Sovereign Debt News Update No. 144: The Road to Recovery - Zambia's Progress and the Path Forward with the IMF

By:

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On July 25, 2025, a report by the International Monetary Fund (IMF) stated that the Fund had concluded a review of Zambia’s economic performance under its 38-month Extended Credit Facility (ECF) Arrangement. According to the report, the completion of this review, following a challenging period marked by a historic drought, would pave the way for an immediate disbursement of approximately US$184 million, bringing the total released funds to US$1.55 billion. Analyst Mutisunge Zulu, commenting on the report, noted that Zambia now sits “in the middle”, no longer facing a high risk of debt distress. However, he flagged rising domestic debt as a growing concern, citing a 14% year-on-year increase and warning that upcoming maturities could amplify fiscal pressures.

These observations are made in context of the fact that in 2020, Zambia defaulted on a US$42.5 million Eurobond payment, becoming the first African country to experience a sovereign default during the COVID-19 pandemic. In response, the country sought relief through the G20 Common Framework, a global initiative aimed at coordinating debt restructuring for low-income countries. As reported in the Eighty Eighth Sovereign debt Update, the country achieved a breakthrough agreement to secure a partial restructuring of $6.3 billion in bilateral debt by March 2024. This milestone unlocked a $188 million disbursement from the IMF, which was targeted at providing fiscal breathing room and reinforcing the country’s path toward economic recovery. This update will examine the key findings of the IMF's assessment, delving into Zambia's progress in achieving its macroeconomic goals, the challenges, and the strategic path forward.

Background

Zambia’s ECF Arrangement, approved on August 31, 2022, was designed to stabilize the country's economy, restore macroeconomic stability, improve public governance, and foster inclusive growth. The recent review assessed the country's performance against a series of quantitative targets and structural benchmarks. The review and accompanying report found that program performance has been ‘broadly satisfactory’. All end-December 2024 quantitative, and most end-March 2025 indicative targets were reported to have been met, and the government's recent adoption of an amended 2025 budget aligned with program commitments was noted as a positive step. Notably, the Executive Board granted a waiver for nonobservance of the continuous performance criterion on contracting non-concessional external debt in the fourth quarter of 2024.

Despite this progress, a number of challenges remain. Three indicative targets on non-mining tax revenues, arrears clearance, and reserve accumulation were missed. Additionally, while some structural benchmarks were met, others related to debt office procedures, the financial sector, and governance reforms were delayed and reset for the next review.

Analysis

The IMF's assessment presents a cautiously optimistic outlook for Zambia, contingent on sustained momentum in its reforms. The Zambian economy is showing resilience with a positive outlook for growth. Real GDP is estimated to have grown by 4% in 2024, driven by a strong performance in the mining and services sectors, which were prioritized for electricity access despite the drought. A robust recovery in agricultural production is expected to boost real GDP growth to a projected 5.8% in 2025. In a sign of positive economic momentum, Moody's upgraded Zambia's outlook from stable to positive in April 2025. This decision, which also affirmed the nation's Caa2 long-term ratings, recognizes the country's continued progress in fiscal consolidation and debt-restructuring initiatives. In line with this, a Deloitte report forecasts that the debt-to-GDP ratio will drop significantly, from around 100% in 2024 to an estimated 60% by 2029. This fundamental is particularly important for the GDP-linked bonds, which according to the Africa Legal Support Facility, were reportedly introduced during the debt restructuring exercise to ensure repayments reflect the country’s economic fundamentals more accurately. The implication of this then, is that it is likely that the country may have to bear higher debt service costs were GDP to rise as projected, as determined by the terms of the agreement dictating the instruments. Hence, while a rising GDP is generally desirable, the terms of the GDP-linked bonds mean that the country's debt obligations will increase, offsetting some of the financial benefits of the economic growth. This creates a unique situation where economic success directly translates into a heavier debt burden, which could pose a challenge to the country's fiscal planning and budget management.

Overall, this positive forecast is tempered by significant risks, particularly global economic uncertainty. While Zambia’s public debt was assessed under the IMF review as sustainable, the country remains at a high risk of overall and external debt distress in the near term. According to the Zambian government however, significant progress has been made in Zambia’s US$13.3 billion external debt–restructuring process, with 90% already addressed. This includes US$6.4 billion covered by the Official Creditors Committee, US$3.8 billion under the Eurobond holders, and US$1.6 billion from other private creditors, which have already been restructured. According to Finance Minister Simboko Musokotwane, this had been achieved through an Agreement-In-Principle. The remaining 10%, pertaining to other private creditors, is still pending finalization, with negotiations underway. In particular, it is yet to sign final bilateral deals with the Export–Import Bank of China for USD$4.1-billion of loans, and about USD$1.5-billion in debt to Chinese lenders classified as commercial, according to Bloomberg. While the progress has been rather protracted, it is expected to be finalized in September and will establish a foundation for greater economic stability and improved growth prospects.

Conclusion

In conclusion, Zambia's journey toward economic recovery, guided in part by its IMF-supported programme, has been marked by both notable achievements and persistent challenges. The "broadly satisfactory" performance and positive forecasts from institutions like Moody's underscore the country's commitment to fiscal and structural reforms, with important milestones already achieved in debt restructuring and economic stabilization.

However, the path forward requires unwavering dedication, particularly in addressing persistent issues such as overdue tax revenues and delayed structural reforms. By maintaining fiscal discipline, especially in the lead-up to the 2026 elections, and continuing to implement the ambitious reforms outlined by the IMF, Zambia can strengthen its economic resilience and transform its cautious optimism into tangible, long-term prosperity. The successful finalization of all debt-restructuring agreements in a transparent manner will be the final and critical step in cementing a stable foundation for sustained inclusive growth.

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