REPUBLIC OF ZAMBIA – MINISTRY OF FINANCE AND NATIONAL PLANNING

Investor Presentation

7 October 2022

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Opening remarks and key speakers

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Secretary to the Treasury, Ministry of Finance and National Planning, Republic of Zambia

Mr. Mukuli Chikuba

Permanent Secretary Budget and Economic Affairs, Republic of Zambia

Notice on DSA working assumptions and reference date

- This Document contains certain forward-looking statements, estimates, targets and projections made as of end-2021, in line with the DSA presented in the IMF Staff Report published August 31, 2022 and presented to the Official Creditor Committee. For consistency it has been decided to stick to those assumptions in this document.
- Based on estimates available as of October 2022, some of these assumptions used in the current DSA are likely to change when Zambia and the IMF / WB staff update their DSA as we get to the end of 2022 and subsequently in the context of the first review of the program (expected in March / April). The adjustments resulting from the update are not expected to have a large impact on the required debt relief presented in this document.
- Forward-looking statements, estimates, targets and projections involve significant subjective elements of judgment and analysis which may or may not prove to be correct. There may be differences between forecasts and actual results because events and circumstances frequently do not occur as forecast and these differences may be material. There can be no assurance that any of the estimates, targets or projections will be met.

Part I – IMF Program and Macro-Fiscal Framework

Zambia's IMF program has been approved by the IMF Board as at end-August

Following years of subdued economic performances, the Zambian government has taken decisive action to restore its competitiveness and renew with economic development by committing to an ambitious IMF-supported program

- After reaching a staff-level agreement with the IMF last December, Zambia obtained a Board approval in August for a 38-month Extended Credit Facility (ECF)
- The USD 1.3bn program will cover the 2022-2025 period
- Half of the funds will be used for budget support and the remaining to rebuild buffers by boosting the country's international reserve position
- **The IMF program rests upon the pillars of Zambia's Eighth National Development Plan and is tailored to addressing Zambia's most pressing macroeconomic challenges and to fostering higher, more resilient, and more inclusive growth**

1. Restoring Medium-Term Fiscal Sustainability
2. Fostering Resilient and Inclusive Growth
3. Restoring Debt Sustainability and Improving Debt Management and Transparency
4. Strengthening Governance
5. Strengthening Monetary Policy and Re-Building External Resilience
6. Safeguarding Financial Stability
7. Enhanced Social Spending

Zambia is already demonstrating a strong commitment to its IMF program

The Government has completed all of the prior actions of the IMF program

- ✓ Publication of an updated MTEF
- ✓ Publication of summary information on all procurement contracts related to the 2021 and 2022 Farmer Input Support Program (FISP) in order to enhance transparency
- ✓ Information sharing with the IMF on all external debt contracted or guaranteed by the public sector
- ✓ Selection of priority foreign-financed projects that the government intends to continue
- ✓ Submission to Parliament of the new Bank of Zambia Act
- ✓ Enforcement of monthly adjustment of fuel pump prices depending on exchange rate movements and international oil prices since December 2021
- ✓ Publication of the electricity sector cost-of-service study and government response
- ✓ Publication of a strategy for clearing expenditure and VAT refund arrears
- ✓ Issuance of a new public procurement regulations, including controls on procurement pricing

Other key measures and reforms that have been achieved or are underway

- Independent audit of domestic arrears is underway and expected to deliver its results shortly
- PPP Act is undergoing final consultations and should be submitted to the National Assembly in 2023, with a view to reduce fiscal risks
- The new Public Debt Management Act has just been enacted
- 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)
- Other reforms of revenue administration such as the establishment of the Mineral Value Chain Data Analysis Unit and enhancement of data analytics for fixing VAT

In addition to pursuing to these reforms critical for obtaining the IMF program, Zambia secured the financing assurances from its official bilateral creditors at the end of July

As part of the IMF program, Zambia has pledged to further undertake ambitious reforms and a significant fiscal consolidation …

September 2022 *(completed, to be verified by the IMF during the first program review)*

- ✓ Reinstatement of VAT and excising taxes on fuel, adjustment of fuel prices
- ✓ Enactment of revised Loans and Guarantees Authorization Act

December 2022

- Guidelines to implement the new comprehensive agricultural support program, and migration of FISP to an electronic agro-input system
- Comprehensive review of the health of the banking sector

Start of the IMF program

October 2022

- Adoption of an action plan to boost revenue collections through changes in tax policy and improvements in revenue administration

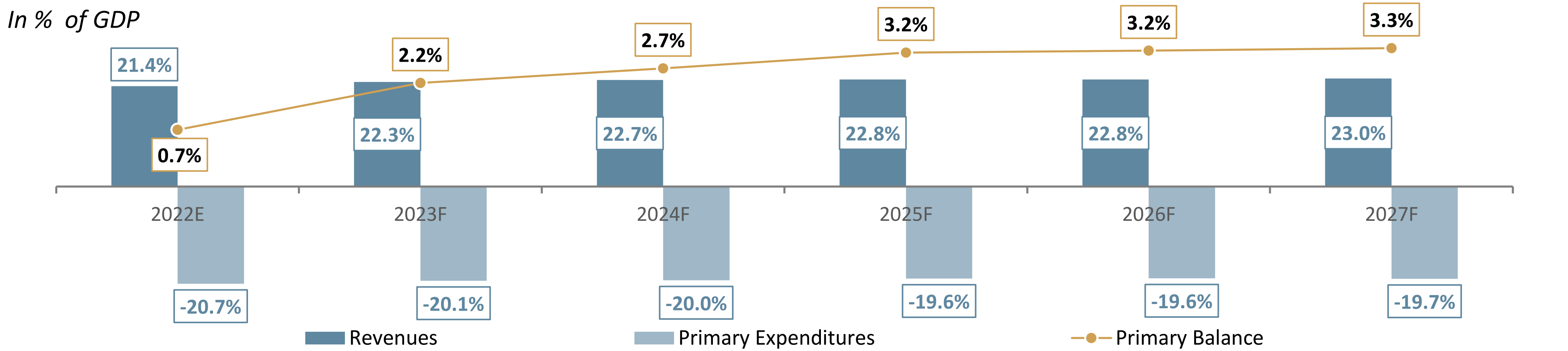
March / April 2023

- First program review

June 2023

- Submission to Parliament an amended PPP Act
- Implementation of commitment control of IFMIS

Fiscal trajectory over the medium-term[1]

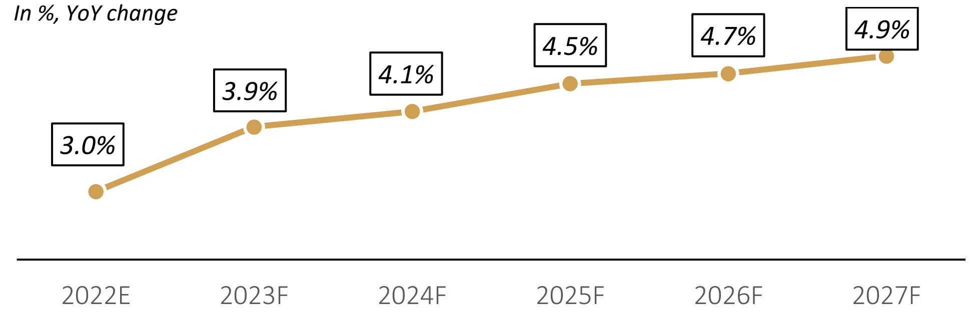


Note: (1) Primary balance and expenditures on a commitment basis

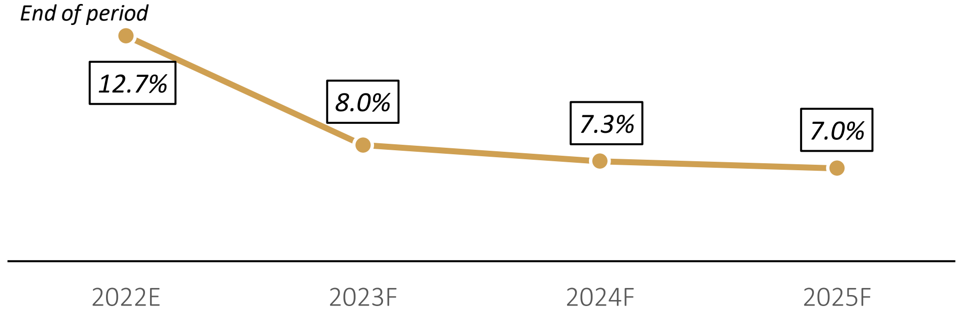
… That will allow the economy to recover from the crisis and grow towards its full potential

Zambia's economy is projected to rebound strongly with growth reaching almost 5% by 2027 and inflation cooling down in the short-term

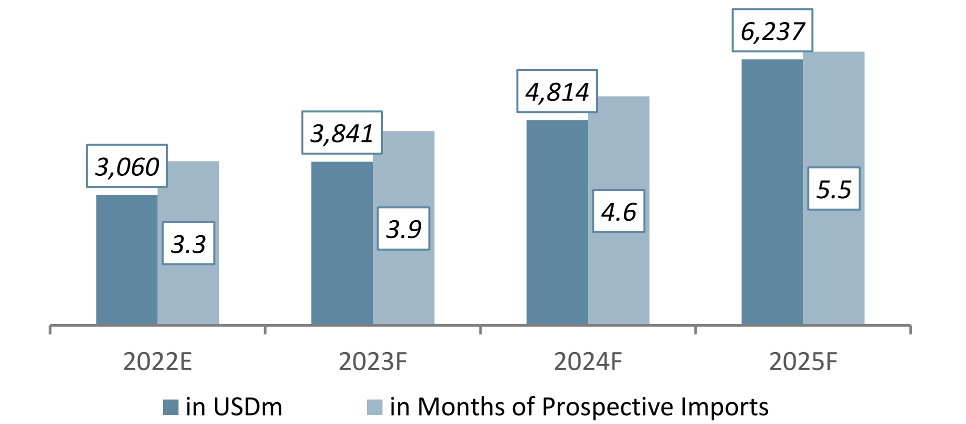
Real growth trajectory



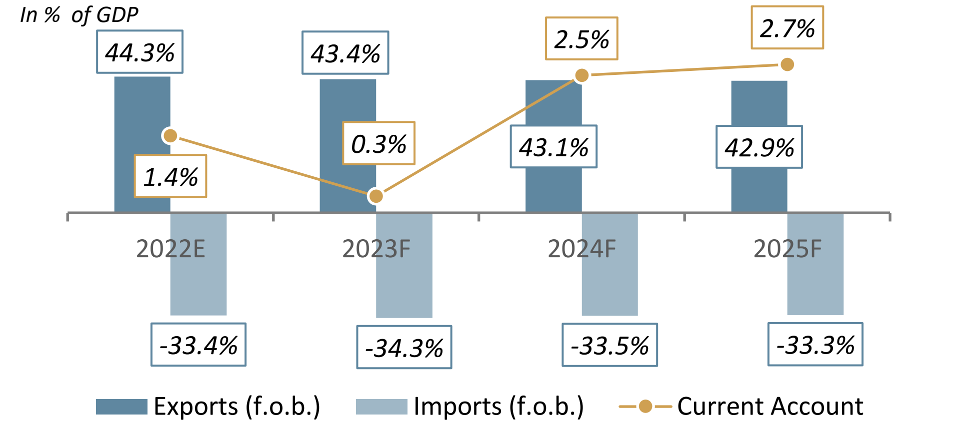
Consumer price index



Gross international reserves



Current account balance[1]



Note: (1) Exports and imports figures account for goods only

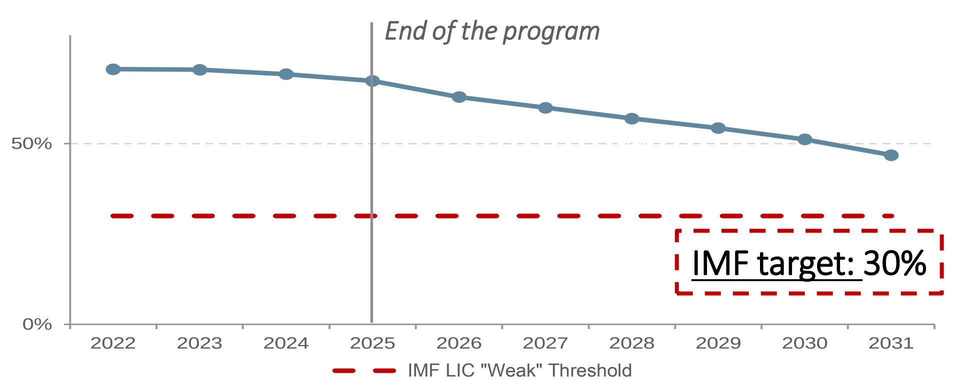
7 OCTOBER 2022

Part II – Deep-Dive into Zambia’s DSA

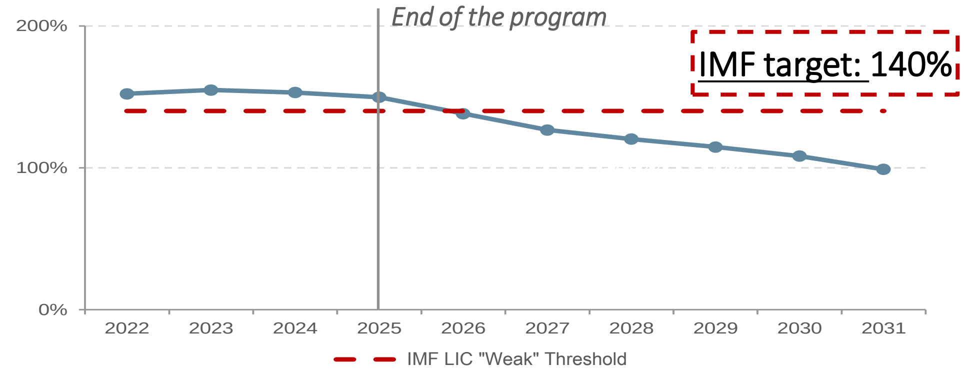
Zambia's debt sustainability indicators in the "pre-restructuring" scenario

The pre-restructuring scenario results in a debt trajectory well beyond IMF/WB LIC DSF's thresholds for LIC countries with a "weak debt carrying capacity", for both stock and flows indicators

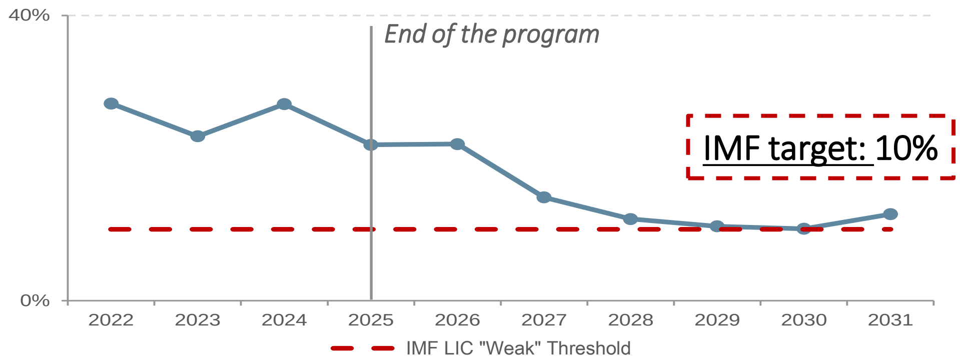
Present value (PV) of External Debt-to-GDP Ratio (in %)



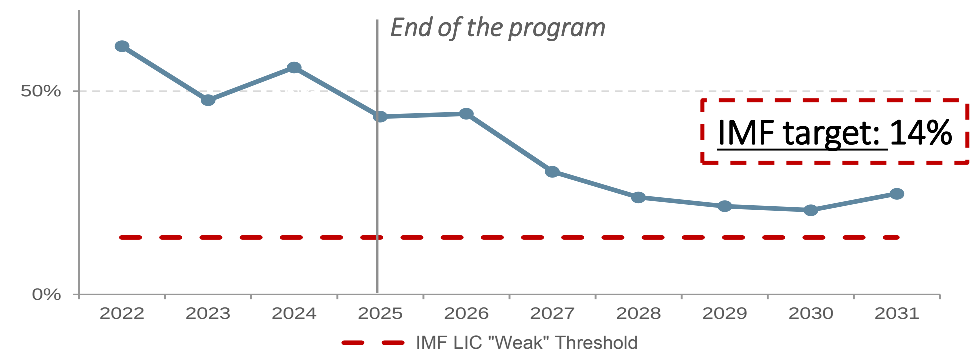
PV of External Debt-to-Exports Ratio (in %)



External Debt Service-to-Exports Ratio (in %)



External Debt Service-to-Revenues Ratio (in %)



For LIC countries with a "weak debt carrying capacity" to remain in a situation of moderate risk of external debt distress, all indicators should normally lay below the standard thresholds in the baseline scenario by the end of the program period

Source: IMF-WB, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries; IMF Guidance Note On Implementing The Debt Limits Policy In Fund Supported Programs
Notes: (1) See IMF-WB LIC DSF Guidance note, section X.A., Box 1. and Figure 6

What are the debt sustainability targets for Zambia?

In the context of the program, Zambia needs to return to a moderate risk of external debt distress over the medium term

- **The IMF has approved that achieving two targets will be consistent with Zambia reaching a moderate risk of debt distress over the medium term**
- **With one of the indicators expected to remain above its threshold over the medium-to-long run, the IMF / WB staff requires, in line with the LIC DSF guidance note, an appropriate buffer with regards to the other stock indicator**

Returning to 30% PV of External debt/GDP ratio would imply significantly larger debt relief effort by creditors, in a context where the GDP is soon expected to be rebased.

PV of PPG external debt/Exports Target for Zambia:

140% x (1-40%) =

84% by 2027 *(or c. 40% of GDP)*

The country should be able to withstand an "upper quartile shock" (based on historical distribution, a 40% shock)[1]

Regarding the liquidity indicator, the external debt service to revenues ratio remains the binding indicator, with the standard sustainability target to be achieved by 2025

PPG external debt service/Revenues Target for Zambia:

14% by 2025

And maintaining it at this level on average over the rest of the projection period (2025-2031)

While 17% is tolerated on average during the program period (2022-2025)[2]

Source: IMF-WB, Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries; IMF Guidance Note On Implementing The Debt Limits Policy In Fund Supported Programs

Notes: (1) See IMF-WB LIC DSF Guidance note, section X.A., Box 1. and Figure 6; (2) Fluctuations around the average target is allowed to take into account the profile of existing debt outside the restructuring perimeter (2) Consistent with the external financing constraints

In addition, Zambia needs to deliver USD 8.4bn external debt service reduction during the program period ("the envelope")

This constraint, derived from the BoP, seeks to ensure that Zambia's program is fully financed

Zambia's Simplified Balance of Payments *(USDm)*

	2022	2023	2024	2025
Current Account	371	85	759	858
Trade balance	2,935	2,561	2,897	3,100
Exports, f.o.b.	11,908	12,211	12,982	13,851
Imports, f.o.b.	(8,973)	(9,650)	(10,085)	(10,751)
Services (net)	(940)	(976)	(1,044)	(1,119)
Income (net)	(1,990)	(1,884)	(1,524)	(1,581)
Capital and Financial Account	(3,175)	(1,650)	(2,977)	(1,865)
Capital account	88	83	80	77
Financial account	(3,263)	(1,733)	(3,057)	(1,943)
Foreign direct investment (net)	1,075	1,113	1,473	1,628
Overall Balance	(2,804)	(1,565)	(2,219)	(1,008)
Central bank net reserves (+ increase)	+265	+781	+973	+1,422
Gross international reserves	3,060	3,841	4,814	6,237
in months of prospective imports	3.3	3.9	4.6	5.5
Net exceptional financing[1]	**2,331**	**1,682**	**2,559**	**1,838**

Total net exceptional financing	USD 8.4bn

The pace of reserves accumulation has been agreed with the IMF, in line with achieving an adequate level of reserves based on the Fund's Adequacy Reserves Assessment methodology, and is being implemented through quarterly Quantitative Performance Criteria

Notes: (1) Net exceptional financing is given by the financing gap of the BoP net of projected new IFI flows

Zambia is requesting a significant effort from its external creditors

The analysis presented in the following slides is based on the below considerations regarding the perimeter of the debt restructuring. Zambia considers these working assumptions to be viable and justifiable. However, further consultations and agreement with both the Official Creditor Committee and commercial creditors are expected on this topic

Debts considered for exclusion from the restructuring perimeter
USD 7.3bn, 36% of external debt stock[1]

Category of creditors	Rationale
Multilateral Development Financial Institutions *(USD 2.4bn)*	• Institutions with preferred creditor status • Debt with concessional terms de facto excluded from the restructuring perimeter
Plurilaterals lending at concessional terms[2] *(USD 0.3bn)*	
Fuel & contractor arrears *(USD 1.2bn)*	• Arrears assumed to be cleared over a period of 10 years[3] • Impact on services that are essential for the functioning of the country, and therefore treated on an ad-hoc basis
External IPPs arrears *(USD 0.2bn)*	
Non-resident holders of domestic securities *(USD equiv. 3.2bn)*	• See next slide

Debts considered for treatment
USD 12.8bn, 64% of external debt stock[1]

Category of creditors	Type of debt
Official creditors *USD 8.0bn, 62% of the restructuring perimeter*	• Bilateral official loans • ECA-backed commercial loans
Commercial creditors *USD 4.8bn, 38% of the restructuring perimeter*	• Eurobonds falling due 2022, 2024 and 2027 • Non-ECA backed commercial banks loans • Other commercial lenders' loans • Loans from plurilaterals lending at commercial terms

Notes: (1) As at End-2021, including outstanding amount and accumulated arrears
(2) The term "plurilaterals" designates official institutions for which lenders are countries of a specific world's region (e.g. Nordic Development Fund) or bound by a specific relationship (e.g. OFID)
(3) Current working assumption in the DSA is that those arrears are cleared over 10 years, no grace period and no penalty

Exclusion of non-resident holdings of domestic debt from the restructuring perimeter is the result of a thorough cost-benefit analysis and consultations

Three different options were considered for the treatment of non-resident holders of domestic securities. None of them is ideal, but in all transparency, the third option as described below is the least onerous to both Zambia and creditors

Options	*Consequences*	*Comments*
Treating all the local currency debt without discrimination between resident and non-resident holders	• Significant damage to domestic financial sector, requiring potential recapitalization and liquidity support to banks, deteriorating in turn the country's fiscal performance • Reduction in credit-to-private sector, hampering the country's growth outlook in the future • Reduction in government's capacity to rely on domestic debt market in the future, thereby affecting future budget financing assumptions (net domestic financing assumptions in particular)	• These two options are likely to have adverse consequences on the overall macroeconomic and fiscal framework, leading to potentially higher envelope and increased burden for external creditors
Targeting only non-resident holders of domestic debt	• Legal obstacles (in relation to existing Treaties in particular) • Risk of further reduction in future non-resident participation to the domestic debt primary market (currently assumed at 15% going forward in the DSA) • Adverse impact on Zambia's ability to attract FDI and foreign portfolio inflows • Multiple issues from a practical point of view (how to identify and segregate foreign holders, how to manage the trades between resident and non-resident post announcement, how to enforce a deal on a minority of holders only…)	
Excluding domestic debt from the restructuring perimeter	• Preserve the country's economic and financial stability, especially in a more challenging external environment • Ensure consistency with the macro-fiscal framework agreed with the IMF, therefore ensuring a quicker resolution of the debt restructuring	• Current working assumption of the DSA

1 Flow treatment: How much can Zambia afford to pay in the period 2022-27?

The simulations presented herein are compatible with the macroeconomic and fiscal framework presented in the staff report

Calculation of available cashflow to service debts considered for restructuring

		Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
1	**Cashflow available to service external debt *(2x3)***	USDbn	**1.1**	**1.2**	**1.0**	**1.0**	**1.5**	**1.0**	**1.1**	**1.1**	**1.2**	**2.1**
2	Government revenue[1]	USDbn	5.6	6.2	6.7	7.3	7.8	8.5	9.2	9.9	10.8	11.7
3	External Debt service-to-revenue ratio	(%)	20.0%	19.0%	15.0%	14.0%	19.0%	12.0%	12.5%	11.0%	11.5%	18.0%

17% avg. (2022–2025)
Consistent with the DSA constraints and the reserves accumulation path agreed with the IMF

14% avg. (2026–2031)
DSA target

		Unit	2022	2023	2024	2025	2026	2027
4	**Ext. debt service outside of the restructuring perimeter *(5+6)***	USDbn	**0.8**	**1.0**	**0.8**	**0.9**	**1.3**	**0.8**
5	External debt service on existing debt as at end-2021[2]	USDbn	0.8	0.9	0.7	0.6	1. 1	0.5
6	External debt service on debt issued from 2022 onwards[3]	USDbn	-	0.1	0.1	0.2	0.3	0.3
7	**Cashflow available for restructured debt *(1 - 4)***	USDbn	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**

After 2027, the stock constraint dominates the restructuring terms, although the flow constraint still needs to be met

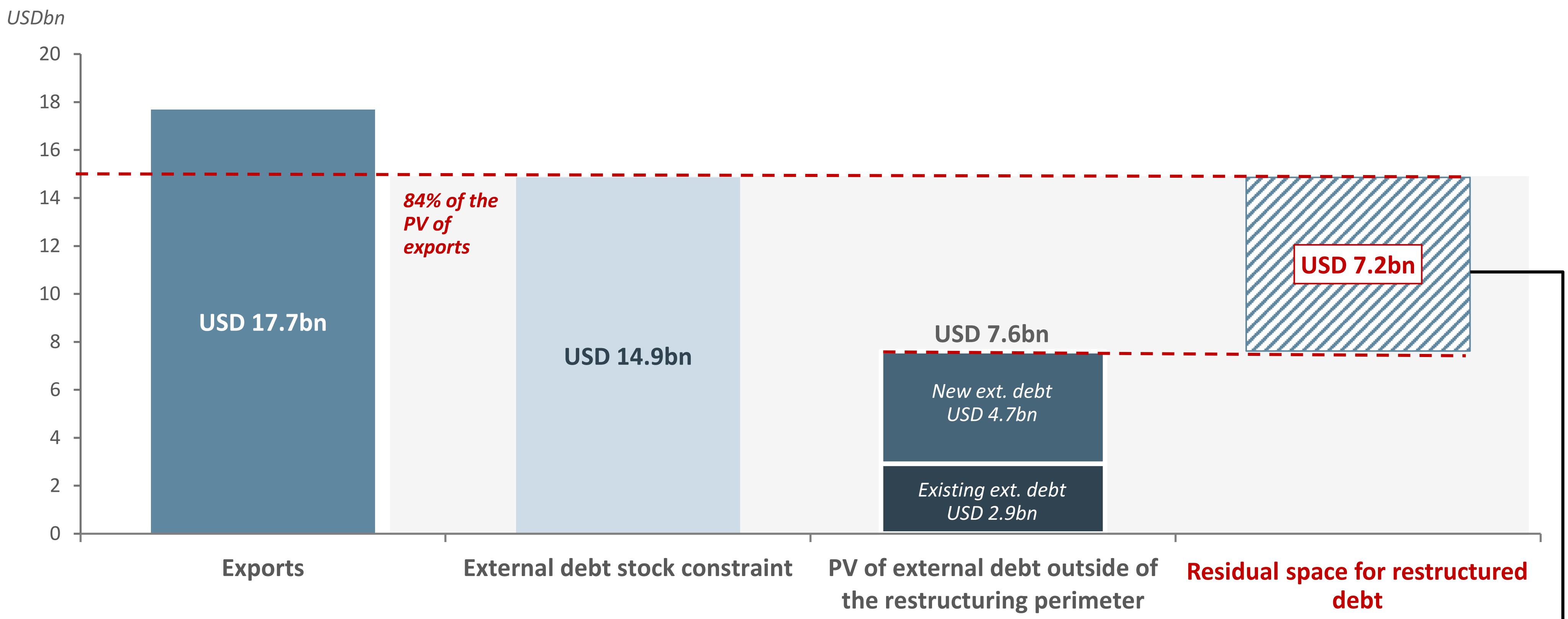
End 2021 PV of flows @5% **USD 1.1bn**

Notes: (1) Government revenues converted in USD using the average exchange rate
(2) This category includes multilaterals, plurilaterals lending at concessional terms, payables (fuel, contractors and IPPs) and domestic debt held by non-residents
(3) This category includes project debt, IMF ECF, other multilateral / IFIs debt and the SDR allocation

2 Stock treatment: How much PV relief is required in 2027 to reach the targets?

By 2027, the PV of Zambia's external debt-to-exports ratio must reach 84%

PV of projected external debt stock as of end 2027



Discount to take end-2027 PV back to end-2021

End 2027 PV of stock @5%	**USD 7.2bn**
End 2021 PV of stock @5%	**USD 5.4bn**

Program parameters warrant an external debt PV reduction of USD 6.3bn, representing 49%[1] of the proposed restructuring perimeter nominal debt stock

Value (at 5% discount factor) of restructured claims as of end-2021

1. End 2021 NPV of flows (2022-2027)	*USDbn*	1.1
2. End 2021 NPV of 2027 stock (2027 onwards)	*USDbn*	5.4
3. Total NPV of restructured claims (3 = 1+2)	***USDbn***	**6.5**
4. Restructuring perimeter's debt stock	*USDbn*	*12.8*
5. Implied debt reduction (in PV, 4 - 3)	**USDbn**	**6.3**
In percentage of face value (5/4)	***%***	***49%[1]***

- While program parameters and DSA targets dictate the total required external debt reduction in PV terms at 5% discount factor, **discussions will now take place with creditors to agree on how to share and deliver this effort**
- These discussions will also leave room for **creditors to express their constraints and preferences in terms of restructuring parameters to provide debt relief in a consistent way with the DSA targets and program parameters**
  - 49% PV reduction (with a 5% discount factor) can be achieved through many different options, ranging from a treatment with substantial reduction of the face value ("haircut") and a short redemption profile, to very long term extension of maturity at concessional rates with full preservation of the face value
  - Creditors' preferences will be accommodated to the full possible extent, as long as they remain compatible with the DSA targets, including the liquidity constraints
- Restructuring offers are expected to be made by Zambia concomitantly to all groups of creditors to ensure parallel progress in restructuring negotiations
  - Restructuring discussions will be driven by the principles of transparency, good faith and fair treatment across creditors in order to foster a collaborative effort

Notes: (1) Average PV reduction across all the creditors included in the debt treatment

Part III – Creditor Engagement and Next Steps

Update on Engagement with the Official Creditor Committee

Status of Engagement

- **16 June:** First Official Creditor Committee meeting
- **30 July:** Official Creditor Committee delivers financing assurances to the IMF
- **29 September:** Virtual meeting between Zambia and the co-chairs and vice-chair of the OCC
- **Ongoing:** Regular engagement at diplomatic level
- **Ongoing:** Information sharing through the Secretariat and the OCC

Requests

Zambia has asked the OCC to consider its request for a debt treatment based on the following considerations:

- A comprehensive debt treatment, encompassing both Government & SOEs debt, whether guaranteed or not
- The exclusion of non-resident holdings of local currency debt:
  - Including these instruments within the perimeter would (i) be a threat to domestic market financial stability, (ii) raise multiple issues from practical and legal considerations (if limited to non-resident holders), and (iii) trigger FX outflows and jeopardize the Government's ability to finance future budgets
- The exclusion of short-term payables i.e. non-financial claims mostly due to suppliers of petroleum products and contractors;
  - However appropriate repayment terms will be sought, recognizing the country's difficulties

The Zambian Government hopes that the Official Creditor Committee will proceed expeditiously with the Government's request and be able to discuss and agree an MoU by the end of the year or early next year

Update on Engagement with Private Creditors

Status of Engagement

- Eurobonds' holders
  - Regular engagement since September 2020 with the Bondholders' committee and its financial and legal advisors
  - Regular information sharing under NDA with advisors
- Other creditors
  - Regular update presentations
  - One-on-one meeting(s) to discuss the process and the DSA

Next Steps

- Sharing of information with creditors: investor presentations, DSA assumptions, etc.
- Sharing of restructuring offers (under NDA) and negotiations in order to reach agreements
- Execution of the debt restructuring agreements

Expected Timeline and Closing Remarks

This timeline presents the next steps in the debt restructuring process, aimed at advancing the engagement with creditors and agreeing on the actual parameters of the debt treatment

Q4 2022

- Third meeting of the OCC
- First restructuring proposal to the OCC
- Exchanges of proposals and counter-proposals with Commercial Creditors (under NDA where appropriate)

Q1 2023

- Reaching an agreement in principle with the bondholders' committee
- Implementing the agreed Eurobonds restructuring transaction
- Implementing restructuring agreements with the OCC and other commercial creditors

October — Investor Update Presentation

December — Signature of the MoU with the OCC

March

The Zambian Government thanks all creditors and attendees of this presentation for their kind attention

If creditors are interested in obtaining more information and engaging in discussions with the Government, please contact Zambia's Financial Advisors Lazard and Legal Advisor White & Case at the email addresses zb.investors@lazard.com and wcprojectlubwa@whitecase.com for any request or other inquiry they may have