MINISTERIAL STATEMENT

ON THE

DEBT RESTRUCTURING AGREEMENT WITH OFFICIAL BILATERAL CREDITORS

BY

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Madam Speaker, I want to thank you for according me this opportunity to provide insights on the debt restructuring for Zambia. Our country has been trying to restructure its foreign debt from 2016, but that effort produced no results.

Madam Speaker, I am happy to tell you that the job has now been done. I will now provide the details.

Madam Speaker, we have to start from the genesis of the problem of Zambia's unsustainable debt. The stock of external debt in 2011 was US$1.9 billion. That is just under US$2 billion. It was at K1.98 million in 2011. By the end of 2021, the external debt had risen to US$13.04 billion. The rise in this stock implied an increase in debt service. That means the amount of Kwacha cash that is needed to repay the principle and interest on this debt. Debt service payments accounted for only 9 per cent of domestic revenues in 2011. In other words, in 2011, for every K1 raised in domestic revenue, only about 9n for each Kwacha of revenue collected was used to repay the principle and interest on the debt.

Madam Speaker, in 2020, this went up. For each Kwacha that was collected in revenue, the amount that was needed to service debt was 51.7n; more than half of every Kwacha's collected revenue. With 51.7n out of each Kwacha of domestic revenues going towards debt service and another 39.4n going towards wages and salaries for public servants, this meant that 91.1n out of each Kwacha collected in domestic revenues was committed to debt service and payment of wages and salaries.

Madam, this means that the balance out of each Kwacha was 8.9n, which remained for all other Government programmes, including buying medicines, provision of school requisites, Government operations, construction and rehabilitation of roads, supporting our small-scale farmers through the Farmer Input Support Programme (FISP), supporting Parliament and supporting constituencies through the Constituency Development Fund (CDF). This was obviously an impossible task, no wonder CDF was seldom released by the treasury those days.

Madam Speaker, as the Coronavirus Disease 2019 (COVID-19) unfolded, financing pressure emerged, the Kwacha depreciated and inflation spiked, increasing the external debt burden expressed in Kwacha. Unencumbered foreign exchange reserves shrank to US$970 million by the end of October, 2020, against debt service of around US$1.4 billion on contracted foreign currency denominated loans. Unable to meet its external obligations, the Government defaulted on its external debt in November, 2020, and implemented a moratorium on payment of debt obligations in order to undertake a comprehensive debt restructuring exercise.

Madam, a Debt Sustainability Analysis (DSA) was conducted in 2020. It indicated that Zambia's debt was unsustainable and the country faced debt distress. This is very important; if nothing was done to restructure the debt, then out of each Kwacha collected in domestic revenue in 2021, 70n was needed towards debt service. So, 70n of each Kwacha of tax that was collected, could go to debt service. Now, if we add the payment of wages and salaries, which was about 43n in each Kwacha collected in domestic revenue, it would have meant that to service debt and pay salaries and wages, all the taxes collected in the country plus what you needed to borrow to put on top is what you would need. In other words, all the taxes collected would be swallowed up by debt service and payment of salaries and wages, but that would not even be enough, you would still need to go and borrow some more to add on.

Madam Speaker, this obviously would have meant that nothing would remain to spend on any other Government programme. Cleary, this could have brought the country to its knees. Enhance, given this problem, in November 2020, the Government suspended debt service payments to its creditors, but this suspension was unilateral and as such, not agreed upon with creditors. So, it is the Zambian Government that simply said from now onwards, no paying debt, but without agreeing with the creditors. This was obviously not a sustainable solution to the debt crisis facing the country because the creditors could any time drug the country to court. The debt of the country needed to be restructured formally.

Madam Speaker, fortunately, a group of rich countries called the G20, realised that the debt problem that Zambia and other poor countries where facing was real and big. In 2020, they devised a formal but temporally solution called the Debt Service Suspension Initiative (DSSI). The DSSI was an initiative as said, of the G20 to allow countries facing debt distress to suspend payment of debt service to most creditors excerpt multilateral creditors such as the World Bank, African Development Bank (AfDB) and others. However, this too was a temporal solution because the creditors would need to be paid. A formal and lasting solution to the debt problem other than mare suspension service was required.

Accordingly, the same Group of Twenty (G20) meeting established the common framework for debt treatment beyond the debt service suspension initiative. This process was meant to provide long term debt relief to countries such as Zambia. The initiative was to be pursued together with creditors. However, restructuring the debt of the country is not automatic. It is a process that requires cooperation between debtors and creditors and, indeed, other stakeholders. Also, a country that faces debt distress must satisfy some pre-conditions in order to be allowed into the process of restructuring its debt. This is where debtor countries such as Zambia sometimes fail to make progress. Indeed, Zambia was one of the countries that failed to make progress in this regard until the United Party for National Development (UPND) Government came into office.

Madam Speaker, according to the common framework, a country that faces debt distress, as Zambia did, requires to discuss with all its creditors together and not discuss with them one by one to get the debt restructured. Discussing with all of them, in other words, creates trust and avoids suspicion of some creditors getting better deals on the side. This is why, for official creditors, the Official Creditors' Committee (OCC) was formed to negotiate with Zambia on how to get her debt restructured.

In addition, Madam Speaker, creditors require that the debtor country must have an active programme with the International Monetary Fund (IMF). This gives them the assurance that the country whose debt is being considered for restructuring is conducting its financial affairs in a satisfactory manner. However, IMF also, requires that creditors cooperate in restructuring the debt before they can agree to provide a financing programme with the debtor country. These complex relationships highlight the importance of strong coordination and cooperation among stakeholders. It's here where, prior to this Government coming into office, Zambia failed to coordinate and manage relationships, and her commitment to debt restructuring and prudent financial management was put into question.

Madam Speaker, Zambia made the request through the G20 common framework for more sustainable debt treatment in 2020. Consequently, a creditors committee for the country was formed by countries with eligible claims on Zambia. The committee was co-chaired by China and France with South Africa being the vice-chair. This committee deliberated extensively regarding the extent of relief that Zambia requires, which would be compatible with IMF's debt sustainability parameters. In other words, the outcome of negotiations should be a structured debt that takes the country out of debt distress. I think this is very important so I will read it again. In other words, the outcome of the negotiations should be a structured debt that takes the country out of debt distress, which is what we have achieved.

Madam Speaker, it is with this very committee, OCC, that we have now reached an agreement for debt treatment in accordance with the principle of rendering Zambia's debt sustainable.

(*b*) *Features of the Agreement*

Madam Speaker, the debt restructuring agreement covers about US$6.3 billion of central Government debt owed to external bilateral creditors, and the debt of ZESCO Limited that has been guaranteed by the Government, and also owed to Official Bilateral Creditors. Countries such as China, France, Germany and others have agencies that lend money to other Governments such as Zambia, and to some public institutions such as ZESCO Limited.

Madam Speaker, the official bilateral creditor countries have agreed to provide the much needed debt relief to Zambia as follows:

(a) significant debt relief through a significant maturity extension of our existing debt by more than twelve years with final maturity in the year 2043. So, the debt has been stretched up to 2043, a significant maturity extension over existing claims by more than 12 years with the final maturity in the year 2043;

(b) interest rates will be cut from what they are currently to very concessional rates during the next fourteen years, and will not exceed 2.5 per cent thereafter under the baseline scenario;

(c) principle repayments are starting in 2026, three years from now, however, only for 0.5 per cent of the debt stock per annum for the period 2026 to 2035. In other words, what will be paid will be a small fraction of what ought to have been paid.

Madam Speaker, the agreement also includes an adjustment mechanism that recognises the uncertainties that exist regarding Zambia's future debt carrying capacity. The mechanism provides for an accelerated repayment schedule and higher interest rates if Zambia's debt carrying capacity improves from the current weak classification to medium classification. This assessment will be jointly undertaken by IMF and the World Bank in 2026. Should the assessment show that Zambia's debt carrying capacity has improved from weak to medium capacity, the agreement provides that:

(i) final maturity will be reduced by five years from 2043 to 2038.

(ii) interest rates will be, slightly, higher than the baseline scenario.

Madam Speaker, full details of the agreement will again be explained to the House and the Zambian people after we have negotiated and signed the memorandum of agreement with

Official Bilateral Creditors. So, these are the principles upon which the formal memorandum of agreement will be signed, and some of the details will be shared at that point in time.

Madam Speaker, the debt treatment that we have agreed to with our Official Bilateral Creditors ensures Zambia's debt sustainability in both cases whether the debt service carrying capacity is low or moderate. So, whether the capacity remains low or moderate debt restructuring will ensure that Zambia's debt remains sustainable. The official creditors have also agreed with the Government that domestic debt, which is local currency denominated debt such as Treasury Bills and Treasury Bonds, will be excluded from any treatment. This means that the fear some people had that if they buy Zambian Treasury Bills or Bonds, they would also be subject to restructuring. That will not arise because they are excluded. This is essential to preserve financial stability and ensure a well functioning domestic debt market.

Madam Speaker, the postponement of payments through extended maturities will generate about US$5.8 billion in debt service savings over the period 2023 to 2031. Therefore Zambia over the next ten years will be paying its official creditors about US$750 million.

Madam Speaker, without this agreement Zambia would have to pay US$6.3 billion that was supposed to be paid over the period. So with agreement over the next ten years, US$ 750 million without the agreement, we would have to pay a US$6.3 billion.

Madam Speaker, in economic terms or should I say considering the time value of money, as describe in the IMF Debt Sustainability Framework, this agreement delivers close to 40 per cent in reduction of our debt burden as a result of the postponement and the reduction of interest rate, 40 per cent reduction in the debt.

Benefits of the Agreement

Madam Speaker, the agreement with the official creditors has several benefits for the country and beyond in various ways:

(a) Firstly, as I have just said, it generates US$5.8 billion in debt services saving which unlock resources that can be utilised for our developmental programmes. In the absence of debt restructuring, Zambia would have to pay US$6.3 billion to the official creditors in the ten years, with the restructuring, the amount reduces to US$750 million only. In average US$75 million per year.

(b) It unlocks extra funds from cooperating partners. This year, 2023, for example, arising from the agreement reached, both the IMF and the World Bank will disburse funding to Zambia. In the case of the IMF, in the next one month US188.8 million and the World Bank US75 million, the debt restructuring therefore, will result in positive cash flow for the country as opposed to the situation without a debt restructuring agreement in place. While as it is true that debt servicing will resume in three years, the effect of restructuring, the reduction in principle amount payable due to stretching the maturity as well as the lower interest rates means that the actual cost of debt servicing will be very low. At the sometime, the support coming from cooperating partners in support of Zambia will exceed debt servicing. This means that Zambia will enjoy positive cash flow when one compares the debt out flows which will resume in three years, verses the debt inflows and other extra cash available for development.

(c) It provides a path way to resorting debt suitability in the medium term, there by leading to an improved microeconomic environment. In particular, the impact on the exchange stability of this agreement is tangible. I wish to remind the House that some of our locally issued Treasury Bonds are bought by none residents, who bring in foreign exchange. Before the restructuring agreement was reached, many new investors in bonds held back their foreign exchange. For those whose bonds were maturing, they choose to externalise their money rather than reinvest for fear that their bonds might be subjected to restructuring as well. This contributed to pressure against the kwacha/dollar exchange rate. With the agreement in place, this concern is no longer of significance and therefore, everything else held constant this should assist to get the exchange rate to be more stable compared to before.

(d) It will promote renewed interest for Zambia as country dedicated to economic transformation making it easier to attract more investment.

(e) It paves the way debt restructuring to be undertaken in a number of African countries or those close to facing destitute.

Next Steps

Madam Speaker, we still have some work to do with our official bilateral creditors even after this agreement made under the auspices of the G20 Framework for debt treatment. Ther next step will be to negotiate and sign a memorandum of understanding between Zambia and the official creditors. This memorandum of understanding will outline in detail the terms of the agreed debt treatment which will then be implemented through bilateral agreement with each member of the official creditors committee. We will with the cooperation of the fresh hold creditors expeditiously undertake this work including undertaking the necessary reconciliations.

Madam Speaker, I have so far focused on the official bilateral creditors. Hon. Member of the House are aware though, that as a country, we also have commercial debt that is owed to private creditor for a total amount of US$6.8 billion as the end of 2022, with notably the Euro Bond holders which are US$3.5 billion.

Madam Speaker, as nation, we have already been engaging with private creditors and we are in discussion and this agreement with the official creditors will help to expedite the matters. As a responsible Government we are keen on ensuring that the country should never find itself in a position of unsustainable debt accumulation. It is against this background that we have brought to this august House the Public Debt Management Bill, which requires the executive arm of the Government to seek approval of this House before getting any loan.

Madam Speaker, in conclusion, allow me to express Government gratitude to all our official bilateral creditors for the favourable debt restructuring agreement that was reached on 22nd June

2023. Special thanks to the co-chairs that is France, China as well as South Africa the Vice-Chair and of the committee. We are also indebted to the Paris Club Secretariat for their support, thanks to the IMF and the World Bank who stood with us.

Madam Speaker, special thanks go to the hard working technical team, the Secretary to the Treasury (ST) and his team at the Ministry Of Finance And National Planning, the Governor and his team at the Bank of Zambia who exhibited total resilience through this challenging journey. I would also like to convey our sincere thanks to our advices both Lazard Frères of Frances legal advisors and White and Case LLP from the United Kingdom and the Communication Advisors Highgate from the United Kingdom. I also want to thank the Cabinet colleges for their support. This is due to their commitment and active participation in the reform and not of course to forget Parliament because without Parliament this reform leading to where we are today would not have been possible.

Madam Speaker, finally, allow me to thank His Excellency Mr Hakainde Hichilema for his visionary leadership and for steering us to where we are today. He spent countless hours deep in the night, unlocking any stumbling blocks that we faced. To the Zambian public, thank you so much for the awesome support. Just under two years ago, this Government took over an economy that was under stress and appeared to have no certain future. Step by step, and methodically, this Government is bringing back things in place. We promised to bring down inflation to stabilise the exchange rate, to restore order and peace in the markets, and to provide teachers and health workers all this has been done.

Madam Speaker, we also promised to reconstruct the country, especially the countryside which was left behind this is being done through the Constituency Development Fund (CDF), and of course, we promised to restructure the debt and it is now done.

Madam Speaker, with this upward direction of development in our country, the situation is very clear, and this is in great contrast to what was happening in the past. With this clear upward direction, I appeal to the Zambians for further support.

Madam Speaker, under the Government of President Hakainde Hichilema, this country is in good hands.

Madam Speaker, I thank you.