

OP-ED: ZAMBIA'S ACHIEVED DEBT RESTRUCTURING DEAL AND RELATED IMPLICATIONS

Overview

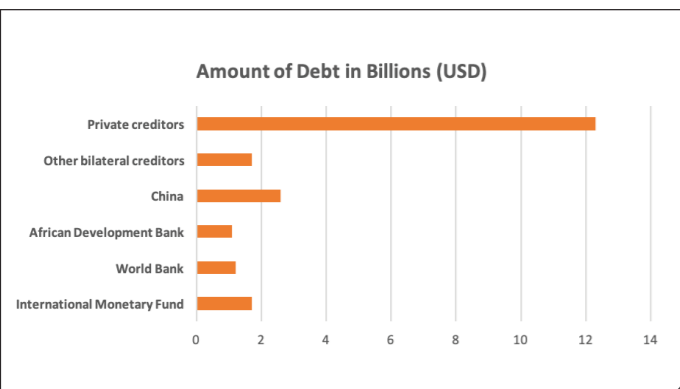
In 2020 Zambia was the first African country to default in paying its creditors; the Coronavirus (COVID-19) pandemic rendered Zambia and numerous other countries with a plethora of economic bottlenecks. **However, the global economy shrank in general during the same period, with developing countries experiencing a more severe decline than the rest of the globe.**

In the early to mid-2000s, the Zambian Government engaged the International Monetary Fund (IMF) and the World Bank with a move intended to achieve the Heavily Indebted Poor Country (HIPC) challenge for national debt cancellation; this was achieved in 2005. Following a successful debt cancellation for the first time, Zambia's macroeconomic performance became stable. Notably, the country was able to wean off the devastating effects of the 2008/9 global economic slump.

Current National Debt for Zambia

The projected value of **Zambia's external debt is \$18.6 billion. Of this, official creditors such as the World Bank, the African Development Bank, and the International Monetary Fund (IMF) are owed \$6.3 billion. Private creditors, including commercial banks and bondholders, are owed the remaining \$12.3 billion.**

The following table shows the amount of debt owed to each creditor as of December 2022:



Zambia's debt to **China is estimated to be \$2.6 billion.** This makes **China Zambia's biggest creditor, accounting for 14% of the country's total external debt.**

Debt Deal Reached

Zambia and its official creditors agreed to restructure their \$6.3 billion debt in line with the G20 Common Framework for Debt Treatment. **With the help of this arrangement, Zambia will be able to rearrange its debt payments and lessen its overall debt load.** The accord is still awaiting clearance from the IMF and the World Bank, but it is regarded as a significant victory for Zambia's efforts to revive its economy.

What about the other Creditors not in the Current Deal?

The other creditors not in the current deal for Zambia are the private creditors, who are owed \$6.8 billion. These creditors include:

- BlackRock
- Israel Discount Bank
- Investec
- Standard Chartered
- Other Western private creditors
- Chinese commercial lenders

It is hoped that these creditors will agree to a restructuring agreement that is comparable to the one that was struck with the official creditors. Zambia is still in discussions with these creditors. Zambia might be forced to make a default payment to its private creditors if they refuse to accept a deal.

What Happens Beyond the Three (3) Years?

Beyond the three-year grace period, the effects of Zambia's debt restructuring will depend on a variety of conditions, including the following:

- The state of the economy of Zambia:** Zambia will be able to raise more money to pay down its debt if the economy expands at a healthy rate.
- The volume of international investment:** Foreign investors will be more willing to invest in Zambia if they have confidence in the country's economic prospects, which will support economic growth.
- The agreement's terms with the private creditors:** Zambia would be able to lessen its debt burden and improve its financial situation if the private creditors agree to a settlement that is comparable to the one that was agreed with the official creditors.

The decisions taken by the Zambian Government and the international community will determine how the debt restructuring in Zambia affects the nation after the three-year grace period. Zambia may come out of the debt crisis stronger than ever if the Government successfully puts sound economic policies into place and lures international investment. **The Government has demonstrated resilience during the road to debt restructuring by instituting key economic reforms critical to economic revival. However, if the Government is unable to address the country's economic problems, Zambia may face a long and difficult road to recovery hence the need for multi-stakeholder consented efforts towards the path to economic recovery.**

Recommendations

- To improve economic governance:** The Zambian Government needs to develop its public finance management systems and increase openness and accountability to improve economic governance. This will allow for the effective and efficient utilization of national resources.
- Reorient economic expansion:** Zambia needs to redirect its economy's growth trajectory away from **debt-fuelled consumption and towards investments**

in profitable sectors like manufacturing, tourism and agriculture. These measures will result in increased employment and exports thus increasing the amount of financial resources available critical to paying off the country's debt.

c. Attract outside capital: To support economic growth and create jobs, Zambia needs to entice foreign investment. To accomplish this, The Government is urged to **improve the business climate, provide incentives to foreign investors and make sure that laws and regulations are transparent and predictable to achieve this policy measure.**

d. Reform the mining industry: Zambia's mining industry is a significant contributor to debt reduction and an important driver of domestic resource mobilization. The Government must reform the mining industry in order to ramp up production in various mineral value chains to generate sustained economic growth for the nation while preventing environmental degradation.



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