ZAMBIA MEDIUM TERM DEBT STRATEGY (2017-2019)

A Presentation of the 2017-2019 Medium Term Debt Strategy (MTDS) by the Ministry of Finance at the ZIPAR Debt Management Conference, "Zambia's Public Debt: The Elephant in the Room", 26th October 2016, Taj Pamodzi Hotel, Lusaka

Investments and Debt Management

MINISTRY OF FINANCE

OUTLINE

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- External Debt
- Domestic Debt
- Others i.e. Domestic Arrears; Contingent Liabilities

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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

		External debt	Domestic debt	Total debt
		69,234.2	32,110.6	101,344.8
Amount (in millions of USD)		6,721.8	3,117.5	9,839.3
Nominal debt as % GDP		32.1	14.9	47.0
PV as % of GDP		29.3	14.9	44.2
Cost of debt	Interest payment as % GDP	1.4	1.6	3.0
	Weighted Av. IR (%)	4.5	10.7	6.5
Refinancing risk	ATM (years)	10.0	3.0	7.8
	Debt maturing in 1yr (% of total)	2.2	50.6	17.5
	Debt maturing in 1yr (% of GDP)	0.7	7.5	8.2
Interest rate risk	ATR (years)	9.9	3.0	7.8
	Debt refixing in 1yr (% of total)	2.4	50.6	17.7
	Fixed rate debt (% of total)	99.8	100.0	99.9
FX risk	FX debt (% of total debt)			68.3
	ST FX debt (% of reserves)			6.2

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.
- Comprehensive data reconciliation to be undertaken in 2017 of the Debt Management and Financial Analysis System (DMFAS).
- 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…………