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Letters from Zambia and Kenya

March 13, 2019: Lusaka to Nairobi

I am drafting this letter on the plane from Lusaka, Zambia to Nairobi, Kenya. We took off from Lusaka's old, quaint airport with very friendly personnel. Of course, one still has to walk across the tarmac, amongst the parked planes, to reach his airplane, and we'll see if that changes when the new, Chinese-built airport is completed (see photo below). It was a nice end to a day well spent. Our meetings in Lusaka were, in fact, very interesting.

Zambia's external debt was $10 billion at the end of 2018, about one third of which is due to Chinese entities. We were told that no formal initiative to reschedule/restructure the debt is underway, despite all the recurrent media hype. Likewise, nothing is certain about the re-denomination of part of the debt in Chinese renminbi. Zambia's foreign exchange reserves stand at $1.5 billion, which just so happens to be the amount that must be spent to service the external debt in 2019. So, where to get some more FX, keeping in mind that the country has no market access? Ideas are being formulated, here are the main ones:

- First, the tax on the export of copper and other minerals will be paid in FX to the Bank of Zambia directly by the mining companies. The estimated FX intake is $300 million.
- The second plan implies that the BoZ should print money to buy the gold mined in Zambia (which wouldn't then be exported). The estimated increase in FX reserves (including gold) is $200 million.
- The third idea calls for the BoZ to print money (again!) and buy U.S. dollars in the market. We suspect that the BoZ would not be jumping with joy in printing all this money, but desperate situations call for desperate measures.

Overall, the three plans should bring about a $1 billion increase in reserves (FX depreciation and inflationary developments due to printing all that money were glossed over), i.e., that would be the amount of reserves at the end of 2019, and it would be $500 million lower than the current level.

Lusaka's Kenneth Kaunda International Airport

Photo credit: Giancarlo Perasso

And, yes, yours truly asked about the relationship with the IMF. Unsurprisingly, the BoZ is ready to cooperate to the max. The Ministry of Finance, on the contrary, is very, very lukewarm, to be generous. They know the situation is critical, but they are convinced, in public at least, that it is a liquidity crisis and not a solvency crisis. Hence, they are talking about a $1.3 billion credit line from the IMF, in the form of a stand by facility. My take is that an IMF program is not around the corner, but these things can move very fast.

Big hopes lie with the replacement of the value added tax (VAT) with a sales tax, which will affect the mining sector severely, according to the Chamber of Mines (CoM). Because the tax regime changes almost every year and of what they call excessive taxation, investments in the sector have been restrained. The CoM expects that this year's copper production will be the same as last year's, thus questioning the $300 million in revenue that the Ministry of Finance expects from the sector.

To sum up: it's the same story as for the past three (or four?) years and nothing is being done to address the country's weaknesses, i.e., those mostly due to the spending on infrastructure and the changing tax regime for the mining sector. I believe the authorities will have to be staring into the abyss before they call the IMF—they are not at that point yet, but they are not very far away either.

GC

March 14, 2019: Nairobi, Day 1

Jambo from Nairobi!

Official statistics apparently place Nairobi in third place for urban traffic congestion/madness after Mumbai and Cairo. Well, from what I have experienced today, Cairo is being downgraded to third place, and congrats to Nairobi for climbing to second place! In Cairo, drivers are crazy, but one moves in traffic. In Nairobi, one is stuck for hours—I kid you not—trying to negotiate a roundabout.

Nairobi's Britam Tower Complex

Photo credit: Giancarlo Perasso

First things first: the new IMF program. Discussions are still ongoing and no, the interest-rate cap is not the major stumbling block. We were told that the main point of discussion is that the IMF wants a revenue-based adjustment, rather than one based on cutting expenditures given that the government keeps cutting investments. Government revenues are around 17% of GDP and tax revenues are 15.4% of GDP, which is low even by Sub-Saharan Africa standards and have underperformed perennially. The fiscal adjustment has so far been modest: last year's deficit was 6.8% of GDP, this year's target is 6.3%, and the previous program that ended last September was way off-track. Furthermore, the government is accumulating arrears: they were 0.7% of GDP in 2017, and they were 1.6% of GDP last year. The problem is that a Eurobond matures in June 2019, and authorities would like to come to market before that with an IMF agreement in the bag. We'll see.

The abolition/change of the interest-rate cap (i.e., the law capping bank lending rates at 400 bps above the policy rate) has become more confused following the higher court ruling that the cap is unconstitutional and that parliament, therefore, has to amend the law within the next 12 months.

My sense is that the government is not in a hurry to finalise the IMF agreement which, in any case, would be of the precautionary type, similar to the one that expired last year. The problem is not the balance of payments, but the fiscal picture. FX reserves, in fact, cover more than five months of imports.

As for the stable FX rate, we were told that the central bank exerts strong moral suasion over the banking system; if an importer needs a large amount of FX, she is "encouraged" to go directly to the central bank to get the FX she needs, thus non-trade related inflows could well be under reported. Indeed, the IMF conducted a study on remittances by collecting data in the source countries by destination, and we were told that these remittances were six times (!) the amount shown in Kenya's balance of payments! Likewise, it is very likely that foreign direct investments (FDIs) are under reported as well.

Dinner was at an Italian restaurant, serving pizza, fish and chips, and burgers. Is this the dark side of globalization?

GC

March 16: Letter from Nairobi, Day 2

We spent a good part of our second and last day in Nairobi at the statistical office, where we wanted to solve the following conundrum: GDP is growing at 5-6%, but companies are reporting lower and lower profits (when they are not declaring bankruptcy), employment is not growing, bank lending is at a standstill, and inflation is low. How does one make sense of all this? The officials mentioned that the main drivers of last year's growth were infrastructure and agriculture, with the latter rebounding from the previous year's drought effects. Still, something is amiss in putting everything together. Also, the officials confirmed that FDIs are probably underestimated and remittances are not fully captured by the statistics as there are plenty of informal arrangements to transfer money, like the hawala. It seems that a lot of statistical work needs to be done. As a side note, some employees of the Statistical Office wear a shirt with the Stat Office logo as part of their dress-down Friday; maybe something to think about for our offices around the world given some of the Friday attire? Also, the Statistical Office is in the same building as the Treasury, which is aptly located on Harambee (= Funding) Avenue!

We also met with the CEO of a local manufacturer, and it was probably the most interesting meeting of the day. To begin with, the Standard Gauge Railway (SGR) is creating a lot of problems because transporting goods from Mombasa to Nairobi is about 50% more expensive when using the SGR rather than by lorry. Furthermore, it is compulsory to use the SGR unless the train is already full. To top it all, moving the containers from the ship to the train is very cumbersome and it takes forever. He also confirmed the deteriorating profitability of the business sector. It is anecdotal evidence, but it confirms other microdata. He added that government arrears to the manufacturing sector amount to KES30 billion (0.4% of GDP; remember that the World Bank told us that total arrears are 1.6% of GDP, other estimates put arrears at more than 3% of GDP, which seems like a lot to me). On a positive note, electricity is abundant and reliable.

A couple of further snippets:

- The current president is on his second term and cannot run for a third. So, he is thinking of "doing a Putin," i.e., changing the constitution to switch from a presidential to a parliamentary form of government. Guess who will be the PM candidate in the next elections in 2022? It is not yet a done deal, and the referendum should be held in 2021, together with a referendum to cut the current number of counties (47), which is indeed a lot for a country of about 50 million people.
- I am glad to report that the "mama mboga" trade is alive and well and has not been restricted by Parliament. This is the story of the woman getting up early in the morning, tapping on her mobile phone, getting a small loan used to conduct a day's business, and repaying the loan at night (see "First-Hand Perspective on Sub-Saharan Africa" for additional details).
- Also, the Silicon Savannah is alive and well. We had dinner with the founder and CEO of a mobile money transferring company (i.e., one of the companies facilitating the mama mboga trade), and what these guys are doing is amazing. Interestingly, these mobile loans are not subject to the interest-rate cap. They typically charge 8.5% for a 14-day loan!

It is raining upon my return to England, what else?

That's all, happy to discuss my findings whenever you want.

GC

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