One Hundred and Seventeenth Sovereign Debt News Update: Zambia Launches Consent Solicitation for the Eurobonds

By:

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Zambia has taken its external debt restructuring efforts forward by launching consent solicitation for its Eurobonds. In a press release, the Republic of Zambia, represented by the Ministry of Finance and National Planning of Zambia announced the launch of a consent solicitation in respect of its US$750.0M 5.375% due 2022, US$1.0 billion 6.5% due 2024 & US$1.25 billion 8.97% due 2027. Although the government has made recent breakthroughs in reaching deals with holders of $3 billion in Eurobonds as well as its official creditors, Zambia still needs to revamp about $3.3 billion in remaining commercial debt.

This development follows the One Hundred and Fourteenth Sovereign Debt News Update that indicated that Zambia had reached agreement with bondholders to restructure 3 billion Eurobonds. An Agreement in Principle (AIP) was reached by the Government of the Republic of Zambia and the Steering Committee of the Ad Hoc Creditor Committee on the key commercial terms of a proposed restructuring transaction relating to the Government's bonds due 2022, 2024 and 2027 in March of 2024. Even then, Zambia's currency lost a third of its value in the time it took to arrange a deal with bondholders in March 2024, nine months after the deal with government creditors. Furthermore, those bondholders will be getting paid back 10% more than governments, including the U.K. and China

IMF Staff Complete Mission

According to an International Monetary Fund press release, an IMF team visited Lusaka from April 24 to May 7 to discuss recent economic and financial developments, as well as economic policies that could underpin the third review of the IMF Extended Credit Facility. The IMF mission team led by Ms. Vera Martin visited Lusaka from April 24th to May 7th, 2024. In a statement, Ms. Vera Martin said, "*there is an agreement between the IMF staff and the Zambian authorities on the need to durably sustain macroeconomic stability and restore fiscal and debt sustainability in line with program parameters*." The third review of the nation's economic program with the lender is also expected to unlock another funding tranche of more than USD$180 million. In a statement, Ms. Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), said the agreement reached between the Zambian authorities and the Steering Committee of the Ad Hoc Creditor Committee of holders of Zambia's Eurobonds marked a significant step forward. According to Ms Georgieva, *the terms of this agreement have been assessed by the Fund staff as being in line with the parameters of the IMF-supported program, taking into account the confirmation by the OCC to the IMF and to the Authorities that the agreed terms are consistent with the comparability of treatment among creditors*.

Irresponsible Borrowing Practices

In order to boost revenues and improve governance, the IMF Staff encouraged the Zambian authorities to strengthen tax administration, remove tax exemptions, and actively combat tax evasion, highlighting that continued progress in enhancing transparency and advancing governance reforms, particularly within the energy sector, is essential. Interestingly, an audit of Zambia's public debt, carried out in April 2024, found inflated costs and wasteful spending concerning government's purchase of vastly overpriced computers and laptops for public schools that have no electricity.

According to the report by the Zambian Office of the Auditor General, one of the loans the audit scrutinized was used to buy 10,000 laptops for $3,900 each, compared with the $630 they should have cost. The government overpaid for laptops and desktop computers by about $96 million. Acting Auditor General Ron Mwambwa called for "remedial action" to be taken as a deterrence to would-be offenders, according to a statement. It seems laptop scandals are becoming popular as Zimbabwe's Parliament had a similar stint in 2022. In September 2022, it was reported that Parliament had approved acquisition of 173 laptops and 79 desktops which were overpriced at US$9 264,48 and US$3 076,61 per unit, respectively.

Currency Depreciation and the El Nino-Induced Drought

Zambia is currently facing significant economic challenges as the country grapples with a weakening currency, inflationary pressures, and a drought that has led to power cuts and food shortages. On the 8th of May 2024, the Zambia's currency fell as much as 0.3% to 27.28, according to data compiled by Bloomberg. This slump by 1.9% in May 2024 made it the worst performing currency globally of those tracked by Bloomberg. According to Musenge Komeki, Head Sales, Global Markets at Stanbic Bank Zambia, the impact of the drought on the currency has been substantial, with the structural weaknesses in the dollar kwacha exchange rate exacerbated by low mining production levels. Zambia's mining sector, which contributes over 80% of foreign exchange earnings, has also experienced a significant drop in production, further impacting the country's ability to stabilize its currency. Meanwhile, the IMF has more than halved its 2024 economic growth forecast for Zambia as the drought hits farming and electricity production. The IMF expects gross domestic product in Africa's second-biggest copper producer to expand 2.3% this year, down from 4.7% as recently as last month. Its most recent prognosis is more dire than the 2.5% expansion that Zambian Finance Minister Situmbeko Musokotwane had predicted.

The Possible Impact of the New York Legislation on Zambia

In March, New York lawmakers submitted the "Sovereign Debt Stability Act" to the New York State Assembly with the goal of "providing effective mechanisms for restructuring sovereign and subnational debt." Proponents of the bill will seek to move it through both chambers of the legislature and receive a signature from the governor prior to the end of the legislative session on June 6. According to one source, since Zambia is dealing with only one "class" of creditors subject to the New York legislation, this part of the process should be straightforward. The G20 Common Framework has been failing because it lacks a mechanism would nudge private lenders to agree as much debt relief as public lenders. Legislative action in New York is therefore needed to ensure fair and fast debt restructuring schemes, where private creditors are compelled to share the burden of debt relief. The New York legislation is light on details on how Zambia should come up with a plan. Presumably, Zambia would come up with a plan in consultation with the independent monitor and the IMF.

Conclusion

Zambia has been stuck in debt restructuring negotiations for over three years now, and is facing the worst drought in more than four decades. The G20's Common Framework approach to help countries seeking debt treatment has clearly failed to give Zambia the restriction it badly needs. At the same time, other countries with unsustainable debts are finding other means (i.e., Eurobonds) to delay necessary restructuring because Zambia's journey has been discouraging and unappealing. 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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