GOVERNMENT OF
THE REPUBLIC OF
ZAMBIA

DEBT SUSTAINABILITY ANALYSIS
REPORT
JULY 2023

Ministry of Finance and National Planning

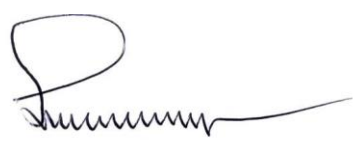
FOREWORD

The 2023 Debt Sustainability Analysis (DSA)[1] was conducted in accordance with provisions of the Public Debt Management Act No. 15 of 2022. This analysis, a precursor to the Medium-Term Debt Strategy (MTDS), not only scrutinizes Zambia's current debt landscape but also sets the stage for strategic fiscal planning.

The principal objective of the 2023 DSA was to comprehensively assess Zambia's debt especially in view of the ongoing debt restructuring efforts amidst recent macroeconomic changes and policy interventions. This includes the approval of Zambia's IMF Extended Credit Facility (ECF) program which underscores Zambia's commitment to implementing economic reforms aimed at driving the country toward the attainment of sustainable economic growth.

Zambia has in the recent past grappled with fiscal challenges which were exacerbated by the onset of the COVID-19 pandemic in 2020, leading to severe debt challenges and a formal standstill on debt service payments, announced in October 2020. To address these debt challenges, Government is actively engaged in a debt restructuring[2] process under the G20 Common Framework, supported by the IMF-ECF program approved in August 2022

As the country navigates these transformative efforts, this report reflects our commitment to transparency and fiscal prudence. It is anticipated that the DSA which informs ongoing debt restructuring efforts will guide Zambia toward a future characterized by economic recovery and resilience.



Felix Nkulukusa
Secretary to the Treasury
MINISTRY OF FINANCE AND NATIONAL PLANNING

[2] Readers are advised to note that the ongoing debt restructuring is targeting Zambia's external debt only.

ACRONYMS AND ABBREVIATIONS

COVID	Corona Virus Disease
CI	Composite Indicator
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECF	Extended Credit Facility
GDP	Gross Domestic Product
IDA	International Development Association
IMF	International Monetary Fund
LIBOR	London Inter-Bank Offer Rate
LICs	Low Income Countries
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
PPG	Public and Publicly Guaranteed
PV	Present Value
SLA	Staff Level Agreement
WEO	World Economic Outlook (IMF publication)

EXECUTIVE SUMMARY

The Government of the Republic of Zambia conducted a Debt Sustainability Analysis[3] (DSA) to assess the sustainability of Zambia's public debt in the context of the IMF program's macroeconomic framework without assuming any restructuring arrangements. The DSA was conducted using the IMF/World Bank revised Debt Sustainability Framework for Low Income Countries (LIC-DSF). Under this framework, Zambia's debt carrying capacity is classified as weak due to its Composite Indicator (CI) score of 2.6 thereby informing the applicable thresholds to assess Zambia's debt burden indicators.

A five-year historical analysis of public and publicly guaranteed debt shows a steady rise in both absolute terms and as a percentage of GDP to US $27,132.33 million (94.8 percent of GDP) at the end of 2022 from US $16,241.35 million (61.38 percent of GDP) in 2018. This escalation can be primarily attributed to heightened financing needs, leading to increased borrowing for projects, particularly in the energy and infrastructure sectors. In addition, the debt service standstill implemented in October of 2020, resulted in the accumulation of principal and interest arrears on PPG external debt.

The external DSA indicates breaches in all four external debt burden indicators from their respective thresholds. Notably, the present value of external debt service to revenue peaks at 61 percent in 2024 and remains significantly above its 14 percent threshold during the observation period. Similarly, the present value of external debt service-to-exports ratio peaks at 26 percent, in 2024 and remains above its 10 percent threshold until 2029. The public DSA also shows a significant breach of the present value of public debt to GDP which remains above the recommended threshold of 35 percent throughout the projection period.

In this regard, Government is actively engaged in debt restructuring efforts aimed at restoring the sustainability of its public debt. Simultaneously, Government aims to enhance Zambia's debt-carrying capacity through ongoing economic management and fiscal governance policy initiatives designed to stimulate economic growth and boost foreign currency reserves. As part of the Medium-Term Debt Strategy (2023-2025) and the ongoing debt restructuring process, Government has prioritised domestic debt financing, with focus on expanding the investor base for Government securities, particularly in longer-term instruments, to mitigate refinancing risks. On the international front, the focus remains on securing concessional loans characterised by low interest rates and extended maturity periods to alleviate the debt servicing burden.

[3] **Note**: This report reflects a pre-restructuring debt sustainability analysis scenario. It does not prejudge of any specific debt treatment as part of the ongoing debt restructuring exercise. Most of the below data, assumptions and outputs are based on the IMF's First Review under the ECF (July 2023), which are complemented by some inputs and analysis from the Ministry of Finance and National Planning and from the Bank of Zambia, leading to some differences compared to the IMF report and any reports published by the Ministry of Finance and National Planning after this period.

TABLE OF CONTENTS

SECTION I: INTRODUCTION AND BACKGROUND

The Government of the Republic of Zambia conducted a Debt Sustainability Analysis (DSA) with technical support from the IMF`s Regional Technical Assistance Centre for Southern Africa. The objectives of the DSA were to:

a) Assess the extent of Zambia's public debt distress in light of the recent macroeconomic and fiscal developments;

b) Inform discussions with creditors regarding the extent of debt relief that will be required to restore public debt sustainability; and

c) Inform the country's debt strategy formulation going forward.

The IMF/World Bank revised Debt Sustainability Framework for Low Income Countries (LIC-DSF) was used to conduct the DSA. The DSA covered Public and Publicly Guaranteed Debt (PPG) and External Private Sector Debt. The scope of debt also included central Government external debt service arrears, State Owned Enterprise (SOE) arrears, fuel arrears, arrears owed to contractors on externally financed projects and arrears owed for externally sourced electricity power purchases.

The rest of this report is structured as follows: Section II covers the methodology adopted in conducting the analysis; provides an overview of recent macroeconomic developments as well as a portfolio review of Zambia's public debt . Section III discusses the underlying assumptions of this analysis. Section IV outlines the DSA results and the associated risk rating while Section V concludes and highlights the policy actions to be taken by Government in the medium term to address the current debt situation.

SECTION II: METHODOLOGY, OVERVIEW AND PORTFOLIO REVIEW

2.1. Methodology

Zambia is classified as a Low-Income Country (LIC) by the World Bank. According to the World Bank, LICs are defined as countries with a Gross National Income (GNI) per capita of US $1,135 and below in 2022. As of 1st July, 2022, Zambia's GNI per capita stood at US $1,040. In this regard, because of Zambia's income classification, and consequent access to concessional financing under the International Development Association (IDA) window and eligibility for the IMF Poverty Growth Reduction Trust (PGRT) window, the LIC-DSF was applied to undertake the analysis. The LIC-DSF classifies countries into three debt-carrying capacity categories of strong, medium and weak performers, using a debt carrying capacity Composite Indicator (CI). The CI draws on the country's historical performance and outlook for real GDP growth, reserves coverage, remittance inflows and the state of the global environment in addition to the World Bank's Country Policy and Institutional Assessment (CPIA) index.

Zambia's CI[4] was computed to be 2.59 implying that it fell in the category of countries that are rated as weak performers. The weaker debt-carrying capacity for Zambia is predominantly attributed to the low level of foreign exchange reserves and slowing economic growth. However, it was noted that the lower performances in reserves and growth were largely off-set by the better performing CPIA rating, which accounted for 47 percent of the CI score as shown in Table 2.1.

Table 2.1: Composite Indicator Table for Zambia

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.163	1.22	47%
Real growth rate (in percent)	2.719	2.987	0.08	3%
Import coverage of reserves (in percent)	4.052	29.211	1.18	46%
Import coverage of reserves^2 (in percent)	-3.990	8.533	-0.34	-13%
Remittances (in percent)	2.022	1.537	0.03	1%
World economic growth (in percent)	13.520	3.050	0.41	16%
CI Score			2.59	100%
CI rating			**Weak**	

Source: IMF/World Bank

Table 2.2 illustrates the thresholds applied to the three debt–carrying capacity categories. Thresholds corresponding to strong performers are highest, indicating that countries with good macroeconomic performance and policies can generally accommodate higher levels of debt.

[4] The inputs for the calculation of the CI were sourced from the IMF's January 2022 World Economic Outlook (WEO), and an update of the Country Policy, Institutional and Macroeconomic Framework.

Table 2.2: Debt-carrying capacity categories revised framework

Category	*Cut – off values*
Weak	CI < 2.69
Medium	2.69 ≤ CI ≤ 3.05
Strong	CI > 3.05

Source: IMF (2018)

Based on the relevant debt-carrying capacity, the LIC-DSF provides the applicable burden thresholds and benchmarks outlined in Table 2.3.[5]

Table 2.3: Debt Burden Thresholds and Benchmarks under the DSF

	PV of External Debt in Percent of:		**PV of External Debt Service in Percent of:**		**PV of Total Public Debt in Percent of:**
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

Source: IMF (2018)

2.2 Public Debt Data Coverage

The coverage of public sector debt recommended by the IMF/World Bank LIC-DSF is outlined in Table 2.4. In this DSA, public sector debt includes central Government debt, Government guaranteed debt and non-guaranteed SOE debt. The DSA also includes guaranteed debt of the Public Service Pensions Fund (PSPF). The external DSA covers public and publicly guaranteed external debt and private sector non-guaranteed external debt, whereas the public DSA covers total PPG external and domestic debt. The DSA was conducted based on currency basis, i.e. external debt was defined as debt denominated in foreign currency. The base year of the data was 2022 and 2023 was the inaugural projection year.

Table 2.4: Data Coverage

	Subsectors of the public sector	**Check box**
1	**Central government**	X
2	**State and local government**	
3	**Other elements in the general government**	
4	**o/w: Social security fund**	X
5	**o/w: Extra budgetary funds (EBFs)**	

5

Only the indicators of PV of external debt-to- exports and external debt-service-to revenues are relevant in the case of Zambia. On the PV of external debt in % of exports: Zambia needs to have “substantial space to absorb shocks”: therefore, it applies a 40% buffer on this indicator, bringing the threshold to 84 percent by 2027: (140%*(1-40%)) = 84%

6	**Guarantees (to other entities in the public and private sector, including to SOEs)**	X
7	**Central bank (borrowed on behalf of the government)**	X
8	**Non-guaranteed SOE debt**	X

Source: DSF Tool

2.3 Recent Macroeconomic Developments

2.3.1 GDP Growth

In 2022, preliminary estimates indicate that the economy grew by 4.7 percent from 4.6 percent in 2021. The Education industry had the highest positive contribution to growth. This outturn was further supported by growth in the Transportation and Storage as well as the Information and Communication industries. This notwithstanding, negative growth was recorded in the primary industries: Mining and Agriculture.

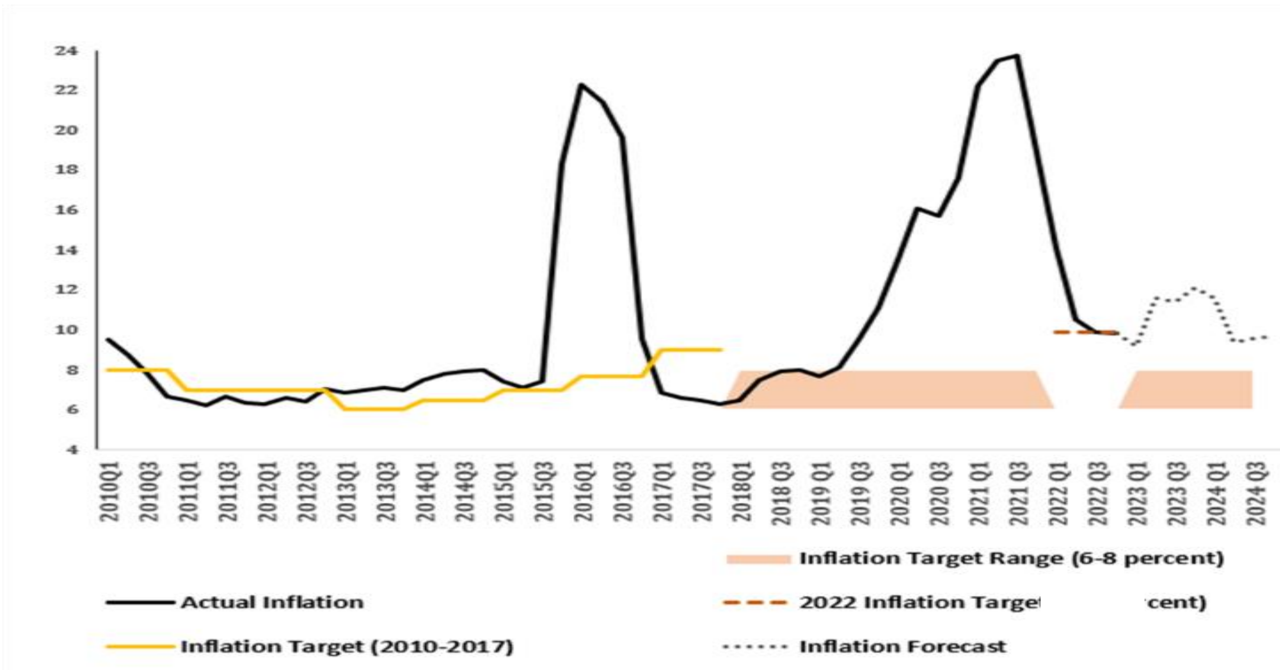
In 2023 and the medium term, the economy is expected to grow by an average of 4.8 percent. This growth will be premised on expected macroeconomic improvements emanating from the agreed policy measures to drive growth as contained in the IMF programme, and the operationalisation of other interventions aimed at attracting investment in various sectors of the economy. Further, the recovery of the Mining and Agriculture industries coupled with the projected positive growth in the tertiary industries such as Education and Health are expected to drive growth.

2.3.2 Inflation

In 2022, overall inflation trended downwards reaching a single digit of 9.7 percent in June compared to 24.6 percent recorded in June 2021. It remained in single digits in the second half of the year and closed the year at 9.9 percent in line with the target range. This was largely driven by the appreciation of the Kwacha against the United States dollar over the first nine months of 2022, dissipation of shocks to prices of some food and non-food products, as well as improved supply of vegetables and fruits. The appreciation of the Kwacha against the United States dollar had a notable impact on prices of imported food products, clothing and footwear, household equipment and furnishing (household products) as well as electrical appliances for personal care.

In 2023 and 2024, inflation is projected to remain above the 6-8 percent target band and will average 11.1 percent and 10.1 percent, respectively. The Bank of Zambia will continue to take appropriate measures to ensure that inflation returns to the target band in the medium term. The recent rapid depreciation of the Kwacha against the US dollar, the expected increase in electricity tariffs to cost reflective levels, and the possible reduction in maize production due to adverse weather conditions are key factors underlying the forecast. In addition, continued tightening in global financial conditions and negative sentiments arising from the protracted debt restructuring negotiations, working through the exchange rate channel, are expected to add to inflationary pressures.

Chart 2.2: Annual average Overall Inflation, percent, 2011 – 2024



*Source: Bank of Zambia *Projections*

2.3.3 Fiscal Policy

Domestic revenues as a share of GDP increased to 21.2 percent by the end of 2022 from 19.1 percent in 2018 while total expenditures increased to 30.1 percent of GDP from 28.6 percent of GDP over the same period. Subsequently, the fiscal deficit declined to 8.2 percent of GDP from 6.1 percent in 2018In order to rebalance the fiscal position, Government put in place a number of measures, including prioritising ongoing projects over new ones, limiting recruitments to frontline personnel mainly in the sectors of health and education, controlling growth of the public sector wage bill, abolishing the subsidies on fuel and initiating the partial upward revision to electricity tariffs pending outcome of the Cost-of-Service Study. Ultimately, these measures were aimed at restoring budget credibility, transparency and policy consistency. Further, the on-going debt service standstill inevitably reduced the releases towards servicing external debt payments and funds were reallocated to scale up social sector spending and other priority areas as outlined in the National Development Plan.

The primary balance on commitment basis, is projected to reduce from a deficit of 1.4 percent in 2023 to a surplus of 3.3 percent in 2025. This will be achieved by implementing appropriate revenue and expenditure measures that will enhance the credibility of the budget. Some of the expenditure measures include:

1. Limiting expenditure on Farmer Input Support while creating space for social spending; and

2. Reducing capital expenditure in line with the Public Investment Strategy as well as the increased use of PPP financing for capital projects.

2.4 External Sector Performance

2.4.1 Current Account

In 2022, preliminary data indicate that the current account surplus narrowed to US $1,752.2 million (6.0 percent of GDP) from US $2,694.6 million (10.2 percent of GDP) in 2021 (Chart 2.3 and Table 2.5). The decline was due to a reduction in net merchandise exports and expansion in the services account deficit. Higher expenditures on transportation, attributed to passenger travel, mostly explain the expansion in the services account deficit. Overall balance of payments deficits were recorded in 2019, 2020 and 2022 except 2021 mainly due to the receipt of the General allocation of Special Drawing Rights (SDR).

In 2023, the current account surplus is projected to turn to a deficit equivalent to 1.7 percent of GDP. A deterioration in the trade balance arising from a reduction in exports underpin this outlook (Chart 2.3). Over the medium-term, the current account will turn to a surplus supported by a recovery in copper export earnings

2.4.2 Gross International Reserves

In 2022, reserves rose to US$3,045.0 million (3.7 months of import cover) compared to US $2,795.5 million the previous year (see table 2.4). The increase was largely attributed to project receipts (US$771.7 million), other Government receipts[6] (US$237.0 million) and the first tranche disbursement under the IMF ECF (US$182.1 million). Notable outflows during 2022 were net Bank of Zambia foreign exchange sales for market support amounting to US$1.5 billion and Government use of US$546.7 million for external debt service.

2.4.3 Exchange rate

The Kwacha strengthened by 6.9 percent against the US dollar during the first eight months of 2022. The appreciation of the Kwacha was mainly due to increased supply of foreign exchange and favourable market sentiments arising from stronger prospects of securing an IMF-ECF (Programme) following the meeting of the Official Creditor Committee on external debt restructuring under the G-20 Common Framework and eventual approval of the Programme on August 31, 2022. However, demand pressures emerged in September 2022 for the procurement of agricultural and petroleum products and intensified in the fourth quarter amid low foreign exchange supply, particularly from the mining sector. This resulted in the Kwacha depreciating by 8.4 percent to K18.07 between September and December). For the year 2022, the Kwacha depreciated against the US dollar by 4.8 percent.

[6] Government receipts mostly comprised toll fees.

Table 2.4: External Sector Variables (in Million US$, 2018 – 2022)

Description	2018	2019	2020	2021	2022
Current Account Balance (CAB)	-341.5	151.2	2,174.3	2,629.2	1,752.2
CAB as percentage of GDP	-1.3	0.6	12.0	10.2	6.0
Exports of goods	9,029.4	7,246.2	8,003.0	11,202.0	11,504.8
O/w Copper	6,658.4	4,994.6	5,867.7	8,396.5	8,128.6
Imports of goods	8,515.5	6,501.7	4,787.0	6,385.8	8,135.9
Foreign Direct Investment (liabilities, net)	408.4	859.8	245.2	394.2	-65.1
Gross International Reserves	1,569.0	1,450.0	1,203.4	2,795.5	3,054.0
Months of Imports	1.8	2.2	2.5	4.4	3.7
Exchange Rate, end-period (US$/K)	11.9	14.1	21.2	16.7	18.1

Source: Ministry of Finance and National Planning

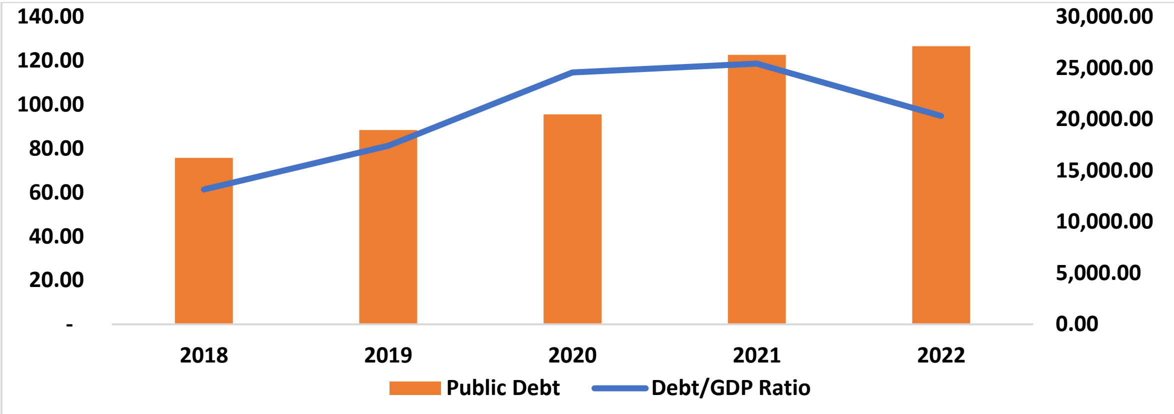
2.5.1 Trends in PPG External Debt and Domestic Debt

Zambia's Public and Publicly Guaranteed debt (PPG) increased in both absolute terms and as a percentage of GDP to US $27,132.22 million in 2022 from US $ 16,241.35 million in 2018.

Of the total PPG stock as at end 2022, US $ 13,959.59 million was Central Government external debt, US $ 1,454.37 million was publicly guaranteed external debt and US $ 11,627.33 million[7] was domestic debt. The increase in total public debt over the period was mainly attributed to continued borrowing to finance the budget deficit and infrastructure projects primarily in the energy, health, education and road sectors. Notably, recent borrowing has predominantly been from concessional multilateral sources. Furthermore, the growth in the PPG debt is a consequence of delayed amortization, due to the moratorium on debt service payments to non-multilateral creditors announced in October 2020. As of the close of 2022, accumulated public and publicly guaranteed arrears amounted to US $5,065.57 million.

[7] Exchange rate at USD1:K18.06

Chart 2.5 Total Public Debt as a % of GDP



Source: Ministry of Finance and National Planning

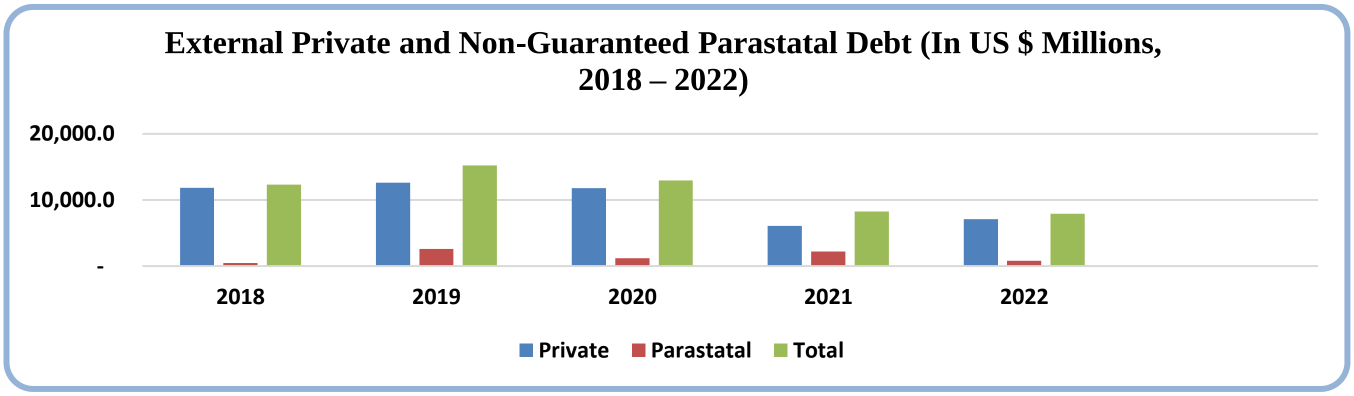
2.5.2 Trends in External Public Debt

Public and Publicly Guaranteed external debt as at end 2022 stood at US $ 15,506.78 million from US $ 11,355.65 million recorded as at end 2018. The 2022 stock represents 54.18 percent of GDP while the 2018 stock represented 42.92 percent of GDP. A five-year historical trend analysis reveals a steady rise in the stock, with the end 2022 figure representing a 36.53 percent increment. This outturn is attributed to continued disbursement on already existing loans and a marginal increase in external borrowing to support the fiscal financing needs.

2.5.3 Trends in Private External Debt

Over the last five years, private and non-guaranteed parastatal external debt stock declined by 35.6 percent to US $7,925.01 as at end-December 2022 from US $12,300.6 as at end-December 2018 (Chart 2.5.4). Private sector external debt declined by 40 percent and accounted for 89.7 percent of total private and non-guaranteed parastatal external debt stock. The decline in private debt was mainly on account of reclassification of Mopani Copper mine as parastatal company following Government's acquisition of Glencore shares to increase its stake to 100 per cent effective April 2021.

Chart 2.5.4: External Private and Non-Guaranteed Parastatal Debt (In US $ Millions, 2018– 2022)



Source: Bank of Zambia

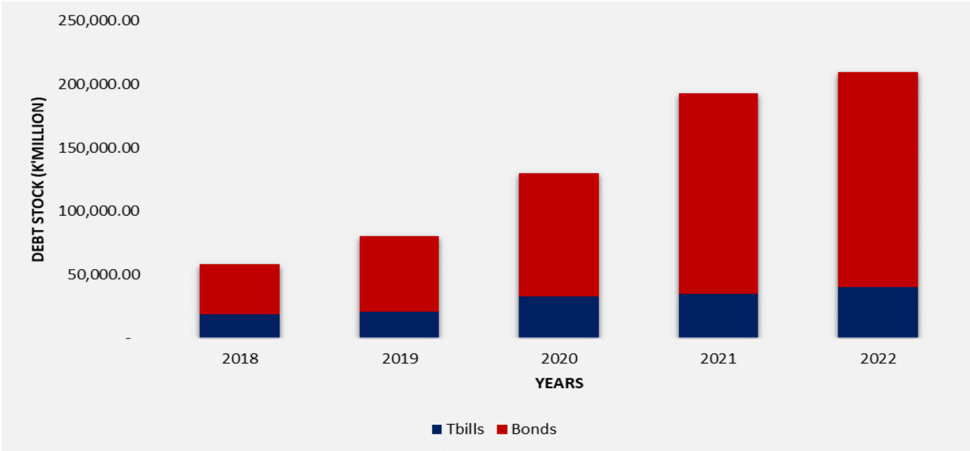
2.5.4 External Publicly Guaranteed Debt

As at end 2022, publicly guaranteed debt amounted to US $1,454.37 million representing 4.3 percent of public and publicly guaranteed debt and 5 percent of GDP. The end year position represented a reduction of 7 percent from the end-2018 stock of US $1,564.9 million. The decrease was mainly driven by debt service payments undertaken by ZESCO and the disbursement standstill being implemented by Creditors.

2.5.5 Evolution of Domestic Debt

The stock of domestic debt increased to K210,004.15 million in 2022 from K58,260.97 million in 2018, representing an increase of 260.5 percent. As a proportion of GDP, domestic debt increased to 45.2 percent in 2022 compared to 21.2 percent in 2018. The increase in domestic debt was mainly driven by the shift by Government to obtain more domestic debt financing for budget support and domestic debt refinancing during the period 2018 to 2022.

Table 2.5.6: Evolution of domestic debt stock by type of Government securities.

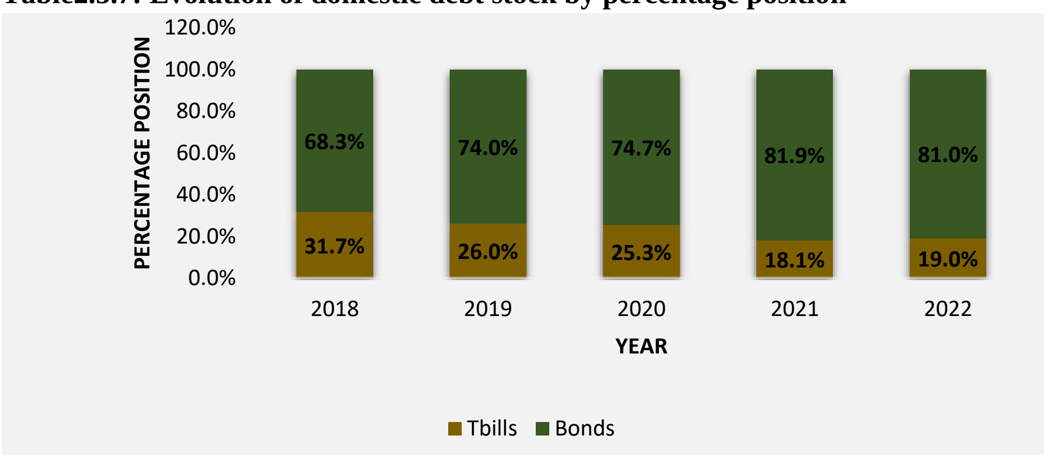


Source: Ministry of Finance and National Planning

2.5.6 Domestic Debt Composition

There has been a shift in the composition of government securities to longer-dated instruments. As at end December, 2022, total domestic debt constituted K39,974.05 million in Treasury Bills representing 19.0 percent while government bonds were recorded at K170,030.10 million representing 81.0 percent. Whereas the composition of debt stock as at end December, 2018 was K18,468.06 million representing 31.7 percent in Treasury Bills and K39,792.91 million in government bonds representing 68.3 percent. The change in the composition of domestic debt was mainly attributed to increased uptake of government securities by foreign investors who are more inclined towards longer dated instruments

Table2.5.7: Evolution of domestic debt stock by percentage position



Source: Ministry of Finance and National Planning and Bank of Zambia

3.3 Dismantling of Arrears

External Debt Arrears

Due to the liquidity challenges faced by the Treasury and the subsequent debt service standstill, Central Government debt service arrears to external creditors amounted to US$ 4,063.96 million as at end December 2022. Consequently, affected creditors halted disbursements to loan financed projects leading to accumulation of arrears to contractors for certified works that were not paid for by the respective creditors. The total certified arrears to contractors as at end December 2022 amounted to approximately US$ 582 million.The DSA assumes that the arrears will be amortized over 10 years in the DSA.

Other arrears considered in the DSA include:

(i) SOE debt service arrears on guaranteed facilities amounting to US $ 121.5 million which are amortized over 5 years;

(ii) ZESCO Power Import arrears owed to external suppliers amounting to US $ 139.5 million as at end December 2022.

Dismantling of Domestic Arrears

The stock of domestic arrears arising from outstanding payments of goods and services consumed by public bodies increased significantly by over 307% to K77,582.29 million as at end-December 2022 from K19,041.01 million in 2019. In order to liquidate the stock of arrears accumulated, the arrears will be dismantled over a period of 10 years.

SECTION IV: DSA RESULTS, RISK RATING AND VULNERABILITIES

This section discusses the findings of the DSA in three parts; DSA findings and analysis, realism tools, and risk rating and vulnerabilities. The DSA was conducted by MoFNP and Bank of Zambia and has been undertaken at a time that the Government is implementing the debt restructuring exercise. Hence, there are notable differences in assumptions and computation between the IMF and the Government DSA. The analysis below does not make any assumptions regarding the current external debt restructuring exercise.

4.1 DSA FINDINGS AND ANALYSIS

4.1.1 Results of the External Debt Sustainability Analysis

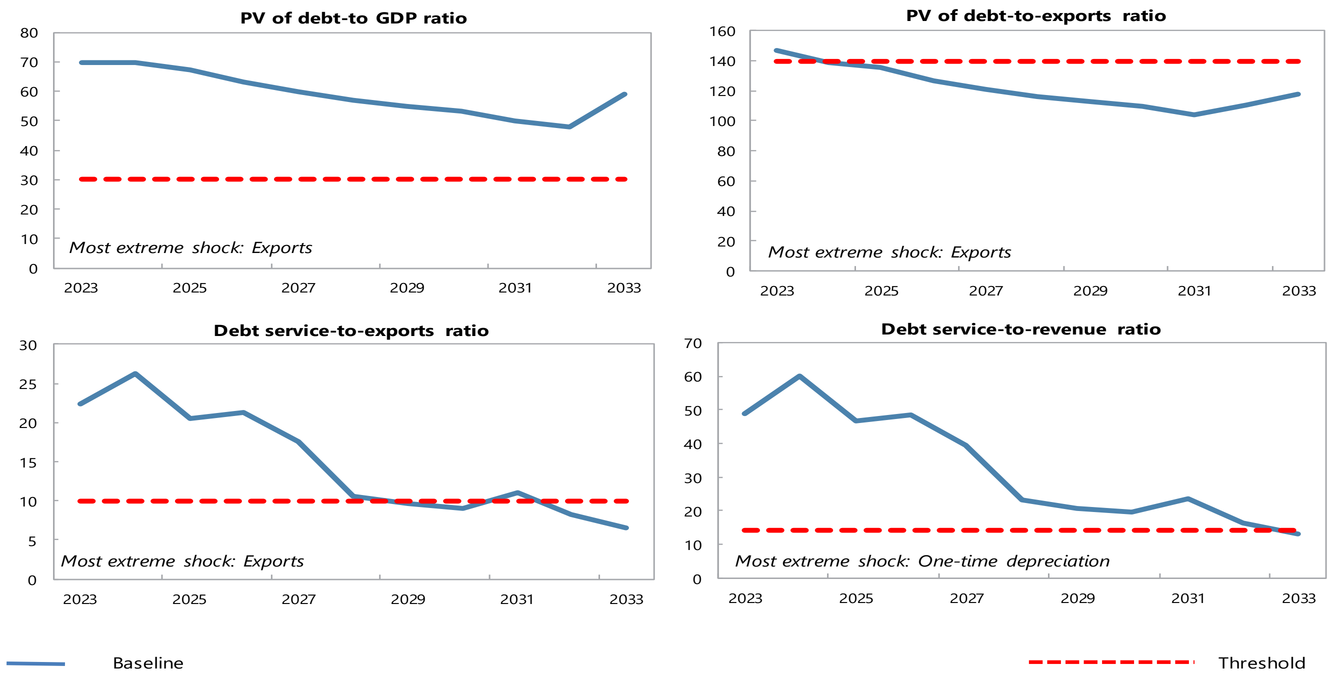
Figure 4.1 shows the results of the external debt sustainability analysis. Two solvency indicators are used to assess a country's debt carrying capacity, namely the ratios of the PV of debt to GDP and exports. According to the IMF/World Bank LIC-DSF, a country's debt is unsustainable if the above ratios are above their respective thresholds of 30 percent and 140 percent. Under the baseline macroeconomic scenario, the DSA indicates that the ratio of PV of PPG external debt-to GDP is above the acceptable threshold throughout the projection period while, the ratio of PPG to exports breaches its threshold during 2023 - 2025 and falls below the threshold thereafter.

The liquidity indicators, measured by the ratios of external debt service to exports and debt service to revenues are also projected to be above their thresholds of 10 percent and 14 percent, respectively. The debt service to exports ratio is projected above its threshold from 2023 to 2028 the drops below the threshold for a period of two years with another breach observed in 2031. The debt service to revenue ratio is projected to be above its threshold throughout the projection period. During the projected period, the liquidity ratios peak in 2024 and 2026, attributed to the maturity of the two ten-year Eurobonds amounting to US$1,000 million and US$1,250 million[8].This high debt service illustrates the significant debt vulnerabilities faced by the Government arising from the Eurobonds.

Given that the current debt burden thresholds are significantly breached, along with ongoing debt restructuring negotiations and accumulated debt service arrears amounting to USD4,063.96 million as of end-2022, Zambia is in debt distress (refer to risk rating criteria in Annex 1). Figures 4.1 and 4.2 display both the external debt analysis and the overall public debt.

[8] The US$1,250 million Eurobond is amortised in three equal instalments of US$416.67 million starting 2025 to 2027

Figure 4.1: Indicators of Public and Publicly guaranteed External Debt

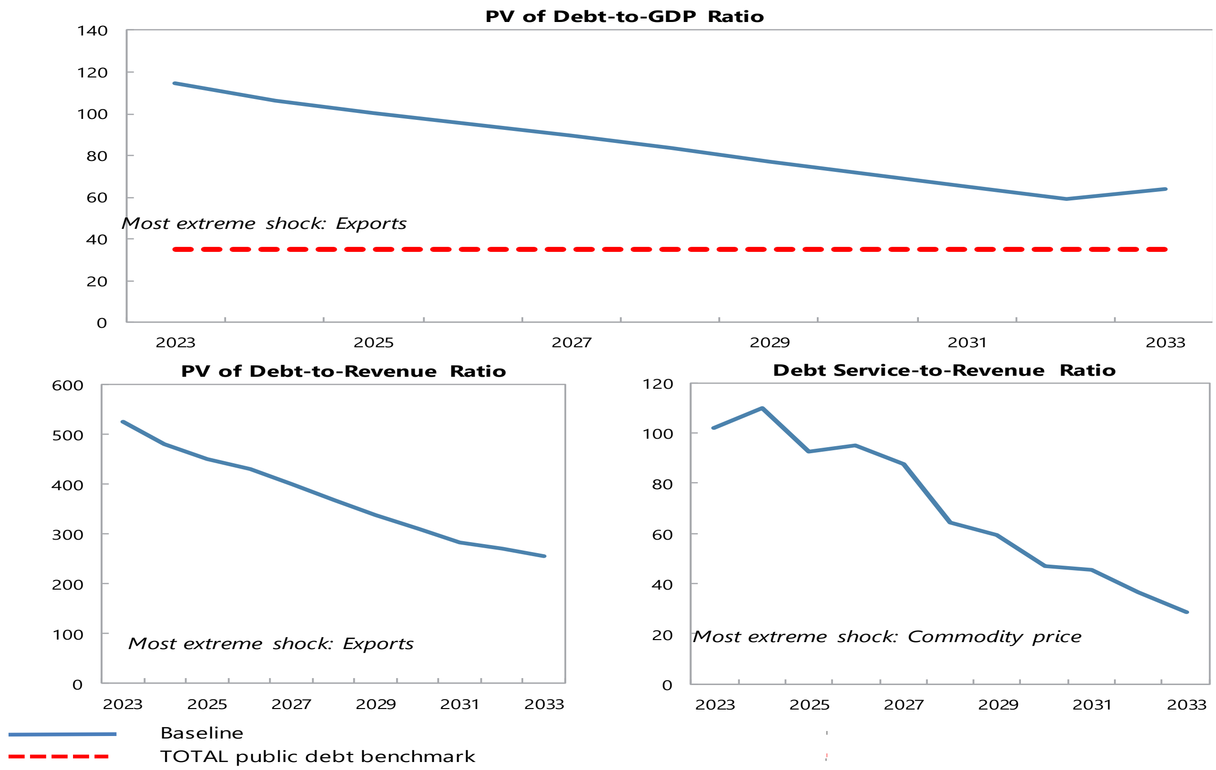


Source: Ministry of Finance and National Planning

4.1.2 Public Debt Analysis

During the projected period, public debt to GDP ratio is observed to be significantly above the benchmark of 35 percent. The indicators of public debt under alternative scenarios are shown under figure 4.2:

Figure 4.2: Indicators of Public Debt (2023-2032)



Source: Ministry of Finance and National Planning

The debt burden ratios were expected to deteriorate further above the baseline ratios under the stress tests scenarios, therefore, stress test scenarios were not applied in the DSA as the baseline scenarios were already significantly above the threshold throughout the projection period.

SECTION V: CONCLUSION & POLICY ACTIONS

5.1 Conclusion

The overall DSA shows that Zambia`s public debt is in distress. The DSA results are summarized by the four (4) external debt sustainability indicators namely; PV of external debt-to-GDP, PV of external debt-to-exports, external debt service-to-exports and external debt service-to-revenue. The results depict that all four (4) indicators are significantly above their respective thresholds with the exception of the PV of external debt to exports which falls below its threshold after 2026.

With the inclusion of domestic debt, the ratio of PV of public debt to GDP is also projected to remain above its respective threshold throughout the projection period.

The breach of these indicators coupled by the accrued debt service arrears and the ongoing debt restructuring exercise are all evidence that Zambia is in debt distress. The restructuring exercise aims to restore public debt sustainability and is anchored by a funded program from the International Monetary Fund (IMF).

5.3 Policy Interventions

To address the existing debt vulnerabilities, the following policy interventions have been agreed upon with the IMF to be carried out during the program period;

(1) Government will seek to improve the country's debt carrying capacity through strengthening ongoing measures to grow the economy, boost foreign currency reserves, strengthen economic management and improve the fiscal governance framework.
(2) Government will strictly adhere to the fiscal consolidation commitments as envisaged in the current macroeconomic framework which includes targeting a primary budget surplus of at least 3 percent of GDP by 2025.
(3) In order to promote debt transparency, Government will increase the dissemination and publication of public debt information.
(4) Under domestic debt, focus will be on reducing the refinancing risk associated with shorter dated instruments by moving towards longer dated instruments. Additionally, in order to further smoothen the maturity profile, Government will assess the possibility and market appetite for the introduction of a 20-year bond;
(5) In order to reduce the interest cost of domestic borrowing, Government will continue issuing at a higher frequency (twice a month) short dated instruments which are currently at lower yield rates compared to longer dated instruments. Furthermore, Government will be undertaking marketing activities aimed at increasing competitiveness on the primary market; .
(6) The Treasury will continue issuing government securities through competitive public auctions on the domestic market to enhance transparency and accountability, in order to build confidence in the domestic market;
(7) Government will continue to adhere to commitment control systems in order to curb the further accumulation of arrears.

Annex 1: Risk Rating Criteria

Annex 2: Sustainability indicators External DSA Results (% of GDP)

	Actual	Projections							
	2022	2023	2024	2025	2026	2027	2028	2033	2043
Sustainability indicators									
PV of PPG external debt-to-GDP ratio	65.0	70.0	70.3	68.2	63.8	60.8	57.8	52.4	29.5
PV of PPG external debt-to-exports ratio	150.5	148.1	140.5	136.8	128.5	123.2	117.9	104.9	55.1
PPG debt service-to-exports ratio	32.8	22.3	26.2	20.5	21.3	17.6	10.5	6.5	3.0
PPG debt service-to-revenue ratio	70.2	49.6	60.9	47.2	48.9	39.4	23.0	12.9	5.2

Annex 3: Sustainability indicators - Public Sector DSA Results (% of GDP)

	Actual			Projections							
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	...	...	118.1	114.8	106.4	100.3	95.1	89.3	83.3	64.0	11.2
PV of public debt-to-revenue and grants ratio	...	...	572.6	526.3	480.1	451.4	430.9	400.4	367.6	255.0	36.8
Debt service-to-revenue and grants ratio 3/	56.9	43.7	68.8	102.2	109.9	92.8	95.3	87.6	64.3	28.5	-15.9