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REPUBLIC OF ZAMBIA

Update on the Debt Situation, Creditor Engagement and IMF Program

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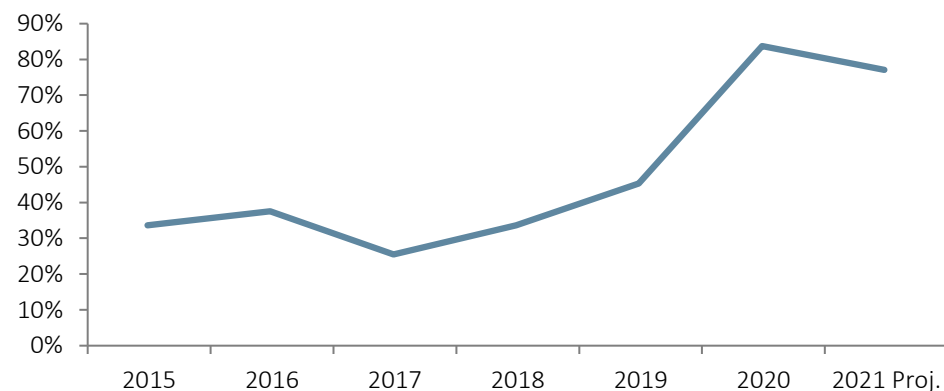
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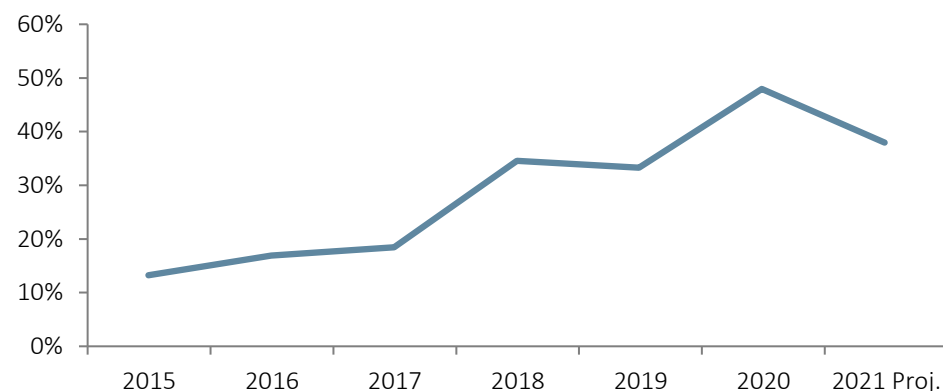
Over the Recent Years, Zambian Public External Debt had Become Unsustainable

Excessive reliance on debt, inappropriate control and procedure, and a lack of discernment in the selection of projects, have left the country vulnerable to external shocks

PV of External debt-to-GDP ratio



External debt service-to-revenue ratio



Zambia is in a distressed debt situation requiring swift debt relief

- ▶ Prior to 2020, Zambia was already experiencing subdued economic performance and precarious fiscal deficits, which led the IMF to assess public debt as “unsustainable”
- ▶ The COVID-19 outbreak has further deteriorated this vulnerable macroeconomic situation, most recently compounded with spillovers of the Ukraine war
- ▶ Despite having benefited from the DSSI, Zambia’s public debt remains highly unsustainable, thus requiring a comprehensive treatment under the Common Framework

In the Second Half of 2020, the Government Took Decisive Actions to Address the Debt Distress Situation

In response to the urgency of the situation, the government took decisive action in 2020 to address the distressed debt situation



In 2021, Zambia Reached an SLA with the IMF on an Ambitious ECF Program

The IMF program rests upon the pillars of the Economic Transformation Agenda, with the objective of raising living standards and reducing poverty by creating the conditions for strong and inclusive growth

1 Fiscal Reforms to Enhance Revenue Mobilization while Sustaining Social Protection

2 Restoring Debt Sustainability while Improving Debt Management and Transparency

3 Strengthening Fiscal Controls, Governance and Fighting Corruption

4 Enhancing Monetary Policy and Safeguarding Financial Stability

5 Improving the Productivity of Key Sectors and Fostering Inclusive Growth

The prompt adoption of the IMF program is critical for Zambia to restore its competitiveness and renew with social and economic development

In View of the Forthcoming Program Approval, Zambia Already Engaged in Critical Reforms

The Government has kickstarted its reform agenda and started to engage in good faith discussions with creditors



Prior Actions for the IMF Program: Government is on track on most of the prior actions under the SLA

- ▶ Elimination of price support on petroleum products in December 2021
- ▶ Enforcement of monthly adjustment of fuel pump prices depending on exchange rate movements and international oil prices since December 2021
- ▶ Publication of summary information on all procurement contracts related to the 2021 and 2022 Farmer Input Support Program (FISP) in order to enhance transparency
- ▶ Publication of the 'White Paper' for the 2022-2024 MTEF and the 'Green Paper' for the 2023-24 MTBF
- ▶ Issuance of a new public procurement regulations, including controls on procurement pricing



Other Key Measures/Reforms

- ▶ Independent audit of domestic arrears to commence soon in the next sitting
- ▶ PPP Act is undergoing final consultations and should be submitted to the National Assembly in the next sitting, with a view to reduce fiscal risks
- ▶ Loans and Guarantees (Authorization) Act undergoing final consultations and should be submitted to the National Assembly
- ▶ Continued momentum in automation of revenue collection processes and provision of Government services through the online service platform and payment gateway (Government Service Bus-GBS)

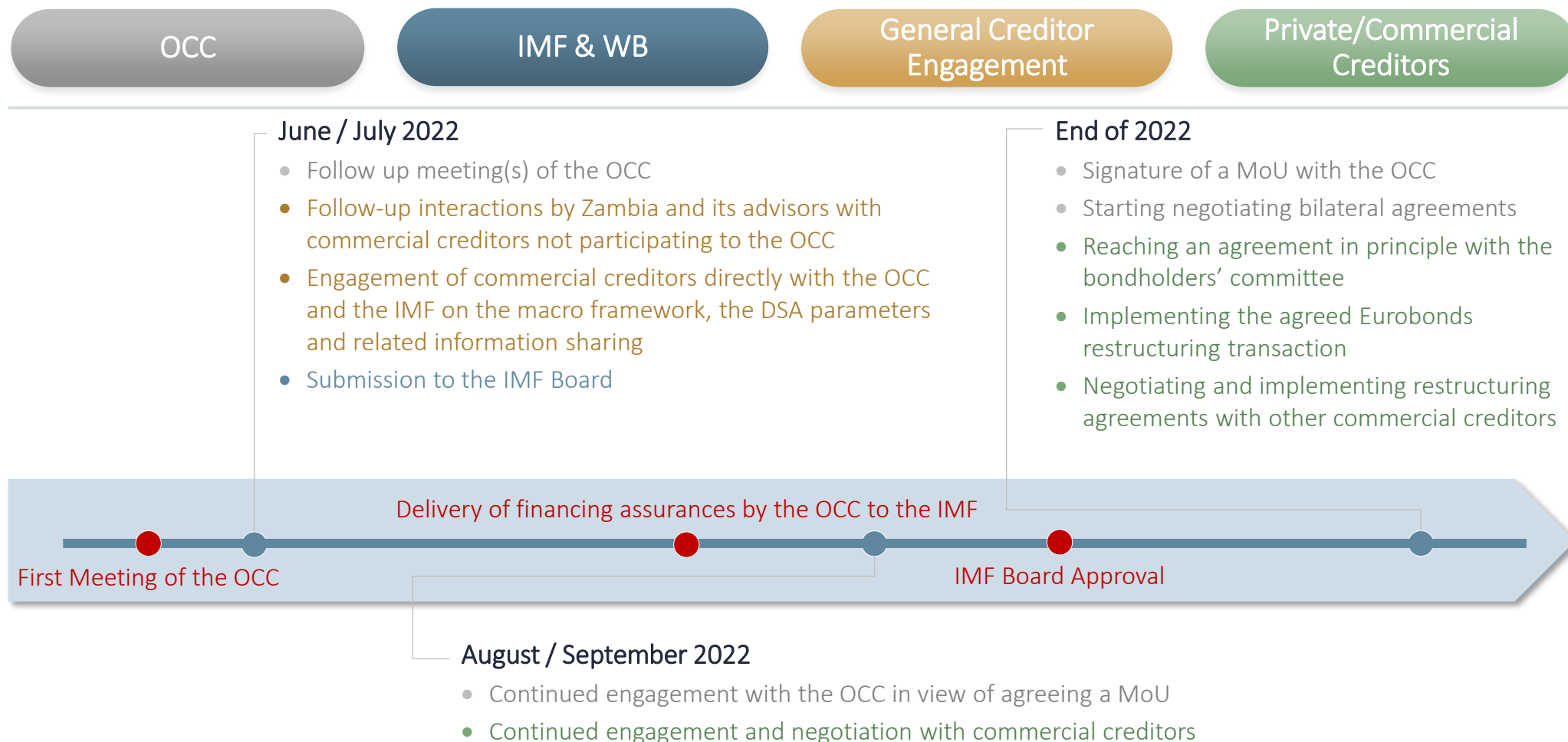
Following the IMF Spring meetings in April 2022, momentum has gained for a formal program with the IMF, which is now moving to the Board as financing assurances have been received

Status of Engagement with Creditors: Zambia has Initiated as Early as 2020 and Maintained Since Interactions with all of them

Creditors' group		Status of engagement
Official bilateral creditors		<ul style="list-style-type: none"> Regular engagement at diplomatic level and with lending institutions at technical level, in particular in the context of the DSSI Information sharing through the Secretariat
Concessional creditors	Multilateral lending	<ul style="list-style-type: none"> Considered as preferred creditors exempted from debt treatment Ongoing discussions for new financing (IMF ECF program, World Bank DPO...)
	Plurilateral lending (<i>BADEA, EIB, OFID and NDF</i>)	<ul style="list-style-type: none"> Regular engagement. In addition, Zambia has requested all its plurilateral creditors seeking to be treated as preferred creditors to discuss their position directly with the OCC
Commercial creditors	Plurilateral lending (<i>Afreximbank and TDB</i>)	
	ECA-backed lending	<ul style="list-style-type: none"> Regular engagement and information sharing with lending institutions and ECAs, in particular on the continuation, cancellation or rescope of projects Clarification sought about ECAs' participation to the OCC
	Non-ECA backed lending	<ul style="list-style-type: none"> Regular engagement with lending institutions, inviting them to create a forum for discussion, coordination and sharing of information ("London Club" type of forum)
	Eurobonds' holders	<ul style="list-style-type: none"> Regular engagement since September 2020 with the Bondholders' committee and its financial and legal advisors Regular information sharing under NDA with advisors
	Non-residents holders of kwacha-denominated debt	<ul style="list-style-type: none"> Public communication of the Government's intention to exclude them from the restructuring perimeter
	Payables	<ul style="list-style-type: none"> Ongoing discussions to agree on an appropriate repayment schedule

Recent Milestones and Next Steps with the OCC and Commercial Creditors

Following financing assurances in July and release of the IMF Staff report to the Board, the government is now awaiting Board approval in early September, which will unlock the much-needed concessional financing from the IMF and WB





Appendix: External Debt Exposures as at end-2021

Public Debt Summary as at end-December 2021

<i>As at End-2021, in USDbn or USDbn equiv.</i>	I. Debt Stock*	II. Interest Arrears	Total Debt Stock (I.+II.)	Total Debt Stock (in % of Total Public Sector Debt)
Total Public Sector Debt (1+2)	30.93	0.81	31.74	100.00%
1. FX Public Sector Debt (1.A.+1.B.)	16.46	0.81	17.27	54.40%
1.A. Central Government Debt	13.04	0.74	13.78	43.41%
1.A.a. Official	7.13	0.22	7.35	23.15%
<i>Multilateral</i>	2.37	0.00	2.37	7.46%
<i>Plurilateral</i>	0.81	0.02	0.83	2.63%
<i>Bilateral</i>	3.95	0.19	4.15	13.06%
1.A.b. Commercial	5.91	0.52	6.43	20.26%
<i>Eurobonds</i>	3.00	0.34	3.34	10.51%
<i>Non-Bonded Debt</i>	2.91	0.18	3.09	9.75%
1.B. SOEs	3.41	0.07	3.49	10.99%
1.B.a. Guaranteed	2.78	0.05	2.83	8.91%
<i>1.B.a.1. Loans</i>	1.53	0.05	1.58	4.98%
<i>1.B.a.2. Payment Arrears**</i>	1.25	-	1.25	3.93%
1.B.b. Non-guaranteed	0.44	0.00	0.44	1.40%
<i>1.B.b.1. Loans</i>	0.14	0.00	0.14	0.44%
<i>1.B.b.2. Payment Arrears**</i>	0.30	-	0.30	0.96%
1.B.c. Other Liabilities	0.19	0.02	0.22	0.68%
2. Local Currency Public Sector Debt*** (2.C.+2.D.+2.E.+2.F.)	14.47	-	14.47	45.60%
2.C. Government Securities	11.58	-	11.58	36.47%
T-Bills	2.09	-	2.09	6.60%
T-Bonds	9.48	-	9.48	29.88%
2.D. Government Loans	0.04	-	0.04	0.14%
2.E. Domestic Arrears****	2.82	-	2.82	8.88%
2.F. SOEs Local Currency Debt	0.03	-	0.03	0.11%

Source: Ministry of Finance and National Planning of the Republic of Zambia

Notes: *Includes principal arrears only; **Includes arrears owed to suppliers, e.g. PPAs arrears; ***As at End-2021, Kwacha-denominated debt is converted in USD equiv. using a 16.67K per USD exchange rate. As reported, this category of debt is not exhaustive but reflects the DSA's coverage currently contemplated by the Authorities; **** End-2021 figure for domestic arrears was not available yet at the time of Debt Summary publication. The USD equiv. 2.8bn / K 47bn reflect the current DSA assumption

Summary of Zambia's Bilateral Debt, as at end-December 2021

The below tables includes both direct exposures (when a country or a state's agency lends directly to the GRZ) and the indirect exposures (when a national ECA guarantees commercial facilities) of official creditors

<i>As at End-December 2021, in USDm</i>	I. Direct Exposure	II. Indirect Exposure ¹	Total Exposure ² (I.+II.)	Total Exposure (in % of Tot. Bilateral Debt)
Total Bilateral Debt (1+2)	5,353.2	2,598.6	7,951.9	100.0%
1. Paris Club Members	497.6	834.4	1,332.0	16.8%
Belgium	0.8	-	0.8	0.0%
Denmark	-	49.7	49.7	0.6%
France	86.5	-	86.5	1.1%
Israel	-	457.7	457.7	5.8%
Italy	-	91.5	91.5	1.2%
Japan	44.5	-	44.5	0.6%
Netherlands	-	47.4	47.4	0.6%
Russia	147.4	-	147.4	1.9%
Sweden	-	94.4	94.4	1.2%
Switzerland	-	93.7	93.7	1.2%
UK	171.9	-	171.9	2.2%
USA	46.5	-	46.5	0.6%
2. Non-Paris Club Members	4,855.6	1,764.2	6,619.8	83.2%
China ³	4,170.3	1,764.2	5,934.6	74.6%
India	325.5	-	325.5	4.1%
Saudi Arabia	51.5	-	51.5	0.6%
South Africa	262.9	-	262.9	3.3%
Iraq	37.1	-	37.1	0.5%
Kuwait	8.3	-	8.3	0.1%

Source: Ministry of Finance and National Planning of the Republic of Zambia

Notes: (1) National ECAs guaranteeing commercial facilities; (2) All figures pending reconciliation with creditors; (3) China Exim Bank facilities insured by Sinosure are accounted in the column I. Direct Exposure