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ZAMBIA'S EXPERIENCE IN DEBT RESTRUCTURING

Version: 25th September, 2022

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1 Introduction

Introduction

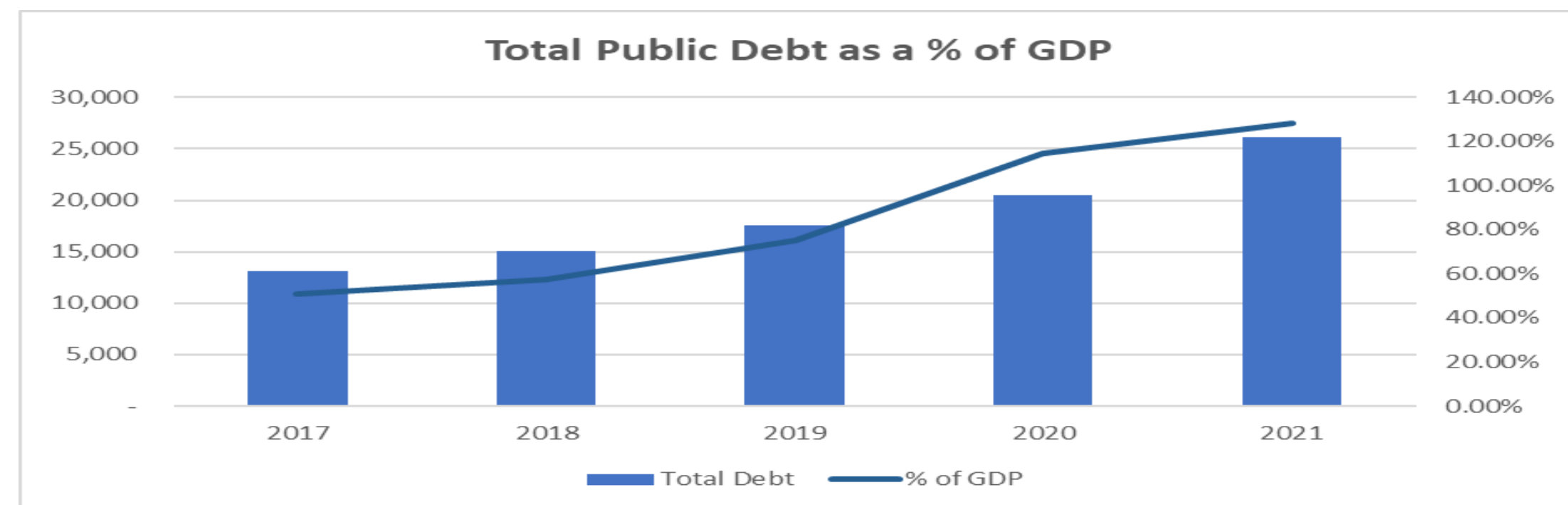
- Zambia is one of the African countries affected by a huge debt burden owing to ambitious infrastructure reform over the past decade. The onset of the Covid19 pandemic in 2020 was the final blow to the already deteriorated economic fundamentals mainly due to escalated public debt levels.
- As part of the long-term solution to Zambia's debt situation, the Government of the Republic of Zambia is addressing the current debt crisis under the G20 and Paris Club Common Framework. Recently the International Monetary Fund approved an Extended Credit Facility (ECF) amounting to US\$ 1.38 billion which will anchor the debt restructuring exercise, provide budget and balance of payment support and support the Country's economic reforms going forward.
- To close the financing gap during the restructuring process, Zambia is seeking debt relief from our creditors amounting to \$8.4 billion during the program period (2022-25).
- To implement measures aimed at reducing the debt burden and in line with the terms agreed under the IMF program arrangement, Government has placed a moratorium on the contraction of non – concessional external loans. Further, Government is in the process of cancelling loan balances of approximately US \$2.1 billion on various ongoing commercial loan financed projects to reduce accumulation of external debt.

2 Public and Publicly Guaranteed Debt Stock

Public and Publicly Guaranteed Debt Stock

- The total public debt position as at end June 2022 was US\$ 26.85 billion. Of the total stock, Central Government external debt stock accounted for US\$ 13.25 billion, Central Government domestic debt was US\$ 11.99 billion. Guaranteed external debt stock was US\$ 1.5 billion and Non – Guaranteed external debt stock was US\$ 113.69 million. This represents a 2.65 percent increase from the end December 2021 position of US \$ 26.157 billion.

- A five-year historical analysis of public and publicly guaranteed debt shows a steady increase from US\$ 13.12 billion (50.9 percent of GDP) as at end 2017 to US\$ 26.16 billion (125.3 percent of GDP) as at end 2021 (refer to chart 1 below). The increase over the period was mainly attributed to a rise in financing needs which led to higher borrowing to finance projects primarily in the energy and infrastructure sectors.



Source: Ministry of Finance and National Planning, Zambia

Central Government External Debt Stock

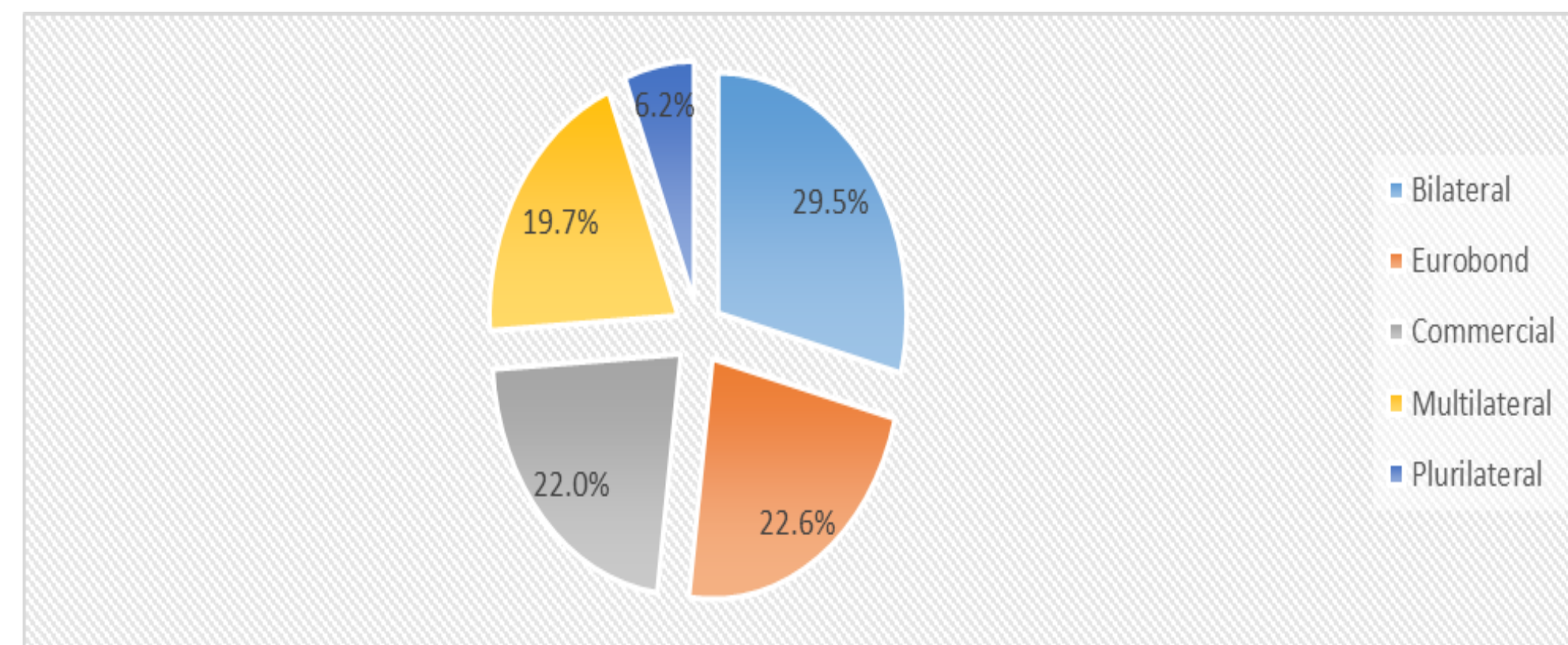
External Debt Position

- Central Government External debt increased by 1.57 percent from US\$ 13.04 billion to US\$ 13.27 billion mainly driven by new disbursements from multilateral creditors who accounted for 85.0 percent of the total disbursements (refer to Table 1 below).

Type of Creditor	Dec-21	Jun-22	Percentage change (Dec 21 - Jun 22)
Multilateral	2,367.60	2,605.49	10.05
Bilateral	3,953.37	3,909.76	(1.10)
Plurilateral	809.26	822.27	1.61
Commercial	2,910.96	2,909.07	(0.06)
Eurobonds	3,000.00	3,000.00	0.0
Total	13,041.18	13,246.58	1.57

External Debt by Creditor

- As at end June 2022, bilateral debt accounted for the largest proportion at 29.5 percent while debt owed to Eurobond holders accounted for 22.6 percent. Commercial and multilateral creditors accounted for 22.0 percent and 19.7 percent, respectively. Plurilateral creditors had a 6.2 percent share of the debt (see chart 2).



- Source: 2022 Mid Year Economic Review (mofnp.gov.zm)

Central Government Domestic Debt Stock

- The stock of domestic debt (Government securities) grew by 5.3 percent to K203.28 billion as at end June 2022 from K192.23 billion as at end December 2021. This was mainly due to the financing needs for the Budget. Government bonds increased by 4.7 percent to K165.47 billion from K158.08 billion while the stock of Treasury Bills rose by 8.3 percent to K37.80 billion from K34.91 billion as at end December 2021. Of the total stock of domestic debt, Government bonds and Treasury Bills accounted for 81.4 percent and 18.6 percent, respectively (see Table 2).

Table 2

Instrument Type	Jun-21	Dec-21	Jun-22	Percentage Change (Dec 21 – Jun 22)
Treasury Bills				
91 Days	1,339.16	1,047.40	1,282.63	25.5
182 Days	1,606.16	2,432.10	4,270.81	75.6
273 Days	2,825.10	3,597.80	5,002.1	39.0
364 Days	29,526.63	27,832.80	27,249.51	(2.1)
Subtotal	35,297.95	34,910.00	37,804.96	8.3
Government Bonds				
2 Years	14,321.70	13,457.10	11,518.51	(14.4)
3 Years	7,129.51	9,935.80	11,322.21	14.0
5 Years	27,327.22	29,038.70	32,571.12	12.2
7 Years	29,908.77	27,661.90	29,400.93	6.3
10 Years	34,585.95	33,639.70	35,468.53	5.4
15 Years	31,667.09	34,717.10	35,559.65	2.4
Mega 10-year Bond	9,632.12	9,632.12	9,632.12	0.0
Subtotal	97,205.36	158,082.4	165,473.0	4.7
		2	5	
Grand Total	130,214.6	192,992.5	203,278.0	5.3
	9	2	1	

Source: 2022 Mid Year Economic Review (mofnp.gov.zm)

3 Debt Restructuring: Milestones & Experience

Debt Restructuring: Milestones

1

Application for debt service suspension under the G20 and Paris Club Debt Service Suspension Initiative (DSSI) was successful covering the period May 2020 to 31st December, 2021.

4

Reached an IMF Staff Level Agreement in December 2021.

2

Consent solicitation was sought from Bondholders on 22nd September 2020, though unsuccessful.

5

Application for treatment under the common framework culminated in the formation of the Official Creditor Committee (OCC) for Zambia who held their 1st meeting on 16th June 2022 and provided financing assurances after their 2nd meeting on 18th July, 2022.

3

Announcement of official debt service standstill for all creditors with the exception of multilateral and preferential creditors in October, 2020.

6

- OCC financing assurances led to the board approval of the IMF ECF of US\$ 1.38 billion at end August, 2022.

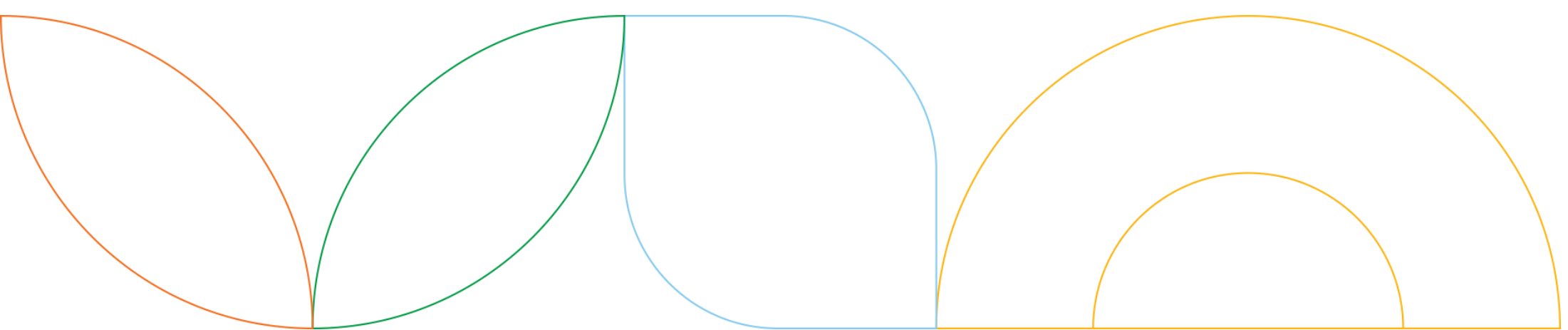
Debt Restructuring: Experiences



Creditor participation

- The Common Framework has provided a platform for interaction with official creditors only through the formation of the Official Creditor Committee (OCC). However, Zambia's creditor landscape has expanded beyond the official creditor group with significant exposure to commercial creditors and we therefore need to undertake independent discussions with private creditors.
- Currently, Zambia has secured financing assurances from the OCC, the next step will be the signing of the Memorandum of Understanding followed by individual bilateral engagements with the creditor countries. On the other hand, private creditors will be expected to provide relief on comparable terms which would be another round of negotiation.

Clarity of Processes

- Debt restructuring under the Common Framework is largely tied to an IMF funded program. However, there have been no guidelines to map out the step by step process to debt treatment under the Common Framework for all participating countries to follow. In the meantime, it's the experience from Chad, Ethiopia and Zambia that will serve as reference points for other countries. It may be beneficial to set up guidelines under the current framework and any other similar initiatives that may be conceived in the future.
 - Two key areas which may benefit from the guidelines is the creditor classification vis – a – vis preferential creditor status criteria beyond the traditional MDB's and DFI's and guidelines on how to achieve comparability of treatment.
 - Despite the lack of clarity in the process, the Paris Club secretariat, the IMF and the World Bank and our financial and legal advisors on debt restructuring have been on hand to support the exercise.
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4 Reforms

Reforms

The Public Debt Management Act

- While we welcome initiatives such as the Common Framework and the Debt Service Suspension Initiative (DSSI), that aim at cushioning and addressing the effects of unsustainable debt, it is imperative that we take pragmatic efforts to avoid reoccurrences of such events in future.
- In this regard, the Government of the Republic of Zambia has revised its debt management laws through the enactment of the Public Debt Management Act No.15 of 2022, to improve transparency of public debt, strengthen parliamentary oversight of loan contraction and legalize public debt management operations by stipulating the roles of the Debt Management Office and making production of certain reports such as debt sustainability analysis and medium-term debt strategy a time bound requirement.
- The key reports that will be published as prescribed by the Act are:
 - Debt Statistical Bulletin
 - Debt sustainability Analysis Report
 - Medium Term Debt Strategy
 - Annual Borrowing Plan
 - Annual Public debt, Guarantees and Grants Execution Report

5 Next Steps

Next Steps – Debt Restructuring

Conclusion & Next Steps

- The Government of the Republic of Zambia with support from its legal and financial advisors has made tremendous strides in addressing the debt situation and putting in place measures to restore public debt back on the path to sustainability.
- Following the approval of the ECF, engagements with the various creditor groups will gain momentum premised on the comparability of debt treatment. The expectation is for the external debt restructuring to be finalized with all creditors within the first half of 2023.

Next Steps - INFF

National Development Plan

- The Government of the Republic of Zambia launched the 8th National Development Plan on 2nd September, 2022. The plan sets out The 8NDP sets out Zambia's strategic direction, development priorities and implementation strategies for the period 2022 to 2026 and is anchored on four pillars namely *economic transformation and job creation, human and social development, environmental sustainability, and good governance environment.*
- In line with the Planning and Budget Act of 2020, the 8NDP will be the basis for the formulation of all subsequent annual budgets and medium-term budget plans for the same period
- **INFF & 8NDP** : The 8NDP implementation plan will incorporate INFF processes and aims to leverage both public and private investment to finance the plan. Currently, Zambia has drafted the DFA which is expected to published by end December 2022 following validation.

Thank you.

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