



# CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investments Law, Public Finance Management, Extractives and Human Development.

TODAYS TOPIC

## ZAMBIA'S DEBT CRISIS:

UNDERSTANDING THE COMPLEXITIES OF CREDITOR COMPOSITION AND ITS IMPACT ON DEBT RESTRUCTURING



Mr. Peter Mumba  
CSO Debt Alliance  
Coordinator

**Z**AMBIA's debt crisis has been widely publicized since it became the first African country to default on its debt payments during the Covid-19 pandemic. The pandemic worsened the country's pre-existing debt crisis and led to balance of payment challenges. As a result, the Zambian government sought an IMF bailout program, which was eventually approved in September 2022. The IMF program has intensified discussions around debt restructuring within a common framework coordinated by the G20 major economies. However, the debt restructuring process has been delayed due to the complexity of the country's creditor composition. This week's Monday Opinion seeks to understand the complexities of creditor composition and its impact on debt restructuring for Zambia.

The G20 Common Framework was created to help low-income countries in debt to achieve debt sustainability and avoid future debt crises through debt relief and restructuring. It requires cooperation between the debtor country and its creditors. One of the main principles of the framework is comparability of debt treatment, which ensures fairness and equity for all parties involved. Nevertheless, the multitude of creditors in Zambia's composition is hindering efforts to negotiate debt treatment on equal terms, especially considering that the country's external debt exceeds \$13 billion.

Creditor composition relates to the features and identities of the different creditors that possess a government's public debt. It is a multifaceted and intricate issue that can have

notable consequences for the feasibility and results of public debt restructuring initiatives. Creditors may possess diverse concerns, preferences, and limitations that can make it challenging to attain an agreement on a debt restructuring strategy. Certain important features, like the nature of the creditors engaged, the proportional importance of creditors, the geopolitical distribution of creditors, and creditors who refuse to participate, can hold significant leverage in debt restructuring discussions to align with their own interests.

Zambia's creditors are a mixture of various types, including private, commercial, bilateral, multilateral, and plurilateral creditors. According to statistics from the Ministry of Finance and National Planning, as of the end of 2022, the Central Government's external debt stock was US\$13.9 billion. Of this total, 28% was bilateral debt, 23% was multilateral debt, 22% was Eurobonds, 21% was commercial debt, and 6% was plurilateral debt.

The debt restructuring process for Zambia's Eurobonds has added complexity by introducing a wider range of creditors who have their own preferences and objectives that must also be considered.

The largest bilateral creditor to Zambia is China, which holds approximately \$6 billion of the country's external debt. This means that China is a crucial participant in Zambia's debt discussions. Although China has demonstrated in the past its willingness to renegotiate its loans to developing countries like Zambia, it is reluctant to provide debt relief in the form of haircuts as requested under the common framework due to several reasons such as its non-interference policy, sovereign debt principles, and domestic political considerations. However, some sources suggest that Chinese banks might potentially provide relief by lowering their interest rates to

meet Zambia's debt reduction goal.

Zambia also has a significant amount of multilateral debt from various lenders such as the World Bank, Paris Club, African Development Bank, and IMF. However, multilateral lenders such as the IMF and World Bank do not typically offer public debt haircuts or write-offs due to policy restrictions. In addition, it is unclear if commercial lenders such as JP Morgan and BlackRock, who own a significant portion of Zambia's Eurobonds, would be willing to provide haircuts of up to 48% of their loan's present value. As a result, some creditors have suggested that multilateral and commercial creditors, including local currency bondholders, should participate equally in the debt restructuring process on comparable terms. However, such an approach may not align with Zambia's economic growth policies.

The diversity of creditors is a major challenge for Zambia's debt restructuring process, as each creditor has unique interests, legal rights, and bargaining power that can make it difficult to come to an agreement on a restructuring plan that satisfies everyone. If these complexities are not resolved, the debt treatment process may be delayed, which could undo the country's economic progress and undermine the effectiveness of the IMF program. Therefore, the government must remain impartial as they work with creditors to improve coordination and facilitate negotiations that promote comparable debt treatment. It is also crucial to enhance the debt restructuring architecture under the common framework to ensure that debt negotiations are resolved promptly and comprehensively.

Keep an eye out for next week's opinion, which will examine the prospects for restructuring Zambia's debt.

**About Author**  
*Peter N Mumba is a policy researcher who presently coordinates the operations of the Zambia Debt Alliance. He holds a master's degree in economics from the University of Namibia and has also completed additional programs in monitoring and evaluation, as well as business information systems, from Cavendish University and the International University of Management, respectively.*

EXECUTIVE DIRECTOR  
P.O. Box 50882, Lusaka, Zambia  
Plot 3823, Manda Hill Road,  
Olympia Park  
Tel: +260 211 264409  
Email: [info@ctpd.org.zm](mailto:info@ctpd.org.zm)

Centre for Trade Policy & Development

[www.ctpd.org.zm](http://www.ctpd.org.zm)

@CTPDZambia

+260975876038