Risks for Developing Countries: Repositioning Public Debt Management in Zambia

2018

Outline

- Macroeconomic development in Zambia
- Status and Evolution of Debt
- The main Risks
- Repositioning the Debt Management Office
- Conclusion

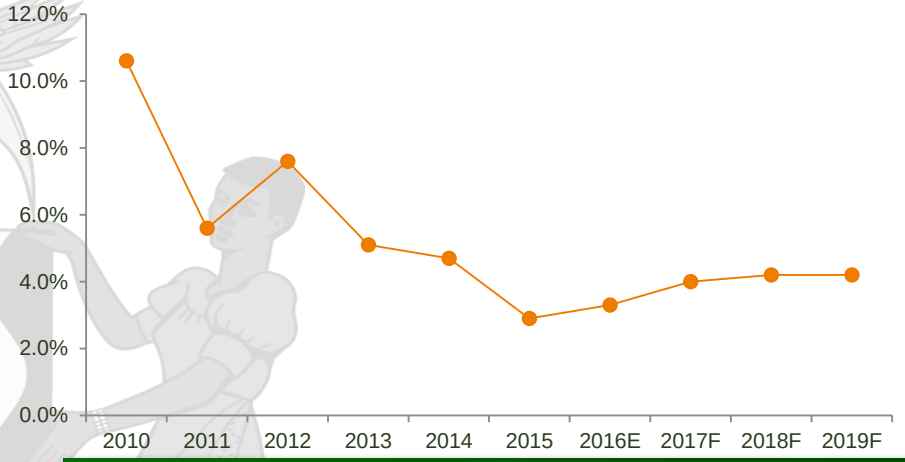
Macroeconomic Growth

- Zambia's growth trajectory in the recent past has been downwards. GDP growth declined from 4.7% in 2014 to 2.9%[1] in 2015, 3.8 in 2016 and growth of 3.4% in 2017.
- Challenges on growth in the last few years were low international commodity prices (Copper and NTEs), climate change that resulted in poor growth in agriculture and electrify generation that in turn affected other sectors.
- The external sector position also deteriorated as a result of a sharp fall in external trade.
- Main driver of growth in 2017 were the wholesale and retail trade, mining, manufacturing, and construction sectors.
- In the agricultural sector growth continued to rebound and result was better than anticipated.
- 2017 growth was 3.4% mainly driven by manufacturing, electricity, transportation, agriculture and construction.

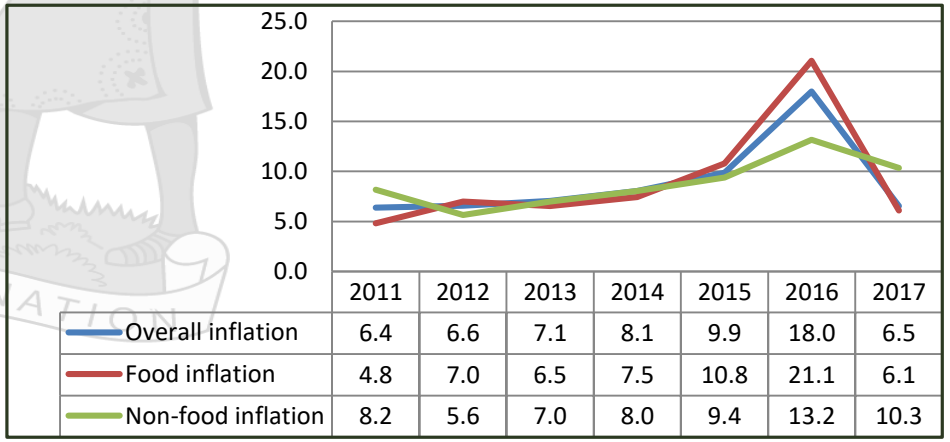
	2014	2015	2016	2017
Agriculture, forestry, and fishing	1.1	-7.7	3.7	9.7
Mining and quarrying	-2.3	0.2	7.3	3.0
Manufacturing	**6.5**	**5.6**	**1.9**	**4.4**
Electricity, gas, steam and air conditioning supply	1.9	-1.5	-13.6	23.6
Construction	**10.6**	**18.0**	**10.2**	**6.4**
Wholesale and retail trade; repair of motor vehicles	3.4	1.4	-0.1	0.7
Transportation and storage	**6.6**	**0.6**	**-2.2**	**7.8**
Accommodation and food service activities	4.0	0.2	1.2	6.1
Information and communication	**7.5**	**2.5**	**17.4**	**-13.2**
Financial and Insurance Activities	15.1	12.1	-2.4	-5.8
GDP at Market Prices	**4.7**	**2.9**	**3.8**	**3.4**

Source: Ministry of Finance

Zambia 's growth Trajectory



Inflation

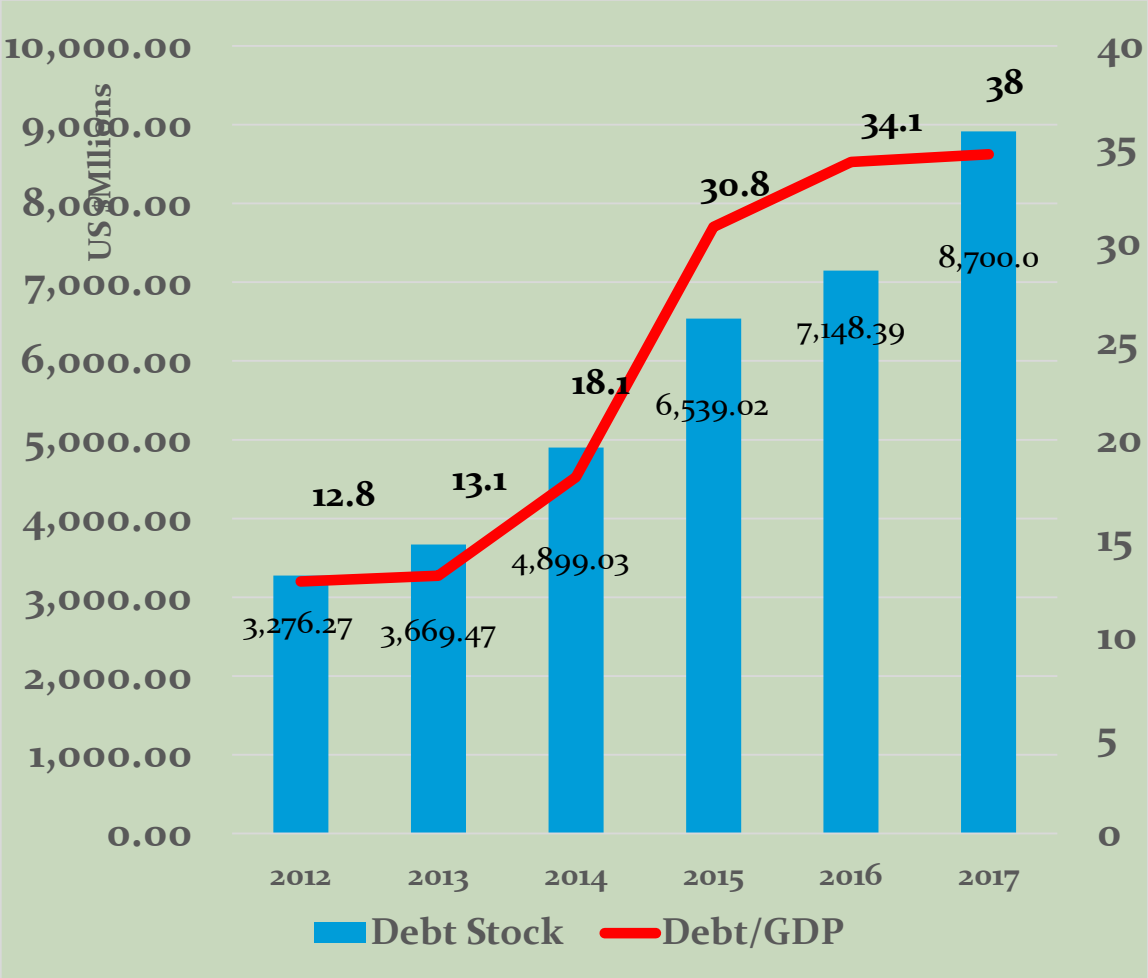


	2011	2012	2013	2014	2015	2016	2017
Overall inflation	6.4	6.6	7.1	8.1	9.9	18.0	6.5
Food inflation	4.8	7.0	6.5	7.5	10.8	21.1	6.1
Non-food inflation	8.2	5.6	7.0	8.0	9.4	13.2	10.3

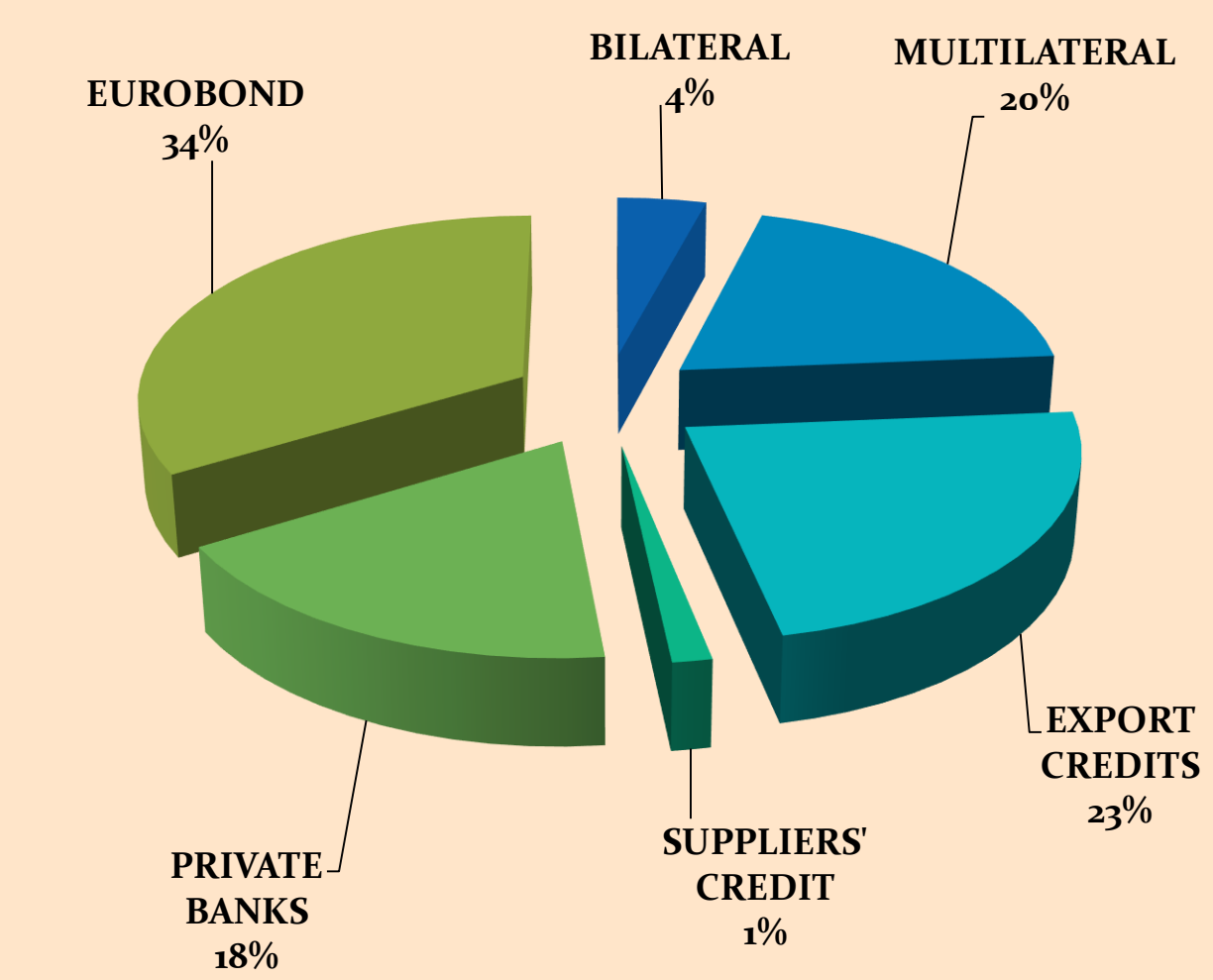
Source: Ministry of Finance

Evolution of External Debt to GDP

Evolution of the external debt stock



External Debt Stock Composition by Creditor

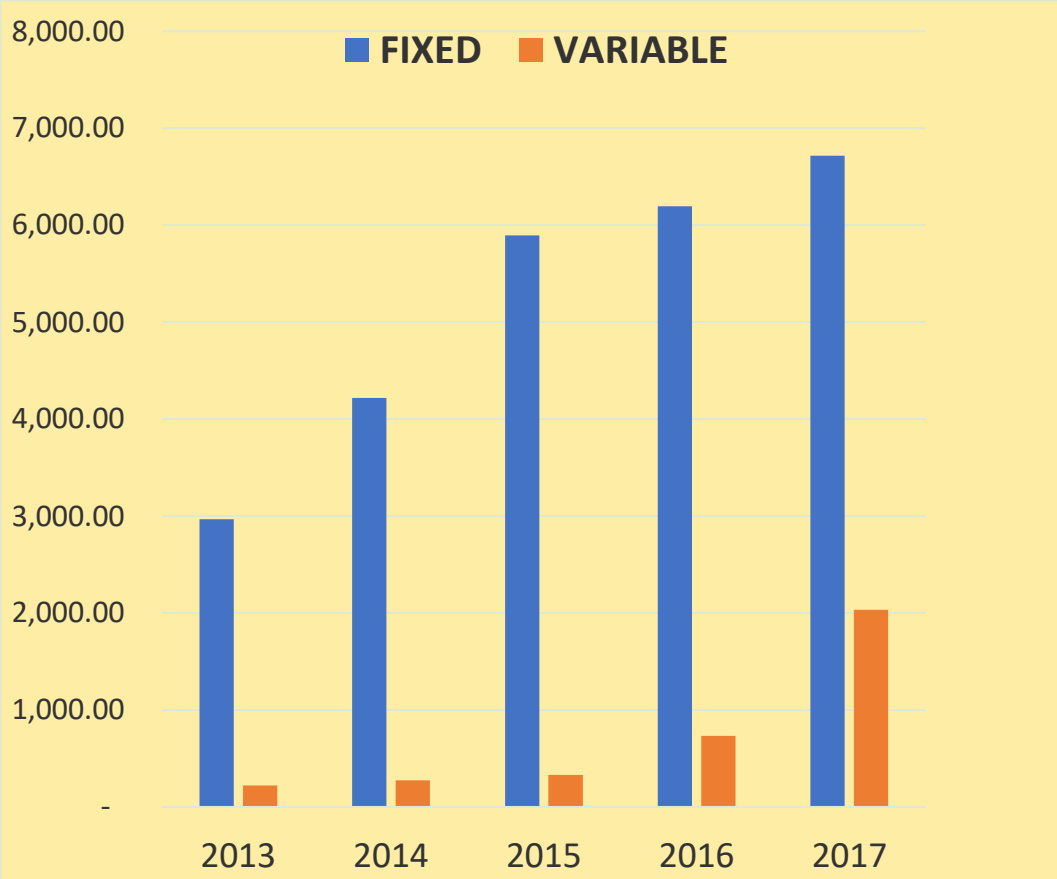


Evolution of Total Public Debt to GDP

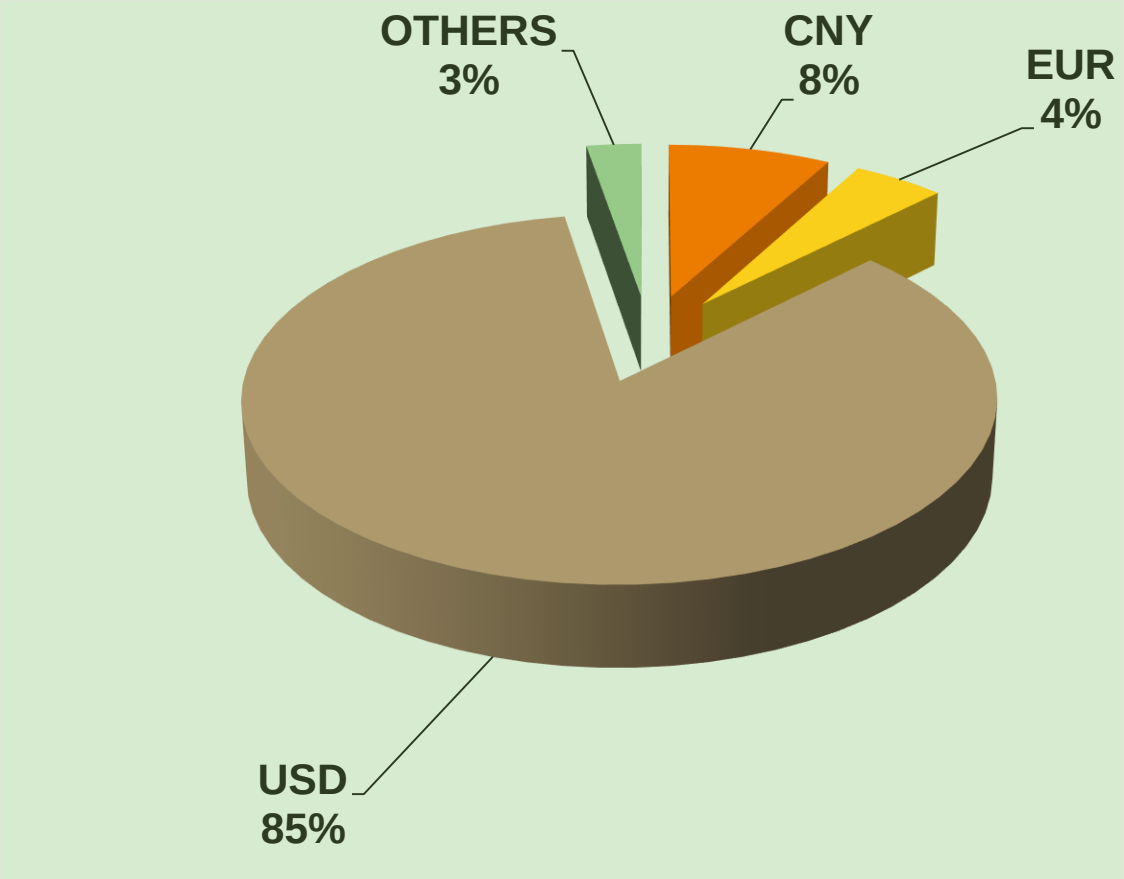
- External debt for 2017 was US8.7 billion representing about 38% of GDP from US$4.8 billion in 2014.
- Domestic debt excluding arrears as at December 2017 was K48.3 billion from K32.0 billion in 2016. Domestic debt service was K4.02 billion in 2016 compared to K2.95 billion in 2014.
- Heightened borrowing activity is mainly for infrastructure projects,
- The debt service is projected to further increase in 2018.
- Debt Service is being exacerbated by the depreciation of Kwacha against major tradable currencies in September/October 2018 but the stability of the Kwacha is expected to ease the pressure .

External Debt Structure

Composition by Interest Rate Type

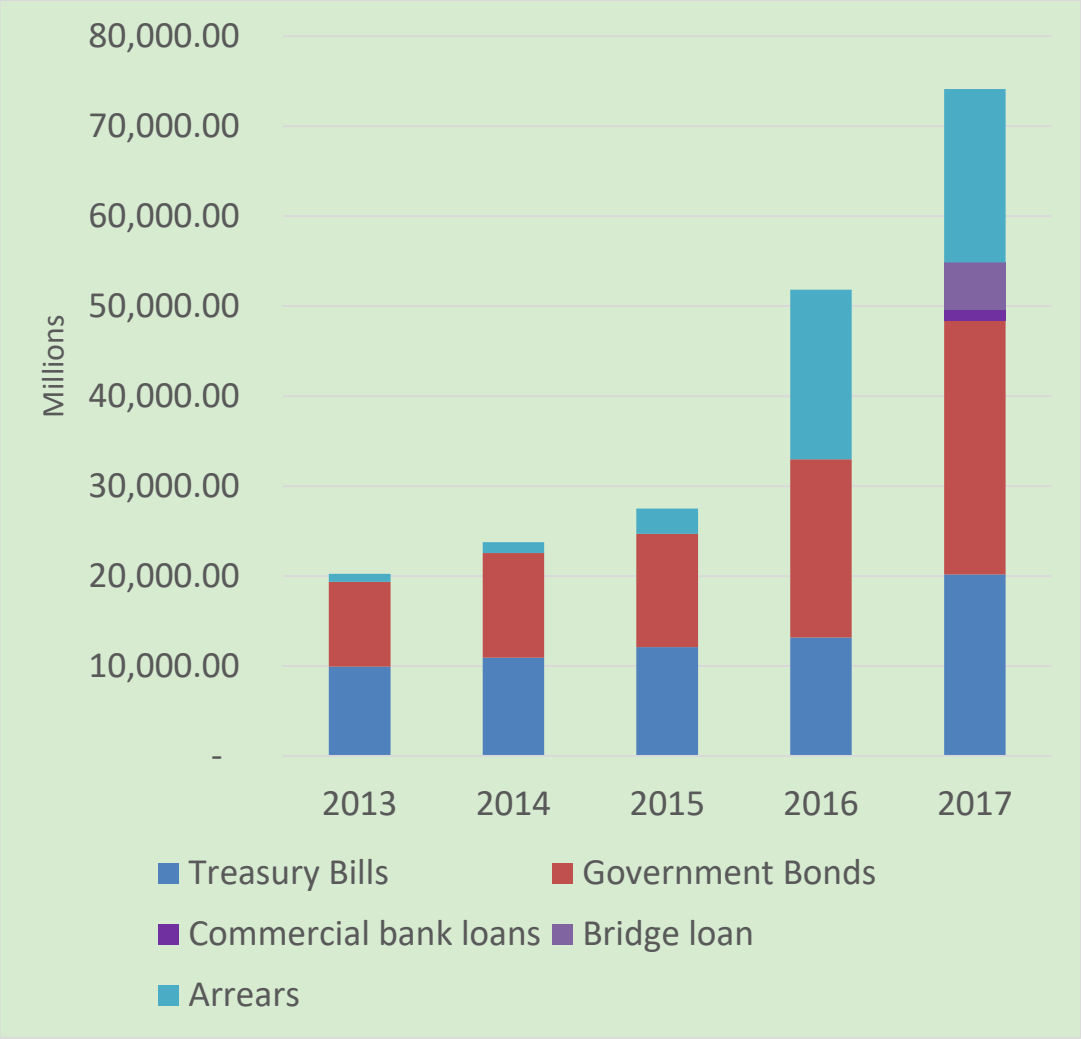


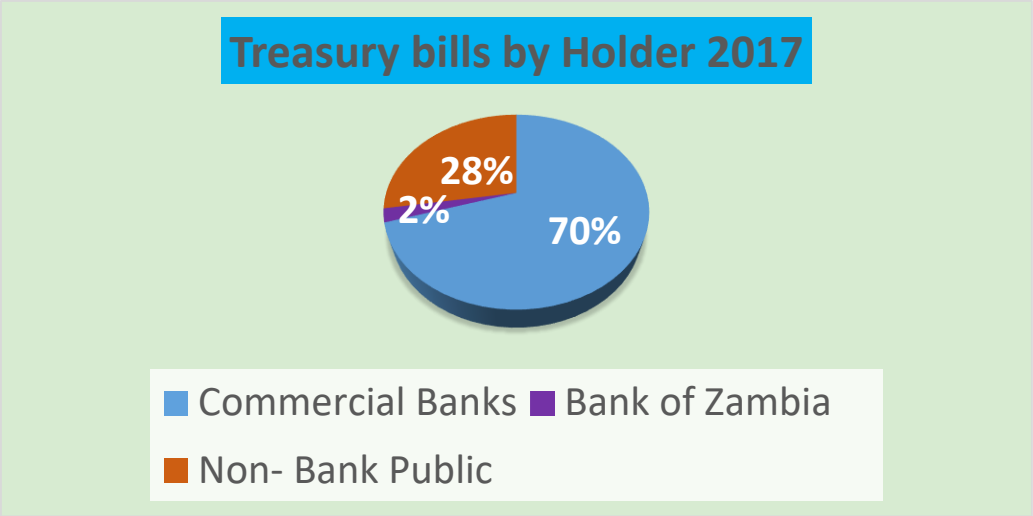
Composition by Currency

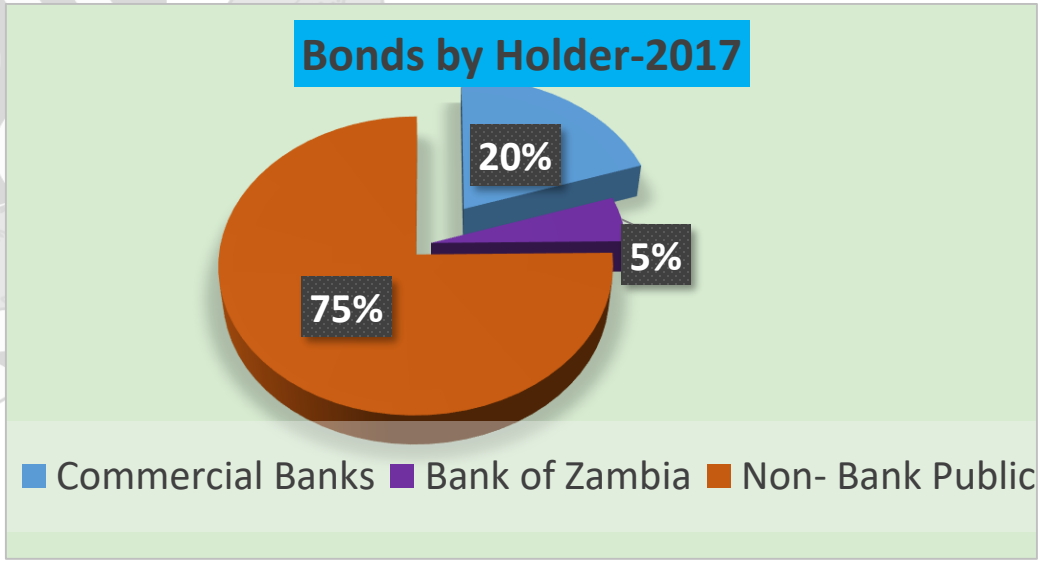


Domestic Debt

Domestic debt stock evolution by Type







Main Risks

- Liquidity risk
  - Revenue have not grown as expected
  - Key reforms for improving revenue collection have faced some challenges

- Foreign exchange
  - Increased debt service is a threat to international reserves
  - The depreciation of the Kwacha exacerbates the cost of debt service in local currency terms
- Interest rate risk
  - The increased variable rate component of the portfolio has increased the vulnerability to high debt service costs-LIBOR linked.
- Refinancing Risk
  - While there is still some years before the first Bond matures, unless the markets ease up, refinancing maybe at higher costs
  - Diversity of the investors poses challenges in options that may assist reduce the maturity.
  - Diversity of creditors also has implications if any portfolio measures have to be considered.

Repositioning the Debt Management Office

- In the last two years, the increasing debt levels and changing composition of the debt portfolio, amidst new sources of financing has called for the 'Home Driven" **Repositioning of Debt Management Office** to respond to the new risks and the risk of debt distress- **(Sound Debt Management).** The Debt Office has to take centre stage as the recognised office for all sovereign debt operations and processes to ensure decisions that ensure debt sustainability.
- **Legal Reform**
  - The Loans and Guarantees Authorisation ACT- Reviewed bill ready for parliament
  - Strengthen Ministers of Finance role in debt management and provides for stronger Parliament oversight
  - Clear roles for institutions involved in debt management: BoZ, Attorney General, Auditor General,MoF, Parliament
- **Organisation Structure**:
  - Developed a responsive and relevant Organisational Structure
  - Re-orientation of staff, including replacements and recruitment-Head of Debt Office focal point
  - Diversify the academic background-Economists, Finance, Statisticians, Accountants and IT
  - Job descriptions-Smart with deliverables
  - Clear career development path

Repositioning the Debt Management Office

- **Improving Work Environment**
  - Reorient the office working environment
  - Developing new manuals
  - Technology utilisation

- **Enhancing Technical Capacity of Staff**
  - Prioritised debt database management-Support from UNCTAD
  - Upgrading systems to latest versions
  - Staff attending targeted training in debt management

- **Communication on Debt Management**
  - Communication has become a verifiable deliverable target
  - Periodic debt data dissemination
  - Developing investor relations-Meeting Banks, Investors

Repositioning the Debt Management Office

- After one year of Repositioning the Debt Management office; instituting sound debt management has started bearing fruit:
  - A Medium Term Debt Management Strategy 2017-2019 was developed and published ..\Documents\MTDS Zambia\Medium Term Debt Strategy 2017-2019.pdf
  - A Debt Sustainability Analysis – Undertaken and has informed measures on debt management aimed at ensuring low to medium risk of debt distress
  - Debt Office has developed a Eurobond Redemption Strategy which is now reference document on Eurobond redemption

  Awaiting a DeMPA report……

- Zambia debt management office now plays a key role in decision making on sovereign debt. This has been made possible through the efficient and effective implementation of best practise debt management activities and demonstrating the role of debt management in fiscal and macroeconomic management-Only when this a well established do we see our ability to firmly influence prudent sovereign debt management both at policy level and at operational level.

Conclusion

1. The Risks being faced by our debt office continue to evolve. The exchange rate and interest rate risks remain cardinal but the intensity partly fueled by geo-politics and hostile sentiment have become relentless,
2. The new and diversified source of finance has heightened uncertainties
3. To alleviate possible debt sustainability concerns, there is need to reposition the debt office to be responsive and manage the risks as the debt levels increase and risk of debt distress rise.
4. Repositioning debt office should subscribe to tenets of Sound debt management that includes appropriate institutional and organizational arrangements, relevant and appropriately qualified and trained debt management staff, updated legal provisions, improved working environment and administrative support of necessary requisites (ICT etc)
5. Generating the relevant reports and using verifiable systems improves the recognition of the debt office making it singularly responsible for sovereign debt management and this recognition will stand as long as there is consistence and integrity in the execution of the mandate of debt management
6. Debt Manager has to be in a position to provide information for decision making on debt which ensures low risk of debt distress

THANKS FOR LISTENING!