

MINISTERIAL STATEMENT

ON

ZAMBIA'S PUBLIC DEBT MANAGEMENT STRATEGY

BY THE

MINISTER OF FINANCE (DR NG'ANDU) MP

Mr Speaker, allow me to start by thanking you for giving me an opportunity to appraise the hon. Members of this House, and the nation at large on the steps that the Government continues to undertake in order to address the vulnerabilities emanating from our public debt situation and the measures taken to in light of the negative impact of the Coronavirus Disease 2019 (COVID-19) pandemic.

Mr Speaker, Zambia is currently in the process of implementing a liability management exercise aimed at restoring debt sustainability. As part of this process, the Government has been engaging its creditors to seek their approval for suspension on debt service payment for a period of six months in accordance with the terms of the G-20 and the Paris Club Debt Service Suspension Initiative (DSSI).

Sir, the DSSI initiative is a coordinated approach led by G20 and Paris Club creditors, which provides for the suspension of debt service payment for a period of six months, for poor countries that request forbearance, with the aim of supporting these countries in overcoming the intertwined health and economic effects of the COVID-19 pandemic.

Mr Speaker, the request for a six months standstill, is part of our debt strategy development process. The Standstill will give immediate relief on the Budget and most importantly give the Government time to finalize its debt sustainability analysis that will provide details of the broad asset liability management measures that are required to be implemented to deliver debt

sustainability over the medium term. The debt sustainability analysis will provide the details that are required to provide for informed engagement with different creditors including Euro Bond holders, on the adjustment, in order to attain debt sustainability over the medium to long term. This will be done with the full support of the International Monetary Fund (IMF).

Mr Speaker, although we have obtained some relief under the DSSI window, particularly from official creditors, engagements with commercial creditors have not yet yielded expected results. This is because these creditors were concerned that we were not treating all creditors equally. We seem to be discriminatory in the treatment of our creditors, as we are servicing certain categories of our debt, while not servicing others. Specifically, concern was raised that the Euro Bond debt was not included in the DSSI request and that Zambia had continued to service all Euro Bond payments when they failed you, while allowing the accumulation of arrears on other portfolios. The Exclusion of Euro Bond payments from the DSSI request also made some creditors reluctant to grant the DSSI, as they were concerned that the debt relief they would provide would be used to pay debt service to other creditors and not be channeled towards the COVID-19 related expenditures as intended.

Sir, in order to make progress on these engagements and get the full benefits of addressing the impact of the COVID-19 through the DSSI, it became necessary to request Euro Bond holders for a six months suspension of debt servicing, so that all categories of creditors receive similar treatment.

Issuance of a Consent Solicitation Memorandum

Mr Speaker, the Government of the Republic of Zambia working with its financial and legal advisors, Lazard Frères and Messrs White and Case, respectively, initiated the bondholder engagement process, through the issuance of a Consent Solicitation Memorandum on 22nd September 2020. A consent solicitation is a formal process for seeking approval from the bondholders to amend the terms of the bonds, either by way of written resolution or bondholder meeting. A consent solicitation memo requested that a standstill on coupon payments for a period of six months from 14th October, 2020 to 14th April, 2021 be granted.

Objectives of the Consent Memorandum

Sir, the objectives of the consent solicitation memorandum, which we have requested the bondholders to consent to are:

- (a) to suspend any interest payment due in respect of each series of notes for six months from 14th October, 2020 to 14th April, 2021;

This is what we are referring to as a stand still period.

- (b) to get an irrevocable and unconditional waiver of any breach on any obligation in respect of the Bonds that may arise in connection with, or as a result of the deferral of interest in (a) above;
- (c) to get an irrevocable and unconditional waiver of any breach or alleged breach or any obligation under or in respect of the Bonds which may have occurred prior to the stand still period such as cross default; and
- (d) to amend and modify the conditions, the deed of the covenant and the agency agreement as an unnecessary to effect the deferral of interest and the amendments, waivers and authorisations set out in paragraphs one, two and three above

Engagement with Bondholders

Mr Speaker, following the issuance of the consent solicitation memorandum, I made a presentation to investors on the 29th of September, 2020 highlighting the rationale for our request for a stand still. In the investor presentation, I highlighted the current macroeconomic and fiscal situation in our country including our current debt position and how it will be difficult to sustain external debt service going forward, if nothing is done to address the situation. I therefore, called upon the Bondholders to support the Government's effort by granting our request for a stand still

for six months. The stand still will give us space to develop a long term restructuring strategy. I also emphasize the country's strong desire to enter into a constructive, transparent and equitable dialogue with all our creditors as we undertake the debt restructuring process aimed at restoring debt sustainability. Since then, we have had engagements with Adhoc Bondholder Committee through our advisers and we are currently responding to the questions that are being raised from the presentation.

Next Steps Regarding External Debt Service

Mr Speaker, the debt payments to Bond Holders including the payment which fell due on 14th October, 2020 to 14th April, 2021, has been included in our debt service deferment request. The Bondholders are to this effect, expect to cast a vote on Zambia's request for a debt stand still after which meetings for the three series of Bonds will be held to pass the resolutions that will be made as the ministry has stated before. Should Zambia fail to reach an agreement with its commercial creditors including Bondholders of its Eurobonds, on the terms of the appropriate stand still as previously stated, the republic with its limited fiscal space will be unable to make payments and therefore, fail to forestall accumulation of arrears.

Sir, the Government has requested all its external creditors to agree to debt service suspension on the similar terms during the stand still period. The only foreign denominated debt that Zambia will continue paying on a current basis is debt from multilateral agencies and debt from few priority projects that have an immediate economy and social impact. These projects are in the health, education, water and sanitation and transport sectors.

Domestic Debt Management

Mr Speaker, in the area of domestic debt, the Government will focus on raising financing from the Government securities as well as meeting the obligations falling due. The strategy on domestic debt management as indicated in my 2021 Budget Address would be to:

- (a) keep the pace in terms of payment of debt services on domestic debt maturities;

- (b) lengthen maturities as we issue new debt to achieve long term maturity profiles;
- (c) reducing areas particularly to local businesses to inject liquidity in the local economy; and
- (d) engaging and broadening investor participation in the Government securities market.

Mr Speaker, the assurance therefore, to the current investors and would be investors on the Government securities is that the Government is committed to developing the domestic market further as foundation towards economic recovery.

Conclusion

Mr Speaker, as I conclude, I would like to reaffirm that our stock of external debt as at end of 2019 was as I reported in my 2021 Budget Address, which is US\$11.48 billion. As at the end of June, 2020, this figure increased to US\$11.97 billion, which, when we add the guaranteed debt for state owned enterprises, comes to US\$13.55 Billion. I have noted regrettably that some sections of the domestic and international society that may not have read the recently released 2020 International Debt Statistics Report by the World Bank are quoting the Government debt as being US\$27.34 billion as opposed to US\$11.48 at the end of 2019. The amount stated in the World Bank Report refers to the total national debt that includes private sector external debt of US\$15.57 billion. The private sector external debt is foreign denominated debt owed by all non-government entities in Zambia in all sectors including mining, manufacturing, transport, energy, wholesale and trade, to mention some.

Mr Speaker, I have here before me an extract from the Report which covers a summary of the debt referred to on Zambia and I would like to lay this on the Table.

Dr Ng'andu: Mr Speaker, I will end by reaffirming that we remain committed to equal treatment of all our creditors and transparency in our engagements. We also note that this engagement is necessary and is in the best interest of the country.

Mr Speaker, I thank you.

Dr Ng'andu *laid the paper on the Table.*
