

**CIVIL SOCIETY FOR POVERTY REDUCTION**

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**ANALYSIS OF ZAMBIA'S  
DEBT SUSTAINABILITY  
POST DEBT RESTRUCTURING**



**SEPTEMBER 18, 2025**  
Lusaka, Zambia



## EXECUTIVE SUMMARY

The study outlines the country's debt trends and trajectory pre and post debt restructuring outlining the factors that were driving debt contraction, the breach in debt contraction fundamentals and the present debt restructuring to align the country's debt to the debt sustainability plan.

Zambia's debt country management journey is a tale of two phases. The first was a catastrophic failure characterized by opacity, poor strategy, and political override of technical advice, leading to default. The second, current phase, is a textbook example of crisis response and reform under an IMF program. The new focus is squarely on **transparency, institutional strength, and a rules-based approach** centered on prudent fiscal management

In the period 2015-2020, a debt expansionary era, the country's external debt grew exponentially from \$6.3 billion to \$ 12.1 billion, a 92% leap averaging 18.4% annually. This culminated in the country being the first African country to default on its sovereign bond, failing to meet a USD 41 million coupon payment in Nov 2020. The November 2020 default represented not merely a liquidity crisis, but a solvency crisis requiring comprehensive debt restructuring rather than temporary relief measures. The country, having fallen into a G20 debt Service Suspension initiative entered a protracted negotiation process to restructure its external debt with the support of the IMF. The debt restructuring process that has been going on from 2021, with initial IMF Executive Board approval of the Extended Credit Facility coming in August 2022, a 28-month interval, highlighting the procedural complexities of the G20 Common Framework, particularly the difficulty of coordinating diverse creditors with conflicting interests. An additional 18-month period between IMF approval and the finalization of the memorandum of understanding with one of three creditor groups covering official creditors committee in June 2023 demonstrates the substantive complexities of achieving comparable treatment across bilateral, multilateral, and commercial creditors. The process though nearing completion has not been finalized with negotiations with commercial creditors that represent a portion of the 8% commercial debt as of August 2025, a portion for which no clear time frame can be estimated.

The debt restructuring had three core objectives being to reduce debt distress over the medium term, reduce the debt service ratio and reduce public debt present value (PV).

The overall result has been a significant reduction in the PV of Debt to GDP and PV of Debt to Revenue ratios; however, the country continues to face a high debt distress position with evident vulnerabilities in light of any potential external shocks and debt service distress. The warning signs remain heightened and will require a strong country resolve to overcome the debt challenge as the overall debt stock continues to increase even under debt restructuring due to a recurring budget deficit. Thus, the following core recommendations

1. Governance and fiscal discipline: tighten prudent resource management, curb mismanagement and conflicts of interest.
2. Anchor sustainability: accelerate IMF-backed fiscal consolidation, broaden domestic revenue, and curb non-concessional borrowing.
3. Diversification and value addition: invest in local processing and agribusiness to broaden the export base.
4. Economic resilience: diversify away from copper, expand agriculture, tourism, and manufacturing; build climate-resilient infrastructure.
5. Sinking fund and fiscal dividends: establish and fund a sinking mechanism; channel debt service savings to social sectors and productive investment.
6. Equitable taxation: broadening the tax base, improve compliance, and rebalance

toward progressive sources to mobilize resources without widening inequality.

7. Social protection: ring-fence health, education, and social spending; enhance efficiency to sustain inclusive growth.

Zambia's **Debt Crisis and Restructuring** experience offers important lessons for both African governments and the international financial architecture. For resource-dependent economies, the case underscores the dangers of **Commodity-centric Development** and the importance of building resilient, diversified economic structures before pursuing debt-financed investment splurges.

For the Global Financial System, Zambia's experience has exposed the **weaknesses of the G20 Common Framework** in facilitating timely and orderly debt resolutions. The protracted negotiation process—stretching over four years and counting—has prolonged economic uncertainty and delayed recovery, suggesting the need for more efficient mechanisms for coordinating between diverse creditors including bilateral lenders, multilateral institutions, and private bondholders.

Bottom line Zambia's experience illustrates both the perils of aggressive debt accumulation and the potential for recovery when reforms are anchored by transparency, governance, and a disciplined, developmental state approach. The true test lies in embedding these reforms into durable institutions and policies that sustain debt sustainability, spur diversification, and protect the most vulnerable as the economy transitions beyond the restructuring phase.

Perhaps most importantly, Zambia's case demonstrates the **human costs** of debt crises and the austerity measures that often accompany resolution programs. The retrenchment of social spending and elimination of subsidies have disproportionately affected vulnerable populations, potentially undermining long-term human development even as they seek to restore macroeconomic stability. This underscores the need for debt resolution frameworks that explicitly protect social spending and incorporate equity considerations into their design.

Isabel Mutembo Mukelebai

**Executive Directors**

## 1.0 ACRONYMS AND ABBREVIATIONS

<b>HIPC</b>	Heavily Indebted Poor Countries (initiative mentioned in 6.2)
<b>IMF</b>	International Monetary Fund
<b>G20</b>	Group of Twenty
<b>DSF</b>	Debt Sustainability Framework (for Low-Income Countries)
<b>MTDS</b>	Medium-Term Debt Management Strategy
<b>DMO</b>	Debt Management Office
<b>OCC</b>	Official Creditor Committee (also referred to as OCC agreement later)
<b>ECF</b>	Extended Credit Facility
<b>PV</b>	Present Value
<b>GDP</b>	Gross Domestic Product
<b>DSA</b>	Debt Sustainability Analysis
<b>GNI</b>	Gross National Income
<b>PDMA</b>	Public Debt Management Act
<b>ABP</b>	Annual Borrowing Plan
<b>PV</b>	Present Value

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## 1.0 Introduction

Zambia's journey over the past decade presents a stark cautionary tale on public debt management. Following a period of robust economic growth and high commodity prices in the early 2000s, the country embarked on an ambitious infrastructure-driven borrowing spree. However, the confluence of a collapse in copper prices from 2015, persistent fiscal deficits, and a shift towards less transparent, non-concessional debt created a perfect storm. By 2020, Zambia became the first African nation to default on its sovereign debt during the COVID-19 pandemic.

This study provides a comprehensive analysis of Zambia's debt sustainability from 2015 to 2025. It traces the origins of the crisis, the subsequent default, and the protracted process of debt restructuring under the G20 Common Framework. The period to 2025 is critical, as it represents the anticipated conclusion of restructuring and the nation's efforts to rebuild its economy on a more sustainable footing. Understanding this arc is essential for policymakers, investors, and other African nations facing similar debt distress challenges.

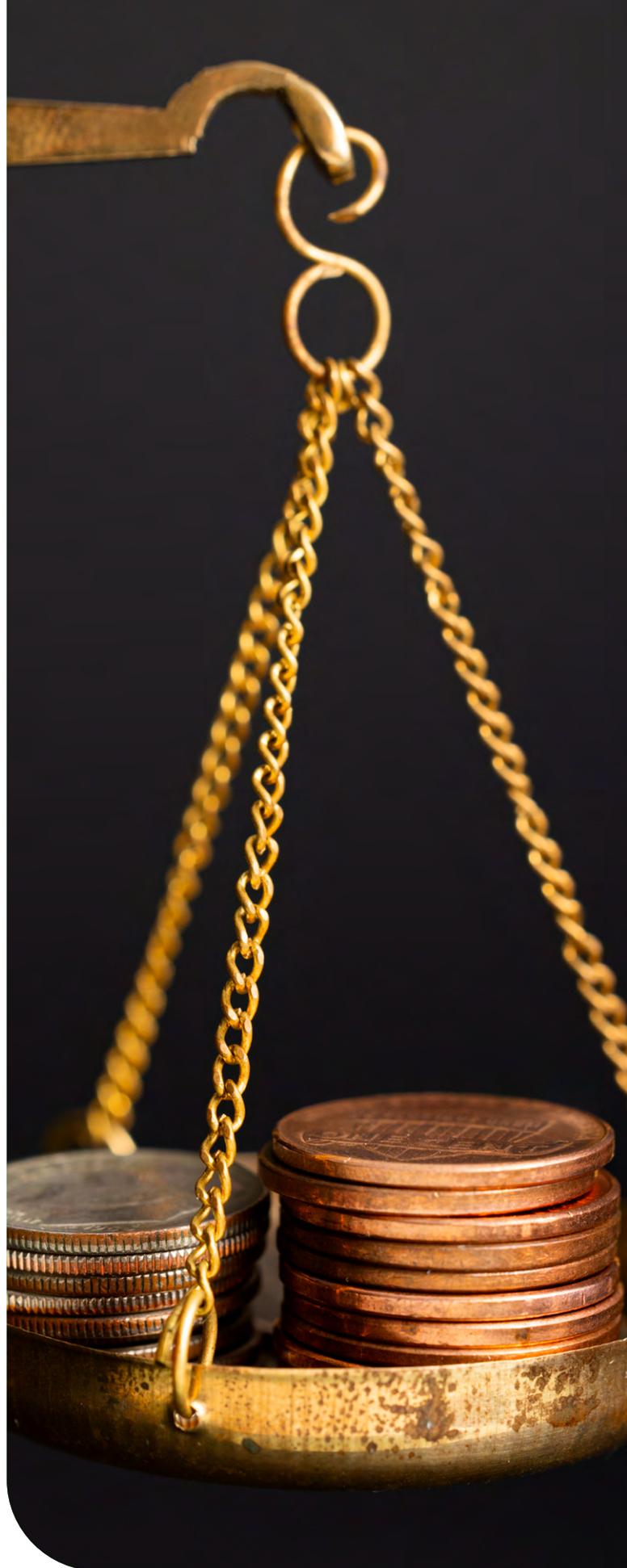
## 2.0 Objective

The primary objectives of this study are:

- i. To Assess Zambia's debt sustainability using the G20 Debt Sustainability Framework (DSF) for Low-Income Countries, highlighting key risk indicators.
- ii. To evaluate the progress, challenges, and implications of the ongoing debt restructuring process with both official (Paris Club, China) and private creditors.
- iii. To project the potential trajectory of Zambia's debt burden through 2025 under different restructuring and macroeconomic scenarios.

## 3.0 Literature Review

Existing literature on Zambia's debt crisis converges on several key themes:



- a). **The Commodity Price Shock:** Numerous studies (World Bank, IMF, 2015-2017) identify the dramatic fall in copper prices from 2014-2015 as the primary trigger. Copper accounts for over 70% of Zambia's export earnings, and the price collapse created a massive fiscal and external financing gap.
- b). **Expansionary Fiscal Policy and Poor Debt Management:** Research by the IMF (2019, 2020) criticizes the unsustainable fiscal policy, characterized by expensive infrastructure projects and subsidies, financed not by domestic revenue mobilization but by borrowing. Studies from institutions like the Jubilee Debt Campaign highlight the opaque nature of borrowing, particularly from Chinese creditors, which complicated the debt picture.
- c). **The Shift in Creditor Composition:** A significant body of work (CGD, SAIS-CARI) analyzes the «new debt landscape.» Pre-2010, Zambia's debt was primarily held by multilateral institutions and Paris Club members on concessional terms. Post-2010, there was a rapid rise in commercial debt (Eurobonds) and non-concessional bilateral debt, notably from China, increasing debt servicing costs significantly.
- d). **The Common Framework Challenges:** Recent analyses (IIF, Brookings Institution) focus on the G20 Common Framework, designed to provide coordinated debt treatment. Literature points to its slow implementation, creditor coordination problems (especially between traditional Paris Club members and new creditors like China), and the lack of clarity on debt treatment parameters, prolonging Zambia's economic uncertainty.

This study builds on this literature by providing an integrated, up-to-date analysis that incorporates the finalization of the official creditor committee agreement and projects the debt trajectory through 2025 under the new restructuring terms.

## 4.0 Methodology

This study employs a mixed-methods approach:

- i. **Descriptive Analysis:** Quantitative data on Zambia's public debt stock, composition (external vs. domestic, concessional vs. commercial), debt service ratios, and key macroeconomic indicators (GDP growth, fiscal balance, exports, revenues) are collected from the IMF's World Economic Outlook, World Bank's International Debt Statistics, and Zambia's Ministry of Finance reports for the period 2015-2023.
- ii. **Debt Sustainability Analysis (DSA):** The core analytical tool is the IMF/World Bank's **Debt Sustainability Framework for Low-Income Countries**, which Zambia is classified under. This involves:
  - **Baseline Projections:** Using IMF program projections (from the Extended Credit Facility) for macroeconomic variables and debt flows to 2028.
  - **Stress Testing:** Assessing debt burden indicators under different scenarios, including growth, primary balance, exchange rate and contingent liability shocks.
  - **Threshold Analysis:** Comparing Zambia's debt burden indicators (PV of Debt-to-GDP, Debt-to-Exports, Debt Service-to-Revenue) against the DSF's indicative thresholds to determine the risk of debt distress.
- iii. **Comparative Analysis:** Zambia's restructuring process is compared with other countries undergoing the Common Framework (e.g., Ghana, Ethiopia) to identify common challenges and lessons learned.
- iv. **Qualitative Review:** Analysis of policy documents, creditor committee statements, and agreements-in-principle to understand the terms and conditionality of the debt restructuring.

## 5.0 G20 Debt Sustainability Framework Analysis

Applying the DSF to Zambia reveals a clear narrative of distress and a path to recovery.

### 5.1 Pre-Default (2015-2020): Breaching Thresholds

Leading up to the default, Zambia's debt burden indicators soared past all DSF thresholds, indicating a high risk of debt distress.

- i. **PV of External Debt-to-GDP:** Rose from 40% in 2015 to over 100% by 2020, far exceeding the 40% threshold for weak policy environments.
- ii. **Debt Service-to-Revenue:** Became particularly crippling, exceeding 40% (threshold is 23%), meaning the government was spending more on servicing debt than on health and education combined.
- iii. **Debt Service-to-Exports:** Also breached its threshold, indicating external sector vulnerability.

### 5.2 Post-Restructuring Projections (2023-2025): A Path to Sustainability

The successful restructuring under the Common Framework is fundamentally altering the trajectory. The agreed-up-to-date terms with official creditors and the proposed terms with bondholders include:

- i. **Extension of Maturities:** Pushing principal repayments far into the future.
- ii. **Interest Rate Reduction:** Lowering coupon rates on existing debt.
- iii. **A Three-Year Debt Service Moratorium:** Providing immediate fiscal relief.

### 5.3 Projected Impact on DSF Indicators by 2025:

- i. **PV of Debt-to-GDP:** Is projected to fall from over 100% to **-65-70%** by 2025. While still elevated, this represents a significant improvement and places it on a firm downward trajectory.
- ii. **Debt Service-to-Revenue:** This is the most critical improvement. It is projected to plummet to **well below 20%** by 2025, from over 40% pre-restructuring. This frees up crucial fiscal space for poverty-reducing expenditures and public investment.
- iii. **Risk of Debt Distress:** The IMF's most recent DSA (Post-OCC agreement) is likely to reclassify Zambia's risk rating from "in distress" to **"High Risk,"** with the potential to move to «moderate risk» by 2025-2026 if fiscal discipline is maintained and growth is inclusive.

**Key Risk:** The projections are contingent on Zambia adhering to its IMF-supported reform program. Any deviation in fiscal performance or a major negative external shock (e.g., another commodity price crash) could derail this path.

## 6.0 DEBT MANAGEMENT

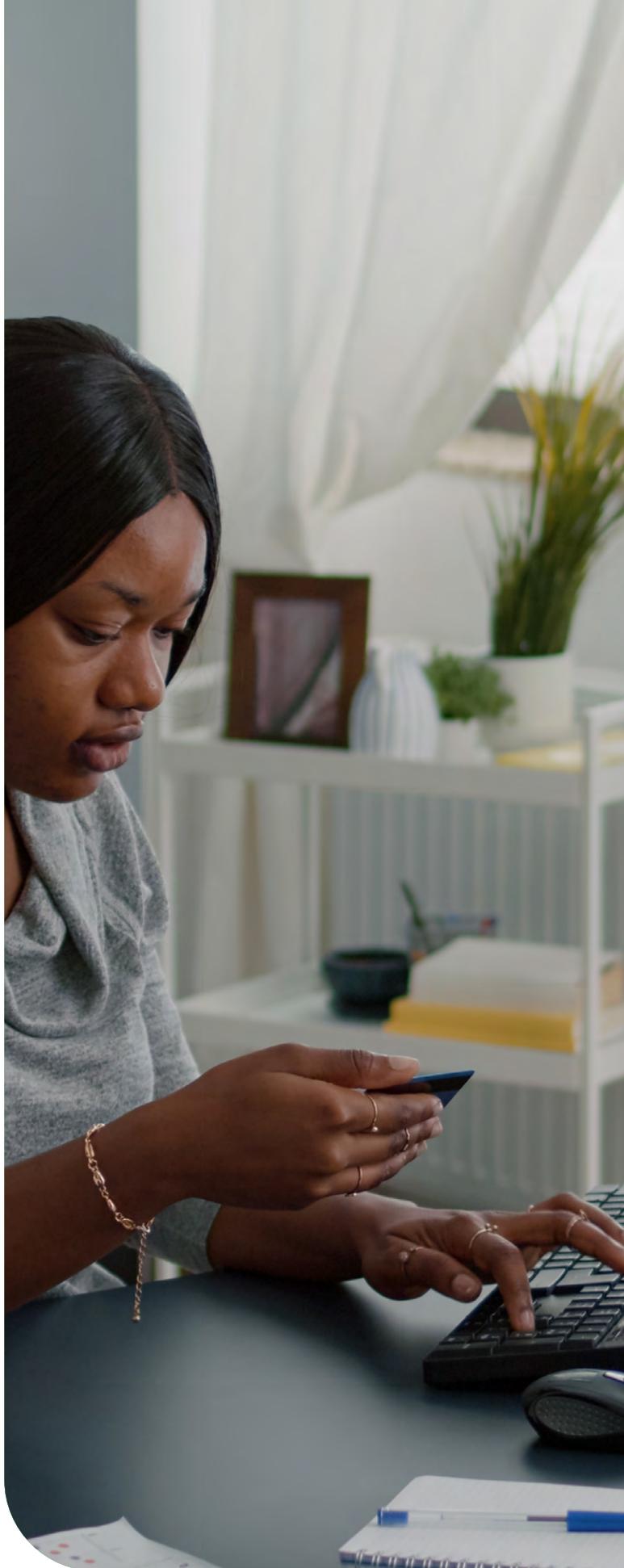
### 6.1 Introduction

Zambia's experience with debt management over the past two decades serves as a critical case study of how the collapse of a sound debt management framework can lead to a full-blown sovereign debt crisis. This analysis examines the failures of the past, the consequences, and the ongoing reforms aimed at rebuilding a sustainable and transparent system under the guidance of international financial institutions.

**6.2 The Era of Poor Debt Management (2012-2020)** - Following debt relief under the HIPC initiative in the 2000s, Zambia had a relatively clean slate. However, a combination of factors led to a rapid and unsustainable re-accumulation of debt.

### 6.3 Key Debt Management failures

- i. **Abandonment of Prudent Strategy:** The government shifted from concessional borrowing to expensive commercial and non-concessional debt to finance ambitious infrastructure projects, often bypassing parliamentary oversight. The country having being re-classified into a LIC was unable to access concessional funding but opted to secure commercial debt.
- ii. **Lack of Transparency:** A hallmark of this period was the extreme opacity of debt contracting. Loans, particularly from Chinese creditors, often contained confidentiality clauses, making it difficult for even the IMF and World Bank to assess the true size and terms of the debt stock. This included collateralized debt (e.g., debt backed by future mineral royalties).
- iii. **Weak Institutional Framework:** The Debt Management Office (DMO) within the Ministry of Finance was undermined. Political decisions overrode technical assessments



of debt sustainability. There was no effective Medium-Term Debt Management Strategy (MTDS) adhered to.

- iv. **Pro-Cyclical Borrowing:** Instead of saving during a period of high copper prices (pre-2014), the government borrowed heavily. When copper prices collapsed, revenues fell, but debt service obligations remained high, creating a severe squeeze.
- v. **Ignoring Early Warnings:** Repeated warnings from the IMF, credit rating agencies, and its own DMO about deteriorating debt sustainability were ignored.
- vi. **Consequence:** By 2020, debt had become unsustainable. Debt service was consuming over 40% of government revenue, crippling the ability to fund essential social services. This culminated in Zambia becoming the first African country to default on its sovereign debt during the COVID-19 pandemic in November 2020.

### Key Timeline of Debt Deterioration (2015-2020)

Year	Key Events	Debt-to-GNI	Fiscal Balance (% GDP)
2012	Shift to Commercial Borrowing	-33%	-6.7%
2015	Accelerated Borrowing for Infrastructure	~40%	-7.7%
2017	Copper Price Volatility	~70%	-7.7%
2019	Pre-Pandemic Debt Peak	~100%	-14%
2020	COVID-19 Pandemic and Default	168%	-14%

## 6.4 The Current Reform Agenda Under the IMF Program

The change of Government in 2021 and the subsequent engagement with the IMF have initiated a comprehensive overhaul of Zambia's debt management framework. The **Extended Credit Facility (ECF)** agreed in 2022 is conditional on deep structural reforms, including in debt management.

### Key Pillars of the New Approach:

- i. **Restoring Transparency:**
  - **Full Disclosure:** The government has committed to publishing all new debt contracts and has worked to disclose the terms of previously secretive loans.
  - **Public Debt Reports:** Regular, detailed public debt reports are now published, providing a clear picture of the stock, terms, and creditors, a key provision in the Public Debt Management Act of 2022
- ii. **Strengthening the Institutional Framework:**
  - **Re-empowering the DMO:** Efforts are underway to strengthen the technical capacity and independence of the Debt Management Office.
  - **Parliamentary Oversight:** The government is now required to seek parliamentary approval for new borrowing, reinstating a critical check on executive power.
- iii. **Implementing a Prudent Medium-Term Debt Management Strategy (MTDS):**
  - The government, with help from the IMF and World Bank, has developed a new MTDS focused on:
    - **Cost-Risk Trade-off:** Carefully evaluating new borrowing not just on cost

but on the risk it adds to the portfolio (currency, interest rate, refinancing risk).

- **Rebuilding Market Access:** A focus on securing highly concessional financing and resolving the default to eventually regain access to international markets on reasonable terms.
- **Promoting Domestic Debt Market:** Developing a deeper market for local currency debt to reduce reliance on foreign currency borrowing.

#### iv. **Anchoring Fiscal Policy to Sustainability:**

- The 2023-2024 budgets have been focused on fiscal consolidation, primarily through **Domestic Revenue Mobilization** (e.g., tax reforms) rather than aggressive borrowing. This is the cornerstone of preventing future crises.

## 6.5 **The Central Role of the Debt Restructuring**

The 2025 Debt Sustainability Analysis (DSA) was undertaken in line with the mandate of the Debt Management Office outlined in the Public Debt Management Act No. 15 of 2022. The analysis is on the basis of a post external debt restructuring scenario and provides the baseline for the Medium-Term Debt Strategy as well as strategic fiscal planning over the medium term. A comprehensive assessment of Zambia's public debt in light of ongoing debt restructuring efforts amidst recent macroeconomic changes and policy interventions, is the main objective of this DSA. Zambia's current debt management is dominated by the ongoing restructuring process under the G20 Common Framework.

By the end of December 2024, approximately 90 percent of Zambia's external debt covered by the restructuring framework had undergone treatment, with agreements finalized and Agreements in Principle (AIP) reached with both bilateral and commercial creditors. Further, the International Monetary Fund-Extended Credit Facility program continued to provide an anchoring role in the restructuring and facilitated for leveraging of concessional and grant financing from our other development and cooperating partners.

- i. **Objective:** To bring debt back to a sustainable path by reducing the net present value (NPV) of debt and freeing up fiscal resources (evident in the dramatic fall in the debt-service-to-revenue ratio).
- ii. **Process:** This has been a protracted and complex process, highlighting the challenges of creditor coordination between:
  - **Official Creditors Committee (OCC):** Co-chaired by China and France, reached an agreement in principle in 2023.
  - **Bondholders:** Negotiations have been completed and an MOU signed.
  - **Private Creditors:** Negotiations are ongoing to secure comparable treatment.

**Management Challenge:** Zambia's DMO and Ministry of Finance are at the center of these negotiations, requiring immense technical and diplomatic skill to balance the demands of diverse creditors while protecting the country's long-term interests.

## 6.6 **Remaining Challenges and Future Outlook**

- i. **Finalizing the Restructuring:** Completing the deal with private creditors is the most immediate challenge. Any perceived unfavorable terms could set a negative precedent.
- ii. **Maintaining Reform Momentum:** The commitment to fiscal discipline and transparency must be maintained across political cycles to avoid a repeat of past mistakes.

- iii. **Economic Growth:** Ultimately, debt sustainability depends on generating higher economic growth. This requires policies that diversify the economy away from copper.
- iv. **Managing the «Fiscal Dividend»:** The savings from reduced debt service must be channeled effectively into productive investments and social spending to demonstrate the benefits of the painful restructuring to the Zambian people.

## 7.0 Zambia's Debt Country Management

### 7.1 Public Debt Management Act (PDM) No 15 of 2022

The PDM Act grants the Minister exclusive authority to raise loans for the Republic, including options within or outside the country, and requires the Minister to provide a bi-annual update to the National Assembly on the implementation of the annual borrowing plan. It sets two key statutory thresholds: total outstanding government debt borrowed domestically and internationally shall not exceed 65% of current price GDP, and the annual debt service cost on loans raised outside the country shall not exceed 20% of the average recurrent revenue over the preceding three financial years. The Minister must exercise this borrowing authority in accordance with the annual borrowing plan and the Medium-Term Debt Strategy.

The Government's debt management aims to meet financing needs in a timely manner, minimize borrowing costs within an accepted risk framework, and promote the development of the domestic financial market over the medium to long term. To operationalize this, the Minister must prepare a Medium-Term Debt Strategy for Cabinet approval, aligned with the fiscal strategy and macroeconomic framework, and covering the risks in the existing debt portfolio, the Government's future borrowing requirements, and prevailing market conditions and risk guidelines for the debt portfolio.

- 7.1.1 **Purpose:** The Act provides the legal basis for the Executive (through the Minister of Finance) to borrow money on behalf of the Republic, both domestically and internationally, and to guarantee loans taken by parastatal companies or other public entities.
- 7.1.2 **Key Provisions:** It sets the procedures for entering into loan agreements. It historically sets a **Statutory Debt Ceiling** (a maximum stock of debt). It requires that loans be laid before and approved by the National Assembly, providing a measure of parliamentary oversight.
- 7.1.3 **Role in the Debt Crisis (2015-2020):** During this period, critics argue that the spirit of the Loans and Guarantee Act was often circumvented. While the Minister had the legal authority to borrow, the lack of a hard ceiling and the use of mechanisms like collateralized debt (e.g., borrowing against future mineral royalties) often occurred without sufficient transparency or public debate, contributing to the rapid and opaque debt accumulation.

### 7.2 The Annual Borrowing Plan (ABP)

The Annual Borrowing Plan is a key operational document derived from the broader Medium-Term Debt Management Strategy (MTDS) and is now law in the PDMA

- 7.2.1 **Purpose:** It translates the government's fiscal deficit financing needs and its refinancing requirements for maturing debt into a detailed, executable plan for the upcoming fiscal year. It is typically prepared by the Debt Management Office (DMO).
- 7.2.2 **Content:** The ABP specifies: The total gross borrowing requirement for the year. The intended split between domestic and external financing. The types of instruments to be used (e.g., Treasury bills, bonds, concessional loans,

commercial loans). The annual borrowing plan, prepared in accordance with the act and taking into account the Medium-Term Debt Strategy and the current year's cashflow forecast, sets out the Government's total borrowing needs for the next financial year, the purpose and instruments of borrowings, broad terms, indicative timing, the maximum borrowing limit, and the net change in public debt. It must be laid before the National Assembly not less than 90 days before the new financial year, and in election years, within 90 days of the President's swearing-in; the Assembly is then required to approve the plan by resolution. The planned timing of Debt Issuances.

### 7.2.3 Historical vs. Current Context:

7.2.3.1 **Pre-2020:** ABPs existed but were often overruled by political decisions to pursue off-plan, non-concessional borrowing for specific projects, rendering the plan ineffective as a control tool.

7.2.3.2 **Post-2022 (IMF Program):** The ABP has regained its importance. Under the IMF's Extended Credit Facility, the government is committed to adhering to a pre-approved borrowing plan that is consistent with debt sustainability objectives. This has reinstated the ABP as a critical element of fiscal discipline.

7.3 **Sinking Fund** - The Act empowers the Minister to establish a sinking fund to redeem loans with a term longer than ten years (and, in some cases, up to ten years) raised under the Act, with an exception for bonds issued through the Bank of Zambia. When a sinking fund is established, contributions must be set to ensure the redemption on the loan's due date covers no less than 75% of the principal. Money may not be withdrawn for other purposes, except that liability management operations are allowed as authorized withdrawals. If the sinking fund is insufficient at repayment, the shortfall becomes a charge on the Consolidated Fund. The Minister may prescribe the fund's establishment, management, and control by statutory instrument

### 7.4 Debt-to-GDP Ratio (2015-2025)

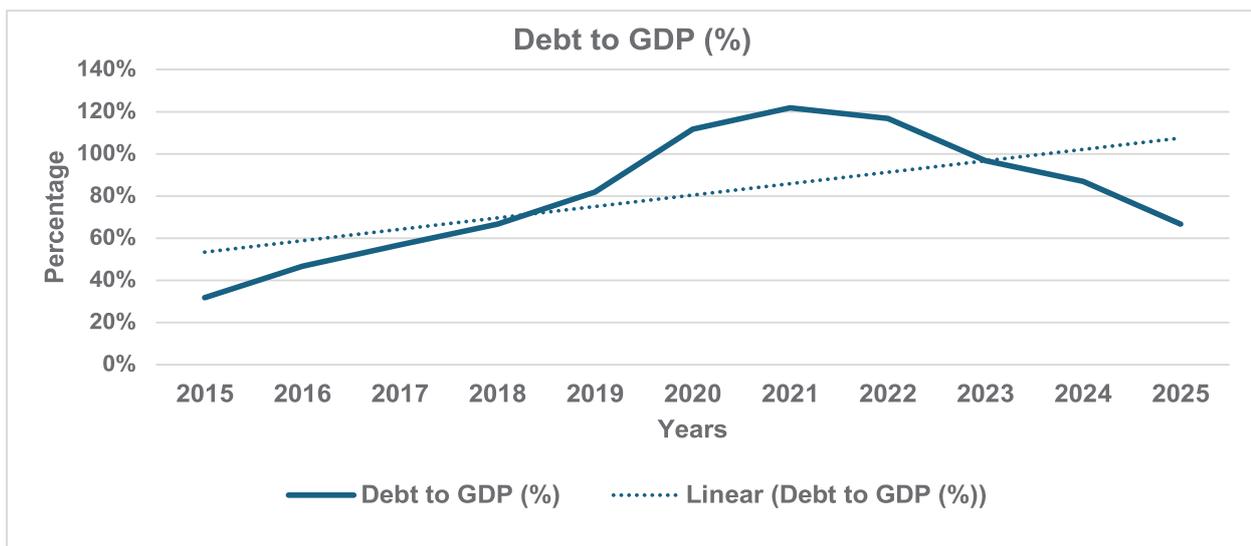
This is the most widely used metric to gauge a country's debt sustainability. It compares the total public debt stock to the size of the economy (Gross Domestic Product).

The trajectory of Zambia's Debt-to-GDP Ratio tells the story of its crisis and recovery.

Year	Estimated Debt-to-GDP (%)	Key Events and Drivers
2015	40%	Debt begins a rapid climb post-HIPC relief. Fall in copper prices exposes fiscal vulnerabilities. Increased non-concessional borrowing begins.
2016	55%	Continued fiscal deficits and borrowing for infrastructure projects. Rising external debt.
2017	65%	Debt transparency issues emerge. Hidden debts start to become apparent. Debt service costs rising sharply.
2018	75%	Government admits debt is unsustainable but continues borrowing. Eurobond payments strain reserves.

Year	Estimated Debt-to-GDP (%)	Key Events and Drivers
2019	90%	Moody's downgrades Zambia to Ca (junk status). Debt distress is clear. Negotiations with IMF for a program fail.
2020	120%	<b>COVID-19 Pandemic.</b> collapse in economic activity (GDP). November: <b>Zambia Defaults on its Sovereign Debt.</b>
2021	130%	Debt stock remains high while economy struggles. New government elected, engages with IMF.
2022	125%	IMF Executive Board approves <b>Extended Credit Facility (ECF)</b> . Debt restructuring negotiations begin under G20 Common Framework.
2023	105%	<b>Agreement in principle reached with Official Creditors Committee (OCC).</b> Economic growth rebounds, slowly boosting GDP. Moratorium on debt service provides relief.
2024	95% (Proj.)	<b>Final Restructuring Agreements Expected.</b> NPV of debt is reduced through haircuts/maturity extensions. GDP growth continues. Ratio falls due to both debt reduction and nominal GDP growth.
2025	70-75% (Proj.)	<b>Full implementation of restructuring.</b> Debt service obligations are significantly lower. The success of the IMF program is critical to maintaining this downward trajectory.

### Visual Interpretation of the Trajectory:



## 8.0 FUEL ARREARS

Zambia's fuel arrears have significantly increased from **\$506.1 million in 2021** to **\$660.07 million as at June, 2025**, reflecting ongoing challenges in the fuel sector despite government efforts to address the crisis. The government has implemented measures such as a local debt sale to raise funds for arrears payment and introduced reforms to improve the fuel procurement system. However, the situation remains critical, with rising debts and continued reliance on external suppliers.

Year	Fuel Debt (USD)
2021	\$506.1 million
2022	\$746.5 million
2023	\$897.5 million
2024	\$712.7 million
June 2025	\$660.1 million

Source: MoF Statistical Bulletin

### Origin and Causes of the Arrears

#### 9.0 Delayed Price Reviews:

The primary cause was the government's previous policy of locking fuel prices for sixty days, which led to accumulated losses and arrears when global prices rose but domestic prices remained static.

#### 10.0 Subsidies and Arrears:

The government's involvement in procurement and subsidies created a situation where it accumulated substantial debt to fuel suppliers, with interest and penalties added to the principal amount.

### Government Actions and Solutions

#### 11.0 Budget Allocations:

In 2024, the government allocated K1 billion in its budget and K15.2 billion in a supplementary act for fuel arrears. In June 2025, a further K11 billion was proposed from a new K33.6 billion supplementary budget to tackle the issue.



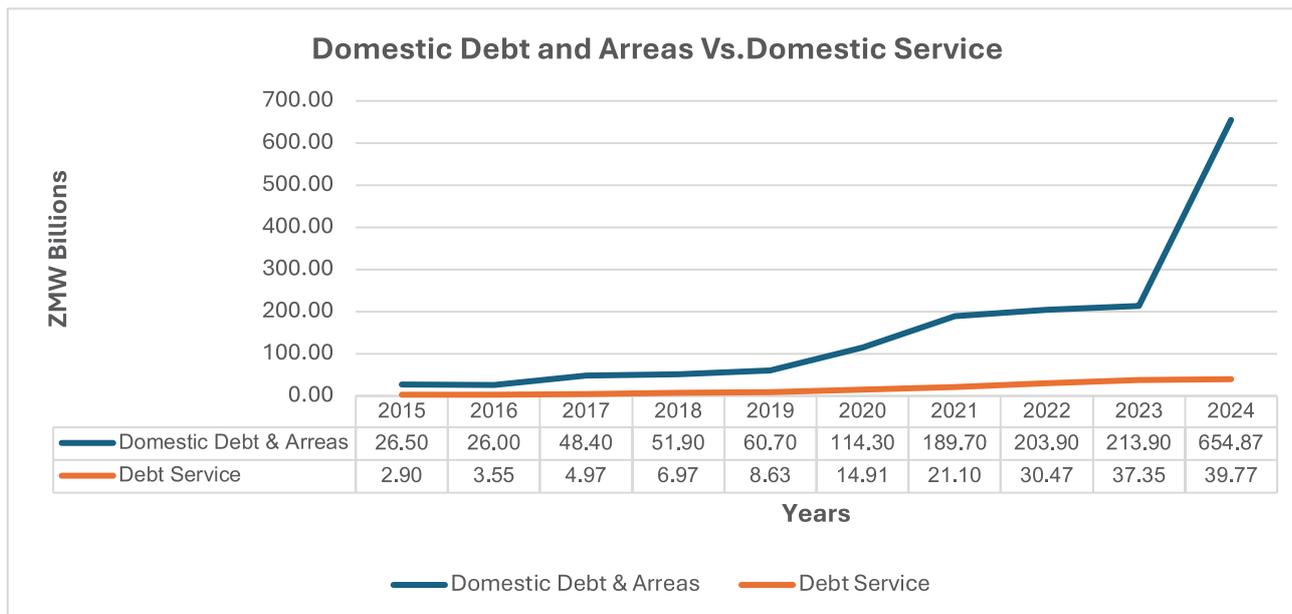
## **12.0 PETROLEUM SUB-SECTOR REFORMS:**

The government implemented reforms including disengaging from direct procurement of petroleum products, placing Indeni Petroleum Refinery on care and maintenance, and converting the TAZAMA pipeline to carry finished diesel.

## **13.0 Monthly Price Reviews:**

These reforms enabled a shift to monthly fuel price reviews, allowing prices to reflect market fundamentals like exchange rates and crude oil prices and shifting responsibility to Oil Marketing Companies.

## 14.0 DOMESTIC DEBT AND DOMESTIC DEBT SERVICE



## 15.0 Synthesis: How They Interconnect

- i. **The Act provides the Legal Authority** for the Minister of Finance to borrow.
- ii. **The Annual Borrowing Plan** is the technical document that plans how that authority will be used for the year, ideally within a sustainable framework (the MTDS).
- iii. **The Debt-to-GDP Ratio** is the ultimate **Outcome Indicator** that reveals whether the use of the Act and the execution of the Plan have been prudent or not.
- iv. **PV Debt to GDP Ratio** - PV debt-to-GDP ratio (present-value debt-to-GDP ratio) is a measure of a government's long-run solvency that compares the discounted (present-value) burden of its future debt obligations to the discounted value of its future economic output (GDP).
  - Instead of comparing current (or upcoming) debt to current GDP, it compares the present value of all future debt-service obligations to the present value of all future GDP, using a chosen discount rate and a specified time horizon
  - This measure is commonly used in macro-fiscal stress tests and IMF/World Bank debt sustainability analyses to assess whether a country's debt burden is manageable given projected growth.
- v. **PV Debt to Revenue** - PV Debt-to-Revenue (present-value debt-to-revenue ratio) is a long-run solvency measure that compares the discounted burden of future debt service to the discounted stream of future government revenue. It uses a chosen discount rate and a specified horizon to sum present values. This is not a standard, universally used metric like PV debt-to-GDP. Whether to use debt service or gross debt, and which revenue measure to use, should be guided by the analysis objective and data availability

### THE ZAMBIAN CASE

- From **2015-2020**, the Loans and Guarantee Act was used aggressively, though the ABP was often ignored, and the result was an explosive rise in the Debt-to-GDP ratio to unsustainable levels.
- From **2022 onwards**, the Public Debt Management Act is being used

encompassing the benchmark target metrics under the IMF program, the ABP is strictly adhered to as a condition for financing, and the direct result is a projected sharp decline in the PV Debt-to-GDP ratio due to both restructuring and fiscal discipline.

This demonstrates that even with strong laws and plans are ineffective without the political commitment to adhere to them. The current IMF program is providing an external anchor for that commitment.

## 16.0 Zambia’s Budget Expenditure: A Decade of Shifting Priorities (2015-2025)

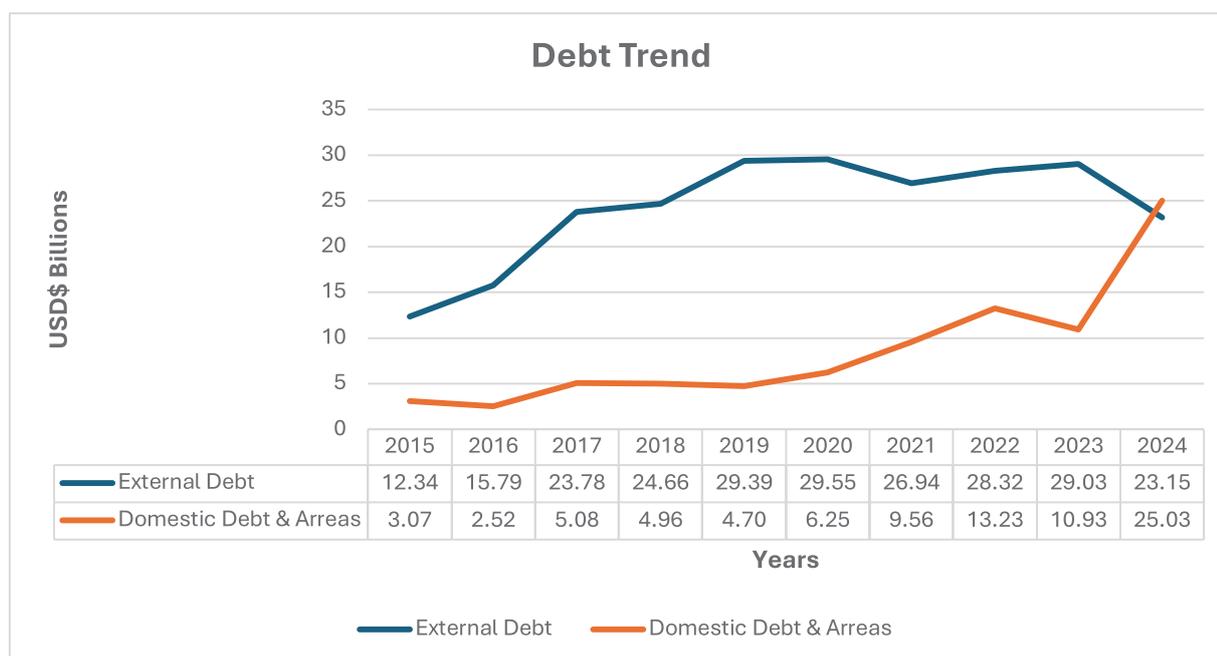
This Analysis traces the evolution of Zambia’s government spending from the period of fiscal expansion through the debt crisis and into the current era of reform under an IMF program.

### 16.1 Introduction

Government Expenditure, underpinned by strong consistent domestic revenue is a primary tool for economic management and development. Zambia’s budget spending over the last decade reflects a dramatic shift: from aggressive, often debt-funded investment in infrastructure to a period of severe constraint during debt distress, and now towards a focus on fiscal consolidation and social protection under international supervision.

### 16.2 Key Trends and Phases (2015-2025)

#### Debt Trend (External/Domestic/Arrears)



The decade can be broken down into three distinct phases:

#### 16.2.1 Phase 1: The Expansionary Era (2015-2019)

**Characterized by:** High spending fueled by borrowing, particularly after the drop in copper prices post-2014. The budget was heavily focused on infrastructure projects (roads, power generation) and large subsidies, especially on fuel and agricultural inputs (e.g., Farmer Input Support Programme - FISP).

##### 16.2.1.1 Expenditure Drivers:

**Capital Expenditure:** Remained high as a share of the budget, financed by non-concessional external loans.

**Subsidies:** Consumed a significant portion of recurrent expenditure.

**Wage Bill:** A large and growing public sector wage bill put constant pressure on the budget.

**Debt Service:** Began its steep rise, crowding out other priority spending.

#### 16.2.2 Phase 2: The Crisis and Default (2020-2021)

**Characterized by:** Severe fiscal strain. The COVID-19 pandemic caused revenues to collapse while necessitating emergency health and social spending. The default in November 2020 froze access to external financing.

##### 16.2.2.1 Expenditure Drivers:

**Debt Service:** Peaked, consuming over **40% of domestic revenues** by 2020, making it the single largest expenditure item.

**COVID-19 Response:** Unplanned expenditures for health measures and social cash transfers.

**Sharp Compression of Capital Spending:** With no money to borrow, development projects stalled. Spending on goods and services and critical maintenance was cut deeply.

#### 16.2.3 Phase 3: The Reform and Consolidation Era (2022-2025)

**Characterized by:** The IMF-backed Extended Credit Facility (ECF) program agreed in August 2022. The focus shifted to **Fiscal Consolidation**—reducing the deficit to stabilize debt—while protecting social spending.

##### 16.2.3.1 Expenditure Drivers (Projected):

**Fiscal Discipline:** Strict expenditure controls and cash-based budgeting.

**Protected Social Sectors:** Health, education, and social protection are ring-fenced from cuts.

**Reduced Fuel Subsidies:** A major reform to phase out costly and regressive general fuel subsidies.

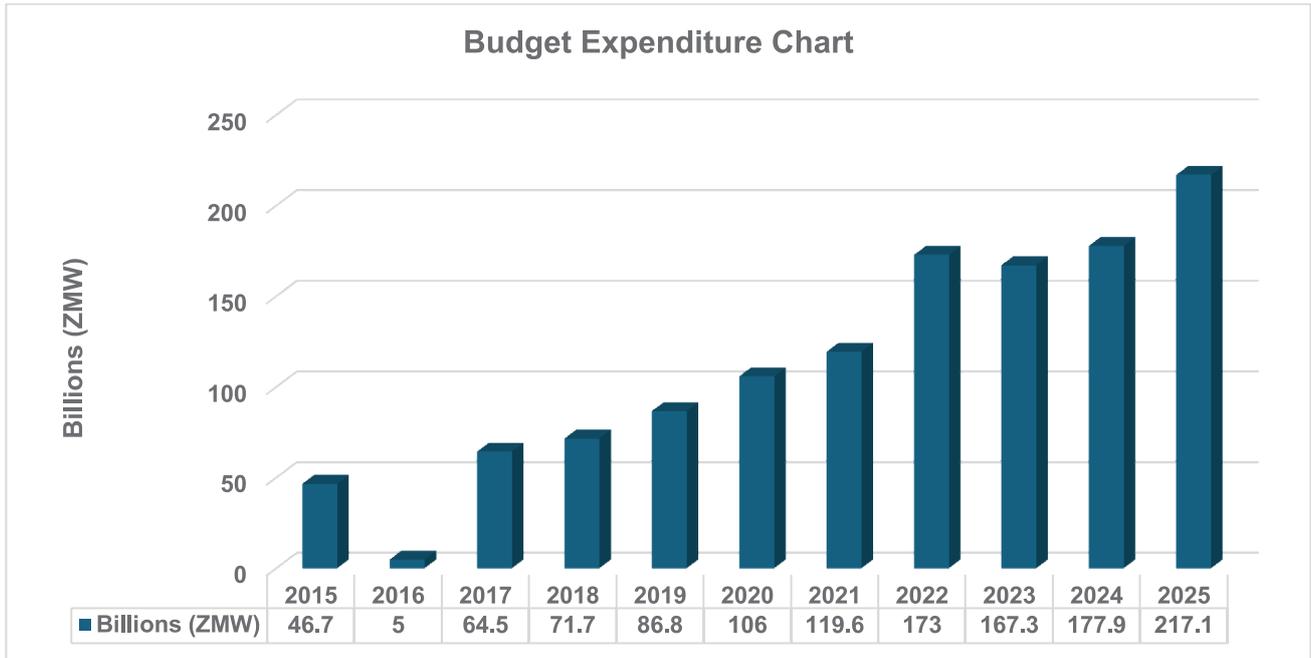
**Debt Restructuring:** The successful deal with creditors is dramatically reducing debt service costs, freeing up the «fiscal space» for other needs.

### 16.3 Expenditure Composition Analysis

A breakdown of major spending categories reveals the shifting priorities:

Expenditure Category	Trend (2015-2019)	Trend (2020-2021)	Trend (2022-2025 Projection)	Key Notes
<b>Debt Service</b>	Sharp Increase	Peaked (~40% of revenue)	<b>Sharp Decrease</b>	The single most dramatic change. Restructuring frees up huge resources.
<b>Wage Bill</b>	High & Growing	Remained High	<b>Stabilizing/ Controlled</b>	Hiring freeze and focus on rationalizing the public service
<b>Subsidies</b>	Very High	Reduced due to fiscal pressure	<b>Sharply Reduced</b>	Phasing out of fuel subsidies is a key reform. FISP being targeted better.
<b>Capital Expenditure</b>	High (debt-funded)	<b>Collapsed</b>	<b>Gradual, cautious increase</b>	Shift from external to domestically-financed projects.
<b>Social Spending (Education, Health)</b>	Moderate	Protected but squeezed	<b>Protected &amp; Increasing</b>	A key priority under the ECF to support human development.
<b>Social Protection</b>	Low	Increased (COVID)	<b>Increased</b>	Scaling up targeted cash transfers to shield the poor
<b>Goods &amp; Services</b>	Moderate	Severely Cut	<b>Cautious increase</b>	O&M Budgets were decimated, now slowly recovering.

## 16.4 Budget Expenditure Trends Graph (2015-2025)



## 16.5 Debt Budget Allocation

<b>Total Budget 2015</b>	46,666,560,000
Domestic Debt Interest	2,896,160,000
External Debt Interest	2,391,680,000
Dismantling of Arrears	-
	5,287,840,000
<b>Debt Budget Allocation (%)</b>	<b>11.33%</b>
<b>Total Budget 2016</b>	53,135,825,364
External Debt Interest	3,615,559,302
Internal Debt Interest	3,549,266,545
Dismantling of Arrears	-
	7,164,825,847
<b>Debt Budget Allocation (%)</b>	<b>13.48%</b>
<b>Total Budget 2017</b>	64,510,300,000
Domestic Debt	4,969,310,000
External Debt (Interest and Principal)	6,497,230,000
Dismantling of Arrears	-
	11,466,540,000
<b>Debt Budget Allocation (%)</b>	<b>17.77%</b>
<b>Total Budget 2018</b>	<b>71,662,385,976</b>
Domestic Debt	6,972,268,260
External Debt (Interest and Principal)	7,268,795,020
Dismantling of Arrears	-

		14,241,063,280
<b>Debt Budget Allocation (%)</b>		<b>19.87%</b>
<b>Total Budget 2019</b>		<b>86,807,894,727</b>
Domestic Debt	8,626,278,083	
External Debt (Interest and Principal)	14,947,077,126	
Dismantling of Arrears	-	
		23,573,355,209
<b>Debt Budget Allocation (%)</b>		<b>27.16%</b>
<b>Total Budget 2020</b>		<b>106,007,612,236</b>
Domestic Debt	12,634,848,146	
External Debt (Interest and Principal)	21,090,794,856	
Dismantling of Arrears	2,278,733,732	
		36,004,376,734
<b>Debt Budget Allocation (%)</b>		<b>33.96%</b>
<b>Total Budget 2021</b>		<b>119,616,011,615</b>
Domestic Debt	18,338,481,000	
External Debt (Interest and Principal)	27,745,178,541	
Dismantling of Arrears	2,762,080,579	
		48,845,740,120
<b>Debt Budget Allocation (%)</b>		<b>40.84%</b>
<b>Total Budget 2022</b>		<b>172,987,077,535</b>
Domestic Debt	27,364,645,716	
External Debt (Interest and Principal)	51,315,495,958	
Dismantling of Arrears	3,105,998,428	
		81,786,140,102
<b>Debt Budget Allocation (%)</b>		<b>47.28%</b>
<b>Total Budget 2023</b>		<b>167,321,733,563</b>
Domestic Debt	30,530,000,000	
External Debt (Interest and Principal)	18,234,338,466	
Dismantling of Arrears	6,823,755,000	
		55,588,093,466
<b>Debt Budget Allocation (%)</b>		<b>33.22%</b>
<b>Total Budget 2024</b>		<b>177,891,868,893</b>
Domestic Debt	32,905,550,262	
External Debt (Interest and Principal)	6,011,715,419	
Dismantling of Arrears	6,864,198,983	
		45,781,464,664
<b>Debt Budget Allocation (%)</b>		<b>25.74%</b>
<b>Total Budget 2025</b>		<b>217,105,378,661</b>

Domestic Debt	37,334,576,117
External Debt (Interest and Principal)	16,664,307,558
Dismantling of Arrears	5,674,875,908
	59,673,759,583
<b>Debt Budget Allocation (%)</b>	<b>27.49%</b>

## 16.6 The “Fiscal Dividend” from Debt Restructuring (2024-2025)

The most significant factor shaping the 2024 and 2025 budgets is the massive reduction in debt service costs due to the successful restructuring with official and private creditors.

- i. **Before Restructuring:** Debt service was the largest budget item.
- ii. **After Restructuring:** Debt service costs have fallen dramatically. This creates a «Fiscal Dividend» – money that is now available to be reallocated to other priorities.
- iii. **Projected Allocation of Dividend:** The government and IMF have committed to channeling these savings towards:
  - **Increased Social Spending:** Boosting budgets for health and education.
  - **Critical Infrastructure:** Resuming carefully selected capital projects that support growth.
  - **Social Protection:** Expanding the Social Cash Transfer Programme to protect the most vulnerable.

## 16.7 Conclusion: From Crisis to Cautious Optimism

Zambia’s expenditure story is one of a painful but necessary correction.

- i. **2015-2019:** Expenditure was unsustainable, driven by borrowing rather than revenue, leading to a crisis.
- ii. **2020-2021:** Expenditure was crippled by the overwhelming burden of debt service, forcing cuts to essential development spending.
- iii. **2022-2025:** Expenditure is being reshaped by the discipline of the IMF program. The core objectives are to:
  - **Anchor spending to revenues,** not debt.
  - **Improve the quality of spending** by targeting subsidies and boosting social sectors.
  - **Utilize the fiscal dividend from restructuring** responsibly to support inclusive growth.

The challenge for the period through 2025 will be to maintain this fiscal discipline, resist pressure for pre-election spending splurges, and ensure that the increased social spending translates into tangible improvements in development outcomes for the Zambian people.

## 17.0 ZAMBIA'S DEBT RESTRUCTURING

### 17.1 Introduction: The First Default

Zambia's debt restructuring is one of the most significant and closely watched economic events in Africa in recent years. It serves as the first major test case for the **G20 Common Framework for Debt Treatments**, a mechanism designed to bring together traditional creditors (like Paris Club members) and new creditors (like China and private bondholders) to restructure the debts of struggling low-income countries in a coordinated manner.

Zambia's journey began in **November 2020**, when it became the first African nation to default on its sovereign debt during the COVID-19 pandemic. After years of unsustainable borrowing, its debt burden had become crippling, with debt service consuming over 40% of government revenue.

### 17.2 The Pre-Restructuring Debt Landscape (Why Restructuring Was Needed)

Zambia's debt problem was characterized by three key issues:

- i. **High Stock:** Debt-to-GDP soared to over 120%.
- ii. **Unsustainable Cost:** Debt service costs were astronomically high relative to revenue.
- iii. **Complex Composition:** The creditor mix has become vastly more complex than in previous decades, making negotiations difficult.

### 17.3 Key Creditor Groups:

- i. **\$6.3 billion in Eurobonds:** Held by Private International Asset Managers.
- ii. **~\$6 billion owed to China:** Spread across various Chinese Public entities (Exim Bank of China, China Development Bank).
- iii. **~\$2.5 billion to other Bilateral Creditors:** (e.g., members of the Paris Club like France).
- iv. **~\$2.7 billion to Multilateral Creditors:** (World Bank, IMF, AfDB). These are typically **not restructured** as they provide highly concessional financing.
- v. **Commercial banks and domestic debt.**

### 17.4 The Restructuring Process: A Protracted and Complex Journey

The process under the G20 Common Framework has been notoriously slow, taking over three years to reach key milestones.

#### 17.4.1 Key Steps and Timeline:

- i. **Feb 2021:** Zambia formally requests debt treatment under the G20 Common Framework.
- ii. **Jul 2021:** The **Official Creditor Committee (OCC)** is formed, co-chaired by China and France. This was a historic moment, marking China's first participation in such a coordinated effort.
- iii. **2021-2022:** Protracted negotiations between Zambia and the OCC. A major sticking point was China's initial insistence that multilateral development banks (MDBs) should also take haircuts, which other creditors and the IMF opposed.
- iv. **Dec 2022:** The OCC and Zambia's government announce an agreement on a **financing assurance** (a «debt treatment-in-principle»). This was a critical pre-

condition for the IMF's Executive Board to approve Zambia's **\$1.3 billion Extended Credit Facility (ECF)** program.

- v. **Jun 2023:** The OCC and Zambia reach a **final Memorandum of Understanding (MoU)**. The key terms included:
  - ❑ A **Moratorium on Principal Payments** until 2025.
  - ❑ An **Extension of Maturities** over 20+ years.
  - ❑ A **Reduction in Interest Rates**.
- vi. **2023-2024 (Ongoing):** Negotiations with **Private Creditors** (Eurobond Holders). This has proven equally complex. Bondholders formed a committee and have been negotiating for terms they deem comparable to those accepted by the OCC. A key challenge has been the lack of transparency regarding the exact terms of the OCC deal, making “comparability of treatment” difficult to assess.

## 17.5 Terms of the Restructuring (What Zambia Gets)

The restructuring is not about canceling all debt (a “Haircut”) but about making it manageable through:

- 17.5.1 **Debt Service Relief:** The immediate moratorium on principal payments provides vital fiscal breathing space. Billions of dollars that would have gone to creditors are now available for health, education, and social spending.
- 17.5.2 **Net Present Value (NPV) Reduction:** By extending maturities and lowering interest rates, the *present value* of the debt is reduced. This is the core of making the debt stock sustainable.
- 17.5.3 **Re-profiling:** Smoothing out the future repayment schedule to avoid large «cliff-edge» maturities.

## 17.6 Debt Restructuring Success/Failures

The IMF's Debt Sustainability Analysis (DSA) post-restructuring shows a dramatic improvement:

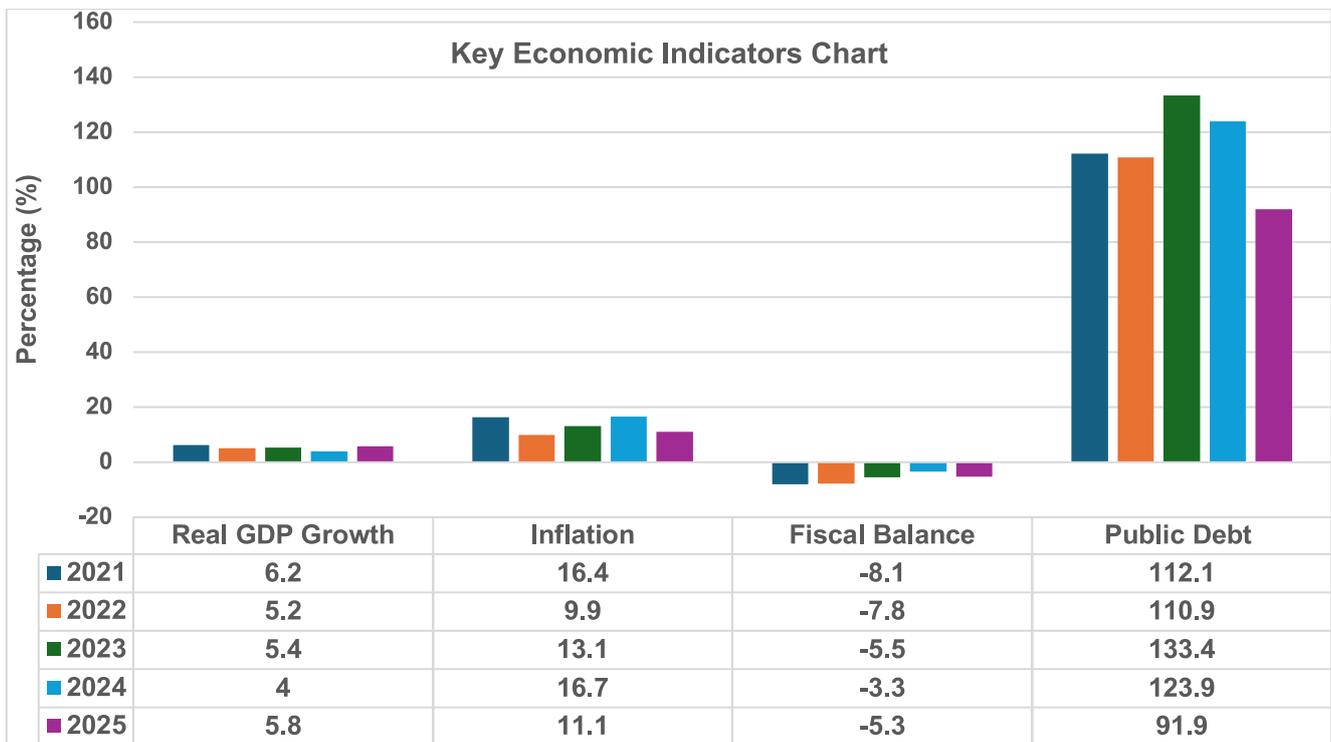
- **Debt-to-GDP** is projected to fall from over 120% to **~70-75% by 2025**.
- **Debt Service-to-Revenue** is projected to plummet from over 40% to **well below 20%**, which is a key benchmark for sustainability.

## 17.7 Sustainability Impact

According to IMF assessments, Zambia's public debt is now considered sustainable, though the country remains at high risk of debt distress due to near-term breaches of Debt Sustainability Analysis (DSA) thresholds. The IMF projects that Zambia will reach a “*Moderate Risk of External Debt Distress over the Medium Term*” as restructuring is finalized and economic growth accelerates.

## 17.8 Key Economic Indicators Under Restructuring (2021-2025)

Indicator	2021	2022	2023	2024	2025 (Proj.)
<b>Real GDP Growth (%)</b>	6.2	5.2	5.4	4.0	5.8
<b>Inflation (% End of Period)</b>	16.4	9.9	13.1	16.7	11.1
<b>Fiscal Balance (% GDP)</b>	-8.1	-7.8	-5.5	-3.3	-5.3
<b>Public Debt (% GDP)</b>	112.1	110.9	133.4	123.9	91.9



## 17.9 Challenges and Criticisms

- 17.9.1 **Extreme Delays:** The process has been painfully slow, prolonging economic uncertainty and delaying Zambia's recovery. This has deterred new investment.
- 17.9.2 **Creditor Coordination:** The Common Framework's biggest test has been reconciling the different interests of diverse creditors (China vs. Paris Club vs. private bondholders). The lack of clear, predictable rules has been a major drawback.
- 17.9.3 **«Comparability of Treatment» Disputes:** Private creditors argue they are being asked to take larger losses than official bilateral creditors, leading to a standoff.
- 17.9.4 **Zambian Economy Bears the Brunt:** While creditors negotiated, Zambians faced austerity measures under the IMF program, including subsidy removals that increased the cost of living.

## 17.10 Significance and Lessons for the World

Zambia's case is a landmark with global implications:

- 17.10.1 **Test Case for the Common Framework:** Its success or failure will set a precedent for other countries in debt distress (like Ghana, Ethiopia, Sri Lanka). So far, it has highlighted the need for a more efficient and transparent process.
- 17.10.2 **China's Evolving Role:** It marks China's transition from a purely bilateral lender to a major player in multilateral sovereign debt resolution, albeit a cautious one.
- 17.10.3 **The «Too Little, Too Late» Problem:** It underscores the need for earlier intervention. By the time a country defaults, its economy is often already shattered.
- 17.10.4 **International Debt Restructuring Comparatives**

Country	Debt/Composition	Approach	Target	IMF Support	Outcome
Zambia	USD 13.1 Billion USD 3.5 Bond USD 6 Commercial USD 2.6 Bilateral	External Debt	Reduce Debt Distress and create Macro Stability	USD 1.3 B ECF	USD 2.5 B relief Ext Mat, red interest
Ghana	USD 42 billion USD 13.1 Bond USD 5.4 Bilateral USD 9.2 Multilateral USD 12.1 Domestic	External and Domestic	Reduce Debt Distress Macro Stability	USD 3 B ECF	USD 2.5 B Relief Ext mat, reduce int
Ethiopia	USD 57 billion USD 30 billion Ext USD 8.4 ONLY (81% Official Credit)	Ext	Reduce Debt Distress and Create Macro Stability	USD 3.4 B ECF (2028)	Ext Mat, Red Int USD 2.5 b relief
Sri Lanka	USD 57 billion USD 30 Bilateral (12 China) USD 14.7 Commercial USD 10.9 Multilateral	Ext	Reduce Debt Distress Haircut	USD 2.9 bailout	Reduce Debt by USD16.9 Billion 28% haircut/ 11% reduce int

### 17.11 A Cautious Path Forward

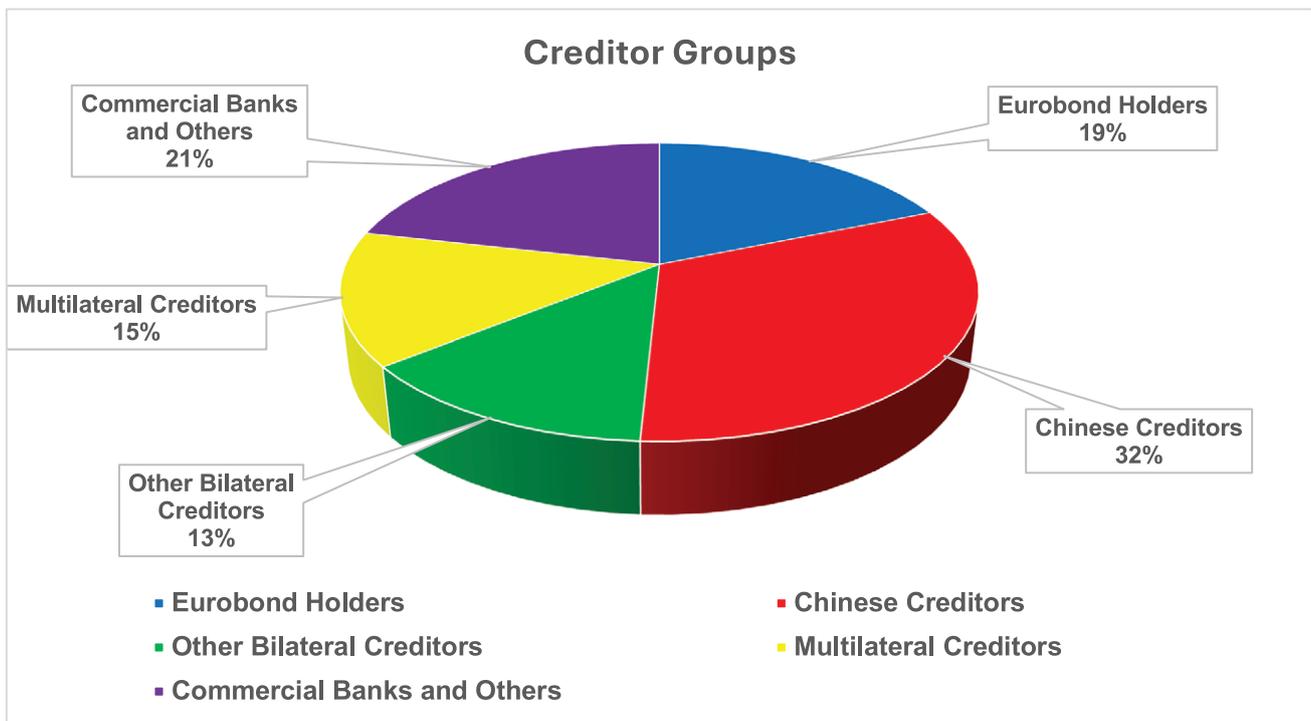
As of mid-2025, Zambia's restructuring is **nearing completion but not yet finished**. The deal with official creditors is done, but the final agreement with private creditors is the last crucial piece. Once fully agreed, the restructuring is designed to pull Zambia back from debt distress and drive it back to economic recovery. It will unlock the "fiscal space" needed to rebuild the economy and invest in its people. However, the protracted and difficult process has exposed serious flaws in the global architecture for resolving sovereign debt crises, suggesting that the system needs significant reform to handle the debt challenges of the 21st century. For Zambia, the lesson is clear: sustainable debt management must be the foundation of all future economic policy. However, all the metrics around PV Debt to GDP and PV Debt to Revenue are still well above recommended thresholds and thus the country is still at high risk of debt distress.

## 18.0 ZAMBIA'S CREDITORS PROFILE - OFFICIAL CREDITORS (BILATERAL AND MULTILATERAL), BOND HOLDERS AND COMMERCIAL CREDITORS.

Zambia's debt distress is characterized not just by the amount of debt, but by its complex and fragmented creditor structure. This complexity has been a major factor in prolonging the ongoing debt restructuring process.

### 18.1 Summary of Major Creditor Groups (Pre-Restructuring Stock)

Creditor Group	Estimated Amount (Pre-Restructuring)	Key Characteristics	Status in Restructuring
<b>Eurobond Holders</b>	~\$3.5 billion	Private, commercial, held under international law.	<b>Successfully concluded</b> for comparable treatment.
<b>Chinese Creditors</b>	~\$6 billion	Bilateral, mix of concessional & non-concessional loans.	<b>Deal reached</b> via Official Creditor Committee.
<b>Other Bilateral Creditors</b>	~\$2.5 billion	Primarily members of the Paris Club (e.g., France).	<b>Deal reached</b> via Official Creditor Committee.
<b>Multilateral Creditors</b>	~\$2.7 billion	World Bank, IMF, AfDB. Preferred creditor status.	<b>Not being restructured.</b> Providing new funding.
<b>Commercial Banks &amp; Others</b>	~\$3-4 billion	Other private loans, suppliers' credits, domestic debt.	To be addressed bilaterally or via comparable terms.



### 18.2 Official Bilateral Creditors

These are loans directly from other Governments or their agencies. This group is central to

the restructuring under the G20 Common Framework.

- 18.2.1 **Chinese Creditors (The Largest Bilateral Group)** China is, by far, Zambia's largest bilateral creditor. The debt is not held by a single entity but is spread across multiple Chinese institutions, which initially complicated negotiations.
- 18.2.2 **Key Lenders: Export-Import Bank of China (Exim Bank):** The largest single creditor, responsible for financing major infrastructure projects (airports, roads, power generation). **Industrial and Commercial Bank of China (ICBC):** Provided a significant commercial loan, notably for a power project. **China Development Bank (CDB):** Also involved in large-scale project financing.
- 18.2.3 **Nature of Debt:** A mix of concessional (low-interest) and non-concessional (commercial-rate) loans. Some loans were **collateralized**, meaning they were secured against future revenue streams, such as from Zambia's exports.
- 18.2.4 **Role in Restructuring:** China co-chaired the Official Creditor Committee (OCC) alongside France. Its participation was historic, marking a shift towards engaging in multilateral debt resolution. The final deal involved maturity extensions and interest rate reductions.

### 18.3 Other Bilateral Creditors (Paris Club and Non-Paris Club)

This group consists of traditional Western lenders and other non-Chinese partners.

- 18.3.1 **Paris Club Members:** Includes countries like:
  - France (Co-chair of the OCC)
  - United Kingdom
  - South Africa
  - Israel
  - Russia (a member, though its exposure is smaller)
- 18.3.2 **Non-Paris Club Bilateral Creditors:** Includes countries like **India** and **Kuwait** (through the Kuwait Fund)

### 18.4 Multilateral Creditors

These institutions are typically considered "preferred creditors" and are **excluded from sovereign debt restructuring**. Instead, they provide critical financial support during a crisis.

- 18.4.1 **International Monetary Fund (IMF):** Providing a **\$1.3 billion Extended Credit Facility (ECF)** program which was increased to \$ 1.7 billion as additional drought response funds. The program acts as an anchor for Zambia's economic reforms and is a prerequisite for other creditors to engage in restructuring.
- 18.4.2 **World Bank Group:** Provides budget support and project financing through the International Development Association (IDA).
- 18.4.3 **African Development Bank (AfDB):** A major financier of infrastructure and development projects in Zambia.
- 18.4.4 **Other Multilaterals:** Includes institutions like the European Investment Bank (EIB).

### 18.5 Private Commercial Creditors

*This group holds debt on commercial terms and has been the most challenging to reach a final agreement with.*

## 18.5.1 Eurobond Holders

Zambia has three outstanding Eurobonds issued in international capital markets, governed by English law. This makes them a distinct and powerful group.

### 18.5.1.1 The Bonds:

**\$750 million** due in 2022 (defaulted on)

**\$1.0 billion** due in 2024

**\$1.25 billion** due in 2027

**Who Holds Them?** International asset management firms and hedge funds. Notable members of the bondholder committee include **BlackRock** and **Amundi**.

**Challenges in Restructuring:** Bondholders were a dispersed group with a legal right to pursue full repayment. They have negotiated fiercely because the terms they argue are “comparable” to the deal secured by official bilateral creditors. A key sticking point has been the **lack of transparency** around the exact terms of the OCC deal, making comparability difficult to assess. The negotiations were concluded and the bonds re-issued with new extended terms and conditions.

### 18.5.1.2 Other Commercial Banks and Creditors

This is an opaquer category that includes:

**Chinese and International Commercial Banks:** Beyond the policy banks, some loans were made by purely commercial entities.

**Suppliers' Credits:** Debt owed to companies for goods and services provided to the government

**Arrears:** Accumulated unpaid bills to private sector suppliers.

## 18.6 Domestic Debt

This is debt owed in local currency (Zambian Kwacha) primarily to domestic banks, pension funds, and other local financial institutions.

- **Instruments:** Treasury bills and bonds.
- **Status:** Generally, domestic debt is not being restructured in the same way. However, the government's fiscal squeeze has impacted on the domestic market. The restructuring focus has been on external debt, which poses a greater risk to foreign exchange reserves.

## 19.0 DATA ANALYSIS: KEY INDICATORS AND TRENDS

Zambia's debt profile from 2015 to 2025 reflects a period of significant economic challenges, including a sovereign default in 2020 and ongoing restructuring efforts. Below is a detailed analysis of key debt indicators, leveraging available data from the search results and contextualizing trends within Zambia's broader economic landscape.

### 19.1 Total Loans and Banking Sector Exposure

- i. **Trend:** Zambia's total loans (primarily domestic lending by commercial banks) fluctuated between 2015 and 2024, influenced by economic volatility and currency dynamics.
  - o **Peak:** Total loans reached \$3.56 billion USD in August 2014, but by September 2024, they declined to \$2.98 billion USD.
  - o **Volatility:** Loans averaged \$2.23 billion USD monthly from 2001 to 2024, with significant drops during economic crises (e.g., 2020 default) 2.
- ii. **Implication:** Reduced lending reflects tightened credit conditions, banking sector caution, and economic contraction post-default.

### 19.2 External Debt Burden

**Magnitude:** Zambia's external debt soared from **\$921.2 million USD in 2012** to **\$24.3 billion USD in March 2023**, highlighting aggressive borrowing pre-crisis.

**Recent Data:** As of **September 2024**, external debt stood at **\$23.1 billion USD**, indicating a slight reduction due to restructuring efforts

**Composition:** Debt includes:

- Multilateral loans** (e.g., World Bank IBRD loans).
- Bilateral debt** (e.g., Chinese creditors).
- Commercial debt** (Eurobonds and bank loans).

**Sustainability Challenge:** External debt remains high relative to GDP (~120% in 2020), necessitating restructuring to avoid further distress.

### 19.3 Debt Restructuring Progress (2020–2025)

**Default and Framework:** Zambia's 2020 default triggered negotiations under the **G20 Common Framework**, involving:

- Official Creditors Committee (OCC):** Co-chaired by China and France, agreeing to maturity extensions and interest rate reductions.
- Private Creditors:** Ongoing talks with Eurobond holders (e.g., BlackRock) for comparable terms.
- **Impact:**
  - Debt Service Relief:** Moratoriums on principal payments until 2025 freed fiscal space.
  - Reduced Debt-to-GDP:** Projected to decline from ~120% (2020) to ~70–75% by 2025.

### 19.4 Role of Multilateral Creditors

**World Bank (IBRD):** Provides market-rate loans and structural adjustment support.

- **Data Transparency:** IBRD loan terms are publicly reported, though specifics for Zambia are not detailed in the search results.

**IMF Program:** The **\$1.3 billion Extended Credit Facility (2022)** anchors fiscal reforms, requiring adherence to borrowing limits and transparency.

## 19.5 Commercial and Domestic Debt

- i. **Bank Lending: Loan Accounts:** Commercial bank loan accounts are tracked by the IMF.
- ii. **Credit Constraints:** Domestic lending declined post-2020, reflecting risk aversion.
- iii. **Eurobonds: \$3.5 billion in Eurobonds** are a key restructuring focus, with negotiations aiming to reduce NPV and extend maturities.

## 19.6 Key Debt Metrics and Projections (2025)

Indicator	2015-2019 Trend	2020-2022 Crisis	2023-2025 Projection
<b>External Debt (\$bn)</b>	Rapid increase to \$24.3bn	Peak default (2020)	Decline to ~\$23bn (Restructuring)
<b>Debt-to-GDP (%)</b>	120%	Sustained >100%	70-75%
<b>Debt Service/Revenue</b>	>40% (unsustainable)	Default	<20% (Post-restructuring)
<b>Total Loans (\$bn)</b>	Volatile (~\$3bn avg.)	Decline	~\$2.98bn (Sep 2024)

## 19.7 Risks and Challenges

- i. **Restructuring Delays:** Prolonged negotiations with private creditors delay economic recovery.
- ii. **Fiscal Pressure:** Despite relief, Zambia must maintain austerity measures recommended under IMF programs to create the debt sustainability required to pull the country out of the debt trap, risking social pushback.
- iii. **External Shocks:** Copper price volatility and climate events (e.g., droughts) could undermine debt sustainability.

## 20.0 INTERPRETATION OF RESULTS

This comprehensive interpretation of Zambia's debt crisis and restructuring experience provides valuable insights for policymakers, researchers, and international institutions engaged in addressing sovereign debt challenges. The analysis highlights both the technical aspects of debt restructuring and the human dimensions of adjustment, emphasizing the need for balanced approaches that address fiscal sustainability while protecting development objectives.

The main contents are as follows:

- i. **Debt Trajectory Analysis:** Evolution of Zambia's debt burden and key turning points
- ii. **Restructuring Effectiveness:** Assessment of the G20 Common Framework's impact
- iii. **Fiscal-space Creation:** Analysis of freed resources and their allocation
- iv. **Structural Constraints:** Examination of persistent economic vulnerabilities
- v. **Social Impacts:** Evaluation of human development and inequality effects
- vi. **Future Outlook:** Projections and scenario analysis for debt sustainability
- vii. **Policy Implications:** Lessons learned and recommendations for other nations.

### 20.1 Debt Trajectory and Turning Points Analysis

#### 20.1.1 The Four-Phase Debt Evolution Pattern



Zambia's **Debt Accumulation** followed a distinct four-phase pattern that reveals critical policy failures and external vulnerabilities. The **Pre-Crisis Acceleration Phase** (2015-2019) was characterized by **Pro-Cyclical Borrowing** during a period of relatively favorable copper prices, with public debt increasing fourfold from approximately \$8.75 billion in 2013 to \$35 billion by 2020. This borrowing occurred despite warning signs of commodity dependence and insufficient revenue mobilization, with the debt-to-GNI ratio soaring from 24.9% to 168% over the same period. The **Compositional Shift** in debt—from concessional multilateral financing to commercial and non-concessional bilateral debt—significantly increased repayment costs and reduced grace periods, creating a **debt service time bomb** that would detonate with the first major external shock.

The **Crisis Triggering Phase** (2020-2021) demonstrates how **Exogenous Shocks** interact with pre-existing vulnerabilities. The COVID-19 pandemic caused copper prices to plummet by approximately 16% in early 2020, while simultaneously disrupting global supply chains and domestic economic activity. This dual shock—to both export earnings and domestic production—revealed the fundamental **unsustainability** of Zambia's debt position, with debt service reaching 38% of government revenues compared to combined education, health, water, and sanitation spending of just 25%. The November 2020 default represented not merely a liquidity crisis but a **Solvency Crisis** requiring comprehensive debt restructuring rather than temporary relief measures.

#### 20.1.2 Restructuring Implementation and Delays

The **Restructuring Negotiation Phase** (2021-2024) exemplifies the **Coordination Challenges** inherent in the modern sovereign debt architecture. The 28-month interval between Zambia's default in November 2020 and the IMF Executive Board approval of the Extended Credit Facility in August 2022 highlights the **Procedural Complexities** of the G20 Common Framework, particularly the difficulty of coordinating diverse creditors with conflicting interests. The additional 18-month period between IMF program approval and the finalization of the memorandum of understanding with the Official Creditor Committee in June 2023 demonstrates the **Substantive Complexities** of achieving comparable treatment across bilateral, multilateral, and commercial creditors.

The **Implementation Phase** (2023-2025) reveals the **Asymmetric Benefits** of restructuring across different stakeholder groups. While the debt treatment provided immediate cash flow relief through maturity extensions and interest rate reductions, the prolonged negotiation process created significant **Economic Costs** through continued market exclusion, investment uncertainty, and constrained fiscal policy. These implementation delays particularly affected social sectors, with health spending declining from 9.5% of the budget in 2018 to 8% in 2022 despite theoretical protection under IMF program safeguards. This illustrates how even successful restructuring operations can generate **Distributional Consequences** that disproportionately affect vulnerable populations during the implementation period.

## 20.2 Restructuring Effectiveness and Limitations

### 20.2.1 G20 Common Framework Assessment

The **G20 Common Framework** demonstrated both innovative potential and significant limitations in Zambia's case. On the positive side, the Framework successfully established a **Creditor Coordination Mechanism** that brought together traditional Paris Club members and non-traditional lenders like China through the Official Creditor Committee co-chaired by France and China. This represented a substantive advancement in global financial governance, creating a forum for **Multilateral Negotiation** rather than parallel bilateral discussions. The Framework also established the principle of **Comparability of Treatment** across creditor classes, preventing individual creditors from free-riding on the debt relief provided by others.

However, the Framework suffered from critical **design flaws** that limited its effectiveness. The lack of clear timelines for different stages of the process created **prolonged uncertainty**, with Zambia spending over three years in restructuring negotiations compared to approximately 18 months for earlier Paris Club restructurings. The absence of automatic **Debt Service Suspension** during negotiations forced Zambia to continue allocating scarce resources to debt payments rather than social needs, exacerbating human development impacts. The Framework's failure to address **Multilateral Debt**—which grew from 22% of external debt in 2020 to 30% by 2023 through new lending—created a shifting target for debt sustainability, as relief from bilateral and commercial creditors was partially offset by increased multilateral obligations.

### 20.2.2 Debt Sustainability Outcomes

The restructuring produced **mixed results** on debt sustainability metrics. On positive indicators, the present value of debt-to-GDP ratio is projected to decline from over 120% in 2020 to approximately 70-75% by 2025, representing a substantial improvement in the **stock position**. More significantly, the debt service-to-revenue ratio plummeted from over 40% to below 20%, creating immediate **fiscal space** for social spending and public investment. These improvements primarily resulted from **maturity extensions** rather than principal reductions, pushing repayment obligations into the future rather than eliminating them entirely.

However, Zambia's debt situation remains **fragile** despite these improvements. The country continues to be classified as "high risk of debt distress" due to **near-term threshold breaches** in debt burden indicators under stress scenarios. The restructuring provided limited protection against **new shocks**, with climate vulnerabilities (particularly droughts affecting agricultural production and hydroelectric generation) representing ongoing threats to fiscal stability. Most fundamentally, the restructuring did not address the **structural drivers** of debt accumulation—particularly commodity dependence and weak revenue mobilization—creating the risk of repeating the debt cycle once the relief period concludes.

## 20.3 Fiscal Space Creation and Allocation

### 20.3.1 Fiscal Resource Reallocation

The debt restructuring created significant **fiscal space** through reduced debt service obligations, but the allocation of these resources reveals important policy priorities and trade-offs. The immediate cash flow relief—approximately \$2 billion annually in reduced debt service payments—theoretically enabled increased social spending, with the 2023 budget allocating a 25% increase to health services. However, actual expenditure patterns show **continued constraints** on social sectors, with health spending declining as a percentage of total expenditure despite nominal increases. This suggests that the fiscal space created by restructuring was partially absorbed by other priorities, including **energy subsidies** and **public sector wages**.

The **compositional changes** in expenditure reveal deeper structural issues in Zambia's fiscal management. Capital expenditures experienced the most severe compression, declining from approximately 9% of GDP in 2014 to 4% in 2020, undermining long-term productive capacity. While some recovery occurred post-restructuring, public investment remained below pre-crisis levels, reflecting both fiscal constraints and **implementation capacity** limitations. This pattern suggests that debt relief alone cannot overcome deeper **governance challenges** in public financial management, including weak project selection, execution capacity, and maintenance budgeting.

### 20.3.2 Social Protection Measures

The restructuring period saw the expansion of **targeted social protection** programs, particularly the Social Cash Transfer scheme, which grew from covering approximately 10% of vulnerable households in 2020 to 25% by 2024. This expansion represented a policy response to the **distributional impacts** of austerity measures, particularly the elimination of generalized subsidies that had benefited wealthier households disproportionately. However, the overall social protection system remained **fragmented and underfunded**, with total spending on safety nets representing less than 1.5% of GDP compared to World Bank recommendations of 3-5% for countries with Zambia's poverty levels.

The **timing of social interventions** reveals important lessons about the social dimensions of debt restructuring. The most severe impacts on household welfare occurred during the **negotiation phase** (2021-2022) rather than the implementation phase (2023-2025), as uncertainty constrained public spending and inflation eroded purchasing power. This suggests that the social costs of debt crises are front-loaded rather than evenly distributed throughout the process, highlighting the need for **early social protection scaling** rather than gradual expansion as fiscal space becomes available. Unfortunately, Zambia's experience shows that technical assistance from international financial institutions often prioritizes fiscal and monetary reforms over social protection, creating a **sequential approach** that exacerbates household vulnerability during the adjustment period.

## 20.4 Structural Constraints and Economic Vulnerabilities

### 20.4.1 Commodity Dependence Persistence

Despite rhetorical commitments to diversification, Zambia's **economic structure** remained heavily dependent on copper exports throughout the restructuring period. The share of copper in total exports actually increased from approximately 70% in 2015 to 75% in 2023, while the proportion of **unprocessed raw materials** in exports declined only marginally from 93.9% in 1995 to 89.2% in 2022. This persistent commodity dependence reflects deeper **structural constraints** including limited infrastructure, skills mismatches, and policy inconsistencies that undermine diversification efforts. The debt restructuring process itself may have inadvertently reinforced this dependence by emphasizing fiscal consolidation over productive transformation, as revenue mobilization efforts focused on existing economic activities rather than new sectors.

The **quality of growth** during the recovery period further illustrates these structural challenges. While GDP growth recovered to 4.1-5.8% in 2024-2025, this growth remained heavily concentrated in extractive industries and services rather than manufacturing or agro-processing. The **employment intensity** of growth remained low, with formal sector job creation lagging behind output expansion, particularly for youth and women. This pattern suggests that without complementary **industrial policies** and targeted investments, debt relief alone cannot catalyze the structural transformation needed for sustainable development. The restructuring addressed the symptoms of Zambia's economic model—debt distress—without fundamentally treating the disease of commodity dependence.

#### 20.4.2 Climate Vulnerability Interactions

Zambia's debt crisis intersected significantly with **climate vulnerabilities**, creating compound challenges that complicated the restructuring process. A severe drought in 2024 reduced agricultural output by approximately 15% and cut hydroelectric generation by 30%, creating simultaneous impacts on food security, energy access, and export earnings. These climate shocks directly affected debt sustainability through multiple channels: reduced agricultural exports decreased foreign exchange earnings, increased food imports widened the current account deficit, and emergency response measures expanded fiscal deficits. The **compound nature** of these shocks illustrates how climate vulnerability can undermine debt sustainability even following successful restructuring.

The restructuring agreement itself included limited provisions for addressing these **climate-debt interactions**. Unlike more recent debt-for-climate swaps pioneered by other countries, Zambia's treatment focused primarily on financial terms rather than environmental conditionality. This represents a missed opportunity to align debt relief with climate resilience investments, particularly in agricultural adaptation, renewable energy diversification, and water management. The absence of **climate vulnerability clauses** in the restructured debt instruments also means that Zambia remains exposed to future climate shocks without automatic payment suspensions or maturity extensions, replicating the vulnerability that contributed to the original default.

### 20.5 Social Impacts and Inequality Dynamics

#### 20.5.1 Household Welfare Effects

The debt crisis and subsequent adjustment had **severe consequences** for household welfare, particularly during the negotiation phase when uncertainty was highest. Inflation peaked at 16.7% in December 2024, disproportionately affecting low-income households who spend a larger share of their income on food and essentials. The elimination of fuel and electricity subsidies increased transportation and energy costs, reducing real incomes and access to services, particularly in rural areas. These impacts were partially mitigated by the expansion of targeted cash transfers, but coverage remained inadequate, reaching only 25% of vulnerable households by 2024.

The **distributional pattern** of impacts reveals important inequality dimensions. Urban formal sector workers were somewhat protected through wage adjustments in the public sector and large enterprises, while rural agricultural households and urban informal workers experienced the most severe declines in living standards. Gender disparities widened as women-dominated sectors like informal trade and subsistence agriculture were particularly affected by economic contraction and inflation. These differential impacts illustrate how debt crises can exacerbate pre-existing **social inequalities** through multiple transmission channels, including inflation, service reduction, and labor market contraction.

### 20.5.2 Human Development Outcomes

The debt crisis had significant **long-term implications** for human development through reduced social spending and service quality. Health sector spending declined from 9.5% of the budget in 2018 to 8% in 2022, leading to drug shortages, equipment breakdowns, and reduced preventive services. Education spending dropped from 17.2% in 2016 to 12.4% in 2022, increasing pupil-teacher ratios and reducing educational quality. These cuts occurred despite theoretical protection of social spending under IMF program safeguards, illustrating how **fiscal compression** inevitably affects social sectors even with policy commitments to protection. This is outlined and supported by a study by Oxfam report: [https://www.oxfamfrance.org/app/uploads/2024/10/CRI\\_2024\\_EMBARGOED.pdf](https://www.oxfamfrance.org/app/uploads/2024/10/CRI_2024_EMBARGOED.pdf)

The **intergenerational impacts** of these human development reductions are particularly concerning. Childhood malnutrition rates increased during the crisis period, potentially affecting cognitive development and future productivity. School dropout rates rose, particularly among adolescent girls, with long-term implications for human capital formation. These impacts demonstrate that the costs of debt crises extend far beyond fiscal indicators, affecting the **developmental trajectory** of entire generations. The partial recovery of social spending post-restructuring cannot fully reverse these impacts, highlighting the importance of preventing debt crises rather than merely responding to them.

## 20.6 Future Outlook and Scenario Analysis

### 20.6.1 Debt Sustainability Projections

Zambia's **Debt Sustainability Outlook** remains positive but fragile under baseline projections. The IMF projects public debt to decline to 69.4% of GDP by 2027, with debt service indicators remaining within sustainable thresholds. However, this outlook is subject to significant **downside risks** including copper price volatility, climate shocks, and fiscal slippages particularly around the 2026 elections. Stress tests indicate that a combination of moderate shocks—such as a 15% decline in copper prices, a 30% currency depreciation, and a 2% decline in GDP growth—could push debt burden indicators back above sustainability thresholds, highlighting the continued vulnerability despite restructuring.

The **medium-term trajectory** depends critically on policy implementation rather than external factors. Revenue mobilization improvements—particularly through base broadening and tax compliance rather than rate increases—represent the most important determinant of fiscal sustainability. Expenditure efficiency gains, particularly in energy subsidies and public investment management, could create additional fiscal space without compromising service delivery. The **quality of institutions**—including debt management capacity, public financial management systems, and anti-corruption efforts—will ultimately determine whether Zambia breaks from its historical cycle of debt accumulation and crisis.

## 20.6.2 Structural Transformation Scenarios

Zambia faces three potential **development scenarios** in the post-restructuring period:

- i. **Return to business-as-usual:** In this scenario, Zambia reverts to commodity-dependent growth without substantive diversification, leaving the economy vulnerable to future shocks and potentially repeating the debt cycle. This scenario would likely involve increased borrowing during periods of high copper prices, creating vulnerability when prices eventually decline.
- ii. **Partial diversification:** Zambia makes progress on economic diversification but remains primarily dependent on extractive industries, with limited progress in manufacturing or knowledge-intensive services. This scenario reduces but does not eliminate vulnerability to commodity cycles, requiring careful debt management to avoid future distress.
- iii. **Structural transformation:** Zambia successfully diversifies its economy through targeted industrial policies, human capital investments, and infrastructure development, creating a more resilient economic structure less prone to debt crises. This scenario requires sustained policy commitment beyond the typical electoral cycle and significant upfront investments that may create short-term fiscal pressures.

The current policy mix suggests that Zambia is most likely to follow the **partial diversification** scenario, with some progress in sectors like agricultural processing and tourism but limited transformation of the overall economic structure. Achieving structural transformation would require policy commitments beyond those embedded in the current IMF program, including more active industrial policies and larger public investments in productivity-enhancing infrastructure.

## 20.7 Policy Implications and Lessons Learned

### 20.7.1 Domestic Policy Lessons

Zambia's experience offers several crucial **lessons for domestic policymaking** in resource-dependent economies:

1. **Counter-cyclical fiscal management** is essential during commodity booms, with windfall revenues directed toward stabilization funds and productive investments rather than consumption spending or unsustainable tax cuts.
2. **Debt transparency** must be prioritized through comprehensive reporting of all public and publicly guaranteed debts, including contingent liabilities from state-owned enterprises and public-private partnerships.
3. **Revenue mobilization** should focus on progressive taxation and base broadening rather than regressive consumption taxes that exacerbate inequality and undermine growth.
4. **Social protection systems** need to be established before crises occur, with automatic stabilizers that can scale rapidly during economic downturns without requiring complex new programming.
5. These lessons highlight the importance of **building resilience** during periods of economic stability rather than attempting to create safety nets during crises when fiscal space is constrained and implementation capacity is stretched.

#### 20.7.2 International Architecture Reforms

Zambia's restructuring experience also suggests important **reforms to the international financial architecture**:

1. The G20 Common Framework needs **clear timelines** for each stage of the restructuring process to prevent prolonged uncertainty that undermines economic recovery.
2. **Automatic debt service suspension** should be triggered during restructuring negotiations to preserve resources for essential social spending and prevent human development reversals.
3. **Climate resilience considerations** should be integrated into debt sustainability analyses and restructuring agreements through climate-debt swaps or vulnerability-linked repayment terms.
4. **Multilateral debt** may need to be included in future restructuring operations for countries facing solvency rather than liquidity crises, though this requires careful design to preserve multilateral lending capacity.

These reforms would create a more **predictable and equitable** system for addressing sovereign debt distress, particularly for countries facing compound challenges from climate change, commodity dependence, and structural transformation needs.

#### 20.7.3 Implications for Other Developing Countries

Zambia's experience offers important **lessons for other developing countries** facing debt sustainability challenges:

1. **Early engagement** with creditors is preferable to delayed action, as restructuring becomes more complex and costly as debt distress deepens.
2. **Comprehensive debt recording** and management systems are essential for

negotiating from a position of knowledge rather than uncertainty.

3. **Civil society engagement** can improve the legitimacy of adjustment programs and ensure that social protections are adequately designed and implemented.
4. **Diversification efforts** should continue even during debt crises, as over-reliance on a single commodity represents the fundamental vulnerability underlying debt distress.

For the international community, Zambia's experience highlights the need for **preventative mechanisms** rather than merely reactive solutions, including better lending standards, improved debt sustainability frameworks, and more reliable development finance that doesn't exacerbate debt vulnerabilities.

## 20.8 Key Indicators for Assessing Debt Restructuring Success

Indicator Category	Specific Metrics	Zambia's Performance
<b>Debt Stock Indicators</b>	PV of debt-to-GDP ratio; PV of debt-to-exports ratio	Improving but fragile
<b>Debt Service Indicators</b>	Debt service-to-revenue ratio; Debt service-to-exports ratio	Significant improvement
<b>Fiscal Space Indicators</b>	Social spending-to-GDP ratio; Capital expenditure-to-GDP ratio	Mixed recovery
<b>Social Impact Indicators</b>	Poverty rate; Inequality indices; Human development index	Deteriorated then partial recovery
<b>Structural Indicators</b>	Export diversification index; Revenue-to-GDP ratio; Domestic investment rate	Limited progress
<b>Market Access Indicators</b>	Sovereign bond spreads; Credit ratings; Time to market return	Gradual improvement

## 20.9 12.9. Debt Restructuring Assessment Summary

		Pre Deb	
Objectives	Fiscal Consolidation – Fiscal Dividend (Reduce Debt Service Liability)		
	<ul style="list-style-type: none"> <li>▪ Increased Social Spending (Health, Education)</li> <li>▪ Critical infrastructure that supports growth</li> <li>▪ Social Protection - Expand SCT to protect the most vulnerable</li> </ul>		
Debt Stock	PV Debt to GDP PV Debt to Export Ratio		Improving with high distress Indicators
Debt Service			Significant improvement
Fiscal Space			Mixed Recovery
Social Impact			Deteriorated with partial recovery
Market Access	Sovereign bond spreads; Credit ratings		Gradual Improvement
Structural Re-form			Limited Progress

## 20.10 Debt Restructuring Shortcomings.

### POLICY RECOMMENDATIONS

Based on the analysis of Zambia's debt crisis and restructuring experience, several **policy priorities** emerge for achieving sustainable recovery. To consolidate the gains from debt restructuring and ensure sustainable growth beyond 2025, Zambia must implement a multi-pronged strategy:

1. **Governance:** Addressing the inherent challenges in our governance structure around prudent fiscal resources management to eliminate financial mismanagement, corruption, abuse of authority, personal and political interests if country is truly seeking the long term sustainable development. Every government fails to deal with these challenges when they occur within the government's term of office.

2. **Anchor Fiscal Policy on Sustainability:** Continue with fiscal consolidation under the IMF program. Focus on **domestic revenue mobilization** through tax policies and administration reforms that do not exacerbate inequality to reduce reliance on borrowing. Implement strict controls on new non-concessional borrowing and strengthen public investment management.
3. **Enhance Debt Management and Transparency:** Enforcement of Legally mandated debt limits and publish all public debt contracts (including collateral clauses) to ensure full transparency. Strengthen the Debt Management Office's capacity for risk analysis and medium-term debt strategy formulation and implementation of the Public Debt Management Act.
4. **Economic Diversification Through Value Addition:** Investing in local smelting and manufacturing to capture more value from mineral resources, while developing agribusiness value chains for maize, cassava and soybeans that are aligned to the bottom of the pyramid.
5. **Diversify the Economy:** Accelerate reforms to reduce dependence on copper. Promote growth in agriculture, tourism, and manufacturing to create a more resilient export and revenue base, less vulnerable to commodity cycles. The approach must be aligned to the bottom of the pyramid to address the very high level of inequality.
6. **Establishment of the Sinking Fund** - The Debt Management provision for the establishment of the Sinking Fund must be adhered to validate the country's commitment to debt management. It is a fundamental weakness that underpinned our debt default and the guaranteed approach to ensuring we can continue to honor the debt restructuring agreements in rebuilding international credibility in accessing international capital markets at reasonable rates in the future.
7. **Link Debt Savings to Development:** Create a transparent mechanism to channel the fiscal savings from reduced debt service (the «Fiscal Dividend») towards high-impact social sectors (health, education) and growth-enhancing infrastructure that has sustainable returns ensuring the population sees the benefit of the difficult restructuring process.
8. **Equitable Tax Reform:** Broadening the tax base, combating tax evasion and avoidance, and rebalancing the tax mix toward more progressive sources to mobilize domestic resources without exacerbating inequality. The SME and ordinary Zambian narrative must be addressed.
9. **Climate-resilient Infrastructure:** Expanding irrigation systems, diversifying energy sources beyond hydropower, and building adaptive capacity to manage climate shocks. This growth trajectory must be home grown.
10. **Protected Social Spending:** Ring-fencing allocations to health, education, and social protection even during fiscal consolidation, and improving the efficiency of social sector spending that drives poverty reduction and equitable sustainable growth.

These priorities should be underpinned by a **developmental state approach** that actively guides economic transformation through industrial policy, rather than relying solely on market-led diversification. This would represent a shift from the neoliberal orientation of current IMF program conditionality, which has been criticized for focusing on «Neoliberal Strategies that ultimately do not address the root causes of the crisis».

## 21.0 CONCLUSIONS

Zambia's debt crisis from 2015-2025 serves as a profound lesson on the perils of unsustainable borrowing and the critical importance of sound debt management. The crisis was born from external shocks but was severely exacerbated by domestic policy choices. The subsequent default and arduous restructuring process under the G20 Common Framework have been painful but necessary.

The analysis using the IMF DSF shows that the agreed-upon debt treatment, if fully implemented, provides a viable path to restoring debt sustainability by 2025. The significant reduction in debt service costs will be the cornerstone of fiscal recovery. However, the journey is not over. The projected sustainability is fragile and conditional on unwavering commitment to fiscal discipline, economic diversification, and improved governance. Zambia stands at a crossroads; by learning from the mistakes of the past decade, it can build a more resilient and prosperous economic future for its citizens.

Zambia's debt country management journey is a tale of two phases. The first was a catastrophic failure characterized by opacity, poor strategy, and political override of technical advice, leading to default. The second, current phase, is a textbook example of crisis response and reform under an IMF program. The new focus is squarely on **transparency, institutional strength, and a rules-based approach** centered on a prudent fiscal management. While the restructuring process has been slow, its successful conclusion will provide Zambia with a critical opportunity to reset its economic policy. The ultimate test will be whether these new frameworks and disciplines become permanently embedded in Zambia's governance structure, ensuring that public debt remains a tool for development rather than a path to crisis.

Zambia's **Debt Crisis and Restructuring** experience offers important lessons for both African governments and the international financial architecture. For resource-dependent economies, the case underscores the dangers of **Commodity-centric Development** and the importance of building resilient, diversified economic structures before pursuing debt-financed investment splurges.

For the Global Financial System, Zambia's experience has exposed the **weaknesses of the G20 Common Framework** in facilitating timely and orderly debt resolutions. The protracted negotiation process—stretching over four years and counting—has prolonged economic uncertainty and delayed recovery, suggesting the need for more efficient mechanisms for coordinating between diverse creditors including bilateral lenders, multilateral institutions, and private bondholders.

Perhaps most importantly, Zambia's case demonstrates the **human costs** of debt crises and the austerity measures that often accompany resolution programs. The retrenchment of social spending and elimination of subsidies have disproportionately affected vulnerable populations, potentially undermining long-term human development even as they seek to restore macroeconomic stability. This underscores the need for debt resolution frameworks that explicitly protect social spending and incorporate equity considerations into their design.

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