WEEKEND READER

AN INTRODUCTION TO ZIMBABWE'S DEBT CRISIS

Heavy indebtedness is one of the causes of our country's socio-economic crisis. It puts our government under pressure to divert resources away from public service provision in order to finance debt repayment obligations. By recent estimates Zimbabwe has an external debt of about US$10.545 billion as at September 2019 and domestic debt of about ZWL$8.868 billion as at December 2019.

The projected slump of the Zimbabwean economy in 2020 coupled with the additional burdens on scarce resources imposed by the COVID-19 pandemic will likely lead to an increase in the budget deficit. There are several drivers of Zimbabwe's worrisome debt position including:

i. Accumulation of arrears, penalties, and borrowing at commercial rates which drives the debt upwards to more than the actual credit extended to government and government agencies;
ii. The Quasi-fiscal operations of the RBZ occurring as they do, outside the automated public financial management information system with no penalties to offending ministries, departments and agencies who wilfully ignore provisions of the Public Finance Management Act contributes to the ballooning of the budget deficit;
iii. Poor fiscal accounting and corruption around public resources leading to unnecessary public borrowing.
iv. Overreliance on commodity exports which exposes our economy to volatile commodity prices which undermines efforts to create a healthy balance of payments position.
v. Inability to borrow at concessionary rates from traditional bilateral and multilateral Creditors which hampers access to long-term capital. Zimbabwe's high-country risk rating makes available loans costly while a rise in debt from non-traditional sources pose new challenges for resolving debt disputes.
vi. Additional contingent liabilities including the recent compensation agreement for displaced farmers and additional fiscal costs from RBZ debt assumption and quasi-fiscal activities. The RBZ will compensate some stakeholders for losses incurred following the currency conversion estimated at about US$1.2 billion. This legacy debt increases the real value of domestic debt and worsens Zimbabwe's debt distress.

Adherence to fiscal rules is critical to contain the budget deficit as well as to create fiscal space for debt repayment. Zimbabwe has a robust legislative framework and enough internal resources but the enduring challenge has been weak accountability mechanisms and the absence of political will to enforce compliance.

No country can function without debt, yet it is possible to achieve sustainable economic growth and shared prosperity by strengthening domestic resource mobilisation and promoting public resource accountability. This is only possible where there is a comprehensive Debt Management Policy. Compliance and adherence to legal debt management provisions are easier in an environment of progressive political and economic reforms. Government must therefore adhere to constitutional provisions relating to debt management that set limits on state borrowing, public debt, and state guarantees, full disclosure and transparency on public debt in a comprehensive manner among others.

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