

Investing In People for Social & Economic Justice

Zimbabwe Debt Fact Sheet

1st Quarter 2018

Zimbabwe continue in debt stress and unsustainable fiscal deficit. Government's efforts to reduce the Public and Publicly Guaranteed (PPG) debt to sustainable levels is futile as the PPG is now at 98% of GDP and External Debt alone at 70% of GDP. This is despite accelerated re-engagement with the World Bank, IMF, African Development Bank (AfDB) and European Investment Bank (EIB) and bi-lateral creditors as enunciated in the 2018 national budget statement.

Resource leakages from public coffers is quiet alarming with the private sector owing the Zimbabwe Revenue Authority (ZIMRA) an estimated \$3.36 billion which is 80% of the total tax debt of \$4.2 billion. Failure to mobilise resources to finance the 2017 budget for instance increased the borrowing requirements to \$2.9 billion comprising of financing of fiscal deficit of \$1.7 billion (9.4% of GDP) and debt repayment for maturing debt obligation amounting to \$1.2 billion. The unsustainable Budget deficit is financed through the issuance of Treasury Bills and recourse to the overdraft with the Reserve Bank. The trend is expected to increase owing to a projected budget deficit of US\$672.3 million (3.5% of GDP) in 2018.

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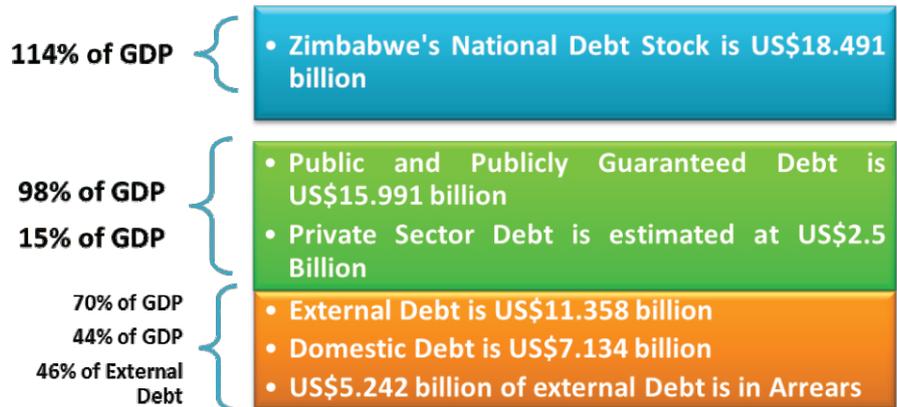
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- The total Debt is increasing at an exponential rate since 2014 (Refer to Figure 2)
- Public and Publicly Guaranteed Debt rose by 8% in 2018 following announcement of a further \$1.5 billion borrowing from Africa Import and Export Bank (Afreximbank)
- Domestic Debt rose sharply by 43% from US\$4.033 billion in 2016 to US\$7.134 in 2017 due to the issuance of the US\$2.9 billion Treasury Bills to finance the the budget deficit (US\$1.7 billion) and debt repayment (US\$1.2 billion), and the accumulated arrears of US\$229 million.
- The domestic debt for 2018 is underestimated as it does not include the projected issuance of US\$672.3 million Treasury Bills to finance the budget deficit

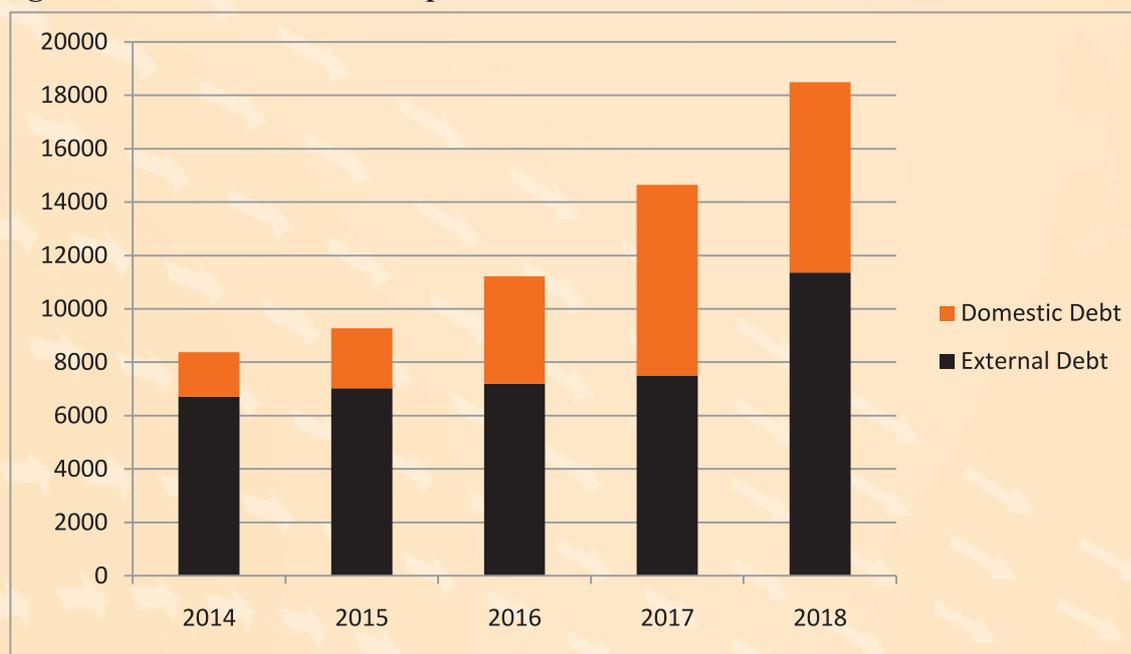
Figure 1: Zimbabwe Debt Stock: First Quarter 2018 (US Dollar Million)

	Principal Outstanding	Arrears	Total	% of Total	% of GDP
Public and Publicly Guaranteed Debt	10,520	5,472	15,991	86%	98%
External Debt	6,115	5,242	11,358	61%	70%
Bilateral Creditors	1,729	3,211	4,940	27%	30%
Paris Club	203	2,893	3,095	17%	19%
Non Paris Club	1,097	241	1,337	7%	8%
RBZ Assumed External Debt ²	429	78	507	3%	3%
Multilateral Creditors	1,887	2,031	3,918	21%	24%
World Bank	246	1,218	1,464	8%	9%
African Development Bank	33	647	680	4%	4%
European Investment Bank	22	137	159	1%	1%
Afrexim Bank	1,500	-	1,500	8%	9%
Others	85	30	115	1%	1%
Private Debtors	2,500	-	2,500	14%	15%
Domestic Debt	6,904	229	7,134	39%	44%
Total National Debt			18,491	100%	114%

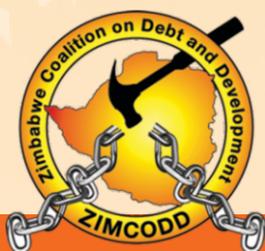
Source: Ministry of Finance and own calculations

➤ The domestic debt is expected to further rise by US\$1 billion following the 2017 cabinet decision to assume parastatal debt starting with the recent US\$500 million ZISCO Steel debt assumption bill which recently passed through the Lower House of Assembly.

Figure 2: National Debt Development 2018



Source: Ministry of Finance and own calculations

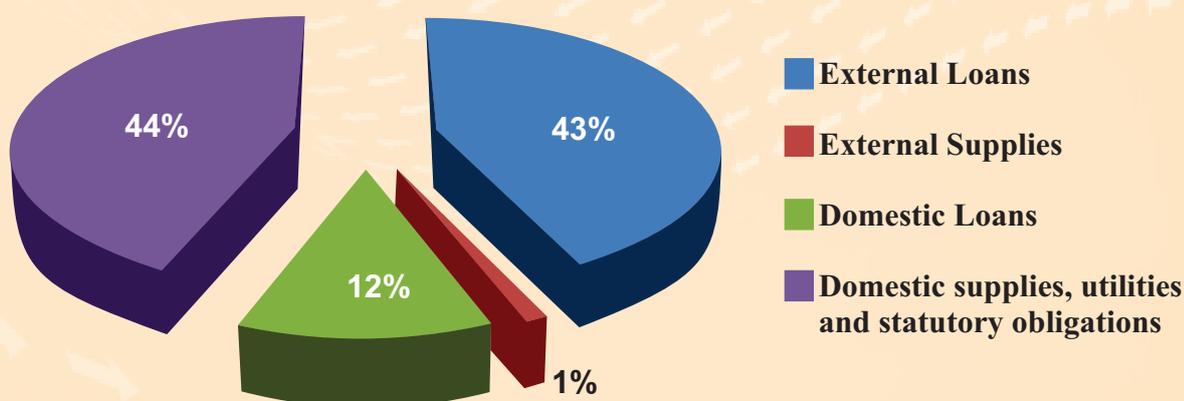


ZISCO Steel Assumption Bill

Despite considerable resistance from the members of the public, the Zimbabwe Iron and Steel Company (ZISCO Steel) Debt Assumption Bill was passed by the Lower House of Assembly without amendments. The Government takeover of the ZISCO Steel debt means increasing government debt by just under US\$495 million. The US\$ 495 million figure is instead an underestimation as it ignores the debt arrears since december 2016. This amount comprise of;

- approximately US\$ 212 million debts to external lenders (43%);
- approximately US\$ 6 million debts to external suppliers (1%);
- approximately US\$ 58 million debts to domestic lenders (12%);
- approximately US\$ 219 million debts to domestic creditors (44%).

Figure 3: Components of the ZISCO Steel Debt as of December 2016



Source: ZISCO Steel Debt Assumption Bill

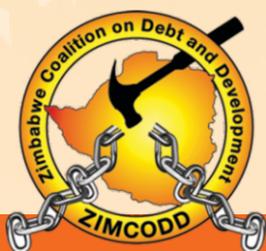
The debts to domestic creditors include:

- over US\$ 15 million owed to ZIMRA for PAYE;
- over US\$ 94 million classified as “payroll liabilities”;
- over US\$ 39 million classified as “Pension”; and substantial amounts to the Municipality of Redcliff and the City of Kwekwe.

Comments and Objections against the Bill

ZIMCODD Raised the following issues against the assumption of the ZISCO Steel debt;

- Debt assumption of US\$495 million will thus increase the Public and Publicly Guaranteed debt to about US\$16.5 billion which is 101% of GDP
- The proposed debt assumption may have negative socio-economic effects on the ordinary Zimbabweans as it translates to extra financial burden on tax payers.
- Allocation of government resource to payment of the ZISCO debt means an opportunity cost to public service delivery such as health and education
- The assumption of the ZISCO Steel debt escalates Zimbabwe's unsustainable debt which is in violation of the Debt Management Act, which stipulates that the government debt should not exceed 70% of Gross Domestic Product (GDP).
- The accumulation of debts inversely affects sovereign credit ratings and increase interest spending
- The government should step up efforts in regulating corporate governance standards by expediting the enactment of the Public Entities Corporate Governance Bill of 2017 into law.



Conclusion

ZIMCODD continues to monitor the debt situation in Zimbabwe and calls upon the government to adopt sustainable debt management strategies starting with an audit of the total debt stock. Going forward citizen engagement and consultation in debt contracting is very critical. With regards to dealing with external debt, ZIMCODD is resolute on two things:

- No to mortgaging of the country's natural resources as a repayment strategy.
- Zimbabwe should seek total debt cancellation from international financial institutions

Domestic resource mobilization anchored by sound public finance management systems is the efficient and sustainable way of resuscitating the economy.

