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Analysis of the Zambia bondholders' deal

Debt Justice

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Summary

Bondholders will be repaid a third more than government creditors including China and the UK under the restructuring deal agreed with Zambia last week, even though they lent at higher interest rates initially.

Zambia's government and a steering committee of holders of $3 billion of eurobonds agreed last week an in principle deal to restructure Zambia's debt, three years after the country defaulted.

Under the deal, bondholders will effectively be repaid 73 cents for every $1 lent originally, according to analysis by Debt Justice and the Zambian Civil Society Debt Alliance. By contrast, government creditors will effectively be repaid 55 cents for every $1 lent, according to analysis by the civil society organisations of an in principle deal agreed in June.

The agreement between Zambia and its bilateral creditors aimed to restructure $6.3 billion of debt, and was confirmed in a memorandum of understanding signed in October.

The disparity of treatment between private and government creditors highlights that the deal does not meet the requirements of the G20 Common Framework, which requires private creditors to give 'at least as favorable' restructuring terms as government lenders.

The G20 has not created a mechanism to enforce equal treatment in the Common Framework, or to support lower income country governments to negotiate with private creditors.

If triggers related to the performance of the Zambian economy are activated, bondholders and government creditors will be repaid even more. Under the enhanced deals, bondholders would be repaid 97 cents for every $1 lent, whereas governments such as China and the UK they would be repaid 79 cents for every $1.

Analysis

We calculate that the Net Present Value / nominal amount lent (NPV) of the new bonds is $2.194 billion. (This is dated from end-2020, when Zambia defaulted, so includes the three years of no principal or interest payments). This is calculated using a discount rate of 5%, and uses the payments terms on the new bonds released by the Zambian government

This is in comparison to $3 billion originally lent - the NPV of the original bond terms was $3.286 billion as of end 2020.

This means that the new NPV is 73%.
The reduction in NPV is 33%.

Debt Justice and Zambian Civil Society Debt Alliance previously calculated that the baseline deal with bilateral creditors reduced the Net Present Value to 55%, also dated from end-2020 and using a 5% discount rate.

So for every $1 lent originally, bondholders are effectively getting repaid 73 cents. But forevery $1 lent by governments such as China and the UK originally, they are effectively getting repaid 55 cents. So bondholders are getting repaid a third more than China and the UK, even though they lent at higher interest rates.

The reduction in Net Present Value by bilaterals is 40%, so even on this measure bilaterals are giving more debt relief than bondholders (33%)

Much of the relief by bondholders is through Bond B, which has moved the principal payments to the 2050s and has an interest rate of 0.5%. But if the triggers are met, Bond B pays far more to bondholders, while Bond A remains the same.

If the enhanced payments are triggered, then the NPV of the restructured bonds is $2.904 billion, 97% of the amount originally lent. This is a reduction in NPV of just 12%.

Under the bilateral enhanced deal, the NPV is 79% of the nominal original amount lent, which is a reduction in NPV of 14%. So under the enhanced deal, for every $1 lent through bonds, Zambia will effectively repay 97 cents. In contrast, for every $1 lent by governments such as China and the UK, Zambia will repay 79 cents.

All NPV calculations use a discount rate of 5%.

About Debt Justice

Debt Justice (formerly Jubilee Debt Campaign) is a UK charity working to end poverty caused by unjust debt through education, research and campaigning.

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