Zambia’s debt relief deal with bondholders, initial analysis

Debt Justice UK, April 2024

Summary

- **The baseline deal cuts effective debt payments to bondholders by 44%, around $1.4 billion in net present value terms**
- **This is more debt relief than was agreed with bondholders in October 2023 – government creditors have helped get more debt relief for Zambia by refusing to endorse the initial deal**
- **However, if one of two triggers are met then Zambia will have to pay the equivalent of $1 billion more to bondholders, which will reduce the amount of debt relief to just 15%**
- **Under both the baseline deal and enhanced deal, bondholders are getting repaid more than government creditors. Under the baseline, bondholders are getting 62 cents for every dollar lent, compared to governments receiving 55 cents. Under the enhanced deals, bondholders get 93 cents for every dollar lent, governments 87 cents.**

1. Introduction

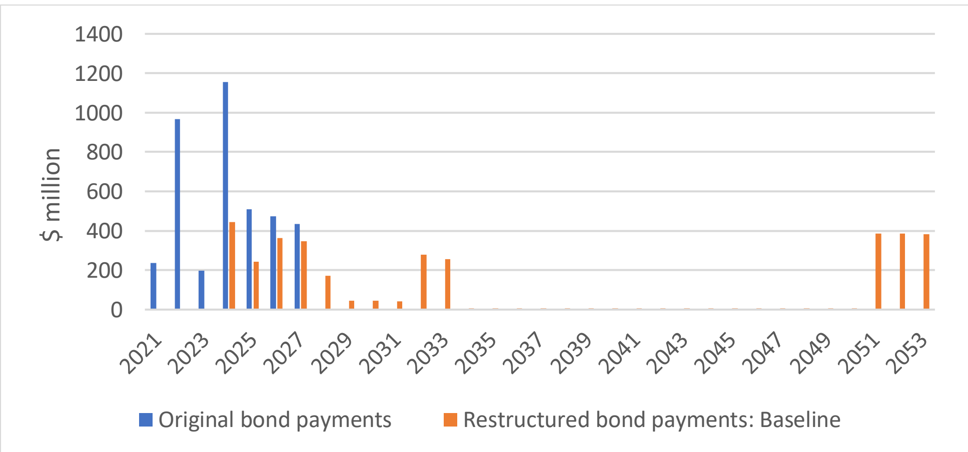
Zambia has announced it has reached an agreement with the bondholder steering committee on a debt restructuring deal, which has been approved by official creditors and the IMF. The bondholder steering committee represent 33% of bondholders. If the restructuring is accepted by 75% of owners of each of Zambia’s three bonds (three separate votes on each) it will be binding on all of them.

2. The baseline deal

The deal splits payments into two new schedules, called Bond A ($1.7 billion) and Bond B ($1.35 billion). Bond A makes significant principal payments between 2024 and 2033, and pays interest rates of 5.75%-7.5%. Bond B has low interest rates of 0.5% and the principal is repaid in 2051-2053. The principal owed on Bond A and B is $3.05 billion, similar to the $3 billion owed on the original bonds. The bondholders claim they are ‘cancelling’ $890 million of missed interest payments which they regard as capitalised as principal. The debt relief in the deal is primarily:

- The missed payments in 2020-2023 during the default (whether or not the missed interest is capitalised, it is not being paid)
- Bond B moving the principal payments a long way into the future, and paying very low interest in the meantime.

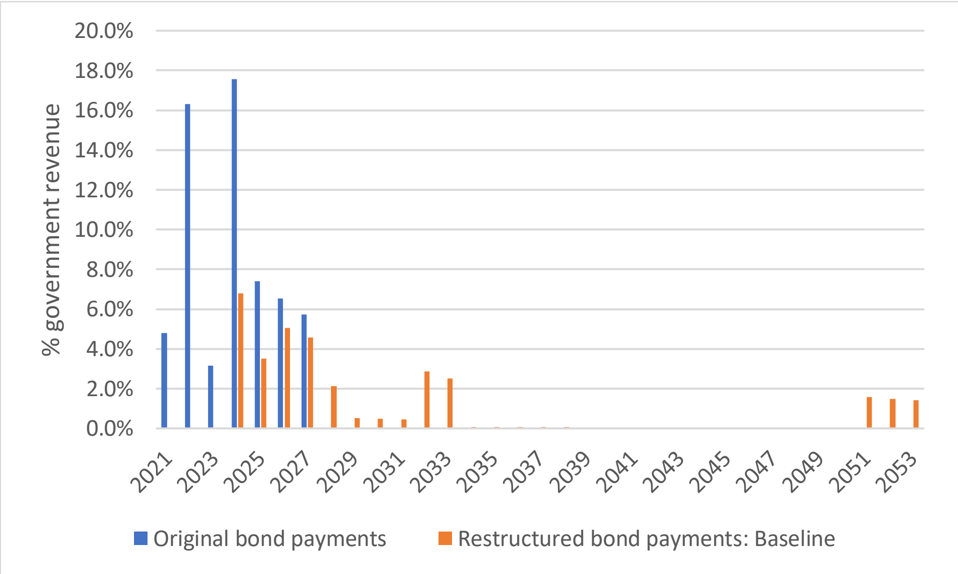
Table 1. Zambia bond payments: Original and restructured baseline, $ million nominal prices



Debt Justice has estimated that the Net Present Value of the original bond payment schedule, as of end-2020, was $3.29 billion, at a 5% discount rate.[1] Under the new payment schedules, again from end-2020, we estimate the new Net Present Value is $1.85 billion, so an effective cut in debt payments of $1.44 billion.

Another way of visualising this is to imagine Zambian government payments to bondholders as a percentage of government revenue between 2021 and 2053, if Zambian government nominal $ revenue grows by 5% a year (see Table 2 below). If this were the case bond payments will cost Zambia 44% less in government revenue terms under the restructured bonds than the original bond schedule, between 2021 and 2053.

Table 2. Zambia bond payments: Original and restructured baseline, % government revenue if it grows by 5% a year in nominal $



2. The enhanced deal

However, Zambia will have to pay bondholders a lot more if one of two trigger conditions are met between 2026 and 2028. The two trigger conditions are:

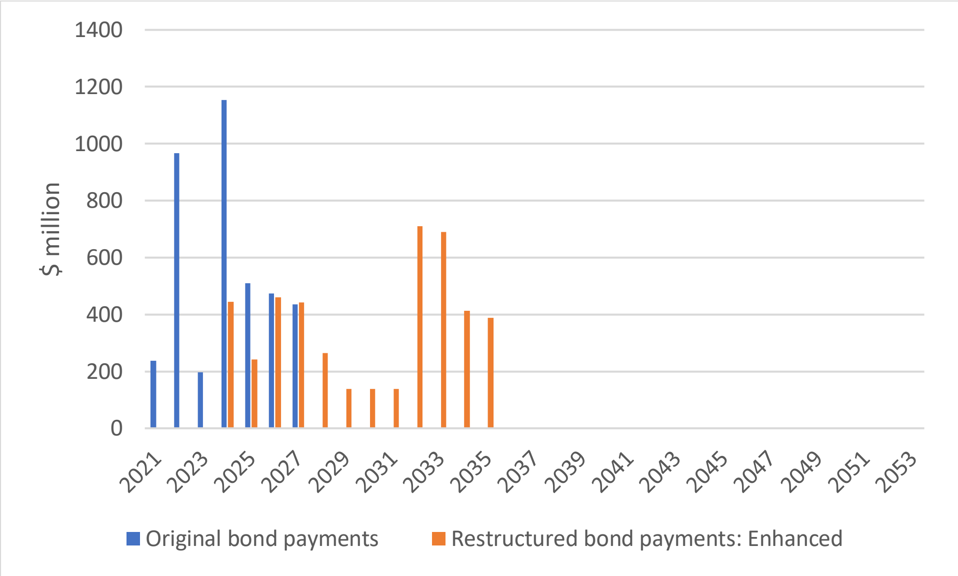
1) Zambia's IMF and World Bank indicator for debt carrying capacity moves to 'medium' rather than 'weak' for two consecutive semi-annual reviews.

2) The 3-year rolling average of Zambia's exports AND government revenues, in $m, exceeds the IMF projections of December 2023.

If either of these happen, the principal payments are moved forward to 2032-2035 and the interest rate increases from 0.5% to 7.5%. If this happens, this would be a huge increase in payments. We estimate the Net Present Value of this payment schedule would be $2.8 billion – 51% more than the baseline deal, and only 15% less than the original payment schedule.

[1] Net present value is a way of calculating debt owed including the interest and principal payment schedule. The concept is based on the idea that the same nominal payments in the future are worth less than now. The reason why future payments are worth less is different depending on whose perspective a deal is looked at, but include inflation, economic growth and where else the money could have been invested. The IMF uses a discount rate of 5%. In Zambia's case, this seems a good discount rate to use – Zambian nominal government revenue in $ grew by an average of 5% a year between 2010 and 2022.

Table 3. Zambia bond payments: Original and restructured enhanced, $ million nominal prices



3. Comparison with government creditors

In a previous analysis of the deal with government creditors,[2] we estimated that under the baseline deal agreed in July 2023, governments would be repaid 55 cents for every dollar lent. In comparison, bondholders will be repaid 62 cents for every dollar lent. This is calculated by dividing the new Net Present Value amount ($1.85 billion) by the face value amount lent originally ($3 billion). This means that, despite lending at higher interest rates, bondholders are still being repaid more than government creditors after the restructuring.

This is also the case if the enhanced deals are triggered. Government creditors also have an enhanced repayment deal, though theirs is only triggered by a change in debt carrying capacity. Under the government creditors enhanced deal they will be repaid 87 cents for every dollar lent. In comparison, bondholders will get 93 cents.

Restructuring agreement	Amount creditors will receive for every $1 owed as of end-2020 - baseline	Amount creditors will receive for every $1 owed as of end-2020 – enhanced deals
March 2024 deal with bondholders	62 cents	93 cents
October 2023 deal with bondholders, rejected by bilateral creditors	73 cents	97 cents
Bilateral creditors	55 cents	87 cents

4. Other outstanding debts to be restructured

Even if the bondholder deal goes through, there are still other debts which need to be restructured. Zambia owes $1.53 billion to ten non-Chinese private banks, the largest of which are debts to Israel Discount Bank ($362 million), Investec ($351 million), Mikalile Trading Co ($294 million) and Standard Chartered ($268 million). There are also at least several hundred million owed to Chinese private banks not covered by the bilateral restructuring agreement.

[2] https://debtjustice.org.uk/wp-content/uploads/2023/07/Analysis-of-bilateral-restructuring_07.23.pdf