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AN ANALYSIS OF THE **2022** PUBLIC DEBT BULLETIN

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

TABLE OF CONTENTS

Introduction 2

Key Highlights 2

Debt Sustainability Analysis 3

Conclusion 5

Recommendations 5

1.INTRODUCTION

Many developing countries experience increased and frequent macroeconomic fluctuations due to a plethora of internal and external factors including, inter alia, political instability leading to civil wars; populist economic policies; import dependency, and vulnerability to natural disasters driven by climatic changes. In addition, there are also issues to do with; strong structural rigidities like price distortions, weak institutions, high corruption, and unsustainable public borrowing. For Zimbabwe, unsustainable public borrowing has now emerged as one of the biggest challenges stifling economic growth and development. Recently, the Treasury released a comprehensive 2022 Annual Public Debt Bulletin and ZIMCODD seeks to assess the sustainability of reported debt stock.

2.KEY HIGHLIGHTS

2.1 External Debt

- The total Public and Publicly Guaranteed (PPG) debt surged 2.4% between September 2022 (US$17.6 billion) and December 2022 (US$18.03 billion). In annual terms, it increased by 4.8% from US$17.2 billion reported as of the end of December 2021.
- External debt constitutes 71.2% (US$12.8 billion) disaggregated as follows: 45.9% is bilateral debt, 33.1% is RBZ debt, and 21% is multilateral debt. A large chunk of external debt (52.1%) is principal & interest arrears and penalties.
- In 2022, external loan disbursements amounted to US$194.3 million, up 441.2% from US$35.9 million disbursed in 2021. The nation also managed to pay US$63.97 million toward debt servicing in 2022 with 20% of this total being token payments.

2.2 Domestic Debt

- Treasury owes US$5.2 billion. Of this amount, 67.3% is compensation to former farm owners (FFOs), 28.9% is blocked funds, 3.6% is Treasury Bills & Bonds, and 0.2% is arrears to service providers.
- The increase in domestic PPG debt between September 2022 (US$3.6 billion) and December 2022 (US$5.2 billion) is attributable to the reclassification of blocked funds as domestic debt following the assumption of these from the RBZ by the Treasury.
- Treasury also concluded a USD-denominated domestic loan with a private company to the tune of US$360.5 million for road construction and rehabilitation.
- For the entire 2022, TBs totaling ZWL83.36 billion were issued for budget financing with 55% issued through private placements while 45% were issued through an auction system.
- More so, in 2022, Treasury managed to pay all maturing TBs & Bonds totalling ZWL36.47 billion comprising of principal (ZWL31.34 billion) and interest (ZWL5.10 billion).
- However, as of the end of 2022, about ZWL129 billion TBs & Bonds were outstanding, with a total interest bill of ZWL52 billion.

3.DEBT SUSTAINABILITY ANALYSIS

3.1 Sustainability Indicators

Public debt is considered to be sustainable if the government can meet all its current and future obligations without exceptional financial assistance or going into default.[1] A nation's debt-carrying capacity depends on various factors including, inter alia, the quality of public institutions, debt management capacity & policies, and macroeconomic fundamentals. Table 1 shows the trend of selected debt sustainability indicators for Zimbabwe (2019-2022).

Table 1: Zimbabwe PPG Debt Indicators

Indicator	2019	2020	2021	2022
Total PPG debt-to-GDP	88	72.6	62.1	99.6
Total external PPG debt-to-GDP	47	71.2	48.3	70.9
Total domestic PPG debt-to-GDP (%)	41	14	13.8	28.7
Multilateral debt-to-total external PPG debt (%)	27	25	20	21
International Reserves (Months of Import Cover)	0.7	0.4	2.7	1.1
Debt Service-to-Revenue	1.52	0.46	1.2	2.1
Debt Service-to-Exports (%)	0.6	0.19	0.5	1.5

Source: *Zimbabwe Public Debt Management Office (ZPDMO)*

Zimbabwe's total PPG debt is now unsustainable as it consumes 99.6% of 2022 national output (GDP) contravening the provisions of the Public Debt Management (PDM) Act requiring a debt-to-GDP threshold of 70%. Consequently, the nation is trapped in debt distress, that is, the inability to fulfill financial obligations, and debt restructuring is required. This is evidenced by arrears and penalties constituting 52.1% of total external PPG debt or 78% of combined bilateral and multilateral creditors estimated at US$8.59 billion. A high debt-to-GDP ratio indicates that public debt is growing faster than national income thus showing a very low capacity to meet financial obligations when they fall due.

3.2 High Indebtedness Risks

The ballooning public debt is a great cause for concern especially under the current context of deteriorating geopolitical tensions fuelled by the Russia-Ukraine war and rising global interest rates as central banks are tightening policy to clamp mounting price inflation pressures.

3.2.1 Exchange Rate Risk

Zimbabwe is exposed to an exchange rate risk as more than 70% of its total debt is owed externally thus denominated in global hard currencies.[2] With a too-volatile local currency, Zimbabwe is using more ZWLs to service external debts. Hence, more resources will have to be provided for in the National Budget, resources which would otherwise be used to provide crucial public services like education and healthcare as well as rehabilitating crumbling infrastructure, particularly in rural underserved, and marginalized communities.

2. A hard currency refers to money that is issued by a nation that is seen as politically and economically stable. Hard currencies are widely accepted around the world as a form of payment for goods and services.

3.2.2 Refinancing Risk

The maturity profile of outstanding domestic PPG debt is worrisome. About 90% of Treasury Bills & Bonds mature in less than two (2) years, showing that the Treasury is facing a high refinancing risk. Debt refinancing risk refers to the possibility that[1] a borrower will not be able to replace existing debt with new debt at a critical point. Factors that are beyond Treasury's control such as rising interest rates and a shrinking credit market will likely constrain its ability to refinance maturing TBs.

3.2.3 Falling Reserves

International reserves as measured by months of import cover (IC) are declining (see Table 1). The IC measures the number of months of imports that can be covered with foreign exchange reserves available with the central bank. Ideally, an IC of about six (6) to ten (10) months is essential for the stability of a currency. It is an important indicator of a nation’s external trade stability and its ability to meet import obligations. As such, Zimbabwe’s low IC illuminates her potentially high vulnerability in managing import requirements/external shocks.

3.2.4 Capital Flight Risk

Public debt overhang is problematic because it directly damages capital inflow and often leads to a vicious debt cycle – the cycle of continuous borrowing, accumulating payment burden, and eventual default. Defaults can cause a borrowing country to lose market access and suffer higher borrowing costs, in addition to harming growth and investment. This is exactly the case faced by Zimbabwe and has raised caution among her prospective lenders like IMF and AfDB who are now unwilling to extend concessionary lines of credit.

3.2.5 Budget Financing Risk

High indebtedness has collapsed the fiscal space and is now constraining the government’s ability to react to adverse or unforeseen contingencies. This is happening at a time when the world is experiencing seismic shifts in climatic conditions as natural disasters like El-Nino-induced droughts are becoming more frequent and severe. Zimbabwe’s capability to invest in climate change mitigation and adaptation initiatives to cushion vulnerable groups & communities and improve economic resilience is very low.

3.2.6 RBL Dependency

Due to high indebtedness, Zimbabwe is now relying on resource-backed loans (RBLs) - these are loans where repayment is either made directly in natural resources or repayment is guaranteed by a resource-related income stream. For instance, in 2022 Treasury revealed that Zimbabwe borrowed US$200 million from China in 2006 which loan was secured by 26 million ounces of platinum reserves in Selous.[3] These RBLs are exerting dire developmental impacts as they are fuelling unsustainable resource extraction leading to environmental degradation, air, and water pollution, forced displacements, farmer-miner, and human-wildlife conflicts. They are also accrued in secrecy thereby increasing the chances of corruption.

3. https://zimbabweobserver.com.au/2022/08/zimbabwe-pays-china-us52-billion-for-a-us200-million-loan/

3.3 Debt Implications on NDS

Zimbabwe, through the 10-year National Development Strategy (NDS)[4], aspires to become an upper-middle-income country by the end of 2030. The pathway to Vision 2030 is underpinned by various pillars such as economic growth & stability, value chain & structural transformation, job creation, social protection, human capital development, housing delivery, food & nutrition security, health & well-being, environmental protection & natural resource governance, and image building & international re-engagement, among others.

However, the ballooning and unsustainable public debt is greatly threatening the attainment of Vision 2030. The debt cycle is subduing capital inflows which are generally regarded as key in augmenting shallow domestic financial markets. This is now forcing the Treasury to resort to excessive domestic borrowing and high taxation. The former is exerting upward pressure on domestic interest rates thereby crowding out private-sector investment while the latter is discouraging work, saving, investment, and innovation.

Also, high public debt entails high debt servicing costs which in turn reduces funds available for supporting other economic growth and developmental targets such as service delivery. In addition, the current reliance on opaque collateralized borrowing through mortgaging mineral resources is breeding mining sector corruption and fueling unsustainable resource extraction which degrades the environment, displaces communities, and pollutes air & sources of water. In short, RBLs are militating against effective & equitable domestic resource mobilization which is a key component of sustainable development finance.

4. CONCLUSION

Zimbabwe has a Medium-term Debt Management Strategy (MTDMS) (2022-2025). Despite this, the government is oftentimes violating the legal and institutional frameworks that govern aspects of debt management including the continuous by-passing of Parliament's oversight role in debt management. Because of that the total PPG debt is now unsustainable and the nation is trapped in debt distress. This shows that a debt management framework that is highly susceptible to political manipulation and corruption entrenches social and economic injustices as a larger chunk of public funds are now directed toward debt servicing.

5. RECOMMENDATIONS

For durable macroeconomic stability to hold, Zimbabwe must resolve the debt crisis to enable it to mobilize domestic revenue resources, unlock new capital inflows, and reduce pressure on the fiscus. These are some of the policy actions that authorities must consider:

- **Reform Agenda**

The structured dialogue platform has identified 3 key reform areas: Economic, Governance, and Land tenure reforms. The onus is now upon Zimbabwe to fully commit to this reform agenda in order to clear its arrears and get debt relief from creditors.

- **Domestic Resource Mobilization (DRM)**

Zimbabwe must make better use of, and maximize the use of existing natural resources instead of relying on borrowing. This will allow it to fund its own development goals, finance gender-responsive public services, and reduce economic, social, and gender inequalities. DRM will provide a long-term path to sustainable development finance.

- **Full Debt Disclosure**

There must be full disclosure of public borrowings and public debt to increase oversight of public borrowings, ensuring transparency and accountability. This includes, inter alia, regular debt audits, full involvement of Parliament & CSOs, full disclosure of all debt information, and implementation of recommendations from the Supreme Audit Institutions.

- **Setting a Limit on Public Borrowing**

Treasury must set a limit on public borrowing in accordance with the Constitution and the PDM Act as held by the High Court[5]. Treasury must also prescribe and adhere to these borrowing limits to contain debt accumulation.

- **Post-disbursement Monitoring**

This reduces the risk of falling further into debt distress and promotes the effective use of borrowed resources judiciously.

- **Credit Assessment**

To reduce default risk, there is a need for a thorough credit assessment before the approval of borrowing to ensure the performance of the contracted debt.

- **Negotiating for Favourable Financing Terms**

It is imperative to identify sources of financing that offer favorable financing terms, to ensure that debt servicing costs are kept to a minimum.

5. https://www.veritaszim.net/sites/veritas_d/files/Zimcodd Court Order.PDF