



Beyond Zambia's 2020 Sovereign Debt Default

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EXECUTIVE SUMMARY

This paper provides an analysis of Zambia's 2020 debt default, its economic aftermath, and the policy and institutional responses that have shaped the country's recovery. The study situates the default within a broader global and domestic context of rising debt vulnerabilities, fiscal indiscipline, and external shocks, highlighting how years of high borrowing, exchange rate volatility, and weak public financial management culminated in the crisis.

Following the default, Zambia faced acute liquidity challenges, rising inflation, and restricted access to international capital markets. In response, the government pursued fiscal consolidation and institutional reforms under the IMF's Extended Credit Facility (ECF), alongside a debt restructuring process guided by the G20 Common Framework. These measures sought to restore stability, rebuild confidence, and create space for inclusive growth while prioritising social spending and debt transparency.

The study analyses the debt restructuring agreements with the Official Creditor Committee and Eurobond holders, noting the inclusion of state-contingent instruments, particularly the Value Recovery Instrument (VRI) embedded in the B-bond. This clause links Zambia's future debt service obligations to improvements in its Composite Indicator (CI)—a metric combining the Country Policy and Institutional Assessment (CPIA), import coverage of reserves, and global growth trends. If Zambia's CI exceeds a threshold of 2.69, the upside payment mechanism would be activated, triggering higher coupon rates and accelerated repayments.

While this offers creditors a share in Zambia's potential recovery, it also raises sustainability concerns, as it could increase the country's debt service burden precisely when fiscal buffers remain fragile. It, however, does not provide any safeguards against adverse shocks or unexpected macroeconomic volatility, leaving the Government exposed to budgetary stress in the event of slower-than-expected growth or external disruptions.

The paper, therefore, emphasises that durable debt sustainability depends on more than restructuring; it requires sustained reforms in domestic revenue mobilisation, prudent fiscal management, and institutional capacity building. It also calls for improvements to the Common Framework to enhance timeliness, predictability, and equitable burden-sharing among creditors, thereby reducing delays, improving fairness in repayment obligations, and providing more explicit guidance for future debt restructuring efforts.

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LIST OF ABBREVIATIONS

CDF	Constituency Development Fund
CEEMEA	Central and Eastern Europe, Middle East and Africa
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECF	Extended Credit Facility
FDI	Foreign Direct Investment
FISP	Farmer Input Support Programme
FSP	Food Security Pack
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MDR	Multilateral Debt Relief Initiative
NPV	Net Present Value
NRH	Non-Resident Holders
OCC	Official Creditor Committee
ODI	Overseas Development Institute
PMI	Purchasing Managers' Index
PPP	Public-Private Partnership
PSPF	Public Service Pension Fund
RBI	Road and Built Initiative
SCT	Social Cash Transfer
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
ZAMMSA	Zambia Medicines and Medical Supplies Agency

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1. INTRODUCTION

Zambia's recent debt crisis offers key insights into the evolving dynamics of sovereign debt in low- and middle-income countries. Often described as the “test case” of the G20 Common Framework, Zambia was the first country to seek debt restructuring under this mechanism. Its experience became a painful but instructive example, demonstrating how the global debt architecture responds when both traditional and emerging creditors sit at the same negotiating table. Following substantial debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) in the mid-2000s, Zambia experienced robust economic growth between 2005 and 2010, sustained by sound fiscal policy management and a surge in global commodity prices.

However, by 2015, the country's growth trajectory began to unravel. A combination of falling copper prices (Zambia's primary export commodity), severe droughts, and a rapid build-up of external debt after the issuance of three successive Eurobonds and a series of infrastructure loans under China's Belt and Road Initiative (BRI) created macroeconomic and fiscal vulnerabilities, which were further exacerbated by the COVID-19 pandemic. Consequently, in November 2020, Zambia missed a US\$42.5 million interest payment on its US\$750 million Eurobond, becoming the first country to default on its debt during the pandemic period and setting off a protracted restructuring process.

The rating dynamics reflected such a rapid deterioration in creditworthiness. Between late 2019 and early 2020, Zambia's sovereign credit ratings deteriorated sharply, pointing towards escalating default risk. Fitch and Standard & Poor's downgraded the country to CCC in December 2019 and February 2020, respectively, while Moody's assigned a Ca rating, indicating that the debt was nearing or had already defaulted. In April 2020, Fitch further lowered Zambia's rating to CC and S&P's rating to C, citing widening fiscal deficits, falling copper export revenues during the COVID-19 lockdown, and the lack of a credible restructuring plan. By September 2020, Fitch again cut the rating to C, confirming Zambia's inability to meet its debt obligations without restructuring.

Zambia's debt crisis highlights key fault lines in the global debt architecture, from the rise of China as a primary bilateral lender to the increasing involvement of commercial creditors in restructuring processes. It also exposes the deepening competition between creditor blocs over debt treatment terms and methodologies, particularly under frameworks such as the G20 Common Framework. Navigating these fault lines created uncertainty and delays in Zambia's restructuring process, revealing the limitations of existing global sovereign debt resolution and coordination mechanisms.¹

The paper builds on the previous analysis of factors that led to Zambia's 2020 default². Shifting focus to the post-default period, this analysis highlights the immediate effects of the default, including the associated macroeconomic and external sector dynamics. Section 3 examines the international support Zambia received during this period and outlines the country's debt restructuring process, highlighting key challenges and successes. Section 4 assesses Zambia's prospects for sustainability beyond economic reforms and debt restructuring, while also drawing comparative lessons from other countries. The paper concludes by distilling key insights from Zambia's experience, with particular emphasis on how the G20 Common Framework can be strengthened to respond more effectively and equitably to future debt crises.

¹ See <https://www.cia.gov/the-world-factbook/field/credit-ratings/> (Accessed May 05, 2025).

² See: ZIPAR and FDL (2024) The road to Zambia's 2020 sovereign debt default. Available at: <https://www.zipar.org.zm/2024/02/26/the-road-to-zambias-2020-sovereign-debt-default/>

2. THE FINANCIAL DYNAMICS OF THE DEFAULT

Zambia's sovereign debt default and restructuring process coincided with the COVID-19 pandemic and the war between Russia and Ukraine, exerting triple shocks on the economy. As such, most of the effects of the default were exacerbated by both these events, which severely disrupted economic activity, particularly in key sectors, leading to job losses, reduced government revenues, and increased poverty levels. The following are some of the effects of the default on the economy:

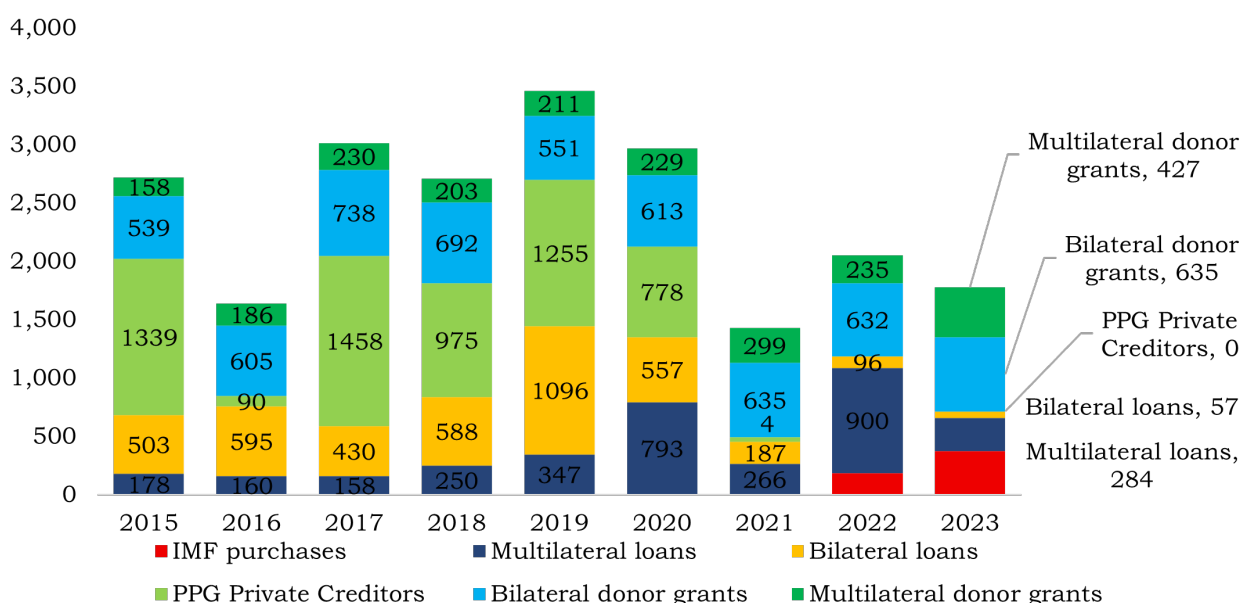
2.1 Loss of Market Access and Financial Ripples

The default materialised in October 2020 when S&P assigned a Selective Default after a missed Eurobond coupon payment. This was followed by Fitch's Restricted Default in November, making Zambia the first African sovereign to default during the pandemic. Consequently, Zambia's Eurobond prices dropped by more than 30%. The deteriorated creditworthiness effectively restricted Zambia's access to international capital markets. This reduced the number of external financing options available to Zambia, leaving mainly multilateral (to a lesser extent), bilateral and domestic debt sources open (Stein & Chitonge, 2025). As a result, Zambia was forced to heavily rely on domestic borrowing, placing additional pressure on the domestic financial system.

Figure 1 illustrates this shift: after 2021, new inflows declined sharply, by about US\$1.5 billion. Private sector financing, which was an essential part of the mix until 2020, virtually disappeared in the default and program period. The program expects commercial lending to resume only when progress is made with fiscal consolidation and debt sustainability improves. However, non-concessional borrowing was permitted for some essential projects in progress. Multilateral financing only partly compensates this decline (rising to US\$1.1 billion, including the IMF, in 2022) in the form of loans and an increase in grant allocations.

For the government, those sources are more constraining: the volumes are smaller, and the uses of funds are directed. While flexibility may allow governments greater discretion in resource allocation, it also carries the risk of funds being misallocated. From a citizen's perspective, loans that impose stricter conditions, such as multilateral loans, might be preferable, as they can enhance accountability and ensure funds are spent as intended.

Figure 1: External Financing Disbursements to Zambia – US\$ Millions (2015-2023)

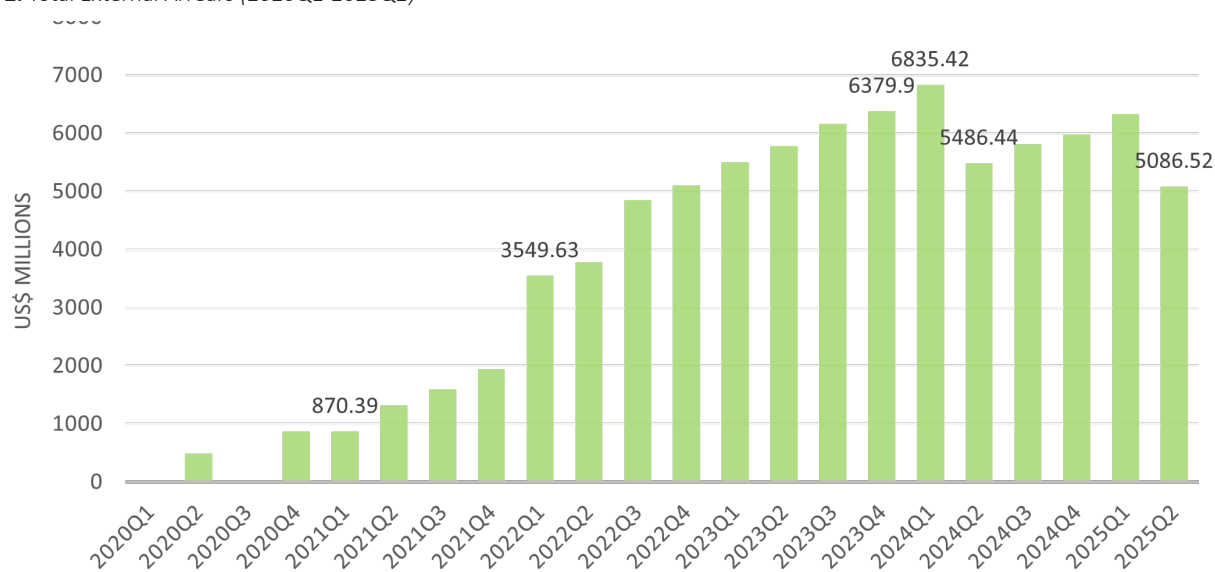


Source: Ministry of Finance and National Planning

2.2 Accumulation of External Debt Service Arrears

As a consequence of the default, Zambia started accumulating arrears on its external debt. The situation improved immediately after the 2020 default, and it increased gradually in 2021 as suspended Eurobond coupons and bilateral obligations accumulated, as shown in Figure 2. Due to protracted negotiations, further delays occurred, accelerating arrears from US\$870 million in Q1 2021 to US\$6.4 billion by Q4 2023. This peak in arrears highlights the extent of fiscal pressure on the Government due to its inability to secure timely restructuring agreements. Although arrears declined slightly following progress in debt restructuring, mainly the bond exchange in June 2025, they remained above US\$5 billion through mid-2025 as shown in Figure 2. This reflects the lingering legacy of Zambia's debt distress, rather than the full impact of the recent debt relief measures³.

Figure 2: Total External Arrears (2020Q1-2025Q2)



Source: Ministry of Finance and National Planning, Quarterly Debt Statistical Bulletins (2020Q1-2025Q2)

2.3 Rising Domestic Debt

Following the country's reduced access to international capital markets, the government still needed to fund an overall deficit of about 14% of GDP, in the context of a loss in revenues and high expenditure due to COVID. As previously described, about 6% of this financing stemmed from external arrears accumulation, leaving approximately 8% of GDP to be financed and reducing external sources. Its strategy was to turn to the domestic debt market to bridge the deficit created by the drop in external finance. According to Figure 4, as government borrowing from the domestic market grew significantly by K50 billion in 2020 and K63 billion in 2021, or about 10% of nominal GDP.

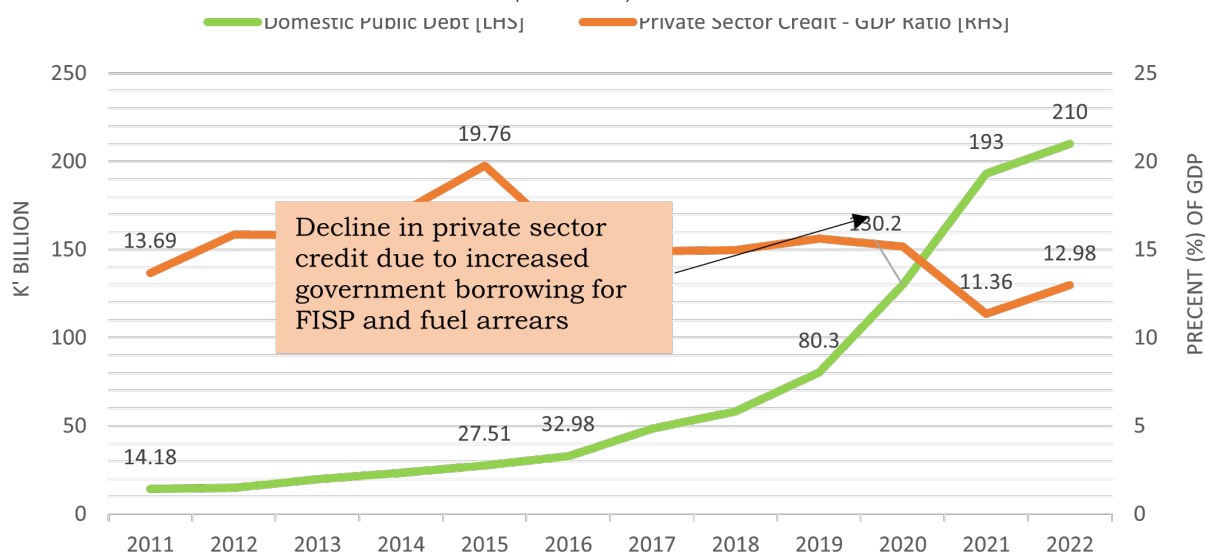
In net terms, domestic debt markets provided essential breathing room to the government, with 6.5% of GDP in 2021. Non-resident inflows contributed largely to absorbing this debt: between 2019 and 2021, those investors increased their holdings by about US\$2.5 billion, or a third of the total. Another large buyer of domestic bonds was the Bank of Zambia, which represented 20% of bond holdings from 2022 to 2024. Because of their high interest and short maturity, debt service on these bonds was high. By 2022, however, with the IMF program in place, public deficits declined, and external financing replaced domestic sources, allowing banks to reduce

³ This persistence can be attributable to reporting lags and unfinalised accounting adjustments rather than continued debt distress. In practice, the 2023–2024 restructuring agreements with bilateral and commercial creditors have eased Zambia's debt service burden, reclassified much of the accumulated arrears into new instruments, and restored partial debt servicing capacity, signalling the tail end of the debt crisis rather than its continuation.

their accumulation of government bonds. The program also imposed a cap on primary holdings of domestic debt, limiting foreign inflows.

Concomitant to the increase in reliance on domestic markets for government bonds, loans from the domestic financial sector to the private sector as a percentage of GDP declined, dropping from 15.6% in 2010 to 12.9% in 2022. The Government's increased reliance on domestic borrowing led to a crowding-out effect, which constrained the private sector's access to credit. As the Government issued more securities to finance its fiscal deficits, commercial banks and institutional investors increasingly diverted their portfolios toward these instruments, attracted by their relatively low risk and stable returns. Consequently, fewer resources were available for lending to the private sector.

Figure 3: Trends of Domestic Debt and Private Sector Credit (2011-2022)



Source: Authors' Construction using data from the Ministry of Finance and National Planning 2011-2022



3. FISCAL POLICY ADJUSTMENTS

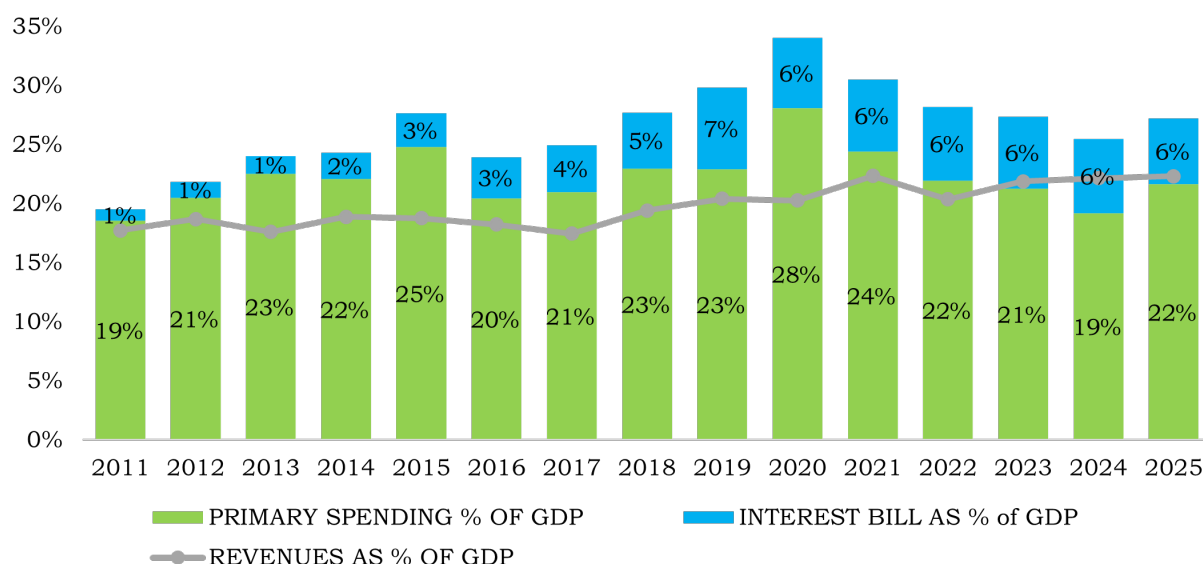
In response to the debt crisis, Zambia implemented fiscal adjustment measures aimed at restoring macroeconomic and fiscal stability. Key measures included expenditure rationalisation, reforms in infrastructure financing, and the strategic use of Special Drawing Rights (SDRs) to expand social spending.

3.1 Expenditure Rationalisation and Infrastructure Financing Reforms

Zambia's limited access to international capital markets significantly reduced the Government's external financing options. Until the IMF program, this forced a reduction in the primary deficit, followed by a negotiated, ambitious fiscal consolidation program. Meanwhile, several infrastructure projects that were being implemented at the time required significant resources for financing. As such, the combined impact of reduced external financing options, rising debt service costs and high capital expenditure significantly constrained public spending.

Government primary expenditure as a share of GDP rose steadily between 2016 and 2020, peaking at around 28% of GDP during the COVID-19 period. This surge reflected emergency spending pressures and higher interest costs. However, from 2021 onward, primary expenditure began to decline sharply as fiscal consolidation efforts took effect, reaching about 19–22% of GDP between 2023 and 2025, the lowest level in over a decade. Meanwhile, interest payments remained elevated at around 6% of GDP, underscoring persistent debt service pressures despite the ongoing restructuring process. On the revenue side, government receipts (including grants) showed a modest upward trend, supported mainly by improvements in tax administration and recovery in economic activity.

Figure 4: Outturn in Government Revenues and Expenditure



Source: World Economic Outlook

Consequently, the Government resorted to strict budget financing with a strategic focus on projects that had a direct positive economic benefit. This resulted in the cancellation and rescoping of several non-essential projects. In total, 12 projects were cancelled, six continued under financing from general Government revenues, and 61 priority projects were to continue through concessional funding. This resulted in US\$2 billion worth of savings and a reduction in total expenditure from 37.1% of GDP in 2022 to 35.5% of GDP by 2024, hence contributing to the country's fiscal consolidation efforts⁴.

⁴ Ministry of Finance and National Planning (2024).

To continue closing the country's US\$500 million annual infrastructure gap⁵, the Government has emphasised the use of a Public-Private Partnerships (PPPs) framework. Under this framework, the Government hopes to partner with the private sector to drive infrastructure development whilst reducing the reliance on the treasury, external aid, and debt. To support this framework, the PPP legislation was amended through the enactment of the Public-Private Partnership Act, No. 18 of 2023, which aims to strengthen the governance and efficiency of PPP-financed projects. To date, several projects have been commissioned under this framework, including the Chingola–Kasumbalesa Road, estimated to cost US\$36 million, the Lusaka–Ndola Dual Carriageway, for US\$650 million, and the Katete–Chanida Road, along with the Chanida Border Post, at US\$79 million, among others⁶.

3.2 Leveraging SDRs and Fiscal Space for Social Sector Spending

The default and the IMF program had a less severe impact on social spending levels and outcomes than initially anticipated. Fiscal adjustment primarily occurred through reductions in infrastructure investment, particularly projects financed with external loans, alongside significant cuts in energy and agriculture subsidies. Additional financing from SDRs and disbursement from the extended credit facility further mitigated the contraction in overall expenditure. As illustrated in Figure 5, the functional allocation of public spending reflects this strategic shift: allocations to education, health, and social protection increased steadily between 2022 and 2025, supported by the fiscal space created through debt relief and concessional financing. Conversely, expenditures on general public services—historically dominated by debt service obligations—declined from their 2022 peak. Meanwhile, spending on economic affairs and social protection exhibited sustained growth, signalling a deliberate reorientation of fiscal priorities toward inclusive growth, poverty reduction, and human capital development.

In 2022, 50% of the SDR allocation was utilised to finance various social sector interventions. A significant share was allocated to the Public Service Pensions Fund (PSPF), aimed at clearing pension arrears and reducing the waiting period for payments from over three years to less than one. Additional funds supported the Youth and Women Empowerment Fund under the Constituency Development Fund (CDF), while public hospitals received grants for service delivery. The Zambia Medicines and Medical Supplies Agency (ZAMMSA) also received an allocation to procure essential medicines, medical supplies, equipment, and COVID-19 vaccines⁷.

Other programmes that benefited include the Food Security Pack (FSP) and the Social Cash Transfer (SCT). In 2022 alone, SCT funding rose by 124%, drug and medical supply allocations by 54%, and pension allocations by 100%. Meanwhile, SCT beneficiaries grew from 880,539 in 2021 to one million in 2022, with transfer amounts increasing from K150 to K200 per month. FSP beneficiaries also rose from 263,000 to 290,000. The remaining half of the SDR allocation was earmarked to support the 2023 and 2024 national budgets, with an equal split across the two years⁸.

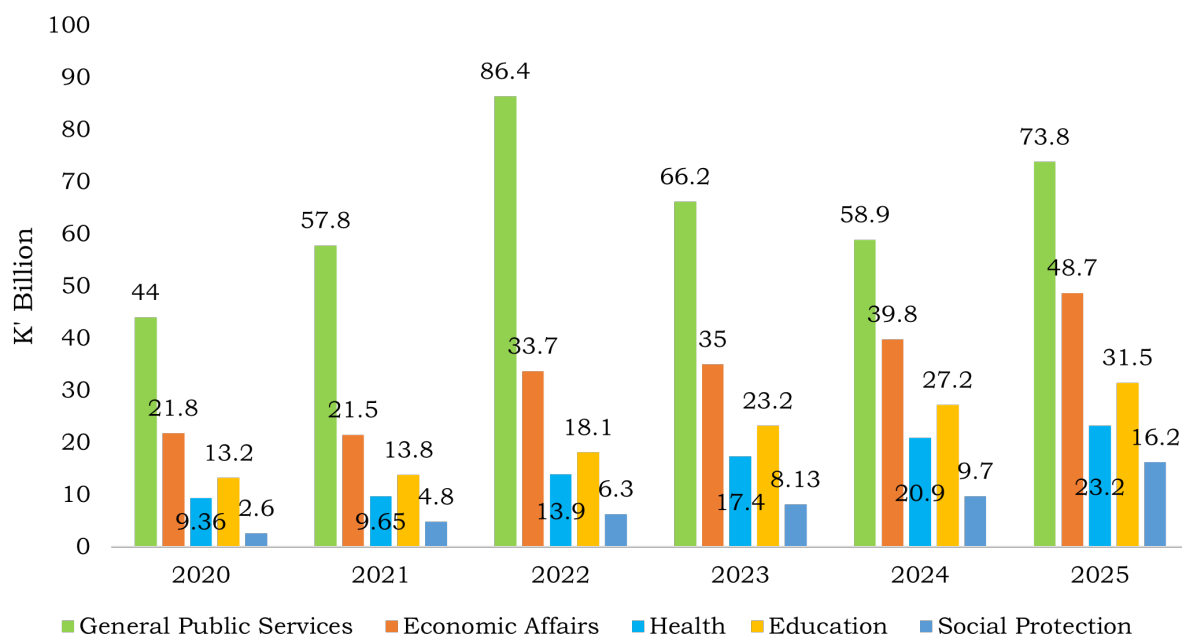
5 <https://chartercitiesinstitute.org/media-appearances/leveraging-ppps-to-address-rapid-urbanization-in-zambia/>

6 See more: Ministry of Finance and National Planning, Public Investment Plans.

7 See Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations, August 2021, Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations (imf.org)

8 Ibid

Figure 5: Expenditure Trends by Functional Allocation of the Budget



Source: Authors' Computations using data from the Budget Speeches (2019 – 2024)

The receipt of SDRs coincided with the debt service standstill, and later disbursements from the IMF ECF created fiscal space for social sector spending. With the increased allocations towards social protection, SCT coverage expanded significantly, reaching 1.4 million beneficiaries in 2024, though transfer values have remained stagnant in real terms. In the education sector, early childhood enrolments nearly doubled between 2021 and 2024, completion rates at Grades 9 and 12 improved, and teacher recruitment exceeded 39,000, improving the teacher–pupil ratio from 1:60 to 1:51. Health outcomes also registered gains, with under-five mortality falling from 61 deaths per 1,000 live births in 2018 to 42 in 2024, while infant and neonatal mortality also declined. The doctor-to-patient ratio improved to 1:1,200 in 2023, signalling gradual progress in service delivery.

However, despite the rise in social sector spending and improvements in selected human development indicators, Zambia continues to face challenges. The poverty incidence climbed to 60% in 2022, with nearly half of the population still living in extreme poverty. While government efforts have expanded social protection programs, social transfers remain inadequate to meet the needs of vulnerable households, and coverage gaps persist, particularly in rural areas. In education, progress in access has not been matched by gains in quality, as learning outcomes continue to lag due to teacher shortages, overcrowded classrooms, and inadequate learning materials. Similarly, the health system remains under pressure due to limited infrastructure, staff shortages, and recurring public health crises.

4. MACROECONOMIC AND EXTERNAL SECTOR DYNAMICS

Zambia's post-default recovery has been shaped by currency volatility, shifting investor confidence, and inflationary pressures that influenced monetary policy. Real GDP growth trends, copper output and prices, and foreign direct investment flows further highlight the close link between domestic reforms and external market forces.

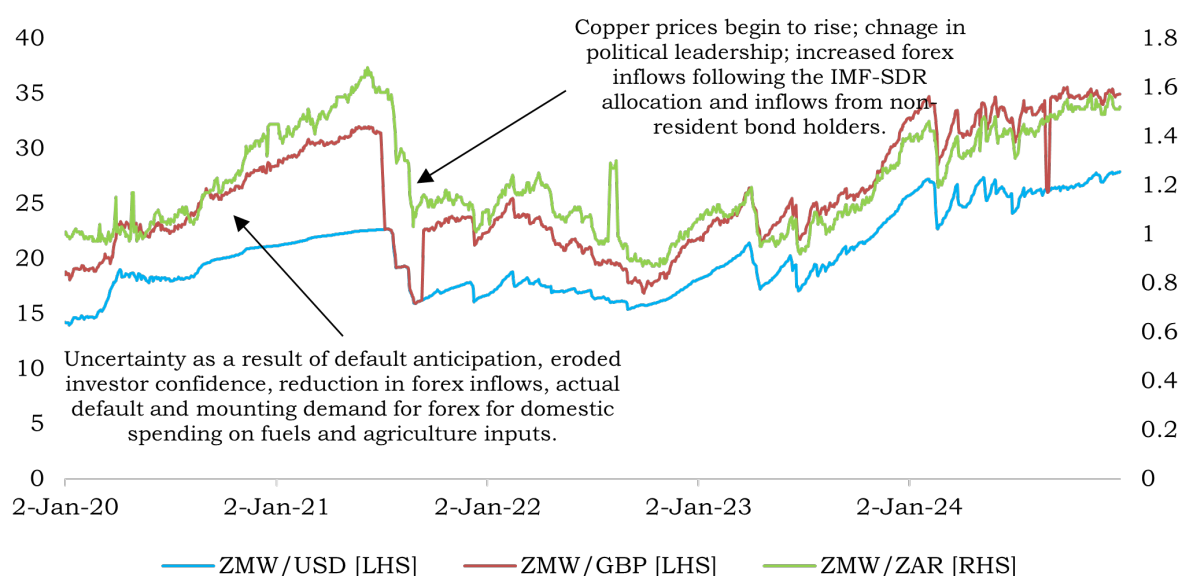
4.1 Currency Volatility and Investor Sentiments

In the period leading up to 2020, the Kwacha was under intense pressure as the anticipation of a sovereign default eroded investor confidence. Foreign exchange inflows dried up, while domestic demand for hard currency to finance fuel and agricultural imports continued to mount. This imbalance significantly weakened the Kwacha against major convertible currencies, including the US dollar, British pound, and South African rand. The eventual debt default in late 2020 amplified these pressures, pushing the currency to record lows.

Between January 2020 and early June 2021, the Kwacha weakened against the British Pound by 71.8%, falling from K18.52/GBP to K31.82/GBP. Similarly, it depreciated against the US Dollar by 58.7%, moving from K14.20/US\$ to K22.50/US\$. During the same period, the Kwacha also fell against the South African Rand, from K1/ZAR to K1.64/ZAR as shown in Figure 6. A significant turning point came in 2021, marked by a change in political leadership and renewed engagement with multilateral partners. During this period, Zambia drew support from the IMF's Special Drawing Rights allocation, rising copper prices, and crucially, inflows from non-resident holders of Zambian bonds.

Many of these investors, essentially global institutions, re-entered the market as confidence improved, attracted by high yields and a belief that domestic debt would be spared from the restructuring perimeter. This carry trade strategy was successful, though created major tensions with creditors and in itself extended the period of uncertainty (Maret, 2023 and Grigorian 2024). Their participation injected much-needed foreign exchange liquidity, which helped the Kwacha regain ground against major convertible currencies. Between 2022 and 2023, the Kwacha entered a more stable phase, backed by a combination of improved fiscal discipline, progress in debt restructuring discussions, and steady copper revenues, which created the conditions for stable exchange rates.

Figure 6: Performance of Major Convertible Currencies



Source: Bank of Zambia

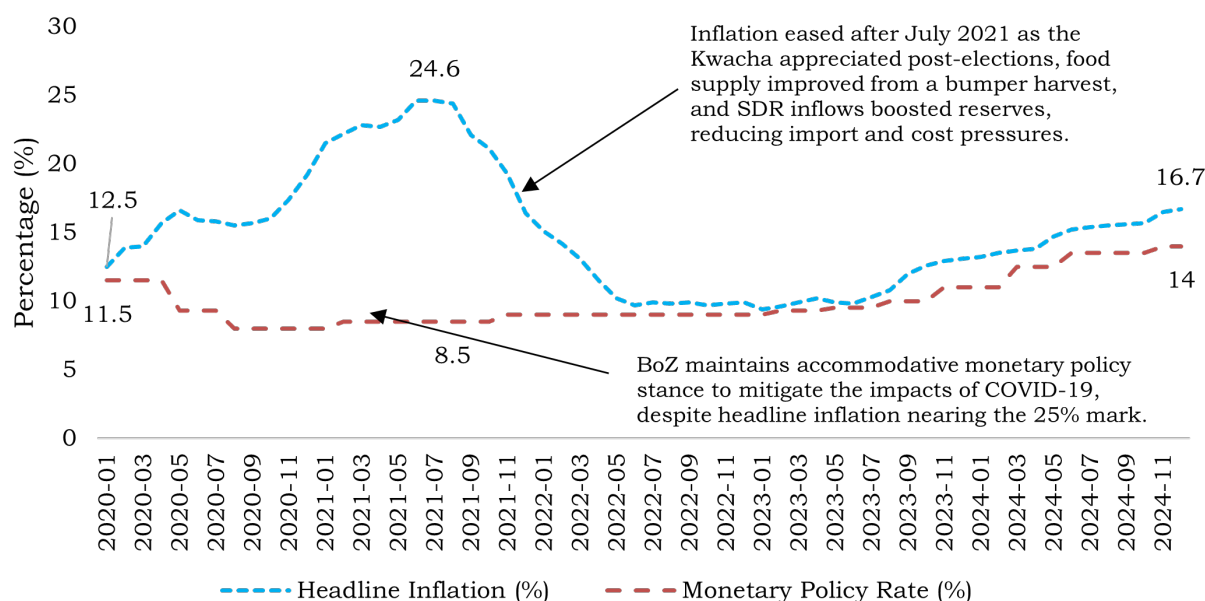
A notable source of foreign exchange support during this period was the inflow of funds from NRHs of government bonds, alongside other portfolio and investment flows, which helped bolster Zambia's reserves and reinforce the Kwacha's resilience. However, this momentum gradually weakened as progress in debt restructuring introduced uncertainty over the classification and treatment of NRHs. Specifically, other external creditors (official and Eurobond holders) were demanding the inclusion of non-resident holders in the perimeter. Under the parameters of the Debt Sustainability Analysis, performed on a residence basis, debt service owed to non-resident holders would represent a relatively large share of the cash flows to external creditors, reducing (to very low levels) cash flows available to other, official and private, creditors.

In response, the authorities introduced a policy limiting NRH participation in the primary market for government securities to just 5%, while allowing them to operate freely in the secondary market⁹. Although this measure aimed to manage risks associated with external debt, it weakened the capacity of external capital to support exchange rate stability. Nonetheless, by 2024 and into 2025, the Kwacha demonstrated greater resilience, although it remained vulnerable to external shocks and shifts in investor sentiment.

4.2 Inflation Dynamics and Monetary Policy Response

Following Zambia's 2020 debt default, headline inflation surged, peaking at 24.6% by early June 2020, up from 13.6% in January of the same year. Currency depreciation, capital flight, rising import costs, and supply constraints drove this increase. The depreciation of the kwacha against major convertible currencies amplified domestic inflationary pressures in this import-dependent economy. It also worsened the country's external debt burden, given the substantial share of debt denominated in foreign currency.

Figure 7: Inflation Dynamics and Monetary Policy



Source: Bank of Zambia

Despite these challenges, the Bank of Zambia initially maintained an accommodative monetary policy stance, lowering the policy rate by a cumulative 350 basis points, from 11.5% to 8% in 2020. They also implemented measures such as liquidity support to the financial sector and the Secondary Market Bond Purchase Programme to ease market stress and sustain economic activity amid the COVID-19 shock (Bank of Zambia, 2022). From the

⁹ Bank of Zambia (2023) Circular No. 14 of 2023: Limit on Participation of Non-Resident Investors in the Primary Market for Government Securities. Lusaka: Bank of Zambia. Available at: <https://www.boz.zm/CBCIRCULARNO14OF2023LIMITONPARTICIPATIONOFNONRESIDENTINVESTORSINTHEPRIMARYMARKETFORGOVERNMENTSECURITIES.pdf> (Accessed: 6 October 2025).

second quarter of 2021, inflation began to ease gradually and remained on a downward trajectory until mid-2022, when renewed exchange rate depreciation started to exert upward pressure. Consequently, inflation rose from 9.5% in July 2023 to 13.1% by December of the same year. The situation was further compounded in 2024 by the drought, which significantly affected food prices and drove headline inflation to 16.7% by December 2024, well above pre-default levels. In response, the Bank of Zambia maintained a contractionary monetary policy stance, increasing the policy rate from 11% in January to 14% by December 2024 to contain inflationary pressures and anchor expectations.

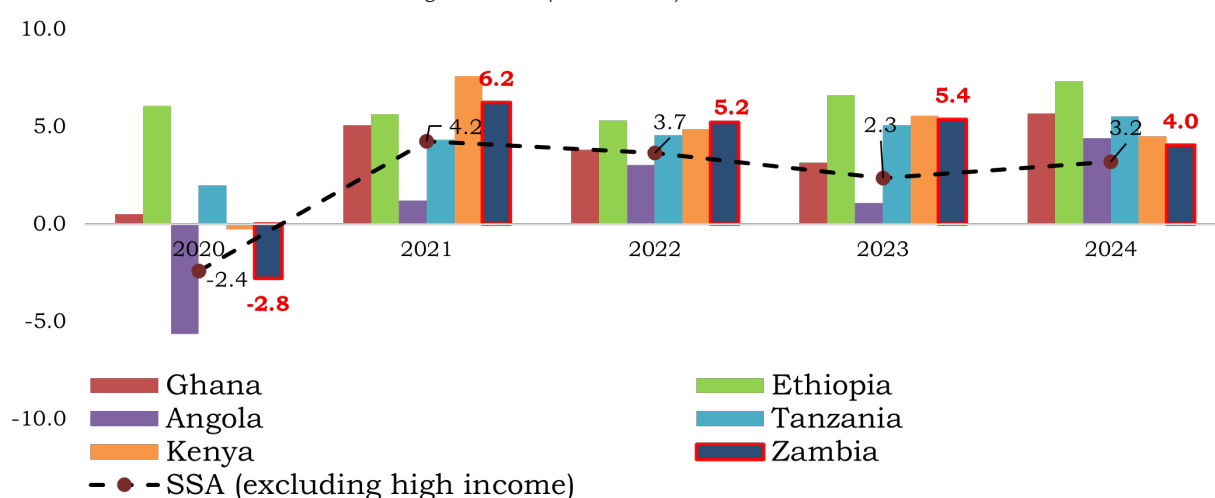
4.3 Real GDP Growth

Defaults and restructuring can have large negative effects on growth and development. The large literature on the effects of defaults indicate that post-default restructuring have longer and more sustained effects (Asonuma and Trebesch 2016), that the effects of defaults can be long lasting on GDP growth and human development (Farah-Yacoub et al. 2024). Longer restructuring times seem to be correlated with lower growth outcomes. In other words, Zambia's default could be particularly harmful to its prospects.

Yet, it also occurred in particular times, where global levels of output was depressed. The COVID-19 pandemic pushed Sub-Saharan Africa (SSA) into its sharpest downturn, contracting by 2.4% in 2020, as shown in Figure 8. Zambia experienced an even deeper contraction of 2.8% that same year, reflecting the combined effects of the pandemic and the sovereign default, which curtailed access to external financing. Since Zambia's 2020 sovereign debt default, GDP growth has broadly mirrored the SSA cycle, showing signs of recovery but with notable constraints. The loss of access to the international capital market shrank fiscal space and dampened public investment, forcing the government to adopt austerity and fiscal consolidation measures.

While these policies were necessary for restoring fiscal sustainability, they further constrained public investment and consumption, intensifying the country's growth headwinds. Another exogenous shock was the Russia-Ukraine war, which triggered price surges in food, fuel, and fertiliser prices, eroding real incomes and external balances. Although the copper price rally provided some relief, these gains were partly offset by higher import bills and tightening global financial conditions. Consequently, Zambia's recovery lagged behind that of relatively diversified and non-default economies, such as Tanzania and Ethiopia, which expanded by an average of 6.1% and 2.0%, respectively, during the same period between 2020 and 2021¹⁰.

Figure 8: Growth Performance in Zambia and Regional Peers (2020 – 2024)



Source: World Bank – World Development Indicators Database.

10 IMF (2021). Regional Economic Outlook for Sub-Saharan Africa, April 2021. Washington, D.C.: International Monetary Fund. Available at: <https://www.imf.org/en/Publications/REO/SSA/Issues/2021/04/15/regional-economic-outlook-for-sub-saharan-africa-april-2021>.

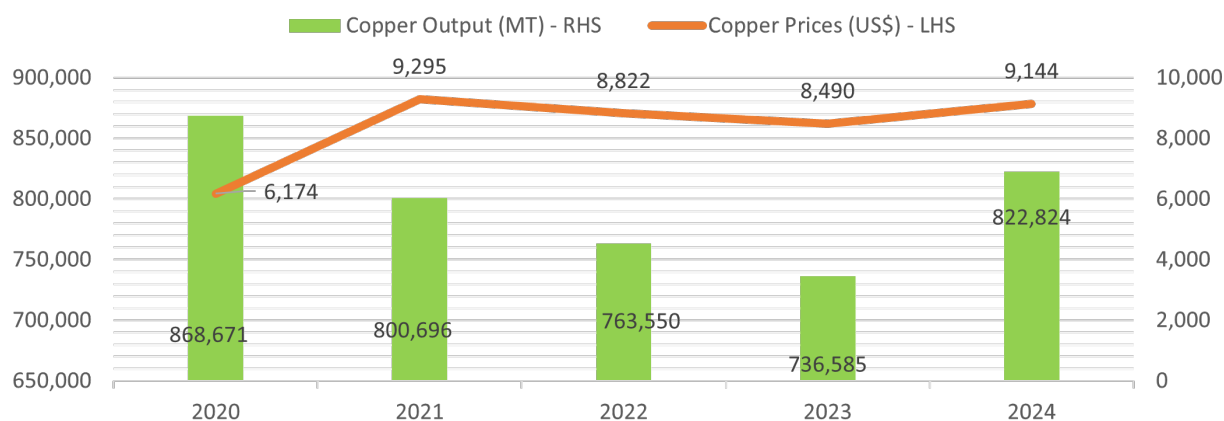
At the same time, due to heightened perceptions of default risk, weakened business confidence, and reduced repayment capacity among firms. The resulting decline in private investment slowed activity in productive sectors such as manufacturing and agriculture, dampening overall economic growth. Consequently, the Purchasing Managers' Index (PMI) readings stayed below the neutral 50.0 mark for most of 2020 and 2021, indicating continued contraction in business activity¹¹. Modest improvements were observed in 2022, with the PMI occasionally rising just above 50.0, reflecting slight expansions in output and new orders. Temporary currency stabilisation and reduced input cost pressures contributed to this improvement. Still, structural challenges, such as weak domestic demand and persistent inflation, limited the strength and duration of the recovery.

4.4 Copper Output, Global Prices and Export Trends

11 Stanbic Bank Zambia. (2021, December). Purchasing Managers' Index (PMI) report. Stanbic Bank Zambia. <https://www.bing.com/ck/a?!&p=7345459a4f7b83935fed3263e94d1608bcdbba2951031cc857a8996537510ebJmldtHM9MTc1ODE1MzYwMA&pt-n=3&ver=2&hsh=4&fclid=2150d695-d26f-6dc5-3de4-c0c5d3a66c95&psq=Zambia+PMI+for+January+2022&u=a1aHR0cHM-6Ly93d3cucG1pLnNwZ2xvYmFsLmNvbS9QdWJsYWVMSG9tZS9QcmVzcj1lbgVhc2UvZjEzODA0YmQxZDFINGUOGJIYWM1YXWQ1MDk2OTlmNjY>

12 Stanbic Bank Zambia. (2024, September). Purchasing Managers' Index (PMI) report. Stanbic Bank Zambia. <https://www.bing.com/ck/a?!&p=9c3f53a573c73d3e3c9fee15f44624cd4581205d305bf026ce9c052ec09d9368JmldtHM9MTc1ODE1MzYwMA&pt-n=3&ver=2&hsh=4&fclid=2150d695-d26f-6dc5-3de4-c0c5d3a66c95&psq=Zambia+PMI+for+September+2024&u=a1aHR0cHM6Ly93d3cucG1pLnNwZ2xvYmFsLmNvbS9QdWJsYWVMSG9tZS9QcmVzcj1lbgVhc2UvMjNDODNTNmZWNIbDEyOWIOMTkwMzU4ZTc2NzU3ZmM>

Figure 9: Performance of Copper Prices and Output (2020-2024)



Source: Ministry of Finance and National Planning – Annual Economic Reports (2020-2024)

The surge in copper prices had the potential to boost Zambia's export earnings and support economic growth significantly. However, the benefits were partly undermined by heightened COVID-19-related expenditures and the lingering effects of the sovereign default, which restricted access to international capital markets and eroded investor confidence needed to sustain and scale up this momentum. Moreover, domestic disputes between the Government and Vedanta Resources Limited, as well as Glencore, over the ownership of Nchanga and Mopani Copper Mines, respectively, led to significant production disruptions. The instability and unpredictability of Zambia's domestic mining sector policies further undermined expansion plans by discouraging new investment. In addition, following the country's debt default, the downgrading of Zambia's credit rating constrained its ability to attract new investors. It deterred existing investors from committing additional capital due to elevated risk premiums.

Therefore, despite the improvement in copper prices from 2021 onwards, production continued to shrink as shown in Figure 9. Output declined from 868,671 MT in 2020 to 800,686 MT in 2021 and further to 736,585 MT in 2023 as major mines, including Kansenshi, Nchanga, and Mopani, faced persistent operational challenges. Copper export earnings initially rose sharply in 2021 on account of the global price surge, but later dipped in line with reduced production, as illustrated in Figure 10.

Nonetheless, total export earnings maintained steady growth over the period, supported by the expansion of non-traditional exports, which helped offset losses from copper. The only contraction occurred in 2023, when total exports declined by 8.7% following simultaneous drops of 3.5% in copper production and 3.7% in global prices. Total exports, however, rebounded in 2024.

Figure 10: Trends in Export Earnings (2020 – 2024)



Source: Bank of Zambia

With efforts to resolve operational challenges, the introduction of a more predictable mining policy, and relatively higher copper prices, the Government is taking steps to attract new investment in the sector as it works toward achieving its target of 3 million MT of annual copper production by 2031.

4.5 Foreign Direct Investment Flows

There was a sharp decline in infrastructure financing (see Box 1), which also coincided with a contraction in Foreign Direct Investment (FDI), amplifying Zambia's investment gap. Figure 11 shows that before the default, FDI inflows averaged between 3% and 4% of GDP, providing a steady source of external capital that supported infrastructure expansion and broader growth. As fiscal pressures mounted, infrastructure allocations fell below 20% of the national budget, and declining private inflows mirrored the slowdown in government-led investment.

Box 1: Shrinking Infrastructure Financing in the Post-Default Era

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In the years preceding Zambia's debt default, the country financed numerous infrastructure projects, primarily through Eurobonds and China's Belt and Road Initiative. Following the default, however, access to such financing became severely constrained, forcing the Government to cancel or rescope several non-essential projects. Specifically, 12 projects were cancelled, 6 were sustained through general Government revenues, and 61 priority projects continued with concessional financing (MoFNP, 2022).

From 2021 onwards, infrastructure allocations fell below 20% of the national budget as spending priorities shifted toward essential social sectors, including education, health, and social protection,

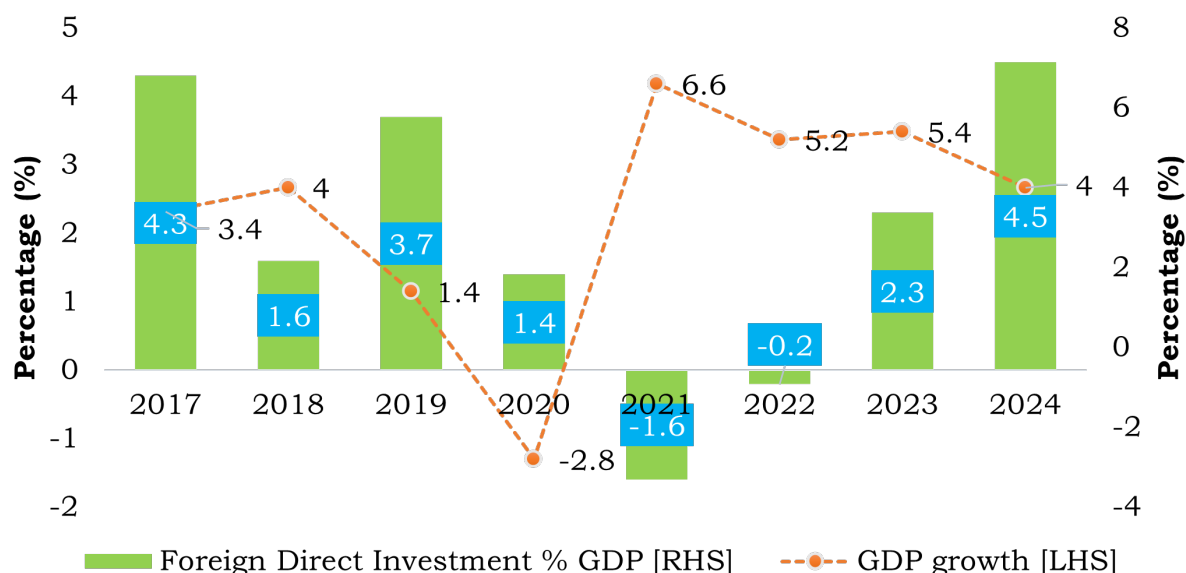
under the IMF-supported programme. Consequently, new infrastructure investments focused increasingly on smaller, strategic initiatives, emphasizing rehabilitation and maintenance rather than large-scale expansion (Ministry of Infrastructure, Housing and Urban Development, 2024).

While progress in debt restructuring with official and private creditors has provided some fiscal breathing space, large-scale infrastructure investment remains constrained. The Government has relied more heavily on concessional financing from partners such as the World Bank and African Development Bank and has increasingly leveraged public-private partnerships to bridge financing gaps.

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In 2020, FDI dropped to just 1.4% of GDP while the economy contracted by 2.8%. The situation worsened in 2021, when Zambia recorded net outflows of 1.6% of GDP, reflecting heightened uncertainty and capital flight. Although GDP growth rebounded strongly in 2021 and remained above 5% in subsequent years, this recovery was primarily driven by high copper prices and post-pandemic demand rather than new foreign investment. It was only after tangible progress on debt restructuring in 2023 and 2024 that FDI began to recover, reaching 2.3% of GDP in 2023 and projected at 4.5% in 2024, signalling a gradual return of investor confidence. Sectoral investment patterns during the same period reflect similar volatility, as illustrated by Figure 11. In 2021, manufacturing and mining recorded strong inflows, driven by favourable commodity prices and investor interest in production capacity.

Figure 11: Foreign Direct Investment and Economic Growth (2017-2024)



Source: Bank of Zambia

In 2021, manufacturing and mining recorded strong inflows, driven by favourable commodity prices and investor interest in production capacity. Yet this momentum proved unsustainable, as investments across nearly all sectors collapsed in 2022 amid debt negotiations and fiscal strain. A turning point came in 2023, when total inflows rebounded, led by a surge of over US\$3.8 billion in mining alongside gains in agriculture and a modest recovery in manufacturing. Still, the experience highlights that while mining continues to anchor investment flows, diversification into other productive sectors remains fragile in the aftermath of the default. As a result, Zambia's infrastructure agenda has shifted away from rapid expansion financed by commercial debt to a more cautious and selective strategy built on sustainability, efficiency, and fiscal prudence.



5. INTERNATIONAL SUPPORT AND DEBT RESTRUCTURING

Zambia's recovery has been closely tied to international financial support and debt restructuring efforts. The IMF's Extended Credit Facility has anchored reforms amid debate, while agreements with creditors have sought to restore sustainability. Following restructuring, Zambia's debt outlook depends on its CPIA performance and the implications of upside activation clauses.

5.1 The IMF Extended Credit Facility: Reforms and Controversies

In August 2022, the IMF Executive Board approved a 38-month Extended Credit Facility (ECF) arrangement for Zambia, initially amounting to SDR 978.2 million (equivalent to 100% of quota, approximately US\$1.3 billion). On June 24, 2024, this was scaled up to SDR 1,271.66 million (approximately 130% of the quota, equivalent to about US\$1.7 billion) in response to the effects of a severe drought. The program (see Box 2), aligned with Zambia's Eighth National Development Plan (8NDP), served as a critical precondition for securing financing assurances from official creditors, thereby unlocking debt restructuring negotiations¹³.

Box 2: Objectives of Zambia's IMF-ECF Supported Program

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The ECF has four broad objectives that aim to address Zambia's most urgent macroeconomic challenges by focusing on:

- a) Restoring debt sustainability through fiscal consolidation and comprehensive debt restructuring.
- b) Creating fiscal space to enhance social spending and mitigate the social impact of economic adjustments.

- c) Strengthening governance frameworks and addressing corruption vulnerabilities by improving public financial management.
- d) Enhancing the effectiveness of monetary policy, rebuilding external buffers, and safeguarding financial sector stability.

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Like all IMF programs, Zambia's ECF was underpinned by a set of prior actions, structural benchmarks, and quantitative targets. Prior actions included measures to rein in fiscal risks such as publishing Zambia's full external debt position, confirming priority infrastructure projects, introducing a monthly fuel price adjustment mechanism to reflect market costs, and adopting arrears clearance strategies. Structural benchmarks targeted longer-term reforms, including reinstating VAT and excise duties on fuel, advancing cost-reflective electricity tariffs, transitioning the Farmer Input Support Programme (FISP) to a fully electronic system, adopting a tax policy reform plan, and strengthening public debt legislation. Quantitative criteria further provided ceilings on net domestic financing, prohibiting new non-concessional borrowing, enforcing a zero-tolerance stance on external arrears, and setting floors on reserves and social spending¹⁴.

IMF programs have often been accompanied by controversy. Proponents argue that the conditionalities, such as fiscal consolidation, subsidy reform, and debt accumulation limits, are necessary to restore fiscal stability. However, critics view them as austerity measures that increase the cost of living, constrain public services, and

¹³ <https://www.imf.org/en/News/Articles/2024/06/26/pr-24242-zambia-imf-completes-3rd-review-under-ecf-and-approves-augmentation>
¹⁴ IMF, Zambia: Request for an Arrangement Under the Extended Credit Facility – Press Release; Staff Report; and Statement by the Executive Director for Zambia, IMF Country Report No. 22/292, September 2022. Available at: <https://www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196>

erode policy autonomy. For Zambia, authorities and the IMF viewed these reforms as essential for rebuilding market confidence and restoring fiscal discipline. In contrast, critics viewed them as externally imposed austerity measures that constrain policy autonomy and exacerbate short-term social costs. Critics argued that the several measures amounted to austerity and disproportionately burdened households and small businesses, which were already struggling with the high cost of living and operational expenses, respectively¹⁵

16

However, two indicative targets, the June 2024 target for clearing expenditure arrears and the September 2024 target for social spending, were missed by a narrow margin. In terms of structural benchmarks, five out of fifteen were not met, although two of these were subsequently completed with a slight delay¹⁷. Despite an initial deterioration in the near-term outlook due to the adverse effects of the drought, Zambia's economic rebound has been strong and positive, with the 2024 growth projection revised upward from 1.2% to 4%.

Zambia's ECF arrangement was initially scheduled to conclude on 31 October 2025. However, the IMF granted the Government a no-cost three-month extension to 31 January 2026, enabling them to complete the sixth and final review and meet all outstanding program targets. At the same time, the authorities have requested an additional one-year extension to consolidate the gains achieved under the current program and sustain ongoing macroeconomic reforms. This request will be reviewed at the end of January 2026 and is subject to approval by the IMF Executive Board.

5.2 Zambia's Debt Restructuring Process and Agreements

In May 2020, Zambia officially engaged Lazard Frères, a French financial advisory firm, to support the country through a liability management exercise, aimed at restructuring its sovereign debt. The first option was to apply for the DSSI, a timely initiative that halted and deferred debt service payments on some of Zambia's external debt obligations between May 2020 and December 2021. This led to temporary relief from several official creditors and saved approximately US\$540.2 million¹⁸. However, out of a total of 46 official bilateral creditors, only nine participated in offering DSSI relief. This limited participation reduced the overall impact of the initiative on easing fiscal pressure.

Recognising the inadequacy of the DSSI, Zambia turned to the G20 Common Framework in February 2021, becoming the second country after Chad to request treatment¹⁹. However, Zambia's prospects of securing approval for an IMF program were hindered by several bottlenecks and uncertainties. These included delays in formulating a credible economic and fiscal reform plan, heightened concerns about hidden debt, and questions about the credibility of the political leadership at the time, factors that collectively weakened confidence in the country's commitment to undertake necessary structural reforms²⁰.

A key requirement under the G20 Common Framework is that debt-distressed countries must first secure a Staff Level Agreement for an IMF-supported program before proceeding with debt restructuring²¹. However, Zambia's prospects of obtaining approval for an IMF program were hindered by several bottlenecks and

15 <https://gchelwa.substack.com/p/policy-failure-caused-zambias-food>

16 <https://gchelwa.substack.com/p/thanks-to-the-imf-zambias-fuel-prices>

17 International Monetary Fund (IMF), Zambia: Fourth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review—Press Release; Staff Report; and Statement by the Executive Director for Zambia, IMF Country Report No. 22/292. December 2024, available at: <https://www.imf.org/en/Publications/CR/Issues/2024/12/17/Zambia-Fourth-Review-Under-the-ECF-Arrangement-Press-Release-Staff-Report-Statement-538743>. Accessed [15 July 2025]

18 https://ctpd.org.zm/sdm_downloads/understanding-the-debt-service-suspension-initiative-dssi

19 World Bank, "COVID-19: Debt Service Suspension Initiative," World Bank, accessed June 16, 2025, <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>.

20 <https://www.imf.org/en/Blogs/Articles/2021/12/02/blog120221the-g20-common-framework-for-debt-treatments-must-be-stepped-up>

21 Paris Club, "The Common Framework for Debt Treatments beyond the DSSI," Club de Paris, accessed June 16, 2025, <https://clubdeparis.org/en/communications/page/common-framework>.

uncertainties. These included delays in formulating a credible economic and fiscal reform plan, heightened concerns about hidden debt, and questions about the credibility of the political leadership at the time, factors that collectively weakened confidence in the country's commitment to undertake necessary structural reforms.

But the deeper question is, how realistic was it for Zambia to pin its recovery on an instrument that was new, untested, and whose rules were still evolving? The CF demanded an IMF program as a precondition for restructuring. In hindsight, was Zambia set up to face delays because the Framework itself lacked clear procedures and coordination mechanisms between official and private creditors?

Zambia reached a Staff-Level Agreement with the IMF in December 2021, and the Official Creditor Committee (OCC) provided financing assurances in July 2022. In August 2022, the IMF approved a US\$1.3 billion Extended Credit Facility to support reforms. However, debt restructuring progress was slowed by weak creditor coordination and challenges in ensuring comparable treatment across creditor groups. It was not until June 2023 that Zambia signed an MoU with the OCC to restructure US\$6.3 billion in official debt. Later, in October 2023, Zambia reached an agreement in principle with holders of its US\$3 billion Eurobonds as shown in Table 1.

Table 1: Timeline of Zambia's Main Debt Restructuring Milestones

Step	Date	Key Event
Market access lost	Sept. 2019	Yields > 15 %
DSSI participation	15 May 2020	Debt service suspension
Eurobond standstill request	22 Sept 2020	6-month moratorium proposal
Default	13 Nov 2020	Missed USD 42.5 m coupon
Debt disclosure	Dec 2021	Full creditor list published
IMF Staff-Level Agreement	6 Dec 2021	USD 1.3 bn ECF
OCC established	16 Jun 2022	China / France co-chairs, South Africa vice-chair
Financing Assurances provided by the OCC	18 July 2022	Allowing program approval at IMF Board
IMF Board approval	31 Aug 2022	Program formally approved
OCC Agreement-in-Principle	22 Jun 2023	USD 6.3 bn reprofile
First agreement with bondholders	November 2023	Rejected by the OCC
Agreement with bondholders	25 Mar 2024	Bond A/B agreement
Bond exchange completed	25 Sept 2024	USD 3 bn swap
IMF Second Review	28 Aug 2024	Post-restructuring validation

However, the OCC rejected this deal twice, in November 2023, citing non-compliance with the Comparability of Treatment (CoT) Principle (see Box 3)²². The lack of consensus between the Paris Club and other creditors on how to calculate NPV reductions and apply CoT across different creditor types made Zambia's situation even more intricate. This delay in progress required extensive negotiations and adjustments to satisfy multiple competing interests. A final breakthrough came in March 2024, when Zambia reached revised restructuring terms with Eurobond holders. This was followed by bilateral restructuring agreements with France and Saudi Arabia in December 2024, and EXIM Bank of India in May 2025, marking key steps in Zambia's broader debt resolution under the Common Framework.

²² According to IMF (2022), Comparability of Treatment is a core principle in sovereign debt restructuring that ensures all creditors share the burden of debt relief fairly and proportionately. Under the G20 Common Framework for Debt Treatment, this principle requires private and non-Paris Club creditors to provide debt relief terms that are at least comparable in effect to those offered by official bilateral creditors, with three criteria of efforts: debt service during the program period, extension in the duration of claims, and PV reduction.

Box 3: Comparability of Treatment in Zambia's Debt Restructuring Process



One of the major headwinds Zambia encountered during its debt restructuring process was achieving CoT. This challenge arose primarily because of the country's highly heterogeneous group of creditors, each with differing requirements, restructuring philosophies, and expectations. The first restructuring proposal agreed with Eurobond holders in October 2023 was rejected by the OCC. The OCC argued that the deal did not comply with CoT because the present value (PV) reduction implied in the Eurobond terms was shallower than that expected from official bilateral creditors, particularly when using the discount rates applied by the IMF and OCC (around 5%–6%). The proposal focused more on maturity extensions and coupon reductions rather than deep nominal haircuts.

For China and some Paris Club members, this was unacceptable since they had committed to larger PV reductions. The lack of clarity around discount rates, whether to use market-based or concessional benchmarks, exacerbated disagreements and delayed approval. The bilateral side also experienced significant uncertainty. While the June 2023 Memorandum of Understanding with the OCC announced a restructuring of about US\$6.3 billion in official debt, the exact terms of treatment, such as grace periods, interest rates, and the extent of principal relief have not been fully disclosed. Different bilateral creditors are thought to have applied different modalities, with some preferring

maturity extensions and others granting nominal haircuts, but limited transparency has made it difficult to assess the true degree of burden-sharing.

These information gaps have raised important questions. Would better data sharing between the OCC and the Eurobond creditor committee have accelerated negotiations and reduced repeated rejections of bondholder proposals? Was Zambia caught between competing creditor philosophies, Paris Club and Chinese preferences on one side, and market-driven Eurobond holders on the other, without an effective mechanism to bridge the divide?

Finally, domestic debt was excluded from the restructuring perimeter, even though a significant portion (close to US\$ 3 billion) was held by non-resident holders (NRHs), which added further complexity to the CoT debate. A key point of contention was whether the inclusion or exclusion of NRHs should be determined on the basis of their residence or the nature of the instrument they held. Meanwhile, multilateral creditors such as the IMF, World Bank, and African Development Bank though central to Zambia's debt restructuring process retained their preferred creditor status and were exempt from taking haircuts. This exemption created visible tensions, as the restructuring burden fell disproportionately on bilateral and private creditors, fueling calls for a reconsideration of multilateral participation in future debt workouts.



5.3 Restoring debt sustainability

To be able to provide a loan, the IMF needs to ensure that debt is sustainable. In practice, a Debt Sustainability Analysis, based on assumptions on growth, external development, financial conditions and fiscal policies, provides forecasts on debt levels and debt service. To restore sustainability in Zambia, two “flow” variables (public external debt service to revenues and debt service to exports) and two “stock” variables (Present Value of external public debt to GDP and to exports) needed to be brought below thresholds determined the Debt Sustainability Framework, at a level consistent with a “moderate risk of debt distress, with “substantial space to absorb shocks”.

In practice, the levels needed to be applied were to bring debt service to revenue ratio to 14% by 2025 (the end of the program period) and maintain it in the medium run, until 2031; and external debt to exports (in Present Value) to 86% by 2027. These values were consistent with a “weak capacity to carry debt”, but both bilateral and private creditors negotiated a Value Recovery mechanism whereby debt service target would rise

to 18% of revenues, and debt to exports to 108% if Zambia's debt carrying capacity was raised to "moderate". Were those measures sufficient to restore actual debt sustainability? First, it is important to note that because exports are high, the denominator in the stock (PV) measure is high, reducing the amount of debt relief. However, because of the rebasing of the GDP during the restructuring process, this more stringent variable was not used. Second, while the debt reduction was large, with over \$10 billion in the program period and close to 40% in NPV reduction, the discontinuous nature of the DCC makes it easy for Zambia to return to "weak" shortly after thus immediately returning to a "high" risk. The section below details the process.

5.4 Analysing Zambia's Debt Restructuring Agreements

Broadly, Zambia's debt restructuring perimeter covered about US\$12.8 billion of external debt, split between the OCC and private creditors, as shown in Table 1. The OCC agreement restructured US\$6.3 billion, extending maturities by over 12 years with a three-year grace period, and lowering interest rates to concessional levels (under 2.5%). While no nominal haircut was given, Fitch estimated a 39% present value (PV) reduction. On the private debt side, Zambia reached an agreement with Eurobond holders covering US\$3.84 billion, by introducing two new long-dated bonds (Bond A = US\$1.7 billion and Bond B = US\$1.35 billion), applying a 16–20% haircut amounting to US\$840 million, and delivering a 41% PV reduction. Both the OCC and Eurobond deals include state-contingent debt instruments, under which debt service payments could increase if Zambia's debt-carrying capacity improves or export revenues exceed IMF projections, creating future upside risks.

What is left is for Zambia to finalise individual debt restructuring agreements with each bilateral creditor under the terms of the MoU signed with the OCC. However, this process has been protracted, with Zambia only signing bilateral restructuring agreements with France, Saudi Arabia and India. Agreements with other commercial creditors, such as Paramount, Huawei, ZTE, and Credit Suisse, have also been concluded, though with more modest relief (mainly reprofiling and lower interest). However, the Government is yet to sign agreements with the Export–Import Bank of China worth US\$4.1 billion, and agreements with other Chinese lenders, classified as commercial, worth approximately US\$1.5 billion are also yet to be signed. The delays in finalising these agreements continue to accumulate unpaid interest arrears for Zambia.

5.5 Zambia's Country Policy and Institutional Assessment (CPIA) scores

From the recent Debt Sustainability Assessment (DSA)²³, Zambia's debt sustainability outlook has improved following the latest release of the Country Policy and Institutional Assessment (CPIA) scores, prompting renewed attention to the potential activation of the upside scenario embedded in the B Bond terms. The CPIA is a key component, contributing nearly 50% to Zambia's Composite Indicator (CI), which is used to assess the country's debt-carrying capacity.

It also assesses a country's performance across various criteria related to economic management, structural policies, social inclusion, and public sector management and institutions. If the CI reaches or exceeds a threshold of 2.69 in two consecutive semi-annual assessments, it would qualify Zambia for an upgrade to medium debt-carrying capacity. Meeting this condition would also activate the upside provisions in the B-bond, leading to improved repayment terms for bondholders. The overall CPIA score improved from 3.24 in 2023 to 3.28 in 2024, as shown in Figure 12, primarily driven by an increase in the economic management score assigned to Zambia by the World Bank.

²³ Zambia: 2025 Article IV Consultation, Fifth Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Zambia

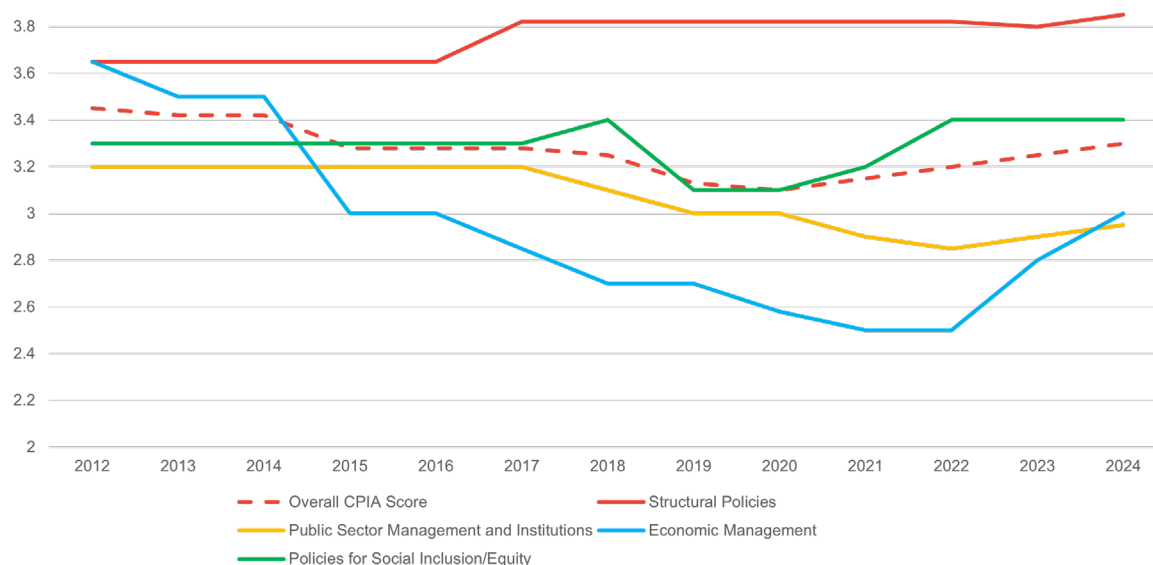
However, the input considered in the CI calculation is a 10-year moving average. Therefore, an improvement in the CPIA index in 2024 does not necessarily result in a higher 10-year average. As shown in Figure 12, the previous average was boosted by Zambia's higher CPIA score before the 2015 economic crisis. In fact, although there has been an improvement, the average is expected to decline slightly. The DSA published in August 2025 did not factor in the 2024 CPIA, which is expected to be incorporated in the following assessment. This update will be especially relevant from the end of 2025 to mid-2026, as it will help determine whether the upside scenario is activated²⁴.

Figure 2: Summary of Zambia's Debt Restructuring Agreements

Creditor Group	Restructuring Perimeter	Type of Relief	Debt Stock Reduction	Cash Flow Relief (2023 –2031)	Instruments / Terms	Upside Clauses	Zambia's Key Benefit
Official Creditor Committee (OCC) (China, Paris Club, others)	US\$6.3 billion	Maturity extension plus a lower interest rate	No haircut	US\$5.8 billion (over IMF program period)	Debt reprofiling; extended maturities	Yes – payments increase if debt-carrying capacity improves	Short-term liquidity; IMF compliance
Eurobond Holders	US\$3.84 billion	Maturity extension plus nominal haircut	20% haircut (US\$840 million)	US\$2.5 billion	Old bonds swapped into 2033 & B = 2053 amortising bonds (Bond A and B)	Yes – higher payments if growth/export earnings improve	Permanent stock reduction plus liquidity
Non-Bonded Private Creditors (Chinese banks, suppliers, commercial lenders)	US\$2.7 billion	Maturity extension plus a lower interest rate	No haircut	US\$2.25 billion	Restructuring of commercial loans; lower rates	Yes – similar to OCC	Liquidity relief; limited permanent benefit

Source: Ministerial Statement on Debt Restructuring (National Assembly of Zambia);²⁵ Ministry of Finance and National Planning Website Update²⁶.

Figure 12: Trends in Zambia's CPIA Index



Source: World Bank

24 REDD, "Zambia's B bonds reach 71 as latest CPIA data suggests upside scenario is likely", July 2025

25 https://www.parliament.gov.zm/sites/default/files/images/publication_docs/Ministerial%20Statements%20-%20Debt%20Restructuring.pdf

26 Government of the Republic of Zambia Reaches Agreement on Debt Restructuring Terms with the Steering Committee of the Ad Hoc Creditor Committee of holders of Zambia's Eurobonds- Ministry of Finance and National Planning.

To assess the conditions under which Zambia could achieve a CI score with an upside-down trend, various scenarios modifying the composite indicator components are possible. Raising the CPIA alone would require an unrealistically fast increase in the score, mainly because the variable used in the calculation is a 10-year average. Only using CPIA requires reaching a score of 3.49, from a current score of 3. Reserves are volatile and could change rapidly, especially given Zambia's export structure. A 10% increase in the import coverage of reserves would yield an upgrade. While it is large, it is a possibility. Finally, while global economic growth's influence on the final rating seems incompatible, its actual weight is relatively low, and world growth perspectives remain sluggish.

5.6 Impacts of an Upside Activation

In case of upside activation, the terms of the B-Bond will shift toward an accelerated payment schedule with higher interest rates. The amortisation schedule would be brought forward from December 2051 to June 2032, with final maturity accelerated from 2053 to 2035. Additionally, the coupon rate would increase from under 2.5% to 7.5% per annum from the trigger date until June 2031, with the option to pay 6% in-kind interest over the same period. Thereafter, a 7.5% cash coupon would accrue until maturity, with semiannual payment dates on June 30 and December 31.

Figure 13: Price Performance of Zambia's Bond B



Source: REDD CEEMEA

While this upside mechanism offers investors participation in Zambia's potential recovery, it presents crucial challenges for the country. If triggered, the higher debt service obligations could partially reverse the fiscal relief gained through restructuring, narrowing Zambia's policy space just as it begins to reap the benefits of reform. Moreover, since the instrument does not include a cap on additional debt service, there is a risk that creditors could capture a disproportionate share of the country's macroeconomic gains, potentially undermining equitable burden sharing.

Market sentiments reflect a mixed view of the upside clause's likely activation. Some bondholders estimate that if the upside scenario is triggered, recovery values could rise to 70-76 cents on the dollar, assuming a 10% discount rate. Yet, with current bond prices reaching 73 cents, as shown in Figure 13, the actual upside for investors may be limited because much of the potential gain is already factored into the prices. Another

market participant observed that recent bond price support has been primarily driven by investors betting on rising copper prices. Many of these investors have limited long-term engagement in Zambia and may not fully factor in the complexity of the value recovery instrument design or activation conditions.

While the upside clause in Zambia's B Bonds reflects a compromise between debtor and private creditor interests, it is a double-edged sword. It offers a mechanism for investors to benefit from a stronger-than-expected recovery, but if triggered prematurely, higher debt service obligations could erode the fiscal space gained through restructuring. It could also impose a heavy burden on the country if growth accelerates without sufficient structural resilience. This would lead to a rapid increase in the high risk of debt distress, especially as part of the indicator will be computed based on uncertain forecasts.



6. SUSTAINABILITY BEYOND ECONOMIC REFORM, DEBT RESTRUCTURING AND LESSONS FROM OTHER COUNTRIES

Zambia's 2020 debt restructuring crystallised the operational challenges of implementing the Common Framework. It was the first test case that formalised the parameters for assessing the comparability of treatment. Still, it also exposed delays, coordination problems, and design flaws that subsequent cases have had to address. At the same time, Zambia's experience demonstrated that meaningful relief was possible, and that lessons from its drawn-out process could inform smoother outcomes elsewhere.

6.1 Learning by Doing

A central development has been the integration of new actors, most notably China, into Common Framework restructurings. In Zambia's case, China's initial reluctance to share information and coordinate with Paris Club members contributed to long delays. Yet, the process established a single-entry point for creditors and set a precedent for the reciprocity of information. Subsequent restructurings moved more quickly, suggesting institutional learning on both sides. Ghana, for example, was able to draw directly on Zambia's experience. It benefited from stronger debtor–creditor coordination, earlier disclosure of debt sustainability analyses, and more transparent communication of treatment comparability expectations. As a result, the interval between Ghana's key restructuring milestones was shorter. While it took Zambia 20 months to obtain financing assurances from the OCC, Ghana has achieved this in only 13 months, as shown in Table 3.

Ethiopia offers another perspective on the adaptability of the Common Framework under conditions of political and macroeconomic uncertainty. With IMF program talks delayed and conflict weighing on the outlook, the OCC granted a tailored suspension of debt service in 2023–24. This eased liquidity pressures and eventually paved the way for program approval in July 2024. Ethiopia thus became the first test of the IMF's new guidance on information-sharing in restructurings, published in 2023.

While substantial learning was reflected in the accelerated timing of subsequent restructurings, equally essential lessons arose from the contentious treatment of domestic debt and MDB flows. Domestic debt has become a recurring point of contention as shown in Figure 13. In Zambia, foreign investors held a substantial share of local-currency bonds. These were initially categorised as external debt in the DSA, but the authorities opted not to include them in the Common Framework perimeter. The IMF supported this decision, citing risks to financial stability if domestic banks were forced to restructure. However, China objected, arguing that excluding domestic debt shifted too much of the adjustment burden onto external creditors²⁷. This dispute illustrates the political sensitivity of defining the restructuring perimeter.

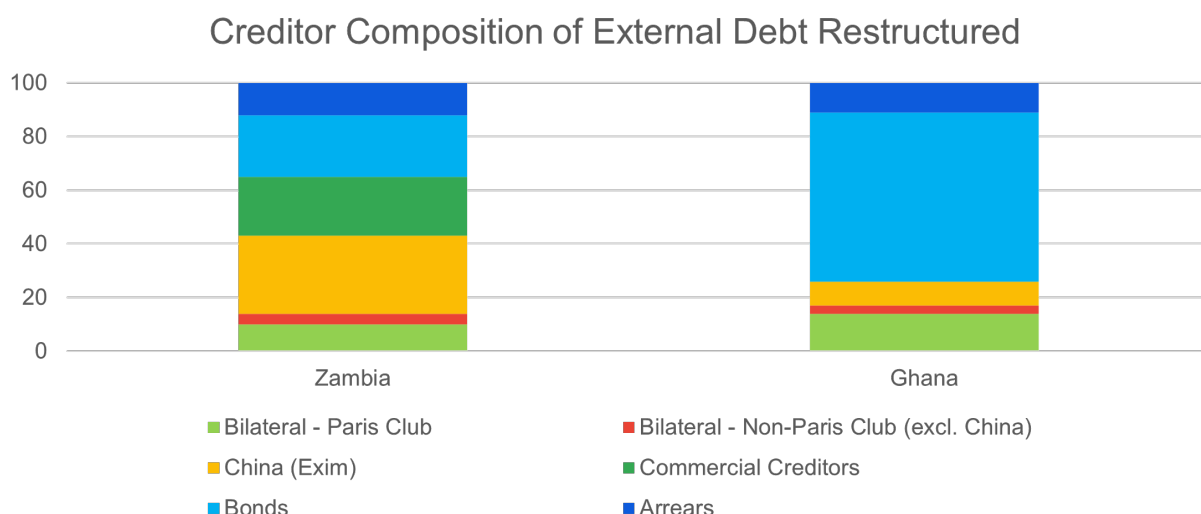
²⁷ Bloomberg News. 2023. "China Delays Zambia Debt Deal Over Local Loans, US Official Says." Bloomberg, January 23.

Table 3: Country Comparisons of Restructuring Timelines

Step	Chad	Zambia	Ghana	Ethopia
Request for debt treatment	14 Dec 2020	1 Feb 2021	13-20 Dec 2022	3 Feb 2021
Staff-Level Agreement	27 Jan 2021	3 Dec 2021	12 Dec 2022	At program approval!
Formation of OCC	15 Apr 2021	16 Jun 2022	12 May 2023	16 Sep 2021
OCC assurances	10 Jun 2021	18 Jul 2022	12 May 2023	11 Jul 2024
Program approval	10 Dec 2021	31 Aug 2022	17 May 2023	29 Jul 2024
Agreement on main terms	NA	22 Jun 2023	12 Jan 2024	21 Mar 2025
IMF 1st review	22 Dec 2022	13 Jul 2023	19 Jan 2024	4 Nov 2024
Agreement of MoU	30 Nov 2022	13 Oct 2023	11 Jun 2024	Pending
IMF 2nd review	22 Dec 2022	20 Dec 2023	28 Jun 2024	29 Jan 2025
Signature of the MoU completed	1 Jan 2023	2 Apr 2024	28 Jan 2025	Pending

Source: Paris Club Annual Report (June 2025)

Figure 14: Creditor Composition of External Debt Restructured



Source: IMF-World Bank

The treatment of multilateral development bank (MDB) flows has raised similar tensions. Since MDBs are excluded from restructuring, other creditors often perceive an uneven distribution of losses. In Zambia and Ghana, the compromise was to recognise that MDBs continue to provide net favourable financing during restructuring programs. Negotiators nonetheless called for a standardised framework to define these flows and assess their concessionality²⁸. In Ghana, the Official Creditor Committee experimented with factoring different levels of concessionality into burden-sharing, a step toward more equitable outcomes.

6.2 Comparative Lessons from Ghana

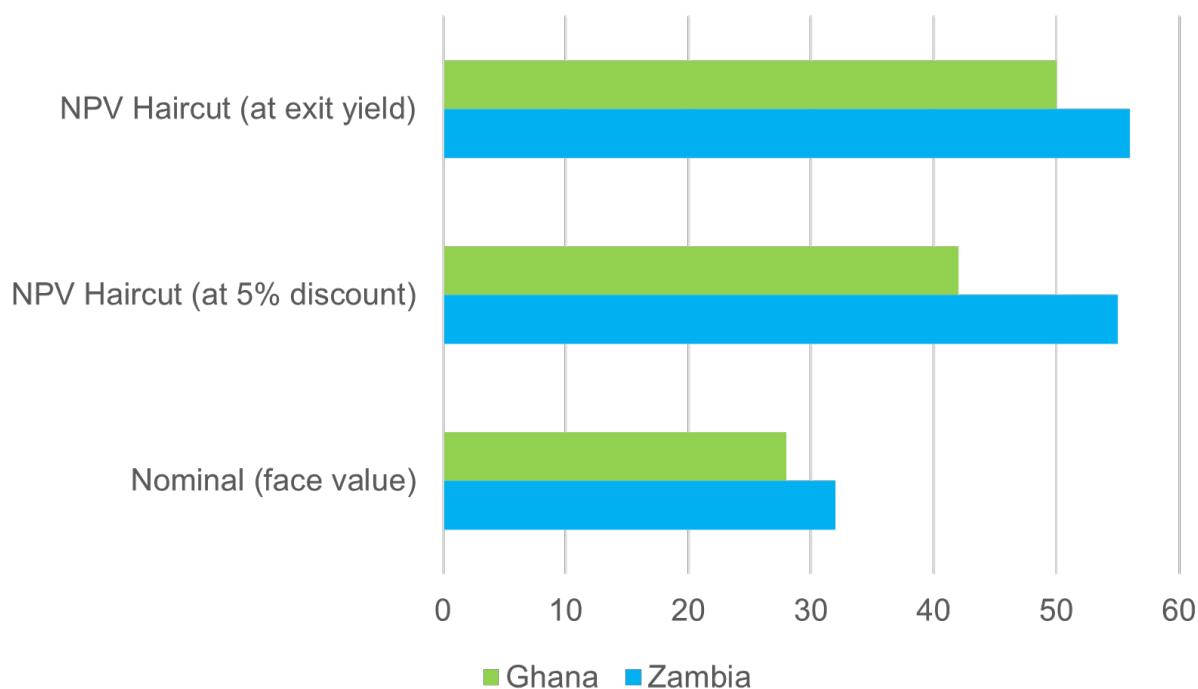
Both Ghana and Zambia have achieved substantial debt relief through significant NPV reductions on their restructured bondholder debt. ODI calculated creditor losses for Ghana and Zambia using two approaches: the Paris Club's 5% discount rate for low-income countries and the market-based exit yield often used in academic work. Under both methods, the results presented in Figure 14 indicate significant NPV haircuts

²⁸ Common Framework: Lessons Learned and Ways Forward." G20 Brazilian Presidency, 11 Mar. 2025

of approximately 50%²⁹. The relief achieved exceeds the 37% historical average observed in restructurings between 1970 and 2010. By easing the immediate burden of external debt service and expanding fiscal space, these reductions provide the breathing room needed to stabilise macroeconomic conditions and pursue growth-oriented reforms.

Yet the use of state-contingent instruments in debt restructuring raises essential questions about long-term sustainability. The value recovery instrument in the case of Zambia is asymmetric. Indeed, it increases debt service obligations when macroeconomic conditions improve, but does not provide offsetting relief in the event of a downturn. This structure can be inequitable unless the base-case haircut is sufficiently deep³⁰. (See also Panizza 2024 for a description of the risks of VRI).

Figure 15: Comparison of State-Contingent Instruments for Zambia and Ghana



Source: ODI and Bloomberg

7. CONCLUSION

Zambia's 2020 sovereign debt default marked a turning point in the country's macroeconomic and fiscal trajectory, reflecting years of rising debt vulnerabilities, weak fiscal management, and declining investor confidence. The default exposed deep-rooted weaknesses in public finance management, debt transparency, and expenditure control, while underscoring the broader economic and social costs of prolonged imbalances.

In the aftermath, Zambia faced acute liquidity pressures, loss of access to international capital markets, and a buildup of arrears to external and domestic creditors. Nevertheless, the period also demonstrated the country's resilience and commitment to reform. Under the IMF's Extended Credit Facility, the Government pursued fiscal and institutional adjustments to restore stability, rebuild confidence, and lay the foundation for inclusive recovery. These efforts were reinforced by a focus on strengthening debt management, prioritizing social spending and enhancing fiscal governance, marking a decisive shift toward greater transparency and discipline in public finances.

29 Chen, Y., & Hart, T. (2025, February 21). Common framework, uncommon challenges: Lessons from the post-COVID debt restructuring architecture. ODI Insights

30 Panizza U. "The Pitfalls of Value Recovery Instruments in Sovereign Debt Restructuring", Finance for Development Lab. Policy Note 17. Link

Recent assessments, including the 2025 IMF Article IV Consultation and the World Bank's CPIA, confirm a gradual improvement in Zambia's economic management and policy credibility. The CPIA score rose from 3.24 to 3.28, driven by stronger macroeconomic management, while the CI increased slightly from 2.58 to 2.59. Although this remains below the 2.69 threshold for upgrading Zambia's debt-carrying capacity, the trend signals steady progress in rebuilding institutional strength and fiscal discipline. Sustaining this momentum will be critical to securing an eventual upgrade and maintaining investor confidence.

The recent restructuring cases, including Zambia's, underline that debt reworks are only one part of the sustainability equation. As emphasised at the Fourth International Conference on Financing for Development, sustainable borrowing depends primarily on country-owned reforms, stronger domestic revenue mobilisation, more efficient public spending, and institutional capacity building. These must be complemented by credible public investment strategies, predictable external financing, and an enabling environment for private sector growth to anchor resilience. While timely and coordinated restructurings remain essential when debt becomes unsustainable, the durability of outcomes ultimately hinges on the credibility and consistency of reforms.

To consolidate progress and minimise the risk of renewed distress, four key policy priorities emerge:

1. Deepen domestic resource mobilisation through progressive tax reforms, digitalisation of tax administration, plugging revenue leakages and reducing dependence on external concessional flows.
2. Strengthen debt management institutions, particularly through the full operationalisation of the new Debt Management Office (DMO), continued capacity building of DMO staff, and the regular publication of comprehensive debt statistics. This will entrench transparency and accountability, enhance debt monitoring and reporting standards, and minimise fiscal and refinancing risks.
3. Promote economic transformation, with a strong focus on value addition in key sectors such as agriculture, manufacturing, tourism, and the digital economy, to increase productivity, broaden the export base and build resilience against external shocks.
4. Sustain macroeconomic and institutional reforms by strengthening policy credibility and consistency. Maintaining the momentum of ongoing reforms will be vital to ensure that the gains from recovery translate into lasting debt sustainability and resilience to future shocks.

Zambia's experience offers important lessons for emerging economies on how credible reforms, supported by effective debt management and international cooperation, can transform a crisis into an opportunity and set a sustainable path toward inclusive growth. Lastly, improvements to the G20 Common Framework itself will be necessary, particularly to accelerate timelines, enhance creditor coordination, and ensure more predictable, transparent, and equitable outcomes for countries in debt distress.

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