Zikomo
Kwambili

<http://www.imf.org/en/Publications/CR/Issues/2017/10/25/Zambia-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45358>