

WEDNESDAY, 19 SEPTEMBER, 2018

MINISTERIAL STATEMENT

ON

ZAMBIA'S DEBT SITUATION

BY THE

HON. MINISTER OF FINANCE (MRS MWANAKATWE)

Mr Speaker, I wish to thank you for giving me this opportunity to brief the House on the country's debt situation.

Sir, let me commence my address this afternoon by sharing with hon. Members the status of Zambia's debt stock as at the end of June, 2018, which was the last reporting quarter. The stock of external debt was at US\$9.37 billion which represents 34.7 per cent of gross domestic product (GDP) and was below the internationally agreed threshold of 40 per cent.

Mr Speaker, the stock of domestic debt in form of Government securities was K51.86 billion which represents 19.2 per cent of GDP. Kindly note that there is no threshold defined internationally on domestic debt. However, the threshold for the combination of domestic and external debt is 56 per cent of GDP. Against this threshold, Zambia's combined ratio was 53.9 per cent of GDP. The stock of arrears stood at K13.9 billion or 5.1 per cent of GDP and the total of guarantees were US\$1.2 billion or 4.4 per cent of GDP.

Mr Speaker, I would like to assure the House and the nation at large that the Government takes seriously issues of debt sustainability. As a practical step towards ensuring that we are sustainable, the Government conducts annual debt sustainability analysis (DSAs) exercises to gauge the carrying capacity as relates to economic parameters such as GDP growth, reserves and debt servicing capacity. The DSA gives us an indication of the level of debt that is desirable to ensure that growth is not impaired and the drive towards poverty reduction remains unabated.

Sir, the last such exercise was undertaken by the Government in the first quarter of this year. Upon the outcome of the DSA, the Government announced a number of austerity measures to

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mitigate perceived risks associated with the debt going forward. The measures will address these risks and ensure continued sustainability through fiscal consolidation. I would like to assure hon. Members that the Government has not defaulted on any of its external commitments and does not intend to do so.

Mr Speaker, we are alive to the serious repercussions of any default on the economy and on any other borrowings we have made through the cross default clauses contained in financing agreements. It is our undertaking that we abide by the provisions in our loan agreements by ensuring that we do not abrogate the provisions of our Constitution that ranks borrowing as a priority constitutional call on our revenues.

Sir, the past few days have seen high levels of public interest regarding the purported seeding of some strategic assets owned by the republic to foreign creditors. Let me take this opportunity to inform the House and the nation that the Government has not pledged any public asset as collateral on borrowings it has undertaken. Let me emphasise that the Government has not pledged any public asset as collateral on borrowings it has undertaken.

Loans are secured in several ways the first of which is through Government guarantees for those borrowings related to projects in parastatals and quasi Government institutions. Secondly, loans are secured through insurance for loans taken by the Government itself, parastatals and quasi Government institutions were applicable. There is no security for direct borrowing as the law does not provide for such, thus, contemplations that the Government has pledged assets of the nation are totally ungrounded. Further, the Government has not defaulted on any of its loans that warrant any basic security to be called upon, as I have just highlighted

Mr Speaker, as a shareholding minister in state owned enterprises, under the powers vested in me by Cap. 349 of the Laws of Zambia, the Ministry of Finance Incorporation Act and in my capacity as minister in charge of loan contraction and debt servicing as stipulated in the Loans And Guarantees Authorisation Act and the Public Finance Act, I wish to emphasise that there has been no debt default by the Republic of Zambia on debt obligations to the Chinese Government or to any other lenders.

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Sir, let me take this opportunity to go through each of the state owned enterprises one by one. The loan at Kenneth Kaunda International Airport is still being disbursed by the lenders. We have not yet started repaying the loan because the new airport terminal is still under construction.

Mr Speaker, let me turn to the Zambia Electricity Supply Corporation (ZESCO). Its loans from Chinese lenders relate to the extension project for the Kariba North Bank Power Station and the Kafue Gorge Lower Power Station construction project which two stations are independent of ZESCO which only has shareholding interests in the two power stations through separate special purpose establishment.

Sir, the loan repayment for the Kariba North Bank Extension Project is duly on course whilst the loan repayment for the Kafue Gorge Lower Project has not commenced because the station is still under construction.

Mr Speaker, as regards the Digital Migration Programme for the Zambia National Broadcasting Corporation (ZNBC), a loan was obtained from China to ensure that the programme is implemented in the country. The Government is servicing the loan and is on course with debt servicing. ZNBC was never offered as collateral for the loan. Let me repeat. ZNBC was never offered as collateral for the loan. Instead, ZNBC and Star Times of China created an independent special purpose vehicle called Top Star to implement the digital migration programme.

Mr Speaker, for all other loans that have been contracted from the Chinese Government, the security on the loans is in the form of insurance taken from Sinasure and for loans contracted by state owned enterprises, insurance from Sinasure and guarantee from the Government are in place. Debt service for those that are due is on course.

Mr Speaker, in view of this, it is clear that no collateral in the form of public assets have been provided for borrowings and none of the sovereign guarantees have been called upon by the

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creditors. Therefore, the takeover of any asset by another Government is neither practical nor feasible.

Mr Speaker, through you, the nation is informed that there has never been any discussion related to a debt/stroke asset swap between the Zambian Government and any of its creditors, China inclusive.

Mr Speaker, let me now address the issue of the refinancing of the Euro Bond that has equally raised interest. The Government has a full view on the handling of the bonds and is committed to the repayment of its liabilities. We are thus cognisant of the need for a structured redemption plan that will ensure transparency and smooth processes for handling the redemption of the Euro Bonds.

Mr Speaker, in this regard, the Government has defined a Euro Bond Redemption Strategy (ERS) that will establish an optimal plan for redeeming our bonds. Once approved by Cabinet, the strategy will be made public.

Sir, the Eurobond financing strategy gives an array of options that involve debt buy backs and refinancing. I must point out that refinancing is the market practice. It is not peculiar to Zambia and is consistent with the need for Zambia to have an instrument in the international capital markets that can be used to signal risk for the private sector.

Mr Speaker, as we are undertaking these assets and liability management processes, we are cognisant of the need for the country to maintain a stable macroeconomic environment, credible debt data, fiscal sustainability and a favourable credit rating. This is what will assure achievement of lower interest costs and longer maturities on the bonds.

Mr Speaker, the measures I announced in July 2018 are meant to ensure that we continue to achieve these objectives. May I also emphasise that the first bond is only due four years from now, in 2022.

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Mr Speaker, may I emphasise that any refinancing exercise will follow best market practices and will involve the consultation of bondholders with the investors getting full value of their investments.

Mr Speaker, I would like to further inform this august House that the Ministry of Finance has now set a standard to be making reports on debt figures public on a quarterly basis. This is meant to keep citizens and other interested stakeholders abreast of the developments on this topical issue that has attracted so much attention and interest.

Mr Speaker, the quarterly releases are also meant to reassure and give those that are inclined towards scepticism an opportunity to benefit from facts that would satisfy their doubts and, thereby, forestalling speculation.

Mr Speaker, let me conclude by mentioning that in order to address future misconceptions about Zambia's external debt position, the Ministry of Finance has embarked on strengthening its reporting and communication policies to ensure that public debt information is availed to the public in a timely and credible manner.

Mr Speaker, I will periodically be briefing the house on issues regarding debt sustainability.

Mr Speaker, I thank you.