

SEPTEMBER 29, 2020

REPUBLIC OF ZAMBIA

## Presentation to Creditors



## Disclaimer

*This document (the “Document”) has been prepared by the Ministry of Finance of the Republic of Zambia (the “Republic”) with the assistance of its financial advisors Lazard Frères SAS and Mnguer Advisory SAS and legal advisor White & Case LLP (together, the “Advisors”) for the attention of the Republic’s creditors (each a “Recipient”) solely as a basis for preliminary discussions of the feasibility of certain potential transactions mentioned herein (the “Purpose”). Any final decision regarding the opportunity or the feasibility of the transactions mentioned herein will require further investigations in particular as regards various legal, accounting, financial or tax matters. This Document shall be viewed solely in conjunction with an oral briefing provided by the Advisors.*

*While the Republic has used all reasonable efforts to ensure that the factual information contained herein is correct, accurate and complete in all material respects at the date of publication, neither the Republic, nor any of the Advisors, nor any of their respective related or affiliated bodies, or entities, nor their or their affiliates’ respective stakeholders, directors, partners, officers, employees, advisers or other representatives, if any (together, the “Zambia Parties”), make any warranty or representation, expressed or implied, concerning the relevance, accuracy or completeness of either the information or the analyses of information contained herein or any other written, oral or other information made available to any Recipient in connection therewith including, without limitation, any historical financial information, the estimates and projections, and any other financial information, and nothing contained in this Document is, or may be relied upon as, a promise or representation, whether as to the past or the future. Except insofar as liability under any law cannot be excluded, the Zambia Parties shall have no responsibility arising in respect of the information contained in this Document or in any other way for errors or omissions (including responsibility to any person by reason of negligence).*

*This Document does not purport to be all-inclusive or to contain all the information that a Recipient may require in its assessment of the Purpose. Further, this Document has not been prepared with regard to the investment objectives, financial situation and particular needs of the Recipient. No Recipient is thus entitled to rely on this document for any purpose whatsoever and any Recipient should conduct their own independent review and analysis of the information contained in or referred to in this Document and consult their own independent advisers as to legal, tax and accounting issues when assessing the Purpose. The information in this presentation reflects conditions, including economic, monetary and market prevailing as of September 2020, all of which are subject to change.*

*This Document may contain certain forward-looking statements, estimates, targets and projections prepared on the basis of information provided by the Republic. Such statements, estimates and projections involve significant subjective elements of judgment and analysis which may or may not prove to be correct. There may be differences between forecast and actual results because events and circumstances frequently do not occur as forecast and these differences may be material. There can be no assurance that any of the estimates, targets or projections will be met. Accordingly, none of the Zambia Parties shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement in or omission from this Document and any such liability is expressly disclaimed.*

*This Document has been prepared exclusively for information purposes. Neither this Document nor any information contained therein does or will form part of any legal agreement that may result from the review, investigation and analysis of this Document by its Recipient and/or the Recipient’s representatives. Neither this Document nor the information contained therein does constitute any form of commitment, recommendation or offer (either expressly or impliedly) on the part of any Zambia Parties with respect to the Purpose. The Republic reserves any rights it may have in connection with any of its debt obligations and nothing contained in this Document shall be construed as a waiver or amendment of such rights.*

## Opening Remarks



**Honorable  
Dr. Bwalya K. E. N'gandu**

Minister of Finance of the Republic of Zambia

*Any questions during this presentation may be submitted directly through the platform's Q&A chat box*

## Table of Contents

I	ZAMBIA'S MACRO-FISCAL SITUATION CALLS FOR IMMEDIATE LIQUIDITY RELIEF	3
II	RESTORING DEBT SUSTAINABILITY REQUIRES A COMPREHENSIVE DEBT MANAGEMENT STRATEGY	9
III	CREDITOR ENGAGEMENT RULES AND NEXT STEPS	15



**I Zambia's Macro-Fiscal Situation Calls for Immediate Liquidity Relief**

## The Global Economic Crisis Caused by COVID-19 is Deeply Affecting Zambia's 2020 Economic Turnout

The crisis is generating significant fiscal and external imbalances, as well as a material reduction in GDP in 2020

2020	① Pre-COVID	② Current 2020 projections	Comment
<b>Real Economy (forecasts)</b>			
Real GDP Growth (YoY % change)	3.2	(4.2)	➤ GDP reduction (impact of COVID-19) of <b>USD c. 0.9bn</b> due to lower growth
CPI (avg.) (YoY % change)	6.0 - 8.0 <sup>(1)</sup>	14.3	
<b>Fiscal Sector (forecasts)</b>			
Government Revenues <sup>(2)</sup> (in % of GDP)	23.0	18.4	➤ <b>Additional financing needs</b> resulting from the contraction in revenues and increase in COVID-19 related expenditures: <b>USD c. 1.2bn</b>
Government Spending <sup>(3)</sup> (in % of GDP)	22.1	23.9	
Primary balance (in % of GDP)	0.8	(5.5)	
<b>External Sector</b>			
Exchange Rate (ZMW per USD)	14.4 <sup>(4)</sup>	20.0 <sup>(5)</sup>	➤ <b>Reduction of USD c. 1.8bn in exports and a current account deficit of USD c. 1.0bn.</b> External debt service will increase due to exchange rate depreciation
Exports of Goods and Services (USDm, forecasts)	8,926	7,140	
Unencumbered Reserves (USDm)	1,218 <sup>(6)</sup>	1,105 <sup>(7)</sup>	

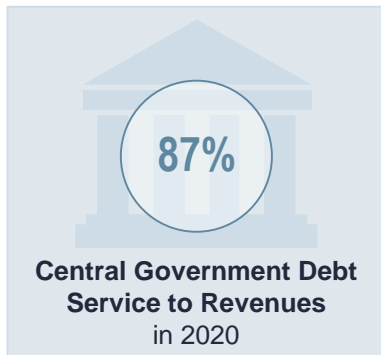
Source: Ministry of Finance of Zambia

<sup>(1)</sup> Bank of Zambia's medium-term target range ; <sup>(2)</sup> Total revenues and grants ; <sup>(3)</sup> Excl. interest ; <sup>(4)</sup> As of Dec. 31<sup>st</sup> 2019 ; <sup>(5)</sup> As of Sep. 25<sup>th</sup> 2020 (Bloomberg) ; <sup>(6)</sup> Unencumbered reserves as at end-2019 ; <sup>(7)</sup> Unencumbered reserves as at end June 2020. Unencumbered reserves equal to gross reserves minus certain items such as statutory reserves

## The COVID-19 Shock is Creating Liquidity Constraints that Require Immediate External Debt Relief

The pandemic has made it challenging for Zambia to meet its contractual debt service obligations and hence the application for the G20 Debt Service Suspension Initiative (DSSI)

Zambia's 2020 debt service obligations constitute a drain on the Government budget and the country's FX resources ...



... leading to accumulation of debt arrears

- Zambia has accumulated domestic and external debt arrears:
  - Domestic arrears are owed **to private suppliers and government-related entities**
  - External arrears **relate to a large spectrum of creditors**, excluding bondholders
- **The country is requesting that arrears accrued up to now are included in the debt service suspension perimeter**

Zambia has initiated a systematic creditor engagement strategy under the auspices of the G20 DSSI to secure immediate debt service relief

- Signature of the Paris Club Memorandum of Understanding on August 10<sup>th</sup>
- Ongoing dialogue with non-Paris Club bilateral creditors (China, India...) on the implementation of the DSSI
- Official request to all banking commercial creditors to voluntarily participate in a debt service suspension initiative along the same terms
- Launch of a Consent Solicitation to international capital market creditors on September 22<sup>nd</sup>

Maximal impact of Zambia debt service suspension requests

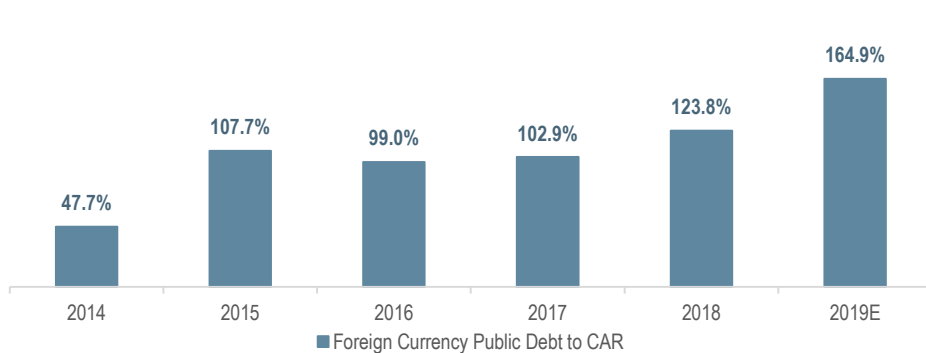
- Assuming all request for debt service suspension are granted, Zambia would be able to achieve:
  - **USD c. 81m** of debt service relief (including arrears) on **official claims in the context of the DSSI**
  - **USD c. 897m** of voluntary debt service relief (including arrears) on **commercial claims**
- Overall, debt service suspension request could generate liquidity relief of up to **USD c. 979m**

# DSSI Application Rules Require Zambia to Engage with the IMF to Address the Country's Mounting External Vulnerabilities

External vulnerabilities have been rising over the past few years putting Zambia in a very vulnerable situation, as the country is confronted with one of the largest exogenous shocks in its history. Ongoing engagement with the IMF aims at addressing these critical challenges

## Public foreign currency debt has increased in recent years

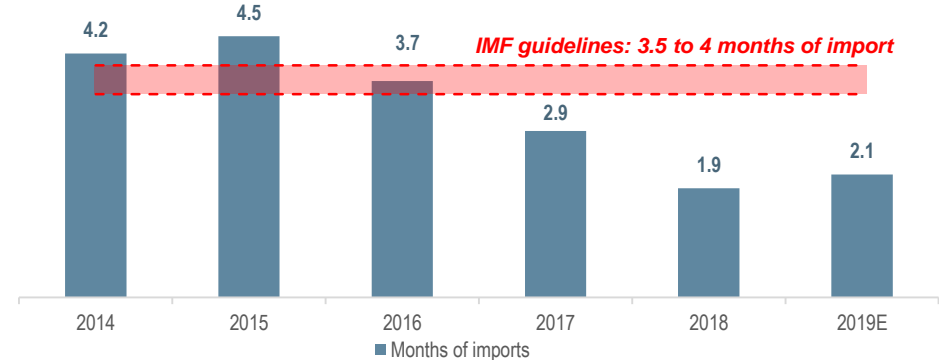
% of Current Account Receipts



Sources: IMF Article IV, Ministry of Finance of Zambia

## International reserves have dropped to c. 2 months of imports

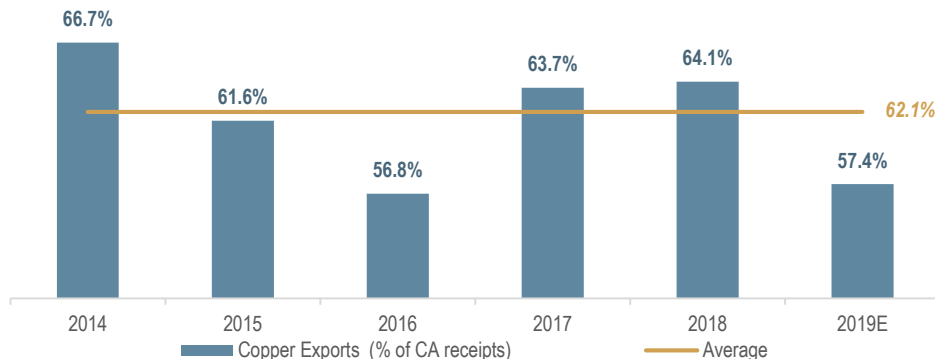
In months



Source: Bank of Zambia, IMF Article IV

## Zambia's current account receipts largely depends upon copper export revenues

% of Current Account Receipts



Source: Ministry of Finance of Zambia

## Status of IMF engagement

- Virtual meetings took place during June and July 2020 between the IMF staff, Ministry of Finance and Bank of Zambia teams
- Discussions on the medium-term macro fiscal framework are making good progress
- Two sets of pre-conditions must still be met for the IMF to consider Zambia's request for financial assistance: (i) an effective implementation of upfront actions and (ii) the design and implementation of a debt strategy



## Changing the Current Classification of Zambia's Risk of Debt Distress is Essential to Securing IMF Financial Assistance

- Classified as a “Weak” country by the IMF, Zambia's DSA thresholds are the most constraining

	<i>External Solvency indicators</i>		<i>External Liquidity indicators</i>		<i>Overall Solvency indicator</i>
	PV of PPG External Debt in % of		PPG External Debt Service in % of		PV of Total PPG Debt in % of
	GDP	Exports	Export	Revenue	GDP
<b>Weak</b>	30%	140%	10%	14%	35%
<b>Medium</b>	40%	180%	15%	18%	55%
<b>Strong</b>	55%	240%	21%	23%	70%
<b>Zambia (2020F)</b>	<b>85%</b>	<b>205%</b>	<b>27%</b>	<b>58%</b>	<b>109%</b>

- The IMF cannot lend to a country whose public debt is deemed unsustainable unless the IMF receives strong assurances that the country is engaged in a strategy to restore debt sustainability with a high degree of probability
- Zambia intends to use the debt standstill period to devise a credible debt strategy and conduct consultations with creditors

## Meanwhile, Zambia has Embarked on an Action Plan to Address the Difficulties it is Confronted with ...

The Government and the Bank of Zambia have articulated an emergency policy response to address the COVID-19 crisis



### Key Fiscal and Monetary Key Measures to Address the Crisis

- **On the fiscal side:**
  - **Issuance of a ZMW 8bn (USD c. 440m) COVID-19 bond to stimulate economic activity and support livelihood, through the reopening of 5-,7-,10- and 15-year bonds.** The funds raised by the bonds will be used to settle government's obligations toward contractors and suppliers, and support local entities affected by the COVID-19
  - The **Economic Recovery Programme** aims at supporting fiscal reform measures
- **On the monetary side:**
  - **Launch of a ZMW 10bn (USD c. 500m) Targeted Medium-Term Refinancing Facility by Bank of Zambia. This facility is extended through Financial Service Providers to firms and households impacted by the COVID-19.** As at September 3<sup>rd</sup>, 2020, ZMW 1.75bn have been disbursed under this facility
  - **Monetary policy rate cut, to 8.0% in August 2020 from 12.5% in November 2019**
  - Implementation of the **Bond Purchase Programme**
  - Scaled-up **open market operations to provide short-term liquidity support** on more flexible terms
  - Requirement for all mining firms to pay their statutory obligations **in USD**

## ... and is Committed to Ambitious Fiscal Consolidation Measures as Part of the 2021 Budget

2021 Budget confirms Zambia's willingness to tackle the crisis and resolve macroeconomic issues



### Key Fiscal Measures of the 2021 Budget

#### • Selected figures and key considerations on 2021 budget

- **We have launched extensive consultations with all stakeholders, including our civil society in order to elaborate the 2021 Budget.** The Budget was presented to Parliament on September 25<sup>th</sup>, 2020. It entails additional measures to improve our budgetary framework
- **Fiscal Consolidation in the 2021 Budget:**
  - **Future debt disbursements reduced by USD 1.1bn due to cancellation of new projects and existing projects' rescoping have saved a further USD 280m**
  - **All primary expenditure categories have been curtailed** except for social related expenditures that have been maintained high in order to protect the most vulnerable part of the population. As an example, we will try and limit the civil service pay award for 2021, and personal emoluments will be maintained under 8% of GDP
  - As a consequence, **total public expenditures are projected to fall in 2021 as a proportion of GDP**, even as contractual debt service payments rise, and FISP spending has reduced from 3.0% to 1.6% of GDP
  - At the same time, **domestic revenue mobilization efforts will be maintained at the recent long term "average" of 18% of GDP** despite the depressed domestic economic environment occasioned by COVID-19
  - **External financing in the 2021 budget will only be accessed if highly concessional**



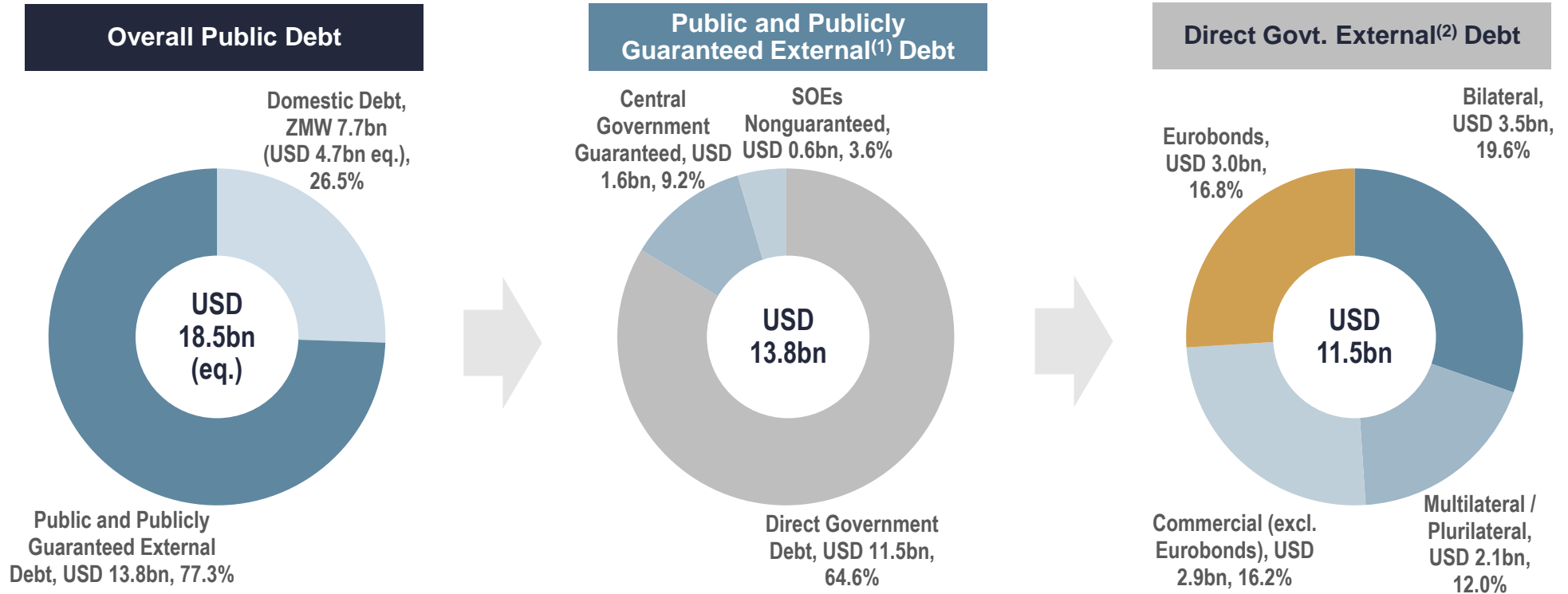
## **II Restoring Debt Sustainability Requires a Comprehensive Debt Management Strategy**

## Zambia’s Public Debt has Grown Rapidly ...

Zambia’s total public and publicly guaranteed debt reached USD 18.5bn, or approximately 104% of GDP as at end 2019, impacting Zambia’s ability to advance social and economic initiatives, especially in the current COVID-19 environment

### Overview of total public debt

USDbn, % of GDP



The direct government external debt stock has increased from USD 11.54bn in December 2019 to USD 11.97bn in June 2020

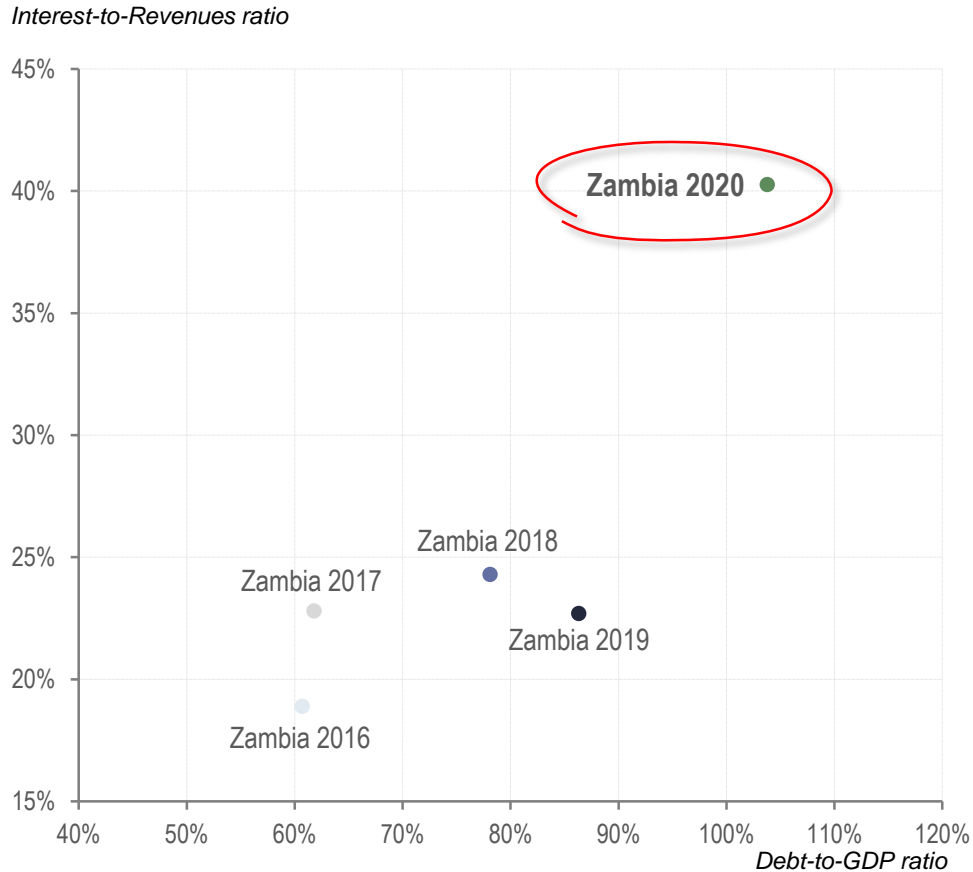
Source: Ministry of Finance of Zambia

Notes: <sup>(1)</sup> External debt is defined on a currency basis: all debts in FX are classified as external; <sup>(2)</sup> Direct Govt External Debt accounts for all Central Government budgetary and extrabudgetary entities denominated in foreign currency

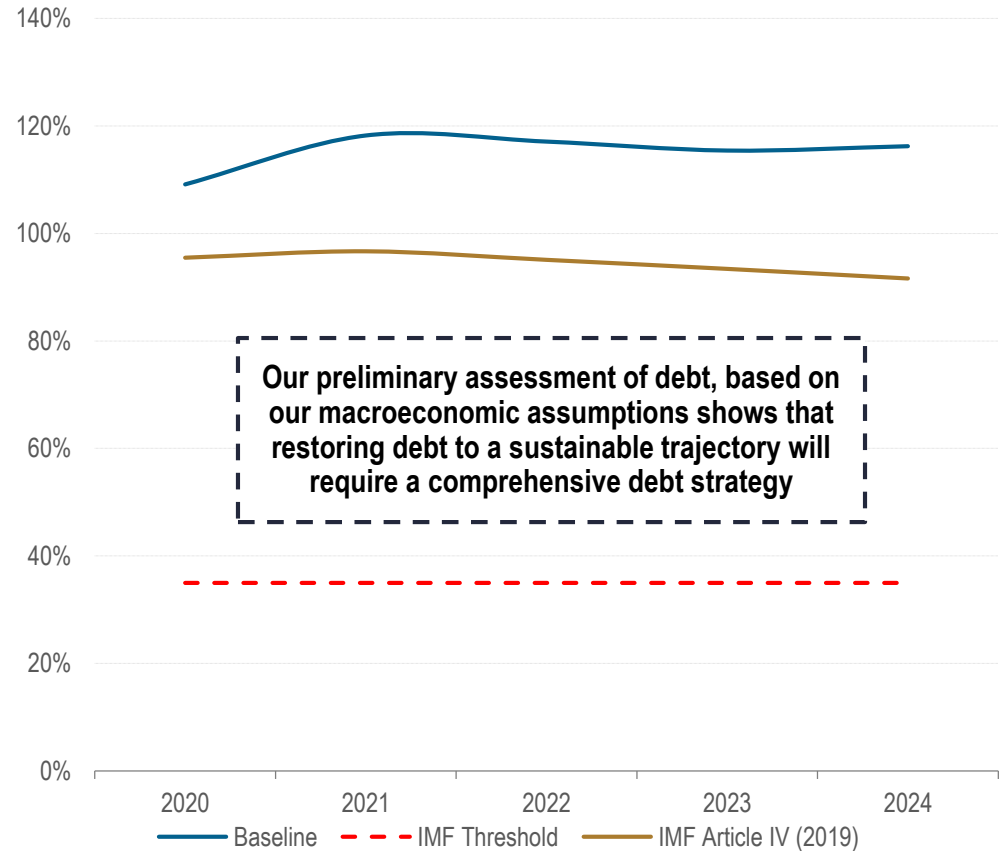
## ... and Has Become Unsustainable thus Requiring a Comprehensive Debt Plan

FX depreciation and a deteriorating macroeconomic outlook have led to exceptionally high Debt-to-GDP and Interest-to-Revenues ratios. Medium-term projections suggest that a comprehensive debt management strategy is required to bring the debt ratios back to sustainable levels

**Interest-to-revenues Ratio as a function of Debt-To-GDP ratio**



**Debt-to-GDP Ratio (in present value)**



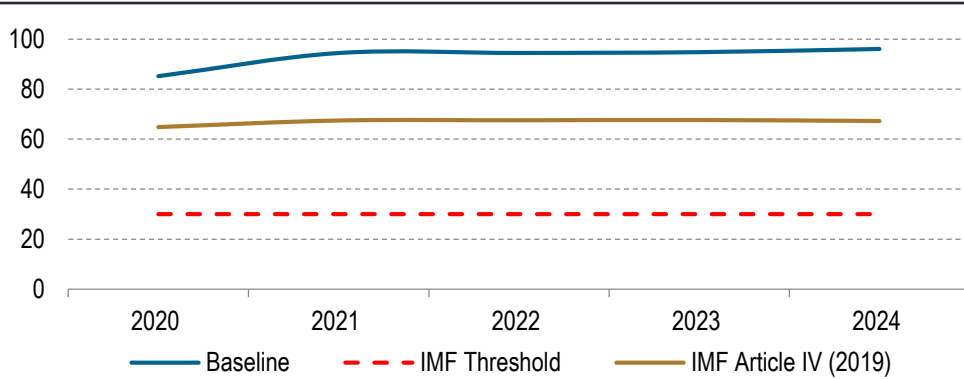
Sources: Ministry of Finance of Zambia, Moody's statistical handbook (November 2019)

Note: Zambia is using the IMF Debt Sustainability Framework for Low-income countries based upon the « residency basis » criterion whereby all debts held by nonresidents irrespective of their currency denomination are accounted for as external debts

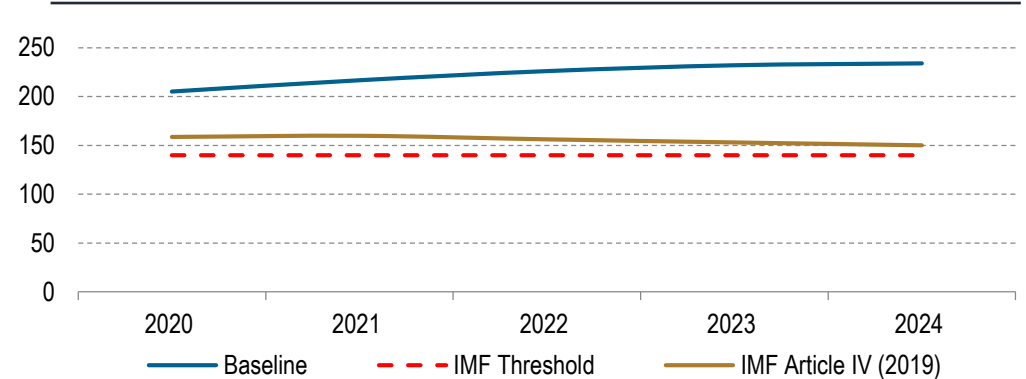
# Public External Debt is Set to Remain Above all IMF Indicative Thresholds for a Prolonged Period in the Absence of a Comprehensive Debt Management Strategy

A large reduction in the net present value of Zambian public external debt will be required to restore external debt sustainability over the medium term (2023-2024)

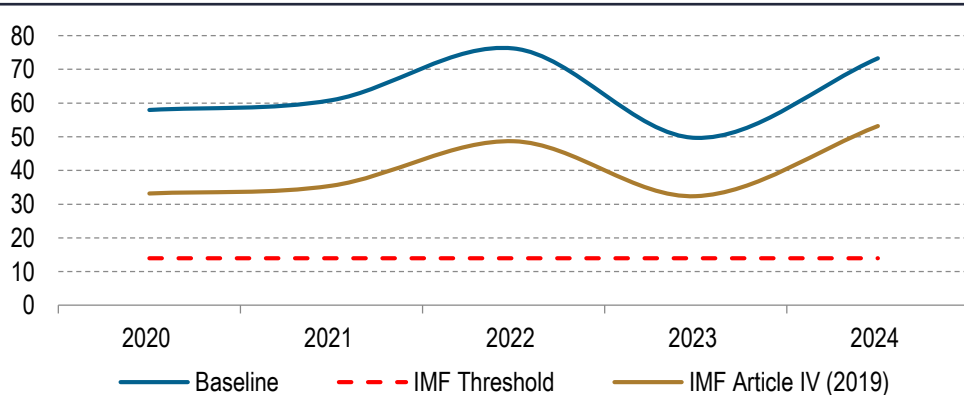
**PV of external debt-to-GDP ratio (in %)**



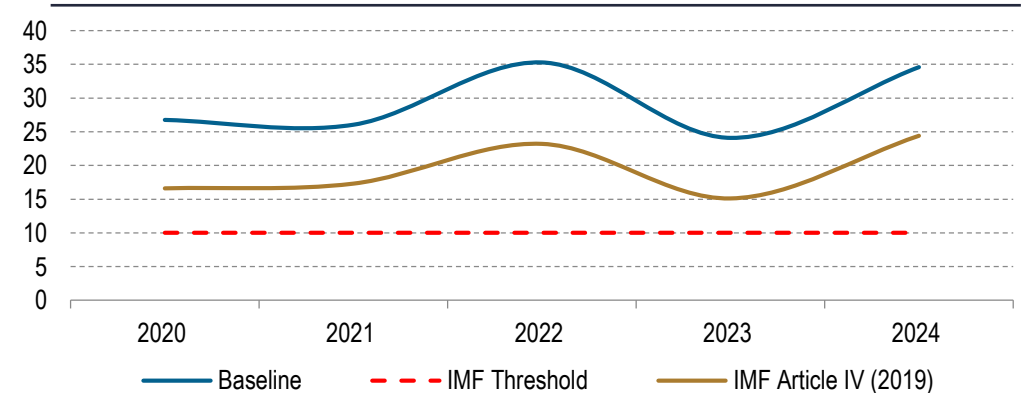
**PV of external debt-to-exports (in %)**



**External debt service-to-revenue and grants (in %)**



**External debt service-to-exports (in %)**



Source: Ministry of Finance of Zambia

Note: Zambia is using the IMF Debt Sustainability Framework for Low-income countries based upon the « residency basis » criterion whereby all debts held by nonresidents irrespective of their currency denomination are accounted for as external debts

## The Debt Standstill Aims at Achieving Five Objectives

### 1 Provide immediate liquidity relief to free fiscal space

- ✓ The Debt standstill requested (pursuant to the Consent Solicitation) and the debt service suspension from other public and private creditors will help us address our financing needs arising from the COVID-19 pandemic

### 2 Provide Zambia the necessary time and leeway to:

1. Finalize the **assessment of our public debt situation**
2. Calibrate **key parameters of our debt management exercise** in coordination with the IMF
3. Engage a **constructive and good faith dialogue** with our creditors

### 3 Reach agreement in principle with our creditors on debt strategy parameters compatible with Zambia's public debt sustainability as per IMF definition

### 4 Formally implement agreements with creditors

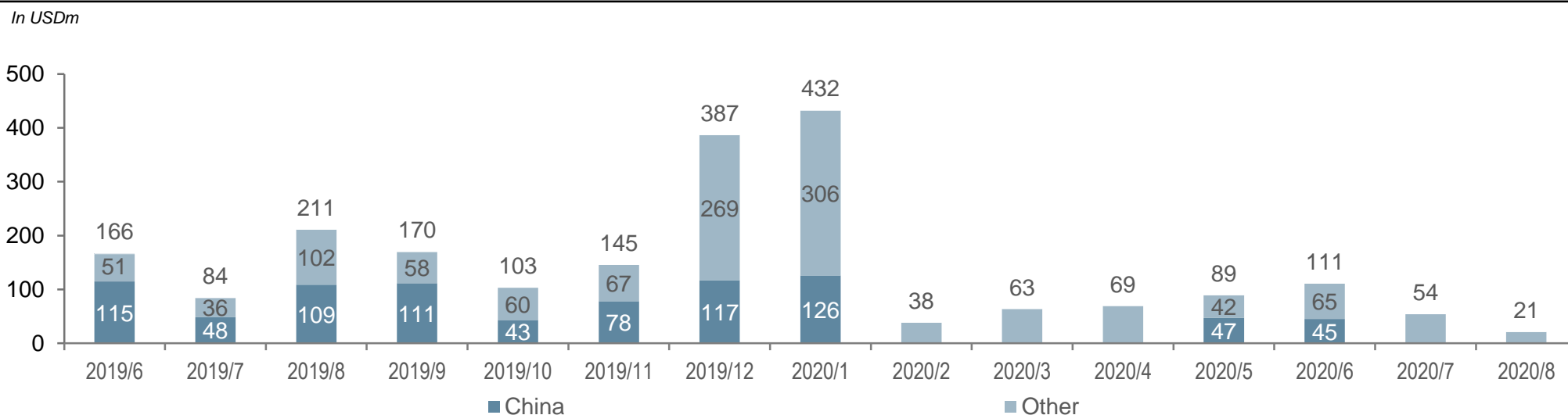
### 5 Secure external financing in the context of an appropriate IMF engagement



## In Parallel with the Contemplated Debt Management Strategy, Zambia has Undertaken a Strategic Prioritization of Projects

- **Government has reduced projects' disbursements since the beginning of the pandemic:**
  - Rescoping and cancelling projects up to USD c. 1.3bn in order to create fiscal space to finance high economic and social value projects with the aim of minimizing the impact of COVID-19 and contributing to economic recovery
  - In particular, disbursements of Chinese loans have drastically fallen. Remaining disbursements relate to multilateral institutions financing of strategic and priority projects
- This reflects **the Government's strategy to reduce Zambia's indebtedness in a context of debt distress**
- Moreover, Zambia is engaging with creditors to agree on deferment terms that will enable continued project implementation of strategic projects

### External debt disbursements (Jun-2019 to Aug-2020)



## A Few Structural and Strategic Projects for the Country's Development Will be Maintained

Such project execution may help ease effects of COVID-19 pandemic and facilitate economic recovery. As is the case for the 750 MW Kafue Gorge Lower Project

### Features of the Kafue Gorge Lower project



- **750 MW installed capacity to reduce load shedding hours and enhance power export capacity**
- **Increased power generation will enhance economic activity and increase rate of economic growth**
- **Over 3,000 employed during construction**



### **III Creditor Engagement Rules and Next Steps**

## Key Principles of our Creditor Engagement Strategy

The Republic of Zambia will intensify its engagement with its international creditors on the basis of the following principles:

1

**Transparency**

2

**Good faith efforts for a collaborative process to restore debt sustainability**

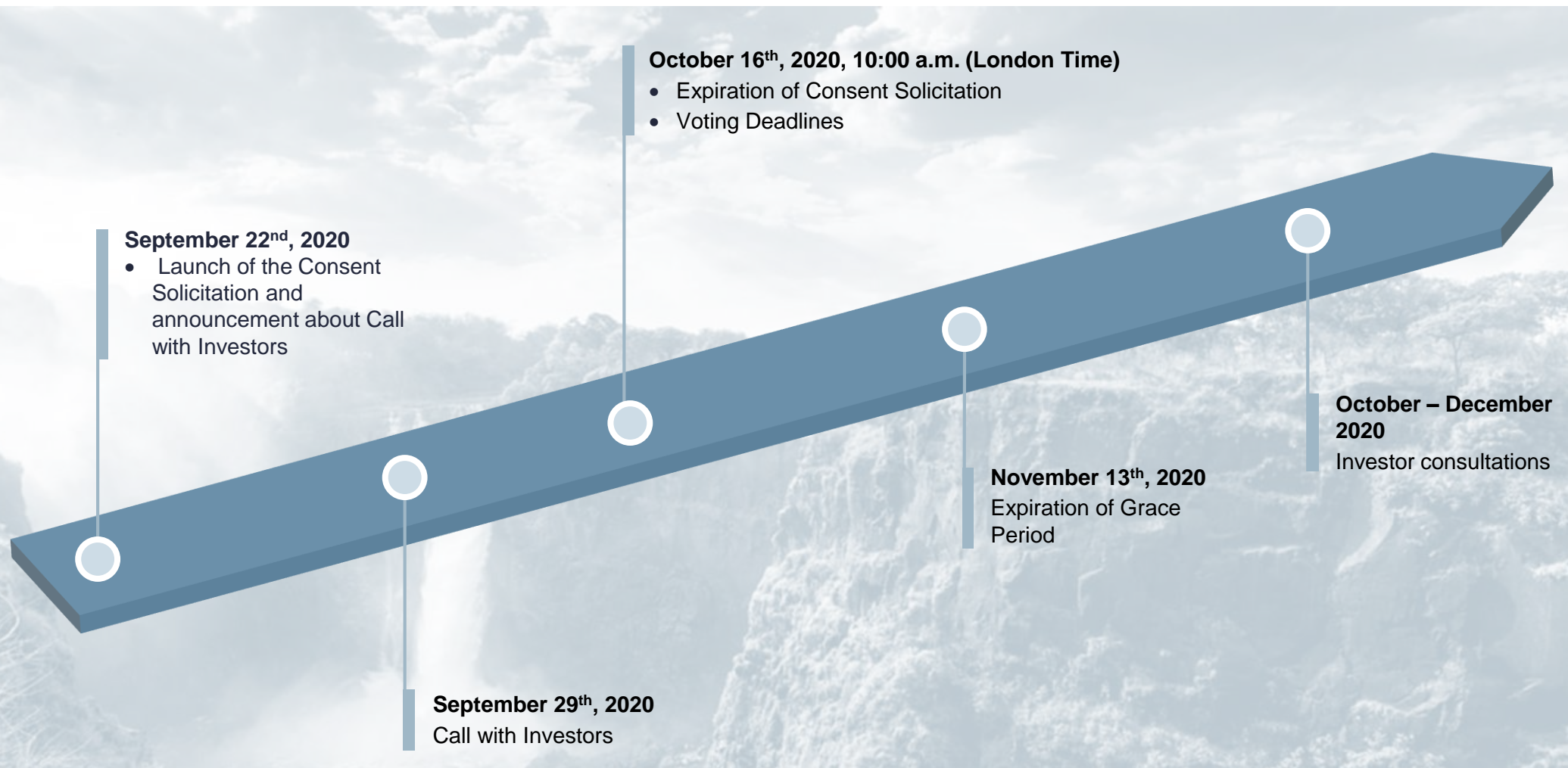
3

**Fair treatment across creditors**

4

**Consistency with IMF debt sustainability analysis**

## Expected Timeline for the Debt Management Exercise



## Next Steps & Contact Information

If bondholders or international creditors are interested in obtaining more information and engaging in discussions with the Government, please contact:

- **Zambia's Financial Advisors Lazard Frères and Legal Advisor White & Case at the email addresses [zb.investors@lazard.com](mailto:zb.investors@lazard.com) for any request or other inquiry they may have**

Bondholders can obtain copies of the consent solicitation memorandum upon eligibility confirmation and registration via the Information and Tabulation Agent, Morrow Sodali, Consent Website: <https://bonds.morrowsodali.com/zambiaconsent>

Any question regarding the terms of the Proposal or the Consent Solicitation may also be directed to the Information and Tabulation Agent, Morrow Sodali, to the email address [zambia@investor.morrowsodali.com](mailto:zambia@investor.morrowsodali.com)

Bondholders and other international creditors are invited to submit their written questions after the Presentation to Creditors at the following e-mail address: [zb.investors@lazard.com](mailto:zb.investors@lazard.com)

This presentation will be available on replay during 24h from September 29<sup>th</sup>, 6:00pm Lusaka Time, on the same URL link as the live

**A follow up Q&A document**, including answers to questions raised in writing following this webcast, **will be posted subsequently both on the Ministry of Finance and Consent websites**

The government is mindful of the exceptional circumstances surrounding this process due to the COVID-19 crisis. **In this regard, interactions with bondholders and other international creditors are expected to take place for the time being based on video and conference calls**