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Zambia

China agrees landmark debt relief deal for Zambia

Agreement between official creditors paves way for IMF bailout and sets precedent for other troubled economies



A Bank of China billboard at Kenneth Kaunda International Airport in Lusaka, Zambia. China has become one of Zambia's biggest creditors in the past decade © Bloomberg

Joseph Cotterill in Johannesburg and **Jonathan Wheatley** in London JULY 30 2022

Zambia's official creditors led by China have agreed to provide debt relief to the southern African nation, paving the way for an IMF bailout and setting a precedent for how Beijing could work with other lenders to tackle the threat of a wave of defaults across emerging markets.

A committee of creditors co-chaired by China and France said on Saturday that they were "committed to negotiate with the Republic of Zambia terms of a restructuring" under a G20 framework to co-ordinate debt relief.

Kristalina Georgieva, the IMF's managing director, said that she was "very pleased to welcome" the commitment by the creditors, which will unlock a \$1.3bn IMF loan to revive Zambia's finances. Zambia still has to negotiate exact terms of the relief and reach a similar deal with private creditors.

"The support from the official creditor committee for Zambia's envisaged IMF-supported programme, together with its commitment to negotiate debt restructuring terms, accordingly, provides the IMF with official financing assurances," Georgieva added.

The deal is an early sign that China is prepared to co-ordinate with other official creditors on restructuring the debts of low-income countries, rather than deal with defaults on its own loans behind closed doors. Zambia has become a test case for

defaults on its own loans behind closed doors. Zambia has become a test case for countries that also turned to Beijing for financing in recent years, such as Sri Lanka, which has already defaulted, and Pakistan.

Zambia became the first African country to default during the pandemic in 2020 when it halted payments on \$17bn of external debt, including \$3bn in US dollar-denominated eurobonds, after years of rising debt distress.

China has emerged as the country's biggest creditor in the last decade, offering an estimated \$6bn of loans as Zambia embarked on ambitious infrastructure projects such as roads, dams, and airports. These soured as the economy slowed.

President Hakainde Hichilema's government agreed terms for a three-year IMF bailout last year within months of coming to power in a landslide poll victory over Edgar Lungu, who presided over the worsening debt crisis.

But the Hichilema government had to wait for assurances from official creditors before it could begin the IMF programme and thrash out terms of a debt restructuring in detail with both private and official creditors.

"We are confident that together with our partners, Zambia will address the issue appropriately and with the urgency needed to help get the economy back on a sustainable growth trajectory," Situmbeko Musokotwane, the Zambian finance minister, said.

The Zambian finance ministry on Friday detailed plans to cancel a further \$2bn in yet to be disbursed loans tied to projects — mostly affecting Chinese creditors.

Private creditors such as bondholders will be expected to grant Zambia debt relief that is at least as large as what will be offered by official lenders, under the so-called comparability of treatment principle.

On Saturday the official creditor committee urged other lenders to "commit without delay to negotiate with Zambia such debt treatments that are crucial to ensure the full effectiveness of the debt treatment for Zambia under the common framework."

"If negotiations are starting with bilateral creditors, that shows that the Chinese are in agreement on the financial assurances and are relatively comfortable with the IMF's debt sustainability analysis and with the restructuring and the size of any haircut," said Kevin Daly, investment director at Abrdn and a member of a committee representing Zambia's bondholders.

But he said bondholders were unhappy with the common framework's sequencing of

but he said bondholders were unhappy with the common framework's sequencing of events, under which commercial creditors would be told the size of any restructuring, and the assumptions on which it is based, only after the official creditors had reached agreement with each other, the IMF and Zambia.

"We are still in the dark as creditors," Daly said. "We have been saying all along that to speed things up, they should share [the IMF's debt sustainability analysis] with us. Why such a veil of secrecy?"

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