Jesuit Centre for Theological Reflection
JCTR
Promoting Faith and Justice

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# INCREASED DEBT AMIDST HIGH COST OF LIVING A CAUSE FOR CONCERN

Lately, there have been statements by senior government officials commenting on the state of debt levels in the country. The comments have partly been assurances that the current debt stock is sustainable.

Various sections of society have expressed fears that the country's debt stock is increasing to levels that may become unsustainable. While the government has made several assurances that the nation's debt levels are within manageable limits, it is important that the government is seen to contract and manage debt in ways that do not potentially worsen the livelihoods of the majority poor. If debt being contracted is not prudently invested on high return projects to enable debt repayment without compromising social sector spending, then debt contraction even in the current sustainable debt levels is a source of concern. Increasing debt levels now also imply higher future taxes on the already heavily taxed workers and consequently a higher cost of living.

The cost of living for the month of January 2014 as measured by the *JCTR's Basic Needs Basket* for an average family of five living in Lusaka stood at **K 3,605.01**. This shows an increase of **K66.47** compared to the month of December 2013 when the basic needs basket stood at **K3, 538.54**.The increase in the basic needs basket is mainly due to the rise in the cost of Kapenta. Overall, there has been a significant increase of **K40.50** in the price of Kapenta from **K69.71** to **K110.21** per Kilogramme in December 2013 and January 2014, respectively. This signifies an increase of about **58%**. The leap in the price of Kapenta may be attributed to the fishing ban. Considering that majority of the households consume this food item, this significant rise in the price can negatively affect household food security. The price of beef has also showed a slight increase of about **K3**.

That a considerable rise in the cost of basic needs has been recorded at the beginning of the implementation of the 2014 budget is cause for concern. This is in consideration of the fact that government is likely to borrow more given parliament's approval to increase the borrowing threshold from **K20 Billion** to **K35 Billion**. Increased borrowing, especially domestically, during the course of implementing the 2014 budget will not only further increase the national debt stock but also potentially increase inflation which may burden the already struggling poor households.

Therefore, caution must be taken to ensure that debt levels do not skyrocket. Care must be taken to ensure that first and foremost the 2014 budget is managed within the already high projected deficit level of **6.5%** of GDP to avoid financing deficit through debt contraction. Further, the JCTR urges the government to manage any such deficit, which may arise, in such a way that the majority poor's ability to afford basic necessities is not worsened than it already is.

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