

Press Statement

14 February 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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THANK YOU!

Contact us



Urgent need to address Zambia's growing debt

Why is this important for you as a consumer?

In an economy consumers are most directly affected by increases in the inflation rate which in Zambia currently sits at 12.5 percent. Unless the government is able to undertake measures to put the economy on the right track by addressing the growing debt burden and reducing domestic arrears, we will see further increases in the cost of living, and a further decrease in government spending on social sectors.

Statement

On Tuesday, February 12, the Minister of Finance addressed the public on the current state of the economy and identified: low economic growth, high debt levels and income inequality as major challenges facing Zambia at the moment. While all these challenges are indeed significant, unless the the government is able to reign in the country's growing debt, efforts to stimulate economic growth and reduce inequality will be hindered.

With the stock of external debt increasing to \$11.2 billion at the end of 2019 and domestic debt (government securities and arrears) increasing to K106 billion, this places the country in a precarious position. The resultant effect of the growing debt is that the expected increased expenditure on debt servicing and salaries is leaving the Government with decreasing discretionary spending currently estimated at around 10 percent. Against this background the Minister indicated that we can expect economic growth to increase to above 3 percent in 2020 and the medium term. Given the performance of the economy over the past few years, however, it is unclear how this will be achieved. It is worth noting that according to the IMF, Zambia's real GDP growth for 2020 was projected at 1.7 percent.

Considering that the poor and vulnerable in society are those most negatively impacted by difficult economic conditions, Government's commitment to ring-fence social spending is a welcome move. However, given its underallocation last year, it is important to ensure that this directive is fully implemented. Last year debt servicing was budgeted at over ZMW 23 million in 2019 and this increased to over ZMW 33 million for 2020 representing a 43 percent increase in debt servicing costs. In previous years increased debt service payments have resulted in the redirecting of funds away from social spending with the education sector being one of the most negatively affected sectors.

As we look to 2020, in addition to implementing a debt management approach that will seek to reduce external debt by USD5 billion, it is imperative that the Government works to clear all domestic arrears in order to provide the private sector with the much-needed liquidity to allow it to contribute to economic growth. The Government should also continue to engage with the IMF. To do so we encourage the Government to demonstrate commitment to prudent financial management and reaching sustainable debt levels. Securing an IMF deal is becoming increasingly important as it would also help Zambia reestablish its credibility on the international market.

By Ms Chenai Mukumba, Director and Mr. Ucizi Ngulube, Research Assistant.