# Zambia seeks suspension of debt service payments in Africa's first pandemic-related default

**Stephan McCoy**
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President Edgar Lungu's government has asked international bond holders to suspend interest payment demands on US$3 billion worth of international bonds beginning this October.

The bonds, issued since 2012, are just part of Zambia's $12 billion debts that have increased from 20 percent of GDP to 78 percent. Several reports estimate the real debt figures are at least double the official statistics, mostly due to off-balance-sheet loans from China for public-private partnership infrastructure deals that may include the underlying assets as collateral.

Two-thirds of the bondholders must agree to the deferral for Zambia's plan to proceed in a meeting set for September 29.

The freeze of debt servicing, if agreed, would be the first de-facto African debt default on private creditors since the start of pandemic, with Angola, Ethiopia and Ghana also seen as likely to default and Kenya saying it is at risk of debt distress. Chad has asked Glencore Plc, the world's largest commodities trader, and other private lenders to suspend $100 million in payments on its debts this year.

According to the International Monetary Fund (IMF), more than a third of African countries are approaching debt distress, prompting fears in world markets that there will be a run on bond markets as other African countries move to default on their debt.

It testifies to the scale of the economic disaster affecting much of sub-Saharan Africa. Head of fixed-income research at Tellimer Ltd. in London, Stuart Stevens told *Bloomberg,* "Zambia may open the door for other distressed sovereigns. The longer the pandemic persists, and the longer it takes for countries to recover, the higher the likelihood that countries that already had weaknesses coming into the crisis will have to restructure."

Zambia's economic crisis has been years in the making. The country recorded growth in the decade following debt relief in 2005 up to 2015, but IMF-dictated privatization of major state-owned companies, particularly the country's copper mines—its main source of income—led to drastic cuts in government expenditure and social welfare programs. Social protection measures have fallen to just 2.4 percent of the 2020 budget.

Heavily dependent on multinational copper mining corporations that are notorious for paying barely any taxes, the government saw its budget deficit rise to 10.9 percent of GDP in 2019.

In April, when Glencore, the British multinational commodity trading and mining company headquartered in Switzerland, sought to mothball Zambia's Mopani Copper Mines, the government blocked the move as illegal and threatened to revoke Glencore's licence, in order to bolster its own position in the Copperbelt province ahead of next year's elections.

Glencore is anxious to sell off its stake in the mine to the government, but it is far from clear how the government can pay for it and fund the mine's running costs. Zambia's total foreign exchange reserves stood at $1.43 billion at the end of June, equivalent to just 2.3 months of import cover, according to the central bank.

The Zambian ruling class presides over staggering levels of social inequality and poverty. One in every two Zambians lives below the poverty line. Only 700,000 of the nearly 8 million Zambians living in poverty are on any sort of social protection program. 90 percent of the workforce is in the informal sector—with the large majority working in agriculture. Of those working in the informal sector, 90 percent earn their salary on a day-to-day basis.

The onset of the pandemic-led recession saw copper prices fall by up to 16 percent as global demand plummeted. The currency fell 28 percent against the US dollar, on top of a 21 percent fall in 2019, while inflation rose to 16 percent, exacerbating the dire plight of Zambian workers and their families.

The government is accelerating the back-to-work drive as the economic situation in the country worsens. President Lungu announced the reopening of schools, colleges, and universities—closed since March 20—between September 14 and 18, along with bars and other entertainment venues.

It is now attempting to push teachers and students back to school so that parents can be herded back into the workplace to resume pumping out profits for multinational corporations and the national bourgeoisie. The government has utilized a temporary lull in the number of cases, and according to the government the "insignificant number of pupils and students who have contracted" COVID-19 in earlier examination classes, to justify a further lifting of restrictions.

While some 14,550 cases have been confirmed and 332 deaths so far, the virus is guaranteed to spread unchecked as testing remains abysmally low and contact tracing and quarantine measures have virtually been abandoned.

The country's efforts to secure relief from the IMF have met with opposition from Washington that fears any debt relief given to Zambia would benefit China. Beijing has lent the country $11 billion, much of which is secured against roads, airports and mines, as part of the private-public partnership deals on many infrastructure projects. The IMF has insisted that Zambia resolve these issues before it agrees a loan.

The economic crisis has led to tensions within the ruling class over how to proceed, as the government is reluctant to impose further cuts and tax rises before next year's elections and with Lungu making ever more erratic and authoritarian moves. The ruling Patriotic Front (PF) has declared Lungu as its presidential candidate, despite controversy regarding his eligibility to run for a third term.

Political repression has increased. Independent media platforms have been shut down, including *Prime TV* in April this year. Student unions at universities have been suppressed. Prominent activists who questioned the government over issues such as corruption have been harassed by the police, arrested on trumped up charges, or denounced as opposition sympathisers and Western agents.

Amnesty International reported that the police were seen indiscriminately beating up people on the streets and in pubs, after they were found in public during the lockdown. National police spokesperson, Esther Katongo, speaking on national television, said that the police had adopted a strategy to "hit" and "detain" anyone found on the streets. "We hammer you, we hit you, then we do detention. If you escape, you are lucky."

Last month Lungu fired Denny Kalyalya, the governor of Zambia's central bank who had worked for years at the World Bank. Grieve Chelwa, a professor at the University of Cape Town's Graduate School of Business said, "There's been a struggle for control over the central bank… [the firing] might be a response to the government's failure to push through a constitutional amendment that would remove the responsibility of printing currency from the Bank of Zambia."

In an effort to deflect rising social discontent outward, the government has ramped up tensions over a long-standing border dispute with the Democratic Republic of the Congo (DRC) over a handful of villages in the northeast of the country along the shores of Lake Tanganyika—Kubanga, Kalubamba and Moliro. While the two countries signed a treaty in 1989 to end the dispute, its terms have not been implemented as both sides claim encroachment on their territory. In March, the Zambian government deployed troops to the Congolese side of the border, leading to clashes with one soldier dying on each side.