Eighty Eighth Sovereign Debt News Update: Zambia Seals $6.3 billion Debt Restructuring Deal that Excludes Private Creditors

By:

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Zambia, the third African country to apply for debt restructuring under the G20 Common Framework in 2021, has finally negotiated a deal with its bilateral creditors. The country, which became Africa's first sovereign nation to default on a $42.5 million bond payment during the Covid-19 pandemic in 2020, has reached an agreement in principle to restructure $6.3 billion of debt with bilateral lenders. Zambia's debt restructuring deal under the G20 Common Framework has seen China, India, Saudi Arabia, and Paris Club creditors join forces to agree on debt relief for Zambia. The agreement follows after the recently concluded restructuring deal for Chad, effectively making Zambia the second country to receive a deal under the Common Framework.

For more than two years, Zambia has been in talks to rework $12.8 billion of external loans through the G20 Common Framework. It is imperative to note that the restructuring is partial so far as of this $12.8 billion, only $6.3 billion owed to bilateral lenders has been agreed upon. Zambia's external debt would, therefore, still need to be fully restructured, a process which would require agreement from private creditors such as holders of the country's $3 billion eurobonds.

Led by China, Zambia's bilateral creditors have come to an agreement on a set of terms. The agreement, which was reached at the Summit for a New Global Financing Pact in Paris, calls for Zambia's debt to be rescheduled over more than 20 years with a three-year grace period on interest payments. The debt to be restructured includes $1.3 billion in arrears, and private sector creditors are likely to do the same on the $6.8 billion owed to them. In a statement, Zambia's Finance Ministry highlighted that the official creditors had agreed that local currency debt would be excluded from the deal. Zambia decided against including its local currency bonds in the restructuring due to concerns about the stability of its domestic economy.

As with most debt restructuring deals, the terms of the agreement with the creditors could be adjusted if Zambia's debt-carrying capacity improved, potentially leading to faster principal reimbursements and higher interest payments. Put differently, the deal will provide for less debt relief in the event that Zambia's economy fares better than expected in the next few years. Zambia, however, still needs to iron out terms with each bilateral lender and strike a separate deal to restructure the remaining $6.8bn in private debts. The negotiations with private creditors are therefore yet to be concluded and it remains unclear how soon a deal should be expected.

This deal comes at a time when the two-year long journey has been fraught by geopolitical tensions between the United States and China, and conditionalities placed by institutions as the International Monetary Fund (IMF). As highlighted in the Sixty Fourth Sovereign Debt News Update, Washington and Beijing were "fighting" for influence in the country, thus contributing to the protracted delay in reaching a restructuring deal. In March 2023, the Seventy Second Sovereign Debt News Update noted how Zambia's debt restructuring was at a stalemate as creditor institutions were in disagreement on the next steps for the country.

Interestingly, in April 2023, the IMF indicated that the Zambian government needed bilateral debt relief to secure the next $188 million payout from a $1.3 billion support loan to the country. The support loan was therefore contingent on Zambia reaching an agreement with its creditors. According to the IMF, following these developments, the agreement will allow the Executive Board to consider the first review of the Fund-supported program within a few weeks.

In light of this development, there have been positive reactions reflecting on the two-year long wait. Zambia's Finance Minister Situmbeko Musokotwane who has been, as noted in the Seventy Second Sovereign Debt News Update, bemoaning the delay by creditors under the Common Framework in providing for Zambia's debt restructuring and relief, highlighted that the *agreement marks a significant step towards restoring Zambia's long-term debt sustainability and economic growth*. President Hakainde Hichilema noted that from the outset, his administration prioritized the debt restructuring agenda since assumption of power in 2021, and that he was hopeful that the deal will help to attract investment, create jobs and improve livelihoods. The President, however, also tempered public excitement about the deal by noting that "*the hard work is not over yet*," recognizing that the more than $6bn owed to private lenders still needs to be tackled. According to one Isaac Mwaipopo, an economist from the think-tank *The Centre for Trade Policy and Development*, the deal is expected to buoy investor confidence. Still, he also urges the government to follow an economic recovery plan. He argues that "*there's a need to come up with a clear plan in terms of reconstructing the economy, especially that we will still be on an IMF programme for the next three years. It will be very important to identify sectors that can be strategic for growth, boosting job creation and aiding poverty alleviation*."

With the agreement having been reached in Paris, France at the summit that has brought world leaders together to discuss reforms to the lending system between richer and poorer countries, this has been interpreted by some analysts as a diplomatic win for French President Macron. France, which co-chairs the official creditor committee under the Common Framework, is most likely to be credited for its role in the "realization" of this development. In May 2023, President Hichilema had met French President Emmanuel Macron in Paris and requested Macron to use his country's influence to speed up Zambia's delayed debt restructuring talks. Referring to the agreement as "a historic

achievement", President Macron said France *remains mobilized to ensure that other countries caught in debt-trap benefit from a multilateral response*.

In a statement, the IMF managing director, Kristalina Georgieva, welcomed the debt treatment agreement reached by Zambia and its official creditors under the framework. The statement further reads that the agreement *paves the way for the completion of the first review of Zambia's three-year Extended Credit Facility Arrangement, which is helping put Zambia on a path toward sustainable economic growth and poverty reduction*. The IMF deal is believed to give the Zambian government some respite and an opportunity to stabilize the ailing economy, implement necessary reforms, pursue long-term economic growth, and develop the country's infrastructure. Some also note that the revised terms make the burden of servicing the debts more manageable, reducing the risk of default, and preserving the government's creditworthiness. Additionally, by demonstrating a commitment to resolving its debt issues, Zambia has become an increasingly attractive destination for foreign direct investment.

Undoubtedly, both the speed and scale of Zambia's debt restructuring is concerning. In the first instance, the country's debt restructuring agenda should not have taken this long. The process leading to this agreement has excruciatingly slow, a fact which has discouraged other eligible governments from pursuing the G20 Common Framework initiative. The eventual "success" of this restructuring process is largely piecemeal in character as it excludes private creditors. It is disappointing that Zambia is getting a partial debt restructuring deal and only after two years of intense struggling. Further, the details about the debt yet to be restructured remain murky.

One may also argue that the details of the deal have not been quite clear owing to how rushed it was so that it could be announced at the June 2023 Paris Summit. Speaking at the Summit, the Zambian President is on record saying that he had been in talks with the Chinese and French Presidents *to ensure that by the time the summit takes place, they will have delivered the Zambia debt restructuring project*. President Hichilema went on to highlight the deal as one of the deliverables at the summit.

The AFSDJN raises concern on the precedent this poses for countries like Ethiopia and Ghana which are in line to receive debt restructuring under the common framework, as well as any other African country that may consider

seeking similar relief in the near future. Additionally, the further restructuring of Zambia's debt under clearer terms is called for. The AfSDJN is disappointed that the newly announced deal does not include private creditors. The AfSDJN hopes that private creditors do not block this new deal but instead, that they work diligently to finalize a deal with Zambia.

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