ZIMCODD

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Zimbabwe Annual Public Debt Factsheet

Acknowledgements

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What is a Public Debt Bulletin?

An Annual Public Debt Bulletin (APDB) provides stakeholders with timely and comprehensive public and publicly guaranteed (PPG) debt information and data covering total loans (external and domestic), including the main features of the debt stock. The APDB is compiled by the Zimbabwe Public Debt Management Office in the Ministry of Finance, Economic Development, and Investment Promotion. This complies with the Constitution of Zimbabwe, Section 300 (4), and the Public Debt Management Act, Sections 5 and 36.

What is Public Debt?

Public debt is outstanding contractual external and domestic liabilities that the central government owes to its creditors and service providers. These include loans, debt securities, called-up guarantees, and arrears to service providers. It is contracted either domestically by issuing government securities and/or externally.

What are the Objectives of Public Debt Management in Zimbabwe?

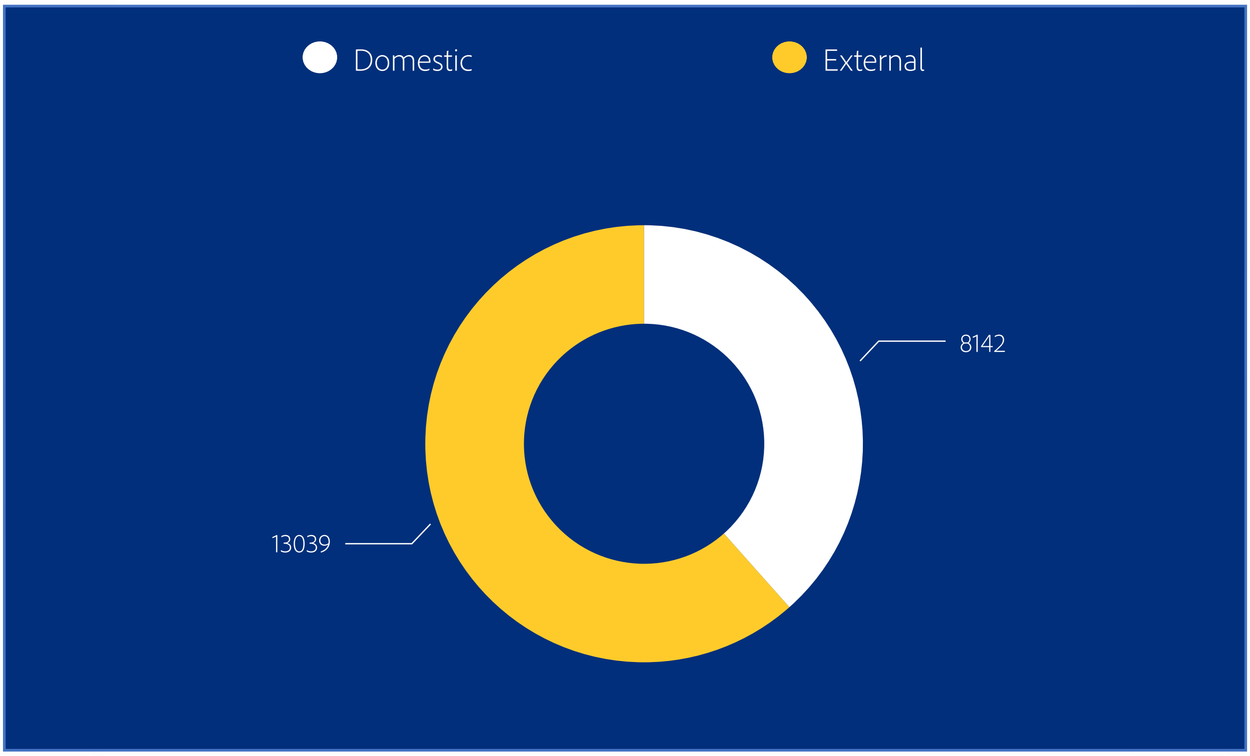
The objectives of public debt management in Zimbabwe, as provided for in the Public Debt Management Act, are "to ensure that Government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a prudent level of risk, and promote the development of the domestic debt market"

What is Zimbabwe's Total Public and Publicly Guaranteed (PPG)?

In US$ terms, the total PPG debt stock stood at US$21.2 billion as of December 2023, up from US$17.7 billion reported as of September 2023. External PPG and domestic PPG debt constitute 61.6% and 38.4% of the total public debt, respectively.

$21.2
billion

Fig 1: Disaggregation of Total PPG (US$ millions)



Source: *2023 APDB*

Who Are Zimbabwe's Creditors?

Most of Zimbabwe's external creditors are members of the Paris Club (an informal group comprising 22 official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries). Sixteen (16) of the Paris Club member countries (Austria, Belgium, Brazil, Finland, France, Germany, Israel, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, and the United States of America) constitute 47.8% of Zimbabwe's external PPG debt, followed by RBZ debt assumed between 2015-2023 (28.1%) and multilateral debt (24.1%).

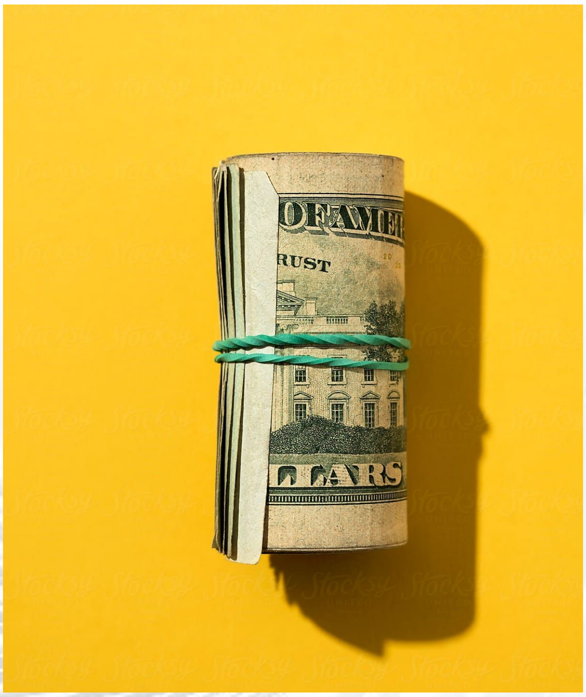
Table 1: Disaggregation of Zimbabwe's Creditors

Source	Type	Creditor	US$ millions	
External			Amount	Total
	Bilateral	Paris Club	4,110	6,235
		Non-Paris Club	2,125	
	Multilateral	World Bank	1,557	3,145
		African Development Bank	694	
		European Investment Bank	435	
		Afreximbank	372	
		Others	87	
	Reserve Bank of Zimbabwe	Assumed 2023	2,156	3,659
		Assumed 2021	1,223	
		Assumed 2015	280	
Domestic	Local	Govt Securities	4,537	8,142
		Arrears	105	
		Former Farmer Compensation	3,500	

***Source:** 2023 APDB*

What is the Status of Zimbabwe's total PPG Debt?

Zimbabwe is classified as **'in debt distress'** due to the unsustainable public and publicly guaranteed (PPG) external and total debt and large external arrears. As of Dec 2023, of the US$9.4 billion combined bilateral and multilateral debt, about 77.7% are principal arrears, interest arrears, and penalties, which have accumulated since 2000. Also, at least 95% of total PPG debt stock is denominated in foreign currency. The 2023 total PPG debt stock constitutes 96.7% of the national output (GDP). This far exceeds the 70% threshold stipulated in the Public Debt Management Act - Section 11(2).



How Much Was Paid for External Debt Servicing in 2023?

Treasury spent about US$57.3 million on external debt servicing in 2023, disaggregated as follows: active portfolios (47.5%), legacy debts (33.9%), and token payments (18.6%). In February 2023, Treasury concluded a US$400 million Afreximbank loan to finance trade-related infrastructure development and a US$37.1 million IFAD loan in May 2023 to support horticultural development.

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How Much Was Paid for Domestic Debt Servicing in 2023?

Domestic debt has increased by 62% from US$5 billion in Sept 2023. The increase was primarily driven by US$924 million Treasury Bonds issued to expunge RBZ legacy debts and a US$1.92 billion capitalization loan for Mutapa Investment Fund. As of December 2023, 92.1% (US$4.2 billion) of total government securities were outstanding. The maturity profile shows the redemption of these securities amounting to US$602.3 million and US$255.6 million in 2025 and 2026, respectively.

What Is Fueling Total PPG Debt?

The 2023 APDB indicates that arrears and penalties are the significant drivers of PPG debt. Of the total external debt, principal arrears, interest arrears, and penalties accumulated since 2000 accounted for 83.8%, while disbursed outstanding debt (DOD) on new loans accounts for only 16.2%. Furthermore, the US$1.92 billion capitalization of the Mutapa Investment Fund (MIF) has fueled the significant increase in domestic debt stock.

In addition, non-performing guarantees are putting pressure on the National Budget. Between 2020 and 2022, Treasury issued foreign currency-denominated guarantees amounting to US$642 million, of which 41% were outstanding by the end of 2023. To limit the materialization of called-up guarantees, which exerts pressure on the fiscus, Treasury is monitoring and reporting on the performance of all outstanding guarantees to reduce the risk of default. Furthermore, all defaulting beneficiaries are not eligible to continue accessing Government guarantee facilities.

Did You Know About the Arrears Clearance, Debt Relief and Restructuring Strategy, and the Structured Dialogue Platform Process?

The Government of Zimbabwe is implementing the Arrears Clearance, Debt Relief, and Restructuring Strategy to address the current debt overhang. To this end, the Government, in December 2022, established a Structured Dialogue Platform (SDP) with all its creditors and Development Partners to institutionalize structured dialogue on economic and governance reforms to underpin Zimbabwe's Arrears Clearance and Debt Resolution process. The process is being Championed by the President of the African Development Bank (AfDB), Dr Akinwumi. A. Adesina, and H. E. Joaquim Alberto Chissano, former President of the Republic of Mozambique, who is the High-Level Facilitator.

Since establishing the SDP, there has been commendable progress, with growing consensus and confidence in the process, promoted by a transparent and inclusive consultative process. The SDP process focuses on the following three strategic pillars:

- Economic Growth and Stability Reforms;
- Governance Reforms; and
- Land Tenure Reforms (99-year lease), Compensation of Former Farm Owners (Global Compensation Deed), and the resolution of farms affected by the Land Reform Programme and protected by the Bilateral Investment Protection and Promotion Agreements (BIPPAs).

How Transparent Is Debt Reporting in Zimbabwe?

According to the International Budget Partnership (IBP) Open Budget Survey (OBS) findings, Zimbabwe has significantly improved its global rankings in terms of debt transparency. It scored 63/100 in 2023, up from 59/100 in 2021. In Sub-Saharan Africa (SSA), Zimbabwe was ranked third after South Africa and Benin. The improvement means that the nation provides substantial information and allows citizens to participate in the budgeting process.

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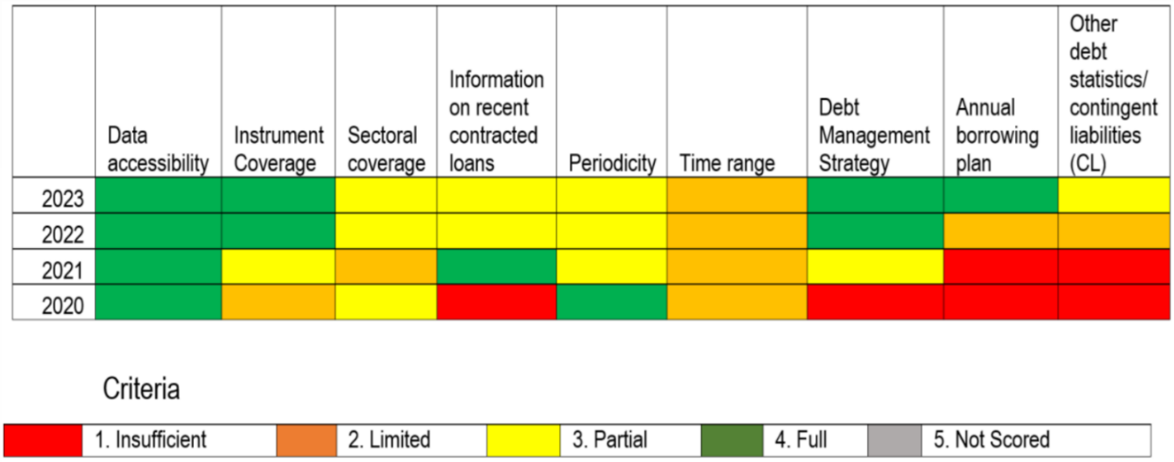
Also, Treasury has been complying with the Constitution, Section 300 (4), which requires the Minister of Finance to "at least twice a year, report to Parliament on the performance of loans raised by the State and loans guaranteed by the State." In addition to the IBP OBS, the World Bank Debt Reporting Heat Map indicates significant improvements by Zimbabwe regarding debt transparency and reporting. Zimbabwe moved from 4 red out of 9 reporting areas in 2020 to no red in 2023. Out of the 39 rated countries in Sub-Saharan Africa, Zimbabwe is one of the 7 countries with no red ratings.

Table 2: Zimbabwe Debt Reporting Heat Map



Source: World Bank

Is There Room for Improvement in Debt Reporting?

The Government is commended for its continued efforts towards transparent debt reporting, as this is crucial for sustained macroeconomic stability and the attainment of inclusive, sustainable development. While there are improvements in monitoring State-Owned Enterprises (SOEs) balance sheets, incomes, and debt levels, the coverage of the SOE sector remains incomplete. The domestic arrears of the central government to non-governmental entities do not reflect all domestic non-governmental arrears (e.g., it excludes all accounts payable) and, more importantly, significant cross-debts within the public sector. As such, the 2020 Joint World Bank-IMF Debt Sustainability Analysis implores Zimbabwean authorities to revive a tracking system of 'from whom-to-whom' to get a database to facilitate clearing intra-government cross-public sector institution arrears. In addition, given the high degree of indebtedness between public sector entities, authorities are recommended to update the Public Debt Management Act (PDMA) to clarify the appropriate reporting of public sector gross debt in terms of consolidation.

What Are the Global and Regional Debt Trends?

According to the 2023 World Bank Debt Report, while the external debt stock of low- and middle-income countries decreased by 3.4% to US$9.0 trillion in 2022 from 2021 level, the external debt stock of countries eligible for International Development Association (IDA) resources, however, increased by 2.7% in 2022, to an all-time high of US$1.1 trillion. The debt report shows that developing countries spent US$443.5 billion to service their external PPG debt in 2022, the highest level on record, and are forecast to continue to grow. This cost increase shifted scarce resources away from critical needs such as health, education, and the environment. High interest rates have intensified debt vulnerabilities in all developing countries. Between 2020 and 2022, there have been 18 sovereign defaults in 10 developing countries —greater than the number recorded in the previous two decades.

As of 2022, about 60% of low-income countries were at high risk of debt distress or were already in debt. Again, over the last decade (2012-2022), low-income countries accumulated external debt faster than middle-income countries. The debt stock of low-income countries increased by 109%, whereas, in middle-income countries, external debt stock rose by 58%. To address their substantial debt burdens, several African countries are set to benefit from the G20 Common Framework, a unique mechanism to provide low-income countries (LICs) with orderly and coordinated debt restructurings, with broad creditors' participation. As of 2024, several African countries, including Chad, Zambia, Ethiopia, and Ghana, have applied to the Common Framework for Debt Treatment.

What are the Implications of Unsustainable Public Debt?

Debt is critical as it is a form of budget financing for capital projects to support sustainable economic growth and development. In this regard, debt should not always be viewed negatively. However, the implementation of prudent debt management practices remains critical. Unsustainable debt stock militates against sustainable development. These are some of the dire consequences:

- **Poor Credit Rating:** Zimbabwe's unsustainable debt burden has affected its credit rating. As a result, the nation has lost several funding opportunities from international creditors and an increase in the cost of borrowing.
- **Resource Diversion:** Excessive borrowing imposes a high debt service bill, which would see resources diverted toward debt servicing. Thus, the government's fiscal capacity to finance the NDS1 and Vision 2023 will remain constrained as long as these legacy debts remain in place.
- **Crowd out Public Expenditure:** The cost of servicing debt crowds out fiscal resources that could have been invested in critical social services such as health care and education.
- **Borrowing Costs:** High, unsustainable public debt levels lead to higher borrowing costs, as lenders demand higher returns to compensate for perceived risks. Elevated borrowing costs also deter foreign investment, further constraining economic growth. Additionally, arrears and penalties on existing debt have prevented Zimbabwe from accessing external concessional financing.
- **Mortgaging of Minerals and Mineral Revenues:** Debt overhang increases debt servicing costs, fuels the cost of financing, and constrains the nation from raising funds to support developmental programs. Consequently, the country may rely on resource-backed loans (RBLs)—loans provided to the government where repayment is either made directly in natural resources such as minerals or guaranteed by a resource-related income stream.

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