

**MINISTERIAL STATEMENT ON ZAMBIA'S PUBLIC
DEBT MANAGEMENT STRATEGY**

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15th October 2020

INTRODUCTION

MR. SPEAKER ALLOW ME TO START BY THANKING YOU FOR GIVING ME AN OPPORTUNITY TO APPRISE THE HONOURABLE MEMBERS OF THIS HOUSE AND THE NATION AT LARGE ON THE STEPS THAT GOVERNMENT CONTINUES TO UNDERTAKE IN ORDER TO ADDRESS THE VULNERABILITIES EMANATING FROM OUR PUBLIC DEBT SITUATION AND THE MEASURES TAKEN IN LIGHT OF THE NEGATIVE IMPACT OF THE 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, GOVERNMENT HAS BEEN ENGAGING ITS CREDITORS TO SEEK THEIR APPROVAL FOR SUSPENSION OF DEBT SERVICE PAYMENTS FOR A PERIOD OF SIX MONTHS IN ACCORDANCE WITH THE TERMS OF THE G20 AND THE PARIS CLUB DEBT SERVICE SUSPENSION INITIATIVE (DSSI).

SIR, THE DSSI INITIATIVE IS A COORDINATED APPROACH BY G20 AND PARIS CLUB CREDITORS WHICH PROVIDES FOR THE SUSPENSION OF DEBT SERVICE PAYMENTS FOR A PERIOD OF 6 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 6 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 THE DIFFERENT CREDITORS, INCLUDING EUROBOND 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 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 THE EXPECTED RESULTS. THIS IS BECAUSE THESE CREDITORS WERE CONCERNED THAT WE WERE NOT TREATING ALL CREDITORS EQUALLY. WE SEEMED TO BE DISCRIMINATORY IN THE TREATMENT OF OUR CREDITORS AS WE WERE SERVICING CERTAIN CATEGORIES OF OUR DEBT WHILE NOT SERVICING OTHERS. SPECIFICALLY, CONCERN WAS RAISED THAT THE EUROBOND DEBT WAS NOT INCLUDED IN THE DSSI REQUEST AND THAT ZAMBIA HAD CONTINUED TO SERVICE ALL EUROBOND PAYMENTS WHEN THEY FELL DUE, WHILE ALLOWING THE ACCUMULATION OF ARREARS ON OTHER PORTFOLIOS. THE EXCLUSION OF EUROBOND PAYMENTS FROM THE DSSI REQUEST ALSO MADE SOME CREDITORS RELUCTANT TO GRANT 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 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 COVID-19 THROUGH THE DSSI, IT BECAME NECESSARY TO REQUEST EUROBOND HOLDERS FOR A SIX-MONTH SUSPENSION OF DEBT SERVICE 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 AND WHITE & CASE RESPECTIVELY), INITIATED THE BONDHOLDER ENGAGEMENT PROCESS THROUGH THE ISSUANCE OF A CONSENT SOLICITATION MEMORANDUM (CSM) 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. THE CONSENT SOLICITATION MEMO REQUESTED THAT A STANDSTILL ON COUPON PAYMENTS FOR A PERIOD OF 6 MONTHS FROM 14TH OCTOBER 2020 TO 14TH APRIL 2021 BE GRANTED.

OBJECTIVES OF THE CONSENT SOLICITATION MEMORANDUM

SIR, THE OBJECTIVES OF THE CONSENT SOLICITATION MEMORANDUM WHICH WE HAVE REQUESTED THE BONDHOLDERS TO CONSENT TO ARE:

- (1) TO SUSPEND ANY INTEREST PAYMENT DUE IN RESPECT OF EACH SERIES OF NOTES FOR SIX MONTHS FROM 14TH OCTOBER 2020 TO 14TH APRIL 2021 (THE “STANDSTILL PERIOD”).
- (2) 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 (1) ABOVE;
- (3) TO GET AN IRREVOCABLE AND UNCONDITIONAL WAIVER OF ANY BREACH OR ALLEGED BREACH OF ANY OBLIGATION UNDER OR IN RESPECT OF THE BONDS, WHICH MAY HAVE OCCURRED PRIOR TO THE STANDSTILL PERIOD SUCH AS A CROSS DEFAULT.
- (4) TO AMEND OR MODIFY THE CONDITIONS, THE DEED OF COVENANT AND THE AGENCY AGREEMENT AS ARE NECESSARY TO EFFECT THE DEFERRAL OF INTEREST AND THE AMENDMENTS, WAIVERS AND AUTHORISATIONS SET OUT IN PARAGRAPHS (1), (2) AND (3) ABOVE.

ENGAGEMENT WITH BONDHOLDERS

MR. SPEAKER, FOLLOWING THE ISSUANCE OF THE CONSENT SOLICITATION MEMORANDUM, I MADE A PRESENTATION TO INVESTORS ON 29TH SEPTEMBER 2020, HIGHLIGHTING THE RATIONALE FOR OUR REQUEST FOR A STANDSTILL. IN THE INVESTOR PRESENTATION, I HIGHLIGHTED THE CURRENT MACROECONOMIC AND FISCAL SITUATION OF 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 GOVERNMENT'S EFFORTS BY GRANTING OUR REQUEST FOR A STANDSTILL FOR 6 MONTHS. THE STANDSTILL WILL GIVE US SPACE TO DEVELOP A LONG-TERM DEBT RESTRUCTURING STRATEGY. I ALSO EMPHASIZED 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 THE AD HOC BONDHOLDER COMMITTEE THROUGH OUR ADVISORS AND WE ARE CURRENTLY RESPONDING TO THE QUESTIONS THAT ARE BEING RAISED FROM THE PRESENTATION.

NEXT STEPS REGARDING EXTERNAL DEBT SERVICE

MR. SPEAKER, THE COUPON PAYMENTS TO BONDHOLDERS FOR THE PERIOD 14TH OCTOBER 2020 TO 14TH APRIL 2021, INCLUDING THE PAYMENT WHICH FELL DUE ON 14TH OCTOBER 2020 HAVE BEEN INCLUDED IN OUR DEBT SERVICE DEFERMENT REQUEST. THE BONDHOLDERS ARE TO THIS EFFECT EXPECTED TO CAST A VOTE ON ZAMBIA'S REQUEST FOR A DEBT STANDSTILL, 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 HOLDERS OF ITS EUROBONDS) ON THE TERMS OF THE APPROPRIATE STANDSTILL, 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 STANDSTILL PERIOD, THE ONLY FOREIGN DENOMINATED DEBT THAT ZAMBIA WILL CONTINUE PAYING ON A CURRENT BASIS IS DEBT FROM MULTILATERAL AGENCIES AND DEBT FOR A FEW PRIORITY PROJECTS

THAT HAVE AN IMMEDIATE ECONOMIC 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, GOVERNMENT WILL FOCUS ON RAISING FINANCING FROM GOVERNMENT SECURITIES AS WELL AS MEETING THE OBLIGATIONS FALLING DUE.

SIR, THE STRATEGY ON DOMESTIC DEBT MANAGEMENT AS INDICATED IN MY 2021 BUDGET ADDRESS, WILL BE TO:

- a) KEEP THE PACE IN TERMS OF PAYMENT OF DEBT SERVICE ON DOMESTIC DEBT MATURITIES;
- b) LENGTHEN MATURITIES AS WE ISSUE NEW DEBT TO ACHIEVE LONG-TERM MATURITY PROFILES;
- c) REDUCING ARREARS PARTICULARLY TO LOCAL BUSINESSES TO INJECT LIQUIDITY IN THE LOCAL ECONOMY; AND
- d) ENGAGING AND BROADENING INVESTOR PARTICIPATION IN THE GOVERNMENT SECURITIES MARKET.

THE ASSURANCE, THEREFORE, TO THE CURRENT INVESTORS AND WOULD BE INVESTORS ON GOVERNMENT SECURITIES IS THAT GOVERNMENT IS COMMITTED TO DEVELOPING THE DOMESTIC MARKETS FURTHER AS A FOUNDATION TOWARDS ECONOMIC RECOVERY.

CONCLUSION

MR. SPEAKER, AS I CONCLUDE, I WOULD LIKE TO REAFFIRM THAT OUR STOCK OF EXTERNAL DEBT AS AT END 2019 WAS AS I REPORTED IN MY 2021 BUDGET ADDRESS, WHICH IS US\$11.48 BILLION. AS AT END 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 2021 INTERNATIONAL DEBT STATISTICS REPORT BY THE WORLD BANK, ARE QUOTING GOVERNMENT DEBT AS BEING US\$27.34 BILLION AS OPPOSED TO US\$11.48 BILLION AT END 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. 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.

SIR, 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.