Zambia's Debt Default: Just one Episode of a Horrific Comedy

Zambia's latest fiasco, as the first country to default on its Eurobond repayment in the era of Covid-19, is just one episode in a long series of what reads like an apocalyptic comedy. Cynics could derive merriment from the country's curious decision-making, the comical calibre of senior government officials, and the seeming wastefulness of a broke government. Unfortunately, for the people of Zambia, there is nothing funny about the country's current situation. In October 2020, Zambia was given a thirty-day grace period within which to repay the $42.5 million Eurobond, which ended on 13 November 2020, to meet its obligations. However, anyone following Zambia's overall situation must have correctly predicted that the country would default. In 2019, Zambia's Kwacha was the world's second worst-performing currency. The calamitous decline in foreign reserves and the extremely high external debt service, up by 90% in 2019, were a prelude to the recent ignominy. The government appealed for a six-month extension that would see it make repayments until April 2021. The appeal failed to obtain a favourable response.

Indubitably, a severe drought in 2018/19 and Covid-19 have compounded the woes of Africa's second-biggest producer of copper. In 2020, Zambia's GDP growth is estimated at -5 per cent, and the number of citizens living in extreme poverty is likely to increase. To be candid, though, the problems of Zambia both precede and go beyond the devastating effects of the current pandemic. And the story was not always this grim; just less than a decade ago, in 2012, Zambia issued its first Eurobond amid fanfare, to the amount of US$750 million. At the time, this ten-year Eurobond was touted as "sub-Saharan Africa's most successful bond launch with bids worth more than

15 times the amount on offer." It came on the back of a boom in commodity prices, and copper in particular, which has been the mainstay of Zambia's economy since the country's independence. Why, one would ask, has Zambia's situation become so dire in such a seemingly short space of time?

To answer this question, one would have to go back to 2011 when the country's current ruling party, the Patriotic Front (PF), formed government after defeating the Movement for Multiparty Democracy (MMD). Michael Sata, the gruff founding president of the PF, and Zambia's president from 2011 to 2014, initiated Zambia's unsustainable borrowing orgy. When Sata took over, Zambia was a thriving economy, with a sustained annual GDP growth average of 7.4% from 2004 to 2014, a feat that saw the country designated by World Bank as a middle-income country in 2011. Through mega-projects such as Link Zambia 8000, the PF government was in a hurry to fulfil some of its campaign promises, especially on infrastructure matters. The Chinese government and Chinese banks were ever eager to lend their money to Zambia, as a way of ingratiating themselves with Sata who had spent some of his days in opposition as an outspoken critic of China. The Chinese gamble seemed to have paid off because China has become the most visible foreign player in Zambia, and the latter owes more than a third of its external debt to the former. Unfortunately, Edgar Lungu, Sata's successor and Zambia's current president, has made worse Sata's borrowing frenzy. In 2011, Zambia's external debt was about $1.7 billion. Nine years later, the debt stands at $11 billion, a number considered apocryphal, especially by those who think the country's debt situation is worse than is reported. Changing the finance minister in mid-2019 seemed to have had very little impact because the incumbent minister, Bwalya Ng'andu, inherited what could be aptly described as a poisoned chalice. Ng'andu's appointment initially betokened a positive move after his predecessor's lacklustre performance. However, Ng'andu disclaims responsibility for the country's debt woes, and blames bondholders for wanting to encroach on Zambia's debt to China.

The Zambian government has also shown itself to be impervious and hostile to counsel. In 2018, it demanded that Alfredo Baldini, the International Monetary Fund (IMF) representative to Zambia, be withdrawn for being too negative about Zambia's economic circumstances. Baldini's vacated post remained vacant until October 2020 when Preya Sharma was appointed as his successor. Baldini had raised public concerns about Zambia's alarming appetite for borrowing, mostly from China. Shamelessly, the Zambian government has been unsuccessfully asking the IMF for a loan to bail it out of the country's crisis.

When it comes to its economy, Zambia's original sin is its congenital dependence on copper. The failure to diversify the economy means that the country's fortunes are held to ransom by the oscillations of copper prices. Zambia is a "textbook" illustration of the adage that those who do not learn from history are doomed to repeat it. The current happening is a reflection of previous events. In 2005, Zambia's enormous debt was forgiven only after the country had "met the conditions and reached the completion point under the enhanced framework of the Heavily Indebted Poor Countries (HIPC) Initiative." There are credible fears that Zambia might have to forfeit some of its assets, if not sovereignty, in the event that it fails to pay back its debt to single national players such as China.

In the long-run, Zambia has to embark on a diversification programme in order to alleviate the dependency on copper. Of immediate concern, though, should be some progress with the IMF and transparency about Zambia's debt to China. The opacity that characterises Zambia's debt to China gives room for wild and wide speculations and canards about the country's indebtedness. This only works to discourage would-be investors and creditors further. Despite the foregoing bleakness, Zambia’s situation is worse than the embarrassing debt saga. The PF has created a toxic political environment that has discouraged prospective investors and creditors. Until recently, the government was trying to push for a constitutional amendment that would have given the executive more power, while neutering parliament’s oversight responsibility on debt contraction and ratification of international agreements. Corruption has become almost endemic under the current government. Furthermore, leading up to the August 2021 elections, the ruling party has upped its ante on tribal rhetoric aimed at discouraging certain sections of society from voting for the main opposition on tribal lines. This goes against the country’s One Zambia, One Nation motto. All these problems show that the default on Eurobonds is just one aspect of Zambia’s litany of problems. A mere change of government is unlikely to put the country back on its rails. To many Zambians, however, this could be the first step on an arduous road to recovery.

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