

Zambia's Macroeconomic Overview

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Outline

- Introduction
- Economic overview
- Debt crisis and status of restructuring
- Revenue and expenditure performance

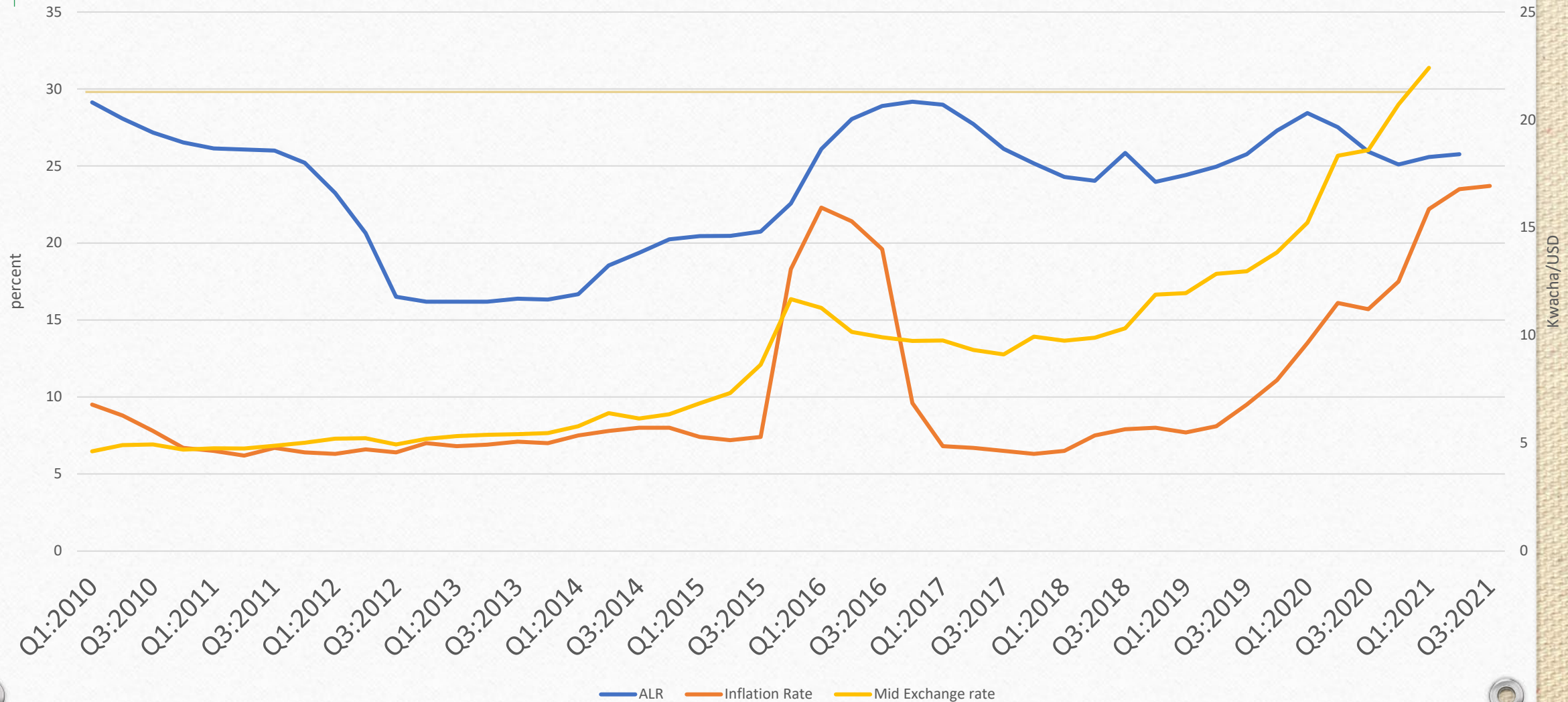
Zambia's Economic Overview

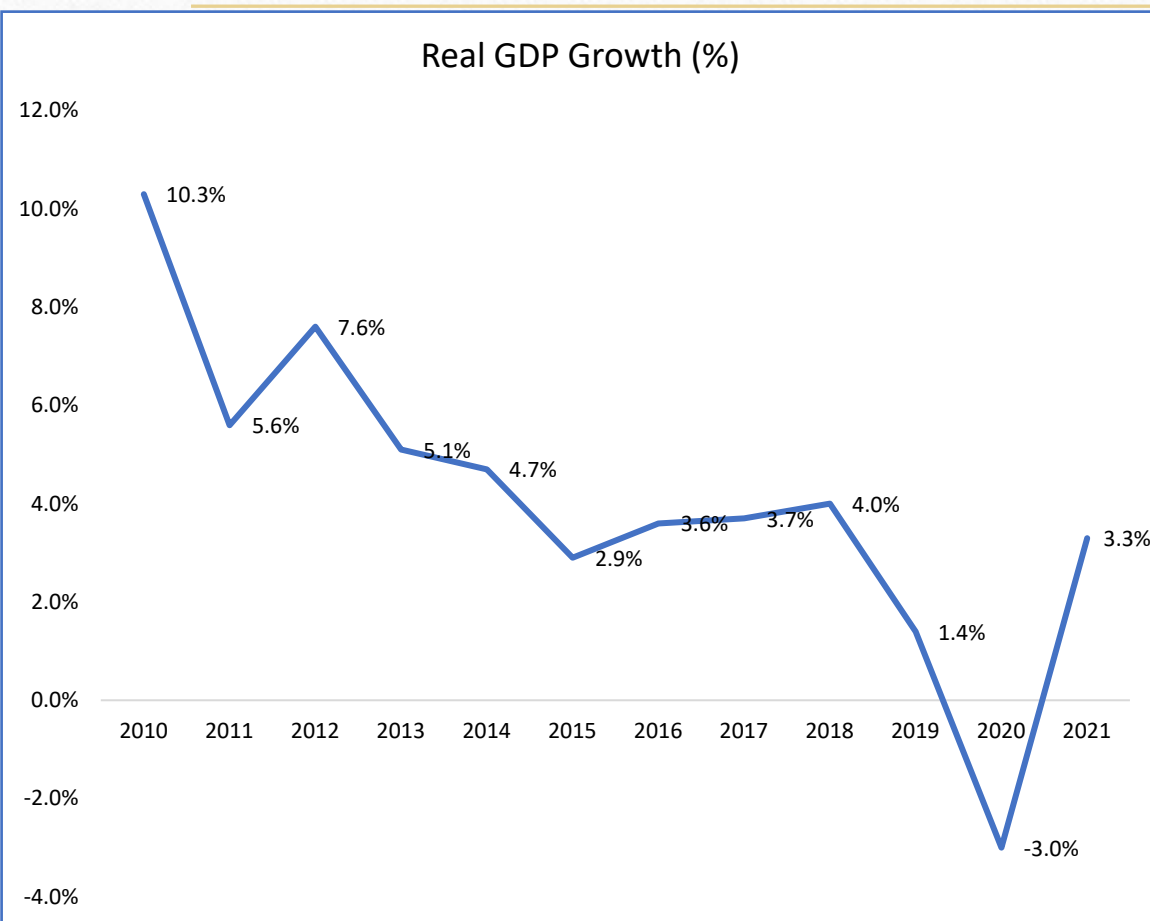
- Over the last decade, the Zambian economy has been characterized by a deterioration in the macroeconomic environment and an increasingly constrained fiscal space.
- Pre-covid severe economic headwinds, manifesting in inflation, dwindling International reserves, elevated average lending rates...
- Debt accumulation led to enormous debt servicing costs, crowding out other critical social and economic spending

Zambia's Economic Overview cont..

- ❑ Subsequently, a joint DSA by the WB and IMF in 2019 revealed that Zambia's debt reached unsustainable levels
- ❑ In 2020, the Zambian economy fell into a deep recession, eventually defaulting on its external debt service payment
- ❑ High inflation rate, weak Kwacha, elevated average lending rates

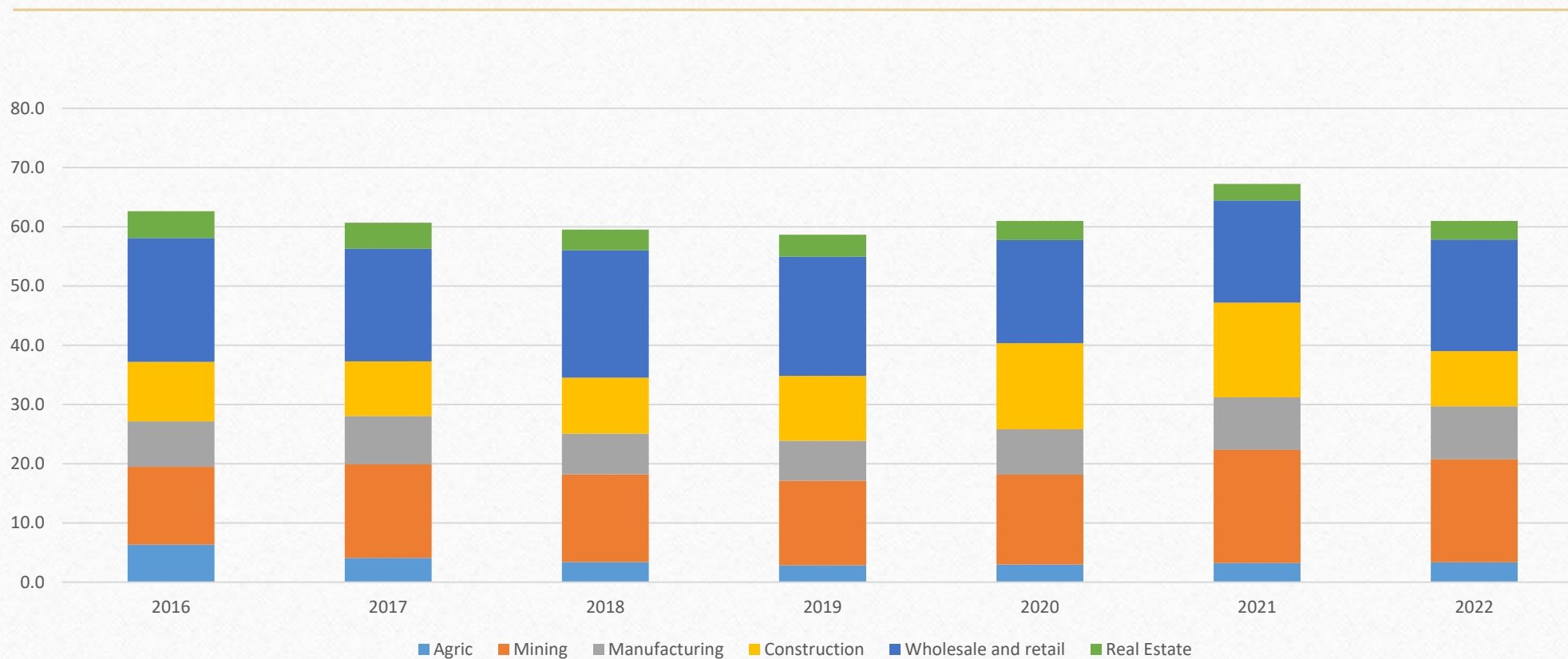
Selected macroeconomic variables



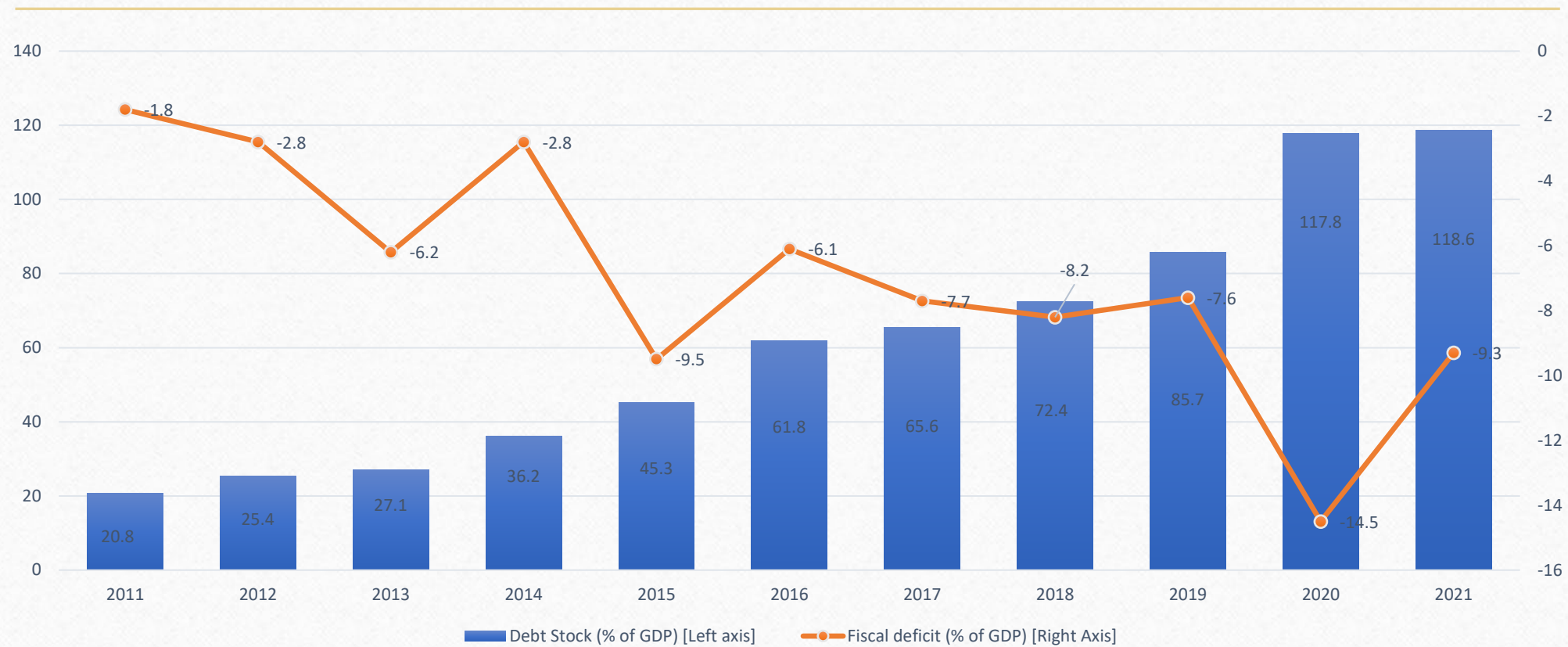


- ❑ Reduced investments in productive sector of the economy constrained growth.
- ❑ Resulting in macroeconomic instabilities,
- ❑ The COVID-19 pandemic exacerbated the situation, leading to an economic contraction of 3% in 2020.

Selected sector contribution to GDP

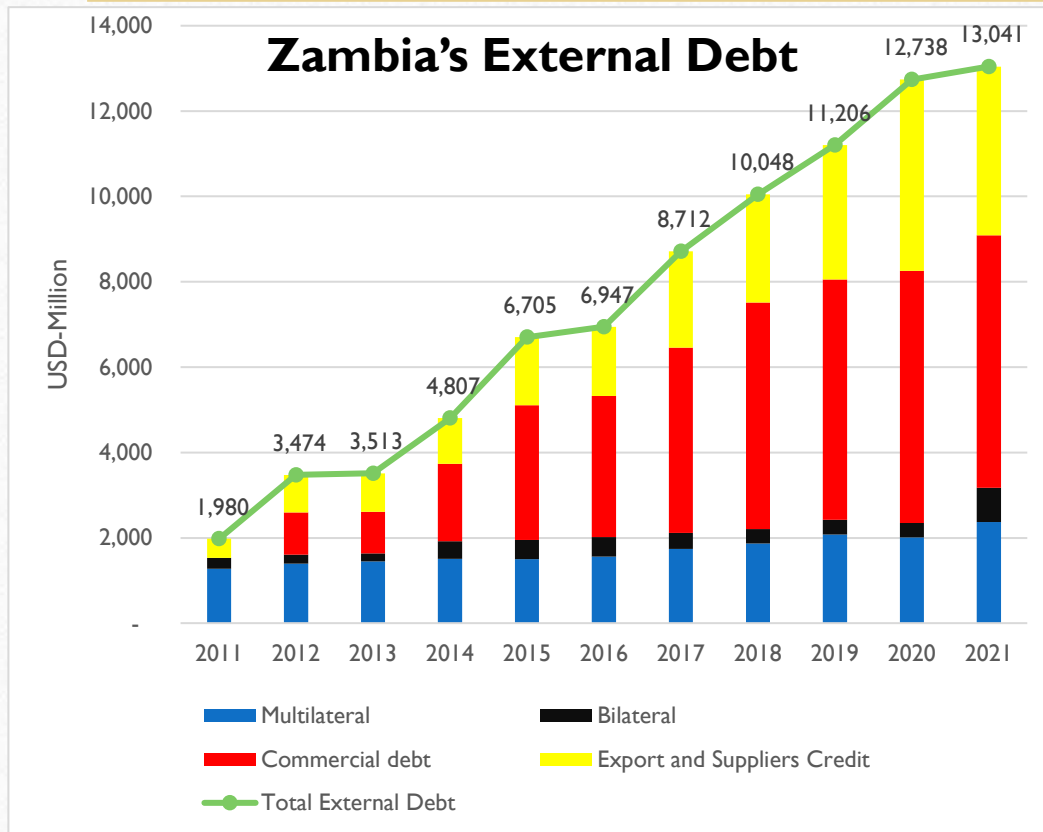


Debt Stock and Fiscal Deficit (%)



Drivers of the debt

- Access to International Markets
- Infrastructural Drive
- Lower Revenue in comparison to Expenditure
- Weak Legislation
- High Fiscal Deficits



- The overall debt landscape has evolved overtime, shifting from multilateral towards commercial borrowing.
- Another growing category has been export and supplier credit, with China being the major country creditor through EXIM Bank
- Largest source of Zambia's debt has been commercial debt specifically Eurobonds accounting for about 45%.

Measures to address Unsustainable debt

□ Government pronounced several measures to reduce the accumulation of debt and bring back the debt to sustainable levels. Prominent among these measures include:

- cancellation, rescoping and reprofiling of external project loans;
- Replacing the LGAA with the Public Debt Management Act
- IMF supported Programme
- G20 common framework debt restructuring;

Status of Debt Restructuring

- ❑ China's critical role in debt restructuring. Zambia's significant portion of external debt is owed to the Chinese.
- ❑ The actors (the debtor, the IMF and the various creditors) seem not to agree on the quantum of debt relief (\$8.4bn) needed to restore debt sustainability;
- ❑ Each creditor is worried about contributing disproportionately to the restructuring effort (issue of comparability); Special treatment of MDBs, local FI's etc.

Revenue Performance (ZMW bn)

	2021				2022			
	Approved	Outturn	Variance (%)	% of GDP	Approved	Outturn	Variance (%)	% of GDP
Total Revenue and Grants	67.9	98.9	45.6%	23.2%	100.7	100.5	-0.2%	21.6%
Total Revenue	65.9	96.5	46.2%	22.6%	98.9	98.7	-0.2%	21.2%
Tax Revenue	53.4	71.1	33.3%	16.7%	77.9	79.5	2.0%	17.1%
Company Tax	9.1	19.4	111.1%	4.5%	16.4	21	28.2%	4.5%
Pay As You Earn (PAYE)	12.8	14.8	15.3%	3.5%	17.3	18.1	4.9%	3.9%
VAT	16.9	19.3	14.4%	4.5%	22.9	20.6	-10.1%	4.4%
Mineral Royalty	5.7	12.4	118.4%	2.9%	12.8	10.4	-18.6%	2.2%
Grants	1.9	2.5	24.9%	0.6%	1.8	1.9	2.9%	0.4%

Expenditure Performance (ZMW bn)

	2021				2022			
	Approved	Outturn	Variance (%)	% of GDP	Approved	Outturn	Variance (%)	% of GDP
Total Expenditure	119.6	138	15.4%	32.4%	172.9	140.4	-18.8%	30.1%
o/w Drugs	1.4	2.6	85.0%	0.6%	3.3	3.5	3.0%	0.7%
Domestic Debt	18.3	24.9	35.9%	5.8%	27.4	29.7	8.7%	6.4%
External Debt	10.3	1.9	-80.7%	0.5%	10.5	0.7	-92.9%	0.2%
Social Cash Transfer	2.3	2.4	3.0%	0.6%	3.09	3.1	0.2%	0.7%
Roads	2.9	4.9	64.6%	1.1%	3.5	6.3	78.4%	1.4%

In closing

- ❑ Zambia's growth is underpinned by macroeconomic stability and stronger fiscal management supported by debt relief. Delay in restructuring the debt, adds to the debt stock in terms of accumulation of interest and penalties on non-payment of interest.
- ❑ Promoting other renewable sources of energy such as solar and geothermal, among others.
- ❑ Access to finance, support to value addition and diversification (and exploration)
- ❑ Good Governance (stemming out corruption, budget credibility, Decentralization agenda and leveraging on PPP)

Thank you

