One Hundred and Fourth Sovereign Debt News Update: Zambia Announces that its Debt Restructuring with Eurobond Creditors Cannot be implemented at this time

By:

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Zambia's attempts to restructure its debt have taken a step backward as the government has announced that a revised deal to rework $3 billion of Eurobonds could not be implemented due to objections from official creditors, including China. In June 2023, Zambia sealed a $6.3 billion debt restructuring deal that excluded private creditors. This development comes after Zambia, in October 2023, agreed on a memorandum of understanding with official creditors to restructure $6.3 billion of debt.

As reported in the One Hundred and First Sovereign Debt News Update, Zambia’s bondholders had come to the negotiating table to formally start debt talks with the government with the goal to restructure more than $3 billion of overseas bonds. Zambia then succeeded in reaching an agreement in principle on restructuring $3 billion of its international bonds with bondholders late October. The deal proposed to restructure claims on three existing bonds by issuing two new "amortising" bonds - in which repayments go towards both interest and principal - maturing in 2035 and 2053 respectively, under an economic "base case" scenario.

In a statement released on the 20th of November, Zambia’s External Bondholder Steering Committee said it was “*very disappointed and deeply concerned with recent developments with regard to implementing an agreement with the Government of Zambia on a restructuring of Zambia's (i) US$750,000,000 5.375 per cent Notes due 2022, (ii) US$1,000,000,000 8.500 per cent Notes due 2024 and (iii) US$1,250,000,000 8.970 per cent Amortising Notes due 2027.* Zambia and the country’s official creditor committee (OCC) as well as the International Monetary Fund (IMF) had been at odds over whether the initial deal struck with a group of bondholders in late October offered comparable debt relief between bilateral and commercial lenders. The IMF approved a tweaked deal, but official creditors again rejected it.

In a meeting on Friday 17th November, OCC members concluded that the Revised Proposal was not comparable with the debt treatment granted to Zambia by the OCC. The OCC Co-Chairs further advised that there was no consensus among OCC members as to the magnitude of additional PV concessions that would be required from Bondholders in the Base Case to comply with the Comparability of Treatment principle. According to the bondholder committee, “*the OCC is demanding debt relief from commercial creditors that is materially higher than either the Government or the IMF deem necessary to restore debt sustainability*.” The bondholder committee further added that *“it is creating very clear inter-creditor equity issues and is going far beyond the OCC’s envisaged role under the Common Framework in verifying Comparability of Treatment*.” As a result Zambia issued a statement saying that was “unable to move forward at this time with the implementation of the restructuring with the bondholders.”

Zambia's dollar debt reportedly plunged after the official creditors rejected the revised bondholder restructuring proposal. Zambia's $1.25 billion of notes due 2027 fell as much as 5.1% — the most in more than a year — and were trading at 59.6 cents on the dollar 4:11 p.m. in London on November 20, 2023. Its currency fell 0.4% against the dollar to a record-low 23.275.

According to Simon Quijano-Evans, the chief economist at Gemcorp Capital Management Ltd in London, "*[o]ne major inefficiency of the Common Framework is that private creditors are excluded from the negotiating table and are presented with a fait-accompli*". Richard Segal, a London-based fixed-income analyst at Ambrosia Capital Ltd, remarked that when Zambia's government announced earlier on Monday that talks with bondholders had collapsed for the moment, it was "*obviously disappointing to private creditors who have been patient with a country such as Zambia for literally years." He* added*, "this is the first instance I am aware of where an agreement with one group of creditors has been effectively vetoed by another*."

Meanwhile, following the second review mission under the Extended Credit Facility Program, Zambia & the IMF staff reached a Staff-Level Agreement on economic & financial policies on the 20th of November. It is expected that this will anchor program implementation for the next 12 months, and subject to approval by IMF Management and Executive Board, will trigger the third disbursement of approximately $184 million under the program. Commenting on this development, Zambia's Finance Minister Situmbeko Musokotwane said the country hopes to complete debt restructuring as soon as possible and that they are engaging closely with all creditors to achieve this.

Undoubtedly, Zambia's debt restructuring woes, which have taken a complex three-year process, continue to highlight the flaws associated with the G20 Common Framework template for sovereign debt workouts. According to the steering committee of bondholders, the OCC's rejection of the revised deal will "*completely undermine the already diminishing credibility of the Common Framework*". It is clear that there is no consensus among official creditors, further delaying the restructuring. All the while, ordinary Zambian citizens continue to bear the brunt of such delay.

The AfSDJN notes that 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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