Fiftieth Sovereign Debt News Update: IMF Executive Board Approves $1.3 Billion Extended Credit Facility Arrangement for Zambia

By:

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Zambia is in debt distress and needs a deep and comprehensive debt treatment to place public debt on a sustainable path. As a result, on 31 August, 2022, the Executive Board of the International Monetary Fund (IMF) approved a 38-month arrangement under the Extended Credit Facility (ECF) for 2022-2025 in the amount of about SDR 978.2 million (or about $1.3 billion or 100 percent of quota). The program is based on the authorities' homegrown economic reform plan that aims to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth.

The 38-month loan program is aimed at *inter alia* re-establishing sustainability in Zambia through fiscal adjustment and debt restructuring; creating fiscal space for social spending to cushion the burden of adjustment; and strengthening economic governance, including by improving public financial management. The loan program is also projected to catalyse much-needed financial support from development partners. Effectively, the Executive Board's decision will enable an immediate disbursement equivalent to SDR 139.88 million (about US$185 million).

Following the approval, the Executive Director of the IMF issued a statement encouraging the Bank of Zambia to continue its efforts to reduce inflation and preserve financial stability. In her words:

> Zambia continues to face profound challenges reflected in high poverty levels and low growth. The ECF-supported program aims to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth. The adjustment creates fiscal space for increased social spending to cushion the burden on the most vulnerable, help reduce poverty, and to invest in Zambia's people. The ongoing expansion of the authorities' Social Cash Transfer program and their plans to increase public spending on health and education are particularly welcome.

Ms Georgieva also advised the country to bolster the framework for monitoring fiscal risks, particularly those related to large state-owned enterprises, as well as to strengthen its public investment management and procurement practices in order to ensure transparency and the efficient use of scarce resources.

The approval of the 38-month loan arrangement between Zambia and the IMF comes after the creditor committee for Zambia formed by countries with eligible claims on Zambia, and co-chaired by China and France (South Africa acting as a vice-chair) (hereinafter "the creditor committee") met virtually on July 18, 2022. Observers at the meeting were representatives of the International Monetary Fund and the World Bank Group. The creditor committee examined the macroeconomic and financial situation of Zambia, including its long-term debt sustainability, and its formal request for a debt treatment under the "Common Framework for Debt Treatments beyond the DSSI" endorsed under the Saudi G20 Presidency in November 2020, which was also endorsed by the Paris Club.

In a statement dated July 18 2022, and issued on July 30 2022, the creditor committee supported Zambia's envisaged IMF upper credit tranche (UCT) program and its swift adoption by the IMF Executive Board to address Zambia's urgent financing needs.

The creditor committee also encouraged Multilateral Development Banks (MDBs) to maximize their support for Zambia to meet its long-term financial needs. Consistent with their national laws and internal procedures, creditor committee members committed to negotiate with the Republic of Zambia terms of a restructuring of their claims to be finalized in a Memorandum of Understanding (MoU), in accordance with the "Common Framework for Debt Treatments beyond the DSSI". The Committee advised Zambian authorities to seek from all private creditors and other official bilateral creditors debt treatments on terms at least as favourable as those being considered by the creditor committee, in line with the comparability of treatment principle. Consequently, the creditor committee also urged private creditors and other official bilateral creditors to commit without delay to negotiate with Zambia such debt treatments that are crucial to ensure the full effectiveness of the debt treatment for Zambia under the Common Framework.

Consequently, following the bailout by the IMF, Zambia's social spending is projected to rise from 0.7 per cent of GDP in 2020 to 1.6 per cent in 2025. This, however, comes at the cost of Zambia's government eliminating fuel subsidy, cutting costs in farm subsidies, and avoiding a repeat of bad investments fuelled by debt. The country is also required to shrink its deficit from 10% to 6%, signalling pain as the country will have to impose wage freezes & hiring freezes. Zambia's finance ministry has already significantly cut back on infrastructure projects in the pipeline, cancelling $2 billion in yet-to-be disbursed loans – largely from Chinese banks.

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