

**MINISTERIAL STATEMENT**  
**ON THE**  
**STATUS OF COUNTRY'S DEBT POSITION**  
**BY THE**  
**VICE-PRESIDENT (MRS NALUMANGO) (ON BEHALF OF THE MINISTER OF**  
**FINANCE AND NATIONAL PLANNING (DR MUSOKOTWANE)), MP**

Madam Speaker, allow me to express my profound gratitude for according me this opportunity to inform the hon. Members of this House the status of our country's debt position, and through this House, the rest of our stakeholders within and outside the confines of this republic.

Madam Speaker, the size and breadth of Zambia's debt burden has generated large interest, understandably so. It has denied the country fiscal space for growth, poverty reduction and provision of vital social services. Further, from the time I was appointed the hon. Minister of Finance and National Planning, I have been receiving a number of queries from within and outside Zambia, mainly seeking to establish the actual level of our indebtedness.

Madam Speaker, for the reasons just stated, the 'New Dawn' Government has taken renewed vigour towards the compelling need to restructure our public external debt. This is key to restore public debt sustainability. As we do so, it is absolutely necessary that we address the information gaps by providing an update on the country's current debt position. In this regard, my presentation will focus on two main areas. I will begin by providing clarity on the current stock of public and publicly-guaranteed external debt, including the movements in the debt position between the end of the first quarter and the end of the second quarter of 2021. Thereafter, I will apprise the House on the activities and roadmap that the Government will be pursuing to make its public and publicly-guaranteed external debt stock sustainable.

*Public and Publicly-Guaranteed External Debt Stock*

Madam Speaker, at the time this administration came into power, following the resounding 12<sup>th</sup> August, 2021 election victory, the stake of the Central Government's external debt was

US\$12.91 billion at the end of the second quarter of 2021 compared to US\$12.74 billion that was recorded at the end of the first quarter of 2021. External debt interest arrears were at US\$470.77 million at the end of the second quarter compared to US\$393.42 million at the end of the first quarter.

Madam Speaker, in terms of guaranteed external debt, the total debt stock at the end of the second quarter was US\$1.57 billion compared to US\$1.58 billion recorded at the end of the first quarter. The total non-guaranteed debt was US\$195.7 million. This gives a total of US\$1.76 billion as both guaranteed and non-guaranteed external debt. The stock of public and publicly-guaranteed external debt at the end of the second quarter, therefore, stood at US\$14.48 billion compared to US\$14.32 billion recorded at the end of the first quarter of 2021. If you add the unguaranteed debt on ZESCO Limited, the debt stock is US\$14.67 billion as at the end of the second quarter of 2021. Other notable liabilities under ZESCO Limited include arrears on power purchases which stood at just above US\$1 billion.

Madam, the increase in the external debt position between end of the first and second quarters of 2021 is explained by principal arrears that accrued during the second quarter and some disbursements mainly from multilateral creditors such as the World Bank, African Development Bank (AFDB), the European Investment Bank (EIB) and a few other creditors financing priority projects particularly in the health sector. On the other hand, the slight reduction in guaranteed debt was attributed to debt servicing by ZESCO Limited on some of its facilities.

Madam Speaker, I would now like to specifically address the issue of the Chinese debt that has drawn a lot of interest in the local and international media, including the recently published report by the China Africa Research Institute (CARI). As I indicated, the total publicly-guaranteed and non-guaranteed external debt stock is US\$14.67 billion as at end of June 2021. Of this amount, US\$5.75 billion is owed to Chinese creditors, and the breakdown of this is:

- (a) US\$4.27 billion owed by the Central Government to Chinese creditors;

- (b) US\$1.34 billion is owed by State-Owned Enterprises (SOEs), including ZESCO Limited on facilities guaranteed by the Central Government; and
- (c) the balance of US\$139.60 million is owed by ZESCO Limited on the Chinese facilities that are not guaranteed by the Central Government.

Madam Speaker, of course, debt metrics change from quarter to quarter due to moving parameters such as disbursements, debt service, and the exchange rate, since we report our debt stock in United States Dollars. This debt position includes only amounts drawn and are outstanding plus principal arrears, but do not include interest arrears which amounted to US\$195.47 million at the end of the second quarter. Resources funded by the Government or contractors outside of financing agreements are also not included.

Madam Speaker, at the end of the second quarter of 2021, the undisbursed stock of public external debt stood at US\$4.4 billion. I must also emphasise that the undisbursed stock does not constitute part of the crystallised debt stock. This is as per international reporting standards in debt management. Further, this amount includes amounts that we are in discussion with creditors for possible cancellation in line with the Government's ongoing programme to cancel, re-scope and postpone some of the loan-financed projects with a view to reduce the debt burden.

Madam Speaker, the House may wish to note that due to the liquidity constraints and the need to ensure inter-creditor equity, the Government will adhere to the debt service standstill until an amicable solution is found to our debt situation through good faith collaborative engagements with our creditors. This means that debt service for public external debt will remain restricted to multilateral creditors and a few priority projects mainly in the health sector. In this regard, a total of US\$7.67 million was paid in debt service between the end of March and the end of June 2021 to this group of creditors.

Madam Speaker, allow me to also inform this House that following the extension of the Debt Service Suspension Initiative (DSSI) by both the Paris Club and G20 creditor countries, Zambia signed in September 2021, the DSSI agreement with the Paris Club which comprises creditors

from France, the United Kingdom (UK) and Japan. Other participating creditors include the Development Bank of Southern Africa (DBSA), the Kuwait Fund for Arab Economic Development (KFAED), and the Saudi Fund for Development (SFD). The Government also agreed with Intesa Sanpaolo on a similar debt suspension.

Madam, the relief provided by the DSSI framework does not only cure our potential defaults on the facilities we have with these creditors but more importantly, provides the Government some relief to direct some of the financial resources to supporting our social sector which has not been spared from the adverse effects of the Coronavirus Disease-2019 (COVID-19) pandemic. The Government has continued to accrue arrears across a large spectrum of our creditors pending collaboration with them on a debt restructuring process. The process, I should emphasise, will be done transparently with no favouritism across all creditors.

Madam, as at the end of the second quarter of 2021, the total public external debt arrears stood at US\$1.49 billion. Of this amount, principal arrears amounted to US\$1 billion, which by definition, forms part of the debt stock. The net effect of continued arrears accumulation and the limited disbursements that the Government continues to receive monthly from multilateral creditors will be an expected marginal increase in the public external debt stock for the third quarter of this year.

### *Roadmap to Debt Restructuring*

Madam Speaker, one of the campaign promises of this administration was the unavoidable need to restructure our public and publicly-guaranteed external debt in order to create the much needed fiscal space to finance other interventions that would support the agenda of job creation, increase economic output and improve standards of living for our people. In line with this commitment, debt restructuring is a top priority. The current debt restructuring exercise is being underpinned by the common framework for debt treatment beyond the DSSI common framework which is an initiative endorsed by the G20 together with the Paris Club last November to support in a structural manner, low income countries with unsustainable debt. Zambia has applied to be

considered under this framework that is accessed under the support of the IMF's debt sustainability analysis.

In order to facilitate a smooth debt restructuring exercise, Government is actively engaging the International Monetary Fund (IMF) for a funded programme aimed at:

- (a) fostering our economic recovery programme; and
- (b) providing an anchor to our debt restructuring engagement by way of providing an independent validation of Government's debt position and building consensus on the extent of relief that Zambia requires for its debt to return to a sustainable trajectory.

We aim to reach a staff level agreement with the IMF later this year by agreeing a macroeconomic framework for the medium term and then, design with the assistance of international financial and legal advisers, Lazard Freres and White & Case, a debt restructuring strategy that will lead us into actual engagements with creditors under the common framework initiative.

Madam Speaker, we are confident that all our creditors will collaboratively come on board since they now have an appreciation of the existing debt challenges and the fact that our anticipated debt restructuring process will not seek to disadvantage any of our creditors, but will follow an equitable and transparent path.

Madam, as far as the IMF engagements are concerned, we are hopeful that we will reach agreement with the fund on the parameters of the programme as soon as possible. For this reason, we have agreed on a two phased engagement strategy with the fund. The first engagement started on Monday, 27<sup>th</sup> September, 2021, through a staff visit which ended on Friday, 1<sup>st</sup> October, 2021. The objective of this visit was to share our budget priorities with the IMF which include among others the following:

- (a) implementing economic recovery interventions;
- (b) attaining debt sustainability;
- (c) employment creation; and
- (d) increasing investment in the social sector including addressing staffing and provision in health and education.

These priorities are vital as they will form part of the overall macroeconomic framework that will be agreed within the fund.

Madam Speaker, the second engagement with the IMF will focus on the actual extended credit facility (ECF) programme discussions later this year.

Madam Speaker, as I conclude, I wish to assure members of the general public and all stakeholders that Government will adhere to transparent and international best practice when it comes to debt reporting. For this reason, the Ministry of Finance and National Planning will continue to publish quarterly debt statistical bulletins on the ministry's website. The debt statistical bulletin reports on both public debts in a more comprehensive manner covering the Central Government, Government guaranteed debt and non-guaranteed debt. In this regard, the debt statistical bulletin for the third quarter will be published in the Fourth Quarter of 2021. The ministry has further opened up to the Office of the Auditor-General to have the debt stock periodically audited. One such audit is currently under way.

Further, the ministry will continue to engage its creditors on the macroeconomic development in the country including on debt. This is aimed at helping our people and stakeholders not only to be well informed, but also to help them distinguish between our verified and credible debt numbers from other sensational media reports whose underlying methodology in terms of compiling debt numbers may not be in line with internationally accepted debt reporting standards.

Madam Speaker, I thank you.

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