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## **STATEMENT ON ANNUAL PUBLIC DEBT BULLETIN**

The Zimbabwe Coalition on Debt and Development (ZIMCODD) acknowledges the Public Debt Management Office's (PDMO) quest for debt transparency through the publication of timely and comprehensive public debt statistics in line with the provisions of the Public Debt Management (PDM) Act. The PDM Act directs Treasury to provide stakeholders with public and publicly guaranteed (PPG) debt information and data regarding Zimbabwe's domestic and external debt position. However, we are concerned by mounting borrowing as shown by a 2.4% jump in total public and publicly guaranteed (PPG) debt from US\$17.6 billion as of September 2022 to US\$18.03 billion as of the end of December 2022. Of this latest total PPG debt, external debt constitutes 70.9% (US\$12.8 billion or ZWL8.78 trillion) while domestic debt constitutes the balance of 28.7% (US\$5.2 billion or ZWL3.56 trillion).

The total PPG debt constitutes 99.6% of 2022 GDP thereby contravening the provisions of both the PDM Act requiring a debt-to-GDP threshold of 70% and SADC's macroeconomic convergence target of 60%. Again, the current debt-to-GDP threshold far exceeds the NDS1 target of 61.5% while international reserves cover only 1.1 months of imports against the NDS1 target of six (6) months. Zimbabwe is indeed trapped in debt distress. It is now impossible for the nation to meet all its current and future obligations without financial assistance or going into default as shown by mounting arrears.

It is also worrying to note that 71% of total PPG debt is external debt. With a volatile local currency, this debt profile shows that Zimbabwe is highly susceptible to exchange rate risks, that is, the need to sell more ZWLs to buy USDs to service foreign debt. More so, the maturity profile of outstanding domestic PPG is not convincing. Statistics show that about 90% of Treasury Bills and Bonds mature in less than two (2) years, reflecting a high refinancing risk.

We are concerned by a very low recovery rate on publicly guaranteed private sector debt particularly in the Agriculture sector. For instance, of the ZWL4.5 billion CBZ Bank Agroyield (100% government guaranteed) disbursed to maize farmers for the 2019/20 season, only ZWL1.5 billion was recovered representing a paltry 38.5% recovery rate. By assuming such debts (ZWL2.77 billion unpaid balance), Treasury has increased the burden on taxpayers who are already overtaxed.

We are concerned by debt figures provided in the 2022 Annual Debt Bulletin that are not disaggregated. Ironically, the given reasons for contracting those debts are extremely dubious and unconvincing. For example, Treasury borrowed US\$249.73 million from Equatorial Guinea in 2005 to finance the procurement of "strategic imports" with no further indication as to what the imports are. Apart from this, we also question the sustainability of some projects where borrowed funds are being invested. For example, investing in the expansion of airports at a time social infrastructure is crumbling and the majority of citizens are wallowing in abject poverty leads to questions on prioritization.

We are concerned that the country's inability to service existing debts is having a toll on various facets of the economy. For instance, in the first half of 2023, economic agents experienced prolonged electricity load-shedding hours averaging 12 hours per day. The nation could not easily access available electricity imports from regional counterparts as it owed a staggering US\$102.9 million in unpaid electricity imports as of the end of December 2022. This has greatly subdued industrial activity and overstretched household budgets as they had to look for expensive substitutes.

We are also concerned with the accumulation of public debt as this is now crowding out public service delivery. For instance, the ZWL36.47 billion and US\$63.97 million (about ZWL25.58 billion using an average official exchange rate of ZWL/USD 399.86 realized in 2022) earmarked for servicing domestic and external debt respectively could have been used to provide crucial public services and strengthen safety nets at a time citizens were battling chronically high inflation averaging 184.1% in 2022. The hyperinflationary environment partly caused by Zimbabwe's high indebtedness has also fed into borrowing costs as shown by the interest rate on 270-day Treasury Bills that ballooned from 24% in the first quarter of 2022 (1Q22) to a staggering 105% in 4Q22.

Finally, we are concerned by the lack of improvement in debt servicing whilst Zimbabwe is engaged in the Structured Debt Dialogue process. This platform is a show of goodwill from creditors and has shown potential to chart a sustainable path going forward. Government should then take heed and ensure that the reforms and recommendations emerging from this process are followed to alleviate our debt burden.

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