

## **MINISTERIAL STATEMENT**

ON THE

### **RECENT DEVELOPMENTS REGARDING THE GOVERNMENT'S ENGAGEMENT WITH EUROBOND HOLDERS**

BY THE

**HON. MINISTER OF FINANCE (DR NG'ANDU), MP**

Mr Speaker, I wish to thank you for giving me this opportunity to provide an update to hon. Members of this House and the public on recent developments regarding the Government's engagement with Eurobond Holders.

Sir, as hon. Members of this House may recall, the Cabinet made a decision in 2019 to reprofile Zambia's public debt in order to bring the country's debt to a sustainable path. The Ministry of Finance subsequently, embarked on a liability management exercise that included the cancellation of some pipeline projects and engagement with all external creditors. While implementing these measures, the country's fiscal situation worsened during the first quarter of 2020, on account of the negative impact of the Coronavirus Disease-2019 (COVID-19) Pandemic. This notably led to the slowing down of economic activities and reduction in revenue collection amidst elevated expenditures on COVID-19 response interventions. Ultimately, the country's growth prospects for 2020 have been substantially reduced.

Mr Speaker, given the challenging macro fiscal situation faced by many countries, the members of the Group of Twenty (G-20) group of countries and the Paris Club announced in April, 2020, the Debt Service Suspension Initiative (DSSI). The initiative offered a coordinated global response to the payment difficulties experienced by indebted developing countries as a result of the COVID-19 Pandemic. It provided for the suspension of debt service payment

initially for the period 1<sup>st</sup> May to 31<sup>st</sup> December, 2020 for countries that requested forbearance with the aim of supporting them in overcoming the intertwined health and economic effects of the COVID-19 Pandemic.

Sir, Zambia formally applied to its creditors for a debt service suspension or debt service standstill under the DSSI and signed a Memorandum of Understanding (MoU) in August, 2020. The debt service standstill applied for relates official bilateral debt and provided for the debt service payment scheduled under the agreement to be repaid over three years after a grace period of one year.

Mr Speaker, the MoU that Zambia signed encouraged the country to seek similar treatment on its debt from other creditors including commercial creditors. As a result of this provision, Zambia wrote to all its creditors requesting them to participate in the debt relief assistance framework and proceeded to engage them individually with a view to obtaining their consent to a debt service standstill. Currently, discussions are ongoing with all the respective creditors.

Sir, in the case of bondholders, our engagement took a slightly different approach since it required a consent solicitation. This is formal process for seeking approval from bondholders to amend the terms of notes either by way of written resolution or bondholders' meeting. It must be appreciated that unlike private credit arrangements, where creditors can be approached and bilateral agreements negotiated in order to amend the terms of a loan, the bondholders process is more complicated because there is a large number of creditors whose identity is not always known. In addition, the relationship with bondholders is governed by strict market rules such as the market abuse regulation which precludes an issuer of a bond from requesting a temporal suspension of payments to a few bondholders without providing the same information to all bondholders at the same time.

Accordingly, Zambia launched the Consent Solicitation process on the 22<sup>nd</sup> September, 2020 requesting Eurobond Holders to grant Zambia debt service standstill on the coupon payment in respect of our 2022, 2024 and 2027 Eurobond Notes for a period of six months from 14<sup>th</sup> October, 2020 to 14<sup>th</sup> April, 2021.

Sir, on 29<sup>th</sup> September, 2020, I issued the Actual Consent Solicitation Memorandum and gave a presentation to creditors including the Eurobond Holders in which I explained the current economic situation in Zambia and the reasons why debt service suspension from all commercial creditors was necessary to put Zambia back on the path to debt sustainability. The investor presentation sent a strong signal to investors on Zambia's inability to service debt during the requested standstill period. It also gave a detailed account of Zambia's liquidity challenges, which had been exacerbated by the COVID-19 Pandemic.

Mr Speaker, my presentation was followed by engagements in the form of questions and answers. Further communication was expected to be provided to the bondholders following the signing of the confidentially agreements with them. In my subsequent statement on October, 13<sup>th</sup>, the day before the coupon payment was due, I stressed Zambia's willingness to work with bondholders to reach consensus on the standstill.

Sir, I further indicated that failure to reach a commercial agreement on a debt service standstill, including on the notes left, the Government with no other alternative but to accumulate arrears. The US\$42.5 million coupon payment which was due on the 14<sup>th</sup> September, 2020, was not made in anticipation of a favourable outcome to our request for a standstill and given that no default would immediately materialise because of the ninety day grace period provided for under the rules. More importantly, it was felt that honouring the coupon payment with bondholders while still considering a request for a standstill would undermine our negotiation position and basically render the entire consent solicitation process futile.

Mr Speaker, bondholders were initially scheduled to vote on Zambia's consent solicitation on the 20<sup>th</sup> October, 2020. However, the meeting failed to be quorate and therefore a resolution could not be passed. It was subsequently adjourned to 13<sup>th</sup> November, 2020, which coincidentally happened to be the end of the payment grace period.

Mr Speaker, I must report that during our engagement with the Bondholders Committee, they raised concerns regarding the application of savings that would be made by the Government if a

standstill was granted. It was suggested that Zambia would use the Eurobond coupon paying savings to repay its other commercial debts.

Sir, coincidentally, commercial creditors also questioned why the Government had excluded Eurobond debts in the debts service relief request as they too feared that savings from a debt service standstill granted by them would be used to meet euro bond coupon payments. These concerns, Mr Speaker, underscore the reason why the Government needed to apply debt service suspension equitably to all creditors.

Sir, the outcome of the voting of the bondholders which was announced in the afternoon of Friday, 13<sup>th</sup> November, 2020, voted to reject our request for a standstill. This essentially meant that non-payment of the coupon on this date would constitute a default as a grace period could have lapsed.

Mr Speaker, however, I wish to confirm to the House that the Government has not paid the coupon that was due to the Eurobond holders on the 13<sup>th</sup> November, 2020, for a number of reasons. Firstly, paying would send a message to the market that contradicts our earlier message of incapacity to pay the debt service which was at the core of the request for a debt service standstill. This inconsistency regarding our lack of capacity to pay during going forward would send a signal to bondholders and other creditors that Zambia lacked a credible and orderly approach to the debt restructuring process. This decision would further weaken our negotiation position beyond the solicitation process in particular with regard to other commercial creditors who would interpret our decision as lacking in transparency and equal treatment of creditors especially for those with whom debt service arrears might have accumulated.

Sir, as a consequence, Zambia would be unlikely to access debt service suspension from these creditors. Our assessment was that all future engagements with non-bondholder commercial creditors would be made difficult if not impossible in the aftermath of such a decision.

Sir, our decision to uphold the principle of *pari passu* with regard to the treatment of all creditors, seems to have already been vindicated by the communication from the Government of

the People's Republic of China on Monday this week advising suspension by Export and Import Bank of China, principal and interest on sovereign loans falling due between May and December 2020.

Mr Speaker, the effect of giving equal treatment to creditors appears to be an improvement in the atmosphere for negotiating with creditors who previously have shown no indication to do so due to what is considered as favourable treatment of Eurobond Holders.

Sir, these are some risks associated with the decision not to pay. These include bondholder taking legal action to enforce their rights under financing arrangements. The ministry will work closely with our legal advisors to respond to this possible eventuality. Other includes bad publicity, negative investor perception of Zambia and adverse rating actions.

Sir, in responding to these implications, we are fully committed to engaging the Bondholders Committee meaningfully and transparently to reach a common and orderly approach to the process. We will in this regard continue to provide the bondholders with the necessary information regarding our debt economic and fiscal position and our plans to restore growth and attain fiscal and debt sustainability.

Mr Speaker, the Government is looking forward to continued and deeper engagement with the Eurobond Holders through their committee representatives once we have signed a confidentiality agreement that has already been presented to bondholders in order to facilitate information sharing. Further, I wish to state that for creditor information that falls under the ambit of confidentiality, we will seek waivers from creditors that have not already granted it so that information can be shared.

Sir, regarding the involvement of the International Monetary Fund (IMF) in the liability management of our public debt, I wish to inform the House that Government is in discussion with the fund on the appropriate policy instrument that could be used in this regard. Sir, the IMF involvement is important in giving credibility and impetus to an orderly restructuring process. This makes the institution a key player in this undertaking.

Mr Speaker, I would like to reiterate Government's commitment to finding a consensual and collaborative solution to the debt sustainability problems the country is currently facing. I am pleased to advise that bondholders have in their post decision statement also indicated their willingness to continue with discussions in a consensual and collaborative way. This, we believe offers a window of opportunity for reaching a mutually acceptable solution notwithstanding their decision to decline the debt standstill request.

Sir, the Government will continue engagements with all creditors in order to reach consensus on the much needed debt service standstills. Hon. Members of this House may also wish to know that the Extra Ordinary G-20 Finance Ministers' and Central Bank Governors Meeting agreed on Friday last week on a common framework for debt treatments beyond the DSSI.

Mr Speaker, this framework stipulates that countries that sign an MOU with participating creditors will be required to seek from all its official bilateral creditors and private creditors a treatment at least as favourable as one agreed in the MOU. Apart from reinforcing the principle of *pari passu* in the treatment of creditors, the meeting extended debt treatment to cover the period May 2020 to end June 2021, with a repayment period of five years and a grace period of one year. This framework is available to us and we will be seeking recourse to it as we address the current debt challenges.

Sir, these developments, coupled with our commitment to engage in good faith negotiations with all creditors will be critical in working towards achieving the necessary fiscal space to restructure the public external debt portfolio whose outcomes are an important component of the Medium Term Debt Management Strategy.

Mr Speaker, as I conclude, let me make reference to the statement made by Her Honour the Vice President in response to a question during the Question and Answer Session on Friday 13th November, 2020. In her statement, she indicated that Zambia will not default with respect to her Eurobond coupon payment obligations. This has been interpreted as contradictory in view of our decision not to make the coupon payment subsequent to the decision by bondholders to decline

our debt service standstill request. Mr. Speaker, up until the decision was actually made to decline our request, we were confident that the bondholders will accept our request because we did not see any strategic advantage that would accrue for them by declining our request.

Sir, based on this confidence we briefed Her Honour the Vice President that we did not envisage the possibility of a default as we expected the vote to be in our favour and this is the position that she communicated in this House. Unfortunately, the events that followed turned out to be different from what we had earlier anticipated. The compelling reasons for not paying have however, already been amply presented in this brief to this August House.

I thank you, Sir.

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