

# Press Statement

22 July 2020

## About us

The Consumer Unity and Trust Society (CUTS) International, Lusaka is an NGO that was established in 2000 to function as a center for research, advocacy and networking on issues of trade and development, economic governance and consumer welfare.

The mission of the center is to function as a resource, co-ordination, as well as networking center, to promote South-South cooperation on trade and development by involving state and non-state actors (NSAs).

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## Perspectives on Public Debt Situation

High public debt levels are still a major economic challenge for Zambia resulting in the Government struggling to raise sufficient resources for development needs. The COVID-19 pandemic has further intensified Zambia's debt situation and has forced the government to re-budget and to re-prioritize expenditures. In reprioritising the budget, we urge the government to ensure that social sectors, namely: health, social protection and education are at the centre of the Government's focus. We urge the government from placing resources into infrastructure and other non-essential spending. The debt situation limits the Government's capability to finance development projects such as the Sustainable Development Goals (SDGs) and this makes it difficult for the country to achieve its development plans. The high debt levels have led to a depreciating kwacha as most of the money is externalized due to high external debt servicing costs. This has left international investors skeptical, and credit rating agencies have downgraded Zambia's sovereign credit rating. The depreciating kwacha in turn has an impact on inflation as goods and services become more expensive therefore, increasing the cost of living and doing business for Zambians. Cognizant of the importance of taxes needed to domestically finance different projects, almost every year new taxes and fees are introduced squeezing consumers' disposable income.

According to the International Monetary Fund which recently concluded its virtual mission visit, the social and macroeconomic impact of the COVID-19 shock, on top of a severe drought last year, will be heavy. Growth is forecast at around 5 percent in 2020 and the number of people living in extreme poverty is expected to increase. Fiscal pressures in 2020 have increased due to significantly lower revenue collections and higher spending needs. The legal framework guiding debt management needs revision as it has gaps and weaknesses and is therefore, inadequate. Despite the increasing debt levels, there is a lack of transparency, accountability and participation in the management of debt which needs to be addressed. The law should require that the Government undertake prudent debt management given that debt default can lead to severe macroeconomic consequences. Clear debt management objectives to give a general policy direction are missing in the pieces of legislation and there is no guidance on the procedures of debt management including when and for what debt should be obtained.

The Government in 2018 indicated that as a practical step towards to ensure sustainable debt management, it would conduct a Debt Sustainability Analyses exercise to measure the country's debt servicing capacity. This however, has not been done. Furthermore, on the medium term, the first Medium Term Debt Strategy was crafted in 2017 but was hardly implemented. The country is expected to develop another one this year but the first half of the year has already passed without any medium-term guidance. In light of the current corona virus pandemic and funds expected to be borrowed to fight the pandemic these medium-term debt management strategies are pertinent. The legal framework should explicitly provide for the preparation of the MTDS and DSA with the Minister of Finance requiring their preparation on a regular basis and in coordination with all other relevant departments. In the short term, the Government needs to access debt relief as it has done by requesting support under the G20 Debt Service Standstill Initiative among other debt relief programs, which would provide temporary fiscal space. The limited resources available following the reprogramming of 2020 Budget should focus on critical sectors including health, education and social protection. We encourage the Government to continue its engagements with the IMF to secure a bailout package and this will require addressing underlying macroeconomic vulnerabilities and implementing policies and priorities needed to restore debt sustainability, revive growth and lower poverty.

By Ms Kangwa Muyunda, CUTS Programme's Officer