One Hundred and Fourteenth Sovereign Debt News Update: Zambia Reaches Agreement with Bondholders to Restructure 3 billion Eurobonds

By:

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On the 25th of March 2024, Zambia's bondholder committee and the Zambian government announced they had a new debt restructuring agreement. Zambia reached agreement with a group of private creditors on restructuring $3 billion of its international bonds, primarily focusing on swapping Zambia's three existing instruments into two amortising bonds, one of which would deliver higher repayments if the country's economic outlook and capability of dealing with its debt burden improve. A preliminary deal had been reached in October last year, but was derailed after being rejected by official creditors, which include countries such as China and France.

Terms of Agreement

While the overall claim that bondholders have against the country grew to $3.98 billion due to accumulated unpaid interest, under the new deal investors will receive bonds with a face value of $3.05 billion - a reduction from the $3.135 billion proposed in October. According to the Legal Statement provided by Zambia's Ministry of Finance and National Planning, bondholders will forego approximately $840 million of their claims, compared to $700 million in the previous proposal. Under this agreement, bondholders will also provide cash flow relief of approximately $2.5 billion during the IMF programme period. This translates to a haircut of 21.6% of total nominal face value of the bonds (including past due interest), compared to a 16% cut under the previous deal that the official creditors rejected. Additionally, respective weighted average maturity will be "*15 years and 8 years under the Base Case Treatment and the Upside Case Treatment*".

October 2023 Deal vs March 2024 Deal

According to an analysis done by Debt Justice UK, calculations made show that while the March 2024 deal provides more debt relief than the deal in October 2023, the 2024 deal still leaves bondholders getting paid back more than official creditors. Additionally, both the deals with bondholders and official creditors have an automatic large increase in debt payments. A summary of Debt Justice's calculations is provided below:

Restructuring Agreement	**Amount creditors will receive for every $1 owed as of end-2020 – baseline**	**Amount creditors will receive for every $1 owed as of end-2020 – enhanced deals**
March 2023 deal with bondholders	62 cents	93 cents

October 2023 deal with bondholders	73 cents	97 cents
Bilateral creditors	55 cents	87 cents

Source: Debt Justice UK

The table above shows that under both the baseline deal and enhanced deal, bondholders are getting repaid more than official creditors. Under the baseline, bondholders are getting 62 cents for every dollar lent, compared to governments receiving 55 cents. Under the enhanced deals, bondholders get 93 cents for every dollar lent, official creditors 87 cents. With the March 2024 deal splitting payments into two new schedules, called Bond A ($1.7 billion) and Bond B ($1.35 billion), Julians Amboko notes there is some notable tweaking in the coupon structure under the "Upside Case" for Bond B consideration. Julians Amboko notes that under the October deal, the coupon rate was "*peaking at 8.0% while under the new arrangement the provision is for peaking at 7.5%*". However, in both instances, the start still kicks off at 5.75%, and the structure has still retained four (4) equal instalments in the amortisation schedule.

Comparability of Treatment Principle

In previous agreements, the concept of comparability of treatment had not been properly clarified, thereby leading to ambiguous understanding by different creditors. The principle of comparability of treatment is designed to ensure outsized concessions are not made by an official creditor group compared to non-members and private lenders. In the agreement announcement, the Zambian government said it had received confirmation from official creditors that the agreed terms were compatible with regards to the principle of "comparability of treatment". According to one source, "There's been some tweaking and amendments to that, to reach a resolution that the OCC (Official Creditor Committee) has also confirmed meets their interpretation of comparability of treatment". It is clear that the comparability was "*something on which both sides had to compromise.*"

An increase in Bonds

The agreement has had a positive impact on the bond's rating. Zambia's dollar bonds strengthened as the country worked to finalize a long-delayed debt restructuring, with Moody's Investors Service saying a deal would be a catalyst for broader economic reforms. The Southern African country's sovereign bonds rose after the agreement was announced, with the 2027 note up 1.8 cents to 73.85 cents on the dollar. However, Moody's has warned that the latest round of bondholder negotiations is taking place in the midst of a severe drought, with far-reaching implications for the economy, energy supply and food security. According to Moody's, "*the effects of the drought are expected to weigh on Zambia's debt carrying capacity, increasing the risk of higher losses for creditors from the current negotiations and following the debt restructuring*."

Reactions

President Hakainde Hichilema hailed the $3.5 billion agreement with Eurobond holders as a significant milestone, signalling a turnaround for Zambia's economy. The bondholders, which include Amia Capital, Amundi, Farallon, Greylock Capital Management, and BlueBay Asset Management, also welcomed the agreement saying, "*We are pleased to have finally reached a definitive and conclusive agreement with the Government that is supported by all stakeholders*." The International Monetary Fund (IMF) welcomed the debt restructuring agreement between Zambia and bondholders, deeming it consistent with the parameters of the IMF program. Tim Jones, Head of Policy at Debt Justice, said: "*Today's deal is better than the first bondholder proposal that was rejected by creditor governments in October, but bondholders will still get paid back over 10% more than public creditors*." This shows that the principle of comparability of treatment has not been satisfied. Further, Zambia has still to reach agreement with non-bond private creditors.

What of Private Creditors?

While it seems that Zambia has won this battle, it is still yet to win the war. With the bondholders having been satisfied as such, attention must be shifted towards non-bond private creditors. Having also reached a deal with official, bilateral creditors in June 2023, Zambia now needs to negotiate restructuring agreements with its other commercial creditors. According to one source,

Zambia is in talks to restructure $3.3 billion of commercial debt. According to Felix Nkulukusa, Secretary to the Treasury, Zambia is close to reaching debt restructuring deals with some of its remaining commercial creditors. The remaining commercial lenders include the Chinese state-owned China Development Bank and Industrial and Commercial Bank of China, the African Export-Import Bank, a regional trade finance provider, and western banks such as Standard Chartered.

Conclusion

With close to 4 years of trying to resolve the country's debt crisis, Zambia remains the litmus test case for the G20's Common Framework approach to help countries seeking debt treatment. As highlighted in the One Hundred and Eleventh Sovereign Debt News Update, Zambia has gone through several "false starts" and "false celebrations" in the process of reworking debts owed to sovereign and commercial creditors and bondholders. In spite of the slow-paced "progress" noted since 2020, at every point, Zambia's experience continues to prove the case for a new comprehensive, fair and effective sovereign debt restructuring mechanism based in the United Nations that would be binding on all creditors, including commercial creditors, and that would make it difficult for hold-out creditors to prevent sovereign debt workouts.

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