Zambia defaults amid growing African debt crisis, intensified by pandemic

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Multiple countries in Africa face a growing debt crisis as preexisting economic problems are compounded by the global economic downturn caused by the COVID-19 pandemic and its disastrous handling by the ruling classes.

Zambia, a country of 17 million people in south-central Africa, is one of the first countries to begin defaulting on its debt. With at least $12 billion of outstanding debt, Zambia just defaulted last Friday on a $42.5 million European issued bond. That is, Zambia failed to pay back European creditors who hold Zambian bonds and are due regular payment in exchange.

After first seeking debt relief, a committee of the financial institutions holding the Eurobond rejected Zambia's request.

In response to this significant default, the first post-COVID sovereign default on a bond, the *Financial Times* warned that "Zambia's debt crisis casts a long, global shadow." It continued, "the Zambian debacle has the potential to become a template for how many of the rest—and there will be more—will shake out."

Already in 2019, the Brookings Institution warned, "Is a debt crisis looming in Africa?" It pointed to the fact that as of 2017, 24 African nations had surpassed the 55 percent debt-to-GDP ratio threshold over which the International Monetary Fund (IMF) warns of extreme economic risk.

The COVID-19 pandemic has only further pushed many African nations to the brink. Angola's debt, for example, is expected to go beyond 120 percent of its GDP by the end of this year. The slowdown in economic activity caused by the pandemic, and, in particular, the decline in commodity prices—especially for oil, have not only hampered various African economies but simultaneously devalued their currencies against the currencies (dollar, euro, yuan) through which debt must be paid back.

To make matters worse, the form through which this debt has been accumulated differs from past debt crises.

Previously, debt issued to developing countries, both public and private, has principally gone through major banks, for example Deutsche Bank or Citi. Under the intensifying financialization of the global economy, the *Financial Times* writes that debt is now held by "an atomized group of fund managers spread across the world, making negotiations much trickier."

Additionally, there has been a general growth of private credit, as opposed to public sources. In 2021, African countries are expected to pay 18 billion euros to private creditors who will likely be even less willing to restructure debt.

As the *World Socialist Web Site* has noted, the IMF and World Bank have issued short delays on this accruing mountain of debt for poor countries, but done nothing fundamental to offset the hundreds of billions of dollars owed to the major banks.

As *The Africa Report* news site bluntly stated, "Investors aren't going to bend" and "Don't expect much from the G20."

What happens when a series of countries are unable to pay back bond holders and their credit-worthiness collapses?

In short, a debt crisis of serious, global proportions is on the horizon. Inevitably this will lead to two things. First, under pressure to pay back loans and bonds, countries will, one way or another, put even more pressure on their working class, peasantry, and small businesses to extract profit. Second, as debt defaults add up, a wave of defaulting poorer countries will further add to the underlying instability and contradictions in the United States, Europe, and its allies. Third, defaulting and indebted nations will find it even harder to raise capital to keep their country's economies afloat.

As the blog of the IMF states, "Sub-Saharan Africa faces additional financing needs of $890 billion through 2023." It notes though that "Private financial flows are expected to fill less than half of that need, while current commitments from international financial institutions and bilateral donors will cover only one-quarter of the need." It goes on to estimate, in an "optimistic" scenario, that Sub-Saharan Africa will require at least $290 billion of financing through 2023 that may not materialize.

It should be noted that most of the financial needs of these Sub-Saharan African nations are simply to pay back creditors, largely European and American. This amount is close to $500 billion between now and 2023.

Jürgen Kaiser, a member of the German development policy network erlassjahr.de, warned the German-state news outlet *DW* of the outcome of a mass default, stating, "States would cease to fulfill basic needs: security, education, health care." Kaiser added, "many people no longer see a future in their home countries."

The effects of such a scenario on poor urban workers and the unemployed, especially the youth, cannot be overstated. There are now dozens of cities throughout the African continent with urban populations exceeding one million people, many of them youth struggling in profoundly difficult economic and political environments. The mass demonstrations in Nigeria, in particular Lagos, against police brutality and state oppression are an example of the anger that broad masses of young workers feel against the state and which must develop into conscious, inter-linked struggle against the African capitalist class and the imperialist countries that dominate the continent.

In its analysis of Zambia's debt crisis, the Western media have made much of the fact that China holds about $3 billion of its outstanding $12 billion of debt. Specifically, the country owes $2.6 billion to China Exim Bank—a state development financial entity—and $391 million to the China Development Bank.

However, while China's growth as a creditor and developer in Africa is significant, it remains overshadowed by the sustained presence of American and European capital, which hold the bulk of Zambia and Africa's debt.

The emphasis on China expresses a conflict that is emerging over these looming defaults between different sets of creditors, all of whom are eager to exact payment. Both Chinese and Euro-American lenders are wary of extending any leniency to Zambia, partially for fear that whatever leniency they show will be eaten up and exploited by the other creditor.

For example, the *South China Morning Post* reported that at least $200 million was due to Chinese creditors earlier this year in Zambia but was postponed, while the country continued to pay back its European-issued debt—something Beijing protested as unequal treatment.

Such conflicts, not simply between China and Europe or the US, but between different sections of American and European finance capital, are bound to explode as the threat of billions of dollars of lost capital mounts.