Seventy Second Sovereign Debt News Update: Zambia's Debt Restructuring at a stalemate as creditor institutions disagree on next steps

By:

The African Sovereign Debt Justice Network

March 29, 2023

For more than two years, Zambia has been in talks to rework $12.8 billion of external loans through the G20 Common Framework. The Common Framework is a mechanism drawn up by the Group of 20 largest economies to bring together the six-decade-old Paris Club, which represents creditors in mostly developed nations, with newer lenders, including China and Saudi Arabia, for the first time. Fraught with geo-political conflicts between the United States and China, Zambia's debt restructuring plans have been halted as creditor institutions such as the World Bank and the International Monetary Fund (IMF) disagree on the next steps.

The outgoing World Bank chief, Malpass, has urged international creditors to provide prompt debt relief to Zambia to maintain the Common Framework, saying that he's "deeply concerned" about a stalemate in restructuring the country's debt. In a blog post, Malpass credited the Zambian government for taking many decisive actions, and said Zambia needs bilateral creditors to reach an agreement on debt treatment, which is essential for the International Monetary Fund to be able to make its second disbursement to the country. The president of the Washington-based development lender also apportioned some blame to China, hinting that *China's actions in talks among countries that lent money to Zambia are delaying a restructuring of the African nation's debt*. China, which is the largest bilateral creditor country to developing countries, is alleged to have blocked progress on Zambia's debt talks with its call for loans from multilateral development banks and domestic creditors to be included in the country's restructuring.

While the World Bank is urging clearer timelines and a debt service suspension by official and private sector creditors at the beginning of a Common Framework process, the IMF notes "movement" towards a debt deal for Zambia. Speaking in a virtual forum on Africa, IMF chief Kristalina Georgieva suggested that the disbursement could proceed even without the aforementioned deal, and that that she remains positive about the outlook for a conclusion. Meanwhile, Zambia's Finance Minister, Situmbeko Musokotwane, has already alluded to the creditor squabbles, noting that "*We have done everything on our side to get the debt restructured. Unfortunately, the process where so many interested groups are involved on the creditor side, there's been a delay*," Musokotwane told an online forum that China, which is Zambia's largest bilateral creditor, was being engaged on the debt restructuring with bilateral engagements on an almost weekly basis.

According to Refinitiv data, Zambia's kwacha currency has fallen 11.2% against the U.S. dollar this year. Musokotwane said delays in the debt restructuring process were putting pressure on the local currency as foreign investors were scared to invest in Zambian bonds for fear of their investment being subject to restructuring. Despite the delays, Zambia remains hopeful as Musokotwane says the country is pushing to have a debt restructuring can be agreed by the end of March or shortly afterwards. Zambia's experience further confirms that the Common Framework is ineffective in its current form. At the moment, a

Global Sovereign Debt Roundtable meeting is scheduled for April 2023. Convened by the World Bank, IMF and India as G-20 president, the Roundtable (which held its first meeting in February 2023) plans to meet again on April 12 during the IMF and World Bank spring meetings to look at ways to strengthen restructuring processes.

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