

Zambia: A Case Study of Sovereign Debt Restructuring under the G20 Common Framework

 David A. Grigorian and Aditya Bhayana

Abstract

Having its public debt written off as part of the Heavily Indebted Poor Countries initiative in 2005, Zambia welcomed significant investment in the late 2000s, particularly from Chinese state-owned banks, to propel economic development and diversify its economy. While these investments have contributed to economic development, they have also raised debt levels and interest payments that eventually triggered a sovereign default in December 2020. What followed—Zambia’s 2020–24 sovereign debt restructuring under the G20 Common Framework—was an epic story of protracted and back-and-forth negotiations among various stakeholders that kept the Zambian economy at a standstill for over 3.5 years. It also highlighted the weaknesses of the Framework, which are by now largely acknowledged by the development community. This paper details Zambia’s experience with restructuring its sovereign debt and highlights areas where reform of the Common Framework could be pursued to benefit low-income countries in debt distress in the future.

KEYWORDS

Zambia, sovereign debt restructuring, common framework, China’s overseas lending

This working paper was first published in October 2024. It was updated in May 2026.

Zambia: A Case Study of Sovereign Debt Restructuring under the G20 Common Framework

David A. Grigorian

*Senior fellow, Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School;
non-resident fellow, Center for Global Development*

Aditya Bhayana

Public Service Fellow and MPA candidate, Harvard Kennedy School

The authors wish to thank Trevor Lessard, Mark Plant, Samer Saab, and Daouda Sembene for helpful comments and suggestions.

David A. Grigorian and Aditya Bhayana. 2026. "Zambia: A Case Study of Sovereign Debt Restructuring under the G20 Common Framework." CGD Working Paper 707. Washington, DC: Center for Global Development. <https://www.cgdev.org/publication/zambia-case-study-sovereign-debt-restructuring-under-g20-common-framework>

CENTER FOR GLOBAL DEVELOPMENT

2055 L Street, NW Fifth Floor
Washington, DC 20036

1 Abbey Gardens
Great College Street
London
SW1P 3SE

www.cgdev.org

Center for Global Development. 2026.

The Center for Global Development works to reduce global poverty and improve lives through innovative economic research that drives better policy and practice by the world's top decision makers. Use and dissemination of this Working Paper is encouraged; however, reproduced copies may not be used for commercial purposes. Further usage is permitted under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License.

The views expressed in CGD Working Papers are those of the authors and should not be attributed to the board of directors, funders of the Center for Global Development, or the authors' respective organizations.

Contents

I. Context and background	1
II. Discussions with official creditors	3
III. Discussions with private creditors	9
IV. Domestic debt and financial stability considerations	14
V. Summary of key outcomes and lessons learned	17
Appendix. Zambia’s debt restructuring: Timetable of relevant events	22
References	23

Figures

1. Zambia’s credit rating by Fitch (2011–20)	2
2. Evolution of the exchange rate and Eurobond spreads around key events in Zambia, 2020–22	7

Tables

1. Composition of Zambia’s sovereign debt (2021–22)	4
2. Comparison of the revised SC and the OCC proposals	11
3. Key commercial terms of a proposed restructuring transaction between Zambia and SC (March 2024)	13

Boxes

1. Discussions with the IMF and MDBs	5
--	---

I. Context and background

Mosi-oa-Tunya (Smoke that thunders) is the indigenous name for the mist created by Victoria Falls, one of the world's largest waterfalls, on the border between Zambia and Zimbabwe. Today, *Mosi-oa-Tunya* has served as an apt metaphor for the uncertainties that loomed over Zambia's pursuit of debt sustainability and its discussions with creditors under the G20 Common Framework (CF). Once a poster child for the CF, Zambia continues to struggle to put its economy back on the path to recovery.

Zambia's economic history has been about a heavy dependence on natural resources (such as unrefined and refined copper and gold), external economic shocks, and unsuccessful attempts to deliver sustained economic growth. Copper mining has been a crucial economic driver in the last 100 years, with the 1960s marked by a copper boom in Zambia. As part of the economic reforms of 1990s and 2000s, Zambia privatized its copper mines to improve efficiency, attract foreign capital, and revive its struggling mining sector. It continued to grapple with the volatility of copper prices on the global market, endangering the country's balance of payments and fiscal position.

Most of Zambia's public debt was written off as part of the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives in 2005 (IMF, 2006). To propel economic development and diversify beyond natural resources, Zambia, a landlocked country of 20 million people, welcomed significant investment in the late 2000s, particularly from Chinese state-owned banks, to build dams, railways, and roads. While these investments have contributed to economic development, they have also raised debt levels and interest payments. The latter forced the government to allocate declining shares of the budget envelope to health, education, and subsidies to farmers (UNICEF, 2022; IMF, 2023a).

In 2010, Zambia sought assistance from the International Monetary Fund (IMF) to address economic imbalances, which triggered structural reforms and austerity measures (IMF, 2010). Discussions were also held on debt sustainability. While multilateral and most official bilateral lenders followed the practice of disclosing their claims on Zambia, China initially declined to follow this practice and prevented Zambia from sharing the terms of Chinese loans with non-Chinese lenders.

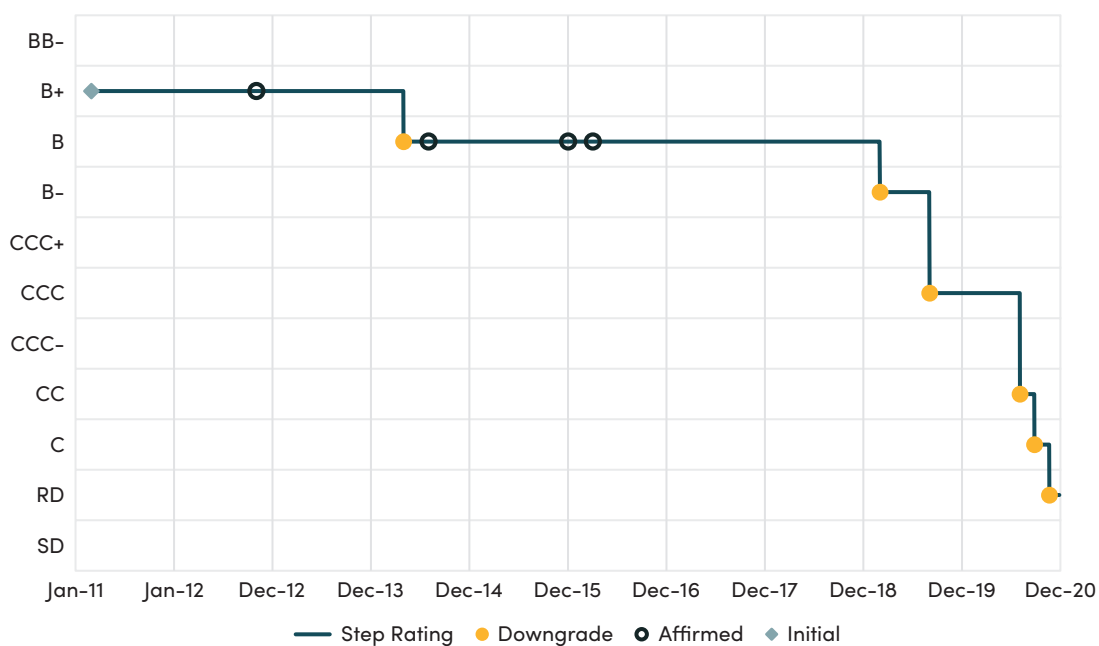
The COVID-19 pandemic worsened the already precarious macroeconomic conditions. Following the outbreak, inflation accelerated, reaching 19.2 percent in the final quarter of 2020. The kwacha, Zambia's currency, depreciated sharply, trading at ZMW21.1/US\$ at the end of 2020, compared to ZMW12.9/US\$ a year earlier, a 64 percent depreciation. The balance of payments deteriorated in 2020, caused by a combination of declining global demand for copper, decreasing copper prices, and supply chain disruptions, all negatively affecting Zambia's main sectors, mining, agriculture, and tourism (Geda, 2021). The result of Zambia's currency depreciation was felt through higher external debt stock, debt servicing costs, and import bill. As a result of government's use of foreign exchange reserves to finance essential imports and external debt payments, Bank of Zambia's foreign exchange reserves declined to a level just above 2 months of imports in October 2020 (IMF, 2022).

Despite falling tax revenues, the government continued its pursuit of capital expenditures, which resulted in fiscal deficit widening from 7.7 percent of GDP in 2017 to 14 percent of GDP in 2020.¹ These deficits, financed by both external and domestic borrowing, caused Zambia's public and publicly guaranteed debt to reach 104 percent of GDP by end-2020 (African Development Bank, 2021).

Amid these developments, in June 2020, Zambia requested to have its debt payments frozen under the G20 Debt Service Suspension Initiative (DSSI). While Zambia's official creditors granted US\$23 million payment rescheduling (as a result of the original application and two extensions),² in October 2020, a committee representing 14 U.S.- and Europe-based private financial institutions (which held in aggregate about 40 percent of Zambia's outstanding Eurobonds) rejected a government request to grant a moratorium on interest payments until April 2021.³

With little foreign exchange reserves left, Zambia missed the coupon payment on a dollar bond due in November 2020, triggering Africa's first pandemic-era sovereign default. This locked Zambia out of capital markets and set off a vicious cycle of spending cuts and deepening poverty. A chronological summary of key events in Zambia's debt restructuring under the CF that followed is provided in the Appendix.

FIGURE 1. Zambia's credit rating by Fitch (2011–20)



Source: World Government Bonds, Zambia Credit Rating.

- 1 Ministry of Finance and National Planning. "Monthly Economic Indicators." https://www.mofnp.gov.zm/?page_id=3226.
- 2 "Debt Service Suspension Initiative (DSSI)," Club de Paris. <https://clubdeparis.org/en/the-debt-service-suspension-initiative-DSSI>.
- 3 "Zambia: Holders of Zambian Eurobonds Reject Government Request to Delay Interest Payments." October 1, 2020. <https://www.lusakatimes.com/2020/10/01/holders-of-zambian-eurobonds-reject-government-request-to-delay-interest-payments/>.

Rating actions were predictable and swift. Fitch Ratings downgraded its long-term issuer default rating to C (Near Default) on September 24, 2020, and further to RD (Restricted Default) on November 18, 2020 (Figure 1).⁴ Similarly, S&P Global downgraded Zambia to CCC- with a negative outlook (indicating substantial risk under Speculative Grade) on September 26, 2020, and to SD (Selective Default) on October 22, 2020.⁵

II. Discussions with official creditors

On February 1, 2021, Zambia formally applied for a debt restructuring under the CF to address its debt overhang.⁶ In this effort, the government was aided by a French financial advisory firm, Lazard Frères, hired to help manage the restructuring of its external debt.⁷ In parallel with its application for the CF treatment, the authorities began negotiations with the IMF for an Extended Credit Facility (ECF) Arrangement. In a statement issued on February 5, 2021, then Finance Minister Bwalya Ng'andu stated:

“Zambia is committed to transparency and equal treatment of all creditors in the restructuring process. Our application to benefit from the G20 Common Framework will reassure all creditors of our commitment to such treatment.”⁸

On June 16, 2022, well over a year after Zambia's initial CF request, an official creditor committee (OCC) was formed by Zambia's bilateral creditors, co-chaired by China and France, vice-chaired by South Africa, and included Belgium, Denmark, India, Israel, Italy, Japan, the Netherlands, Russia, Saudi Arabia, Sweden, Switzerland, the United Kingdom, and the United States as members. The OCC also had representatives from the IMF and the World Bank as observers. The delegation of Zambia was headed by Minister of Finance and National Planning Situmbeko Musokotwane.

Table 1 summarizes the composition of Zambia's sovereign debt as of end-2022. The perimeter of the debt initially identified for inclusion in the restructuring consisted of \$6.3 billion in loans. Interestingly, over \$4.1 billion of the total was owed to Export-Import Bank of China, underlining the importance of Beijing's involvement in, and support for, the deal. During the negotiations, however, US\$1.7 billion worth of Chinese loans initially identified as official were re-classified as commercial and taken out of the scope of the OCC proposal, leaving about US\$4.6 billion subject to negotiations.

4 “Zambia Credit Ratings,” Fitch Rating. <https://www.fitchratings.com/zambia-90269061>.

5 “Zambia Credit Rating,” *World Government Bonds*. <https://www.worldgovernmentbonds.com/credit-rating/zambia/>.

6 “Club de Paris.” June 23, 2023. <https://clubdeparis.org/en/communications/press-release/the-paris-club-welcomes-zambia-s-debt-restructuring-agreement-23-06>.

7 Financial Times, “Zambia hires Lazard to advise on \$11bn debt burden.” <https://www.ft.com/content/acae19a5-4ea3-42ba-ba20-6b93ca1a51e5>.

8 “Zambia: Holders of Zambian Eurobonds Reject Government Request to Delay Interest Payments.” October 1, 2020. <https://www.lusakatimes.com/2020/10/01/holders-of-zambian-eurobonds-reject-government-request-to-delay-interest-payments/>.

This reclassification was the most consequential procedural innovation of the Zambia process and one whose precedent value extends well beyond this case.⁹

TABLE 1. Composition of Zambia’s sovereign debt (2021–22)^a

	2021		2022	
	(in million US\$)	(Percent of Total)	(in million US\$)	(Percent of Total)
Total public debt	31,740	100.0	33,349	100.0
Total external debt	17,250	54.3	16,630	49.8
Multilateral creditors^b	3,180	10.0	3,563	10.7
IMF	0	0.0	187	0.6
World Bank	1,840	5.8	2,078	6.2
AfDB	810	2.6	886	2.7
Other	530	1.7	413	1.2
Bilateral creditors^c	6,140	19.3	6,315	18.9
Paris Club, of which	1,450	4.6	1,474	4.4
Israel	470	1.5	473	1.4
UK	235	0.7	238	0.7
Non-Paris Club, of which	4,690	14.8	4,842	14.5
China	4,090	12.9	4,137	12.4
India	325	1.0	331	1.0
Eurobonds	3,517	11.1	3,517	10.5
Commercial creditors	4,413	13.9	3,235	9.7
Total domestic debt	14,490	45.7	16,719	50.2
Held by residents	11,290	35.6	15,025	45.1
T-Bills	1,980	6.2	2,211	6.6
Bonds	5,510	17.4	9,403	28.2
Domestic budget arrears	3,800	12.0	3,412	10.2
Held by non-residents	3,200	10.1	1,694	5.1

Notes: ^aValues include arrears on principal and interest. It does not include any penalty fees or interest on the arrears.

^bIncludes direct debt to central government, SOE guaranteed debt, and non-guaranteed debt of ZESCO. ^cIncludes loans to central government and loans backed by guarantees from official export-credit agencies, except Sinosure-backed commercial claims.

Source: Zambian authorities; IMF (2022, 2023a, and 2023b).

9 Makoff et al. (2026) document that China’s lending architecture splits across two functionally distinct types of institutions: China Eximbank, which the Chinese authorities have treated as an official creditor, and the China Development Bank (CDB) together with state-owned commercial banks and Sinosure-backed export-credit insurers, which they have asked to be treated as commercial. This bifurcation has since been accepted by the international community and is reflected in the post-2020 architecture, with Eximbank participating in official-creditor committees while CDB- and Sinosure-backed claims sit on the commercial-creditor side. In substance, the Zambia reclassification is the operational expression of this taxonomy.

A month later, on July 18, 2022, the OCC provided its “financing assurances” (i.e., a willingness to provide debt relief sufficient to establish debt sustainability) to the IMF, which paved the way for the IMF Executive Board’s approval of the ECF (for SDR 978.2 million, about US\$1.3 billion) on August 31, 2022 (see Box 1).¹⁰ Between July 2022 and May 2023, the OCC engaged extensively with Zambian authorities and other creditors to discuss the contours and parameters of a debt restructuring that would be consistent with the parameters of the ECF.¹¹

BOX 1. Discussions with the IMF and MDBs

The IMF and the World Bank have been actively involved in Zambia’s debt restructuring process both as third-party experts (assessing the country’s debt sustainability and whether the restructuring proposals were consistent with it) but also as process facilitators (acting as a bureaucratic clearinghouse for information and logistics).

During her visit to Zambia, which concluded on June 16, 2022, IMF’s Deputy Managing Director Antoinette Sayeh welcomed the commitment of the authorities to the reform plans outlined in the context of the December 2021 staff-level agreement on the ECF.¹² Encouraged by the OCC’s engagement, in June 2022, IMF urged creditors to provide financing assurances as soon as possible, a precondition for the IMF Executive Board’s approval of Zambia’s program, allowing Zambia to access resources from the IMF and other MDBs.¹³

In August 2022, the IMF Board approved an SDR 978.2 million (about US\$1.3 billion) 38-month ECF arrangement for Zambia to help restore macroeconomic stability and foster stronger, more resilient, and more inclusive growth.¹⁴

10 “Second Meeting of the Creditor Committee for Zambia under the Common Framework for Debt Treatments beyond the DSSI.” Direction générale du Trésor, August 1, 2022. <https://www.tresor.economie.gouv.fr/Articles/2022/08/01/second-meeting-of-the-creditor-committee-for-zambia-under-the-common-framework-for-debt-treatments-beyond-the-dssi>.

11 Muwezwa, Wazani. “The Debt Restructuring Process and the IMF Supported Programme.” *Ministry of Finance and National Planning*, June 19, 2022. <https://www.mofnp.gov.zm/?p=5449>.

12 “Statement by IMF Deputy Managing Director Antoinette M. Sayeh at the Conclusion of Her Visit to Zambia.” <https://www.imf.org/en/News/Articles/2022/06/15/pr22201-statement-by-imf-dmd-sayeh-at-the-conclusion-of-her-visit-to-zambia>.

13 “IMF Urges Zambia Creditors to Give Debt Assurances to Unlock Programme,” Reuters. <https://www.reuters.com/article/markets/commodities/imf-urges-zambia-creditors-to-give-debt-assurances-to-unlock-programme-idUSL1N2Y30B1/>.

14 “IMF Executive Board Approves New Extended Credit Facility (ECF) Arrangement for Zambia.” <https://www.imf.org/en/News/Articles/2022/08/31/pr22297-imf-executive-board-approves-new-extended-credit-facility-arrangement-for-zambia>.

Subsequently, during her visit to Zambia on January 22–24, 2023, IMF's Managing Director Kristalina Georgieva urged a swift resolution of Zambia's indebtedness to complement the country's reform efforts and help preserve the growth momentum.¹⁵ Later in the year, in June 2023, she stated:

"I warmly welcome Minister of Finance Situmbeko Musokotwane's announcement that the Zambian authorities have reached an agreement with their official creditors on a debt treatment. This unique and innovative agreement specifies both a baseline and a contingent treatment that would be automatically triggered if the assessment of Zambia's economic performance and policies improves."¹⁶

On June 22, 2023, the IMF's Executive Board completed the first review of the ECF arrangement and authorized the second disbursement of SDR 139.88 million (approximately US\$187 million). Starting July 1, 2023, Zambia became eligible to receive World Bank support in the form of grants under IDA20.¹⁷

On October 14, 2023, the 48th meeting of the International Monetary and Financial Committee, which advises the IMF's Board of Governors, supported IMF's efforts to help countries durably address their debt vulnerabilities, strengthen and accelerate the implementation of the CF for debt treatments, and welcomed the agreement reached on Zambia.¹⁸

In December 2023, the IMF's Board completed the second review of the ECF, bringing total disbursements to SDR 419.64 million (about US\$561 million).

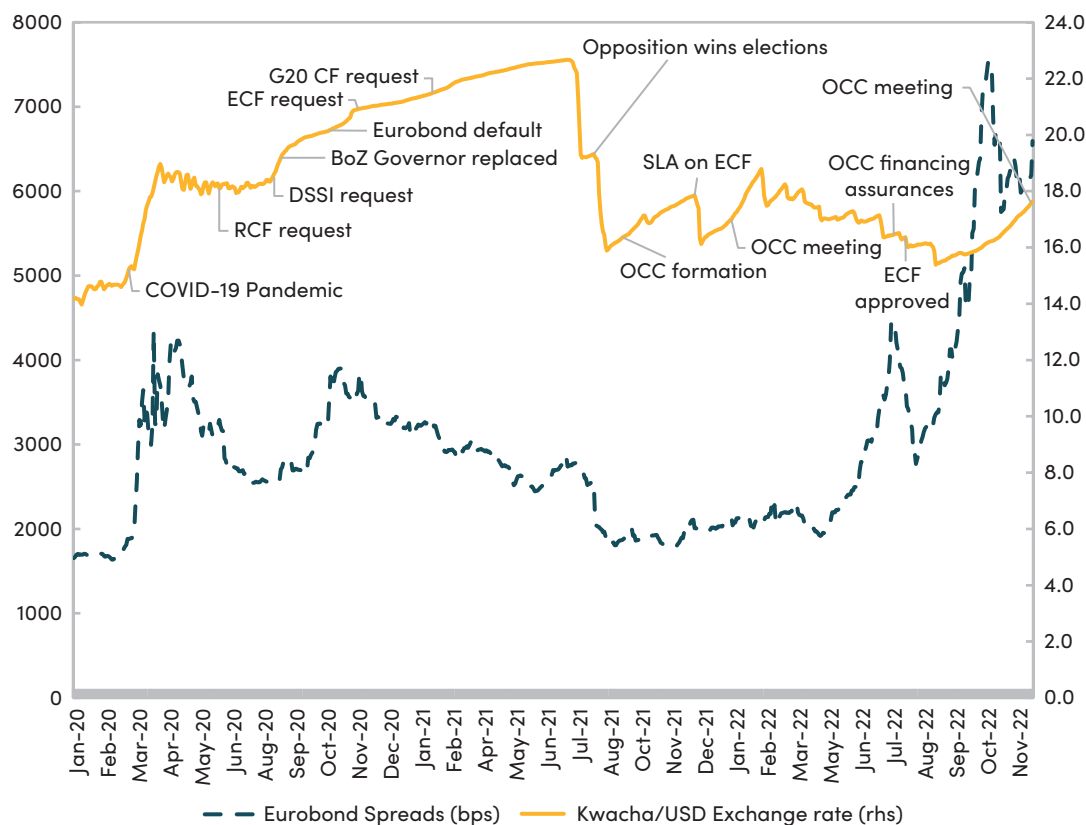
15 "Statement by IMF Managing Director Kristalina Georgieva at the Conclusion of Her Visit to Zambia." <https://www.imf.org/en/News/Articles/2023/01/24/pr2313-statement-by-imf-managing-director-kristalina-georgieva-at-conclusion-of-her-visit-to-zambia>.

16 "IMF Managing Director Welcomes Debt Treatment Agreement Reached by Zambia and Its Official Creditors under the G20 Common Framework." June 22, 2023. <https://www.imf.org/en/News/Articles/2023/06/22/pr23235-imf-welcomes-debt-treatment-agreement-reached-by-zambia>.

17 "World Bank Group Statement on Official Creditors' Committee Agreement on Zambia Debt Relief." June 22, 2023. <https://www.worldbank.org/en/news/statement/2023/06/22/world-bank-group-statement-on-official-creditors-committee-agreement-on-zambia-debt>.

18 "Chair's Statement: Forty-Eighth Meeting of the IMFC." October 14, 2023. <https://www.imf.org/en/News/Articles/2023/10/14/pr23353-chairs-statement-forty-eighth-meeting-of-the-imfc>.

FIGURE 2. Evolution of the exchange rate and Eurobond spreads around key events in Zambia, 2020–22



Source: Saab (2023).

Figure 2 shows the dynamics of the exchange rate and sovereign spreads around key events that took place through December 2022. Two patterns are worth flagging. First, the largest favorable moves in both the exchange rate and spreads cluster around political and program milestones rather than around debt-deal announcements—the August 2021 election result delivered a roughly 15 percent kwacha appreciation and a sustained spread tightening, and the December 2021 ECF SLA delivered a comparable rally, suggesting that markets priced political and program credibility much more sharply than the incremental procedural steps of the restructuring itself. Second, spreads widened progressively through the second half of 2022 as CF process uncertainty mounted and widened sharply at the December 2022 OCC meeting, illustrating the running market cost of process friction well before the late-2023 bondholder dispute (see below).

On June 16, 2023, the OCC agreed on the parameters of an ECF-consistent restructuring and a week later, on June 22, 2023, presented the proposal to Zambian authorities. The latter subsequently paved the way for the first review of the ECF arrangement and the second disbursement (of approximately US\$187 million) under the program. The terms of the proposal can be summarized as follows:¹⁹

- The deal covered \$6.3 billion in outstanding debt to bilateral creditors, delivering an NPV reduction of nearly 40 percent (using 5 percent discount factor).
- This was achieved through a combination of a significant maturity extension (on average by more than 12 years) and a reduction in interest rates.
- Interest rates were set at only 1.0 percent during the next 14 years and were not to exceed 2.5 percent thereafter under the baseline scenario.
- Principal repayments were to begin in 2026, at 0.5 percent or about US\$30 million annually, until 2035.
- The maturity extensions were expected to generate US\$5.0 billion in debt service savings for Zambia between 2023 and 2031.
- Zambia would pay official creditors US\$750 million in the next decade, compared to close to \$6.0 billion that was due per the original contractual arrangements.
- The proposal included an adjustment mechanism that provided for an accelerated repayment schedule (final maturity to be reduced by 5 years) and higher interest rates (up to 4 percent), if Zambia's debt carrying capacity is upgraded to "medium".
- The deal applied uniformly to all official creditors and no state asset was pledged as part of the agreement.
- A loan for the *Kafue Gorge Lower hydropower plant* was to be included in the restructuring, although China initially requested that it be ring-fenced.
- Domestic (-law) debt was excluded from any treatment "to preserve financial stability and ensure a well-functioning domestic debt market."²⁰

"It was like a mission impossible, it wasn't a straight line. It was zig-zag, sideways, forward, backwards, down, up. But we kept our eyes on the ball," Zambian President Hakainde Hichilema shared with a cheering crowd of hundreds at the airport on his return from a global finance summit in Paris. IMF Managing Director Kristalina Georgieva welcomed the deal by describing it as "deep debt relief."²¹

However, some observers noted that while making significant savings in debt payments in the 2020s and early 2030s, it offered no mechanism for containing debt payments if Zambia is hit

19 "Question And Answer On: Zambia Reaches Agreement with Official Creditors on Debt Treatment Under the G20 Common Framework—Ministry of Finance and National Planning." <https://www.mofnp.gov.zm/?p=7468>.

20 Republic of Zambia, Parliament Publications. https://www.parliament.gov.zm/sites/default/files/images/publication_docs/Ministerial%20Statements%20-%20Debt%20Restructuring.pdf.

21 "Zambia: IMF Chief Applauds Zambia's Debt Deal." June 23, 2023. <https://www.lusakatimes.com/2023/06/23/imf-chief-applauds-zambias-debt-deal/>.

by further shocks and its revenue does not grow as projected.²² Similarly, if the IMF and World Bank were to reclassify Zambia's debt carrying capacity to "medium", the payment to bilateral creditors would increase significantly, thereby sizably reducing the cash flow relief offered under the baseline scenario.

Between August and October 2023, Zambia bilaterally formalized debt restructuring agreements with countries included in the OCC on condition that Zambia will continue to engage with its private creditors to find an agreement on terms at least as favorable as the one reached with the official creditors, in line with the Comparability of Treatment (CoT) principle.²³ However, the jubilation with the OCC agreement was short-lived.

III. Discussions with private creditors

Following the agreement with the OCC, in June 2023, Zambia began engaging with the private creditors to restructure US\$6.5 billion of debt owed to bondholders, Western banks, and Chinese private lenders.

The bondholders formed a Steering Committee (SC) to engage with representatives of the Zambian government and the OCC. The members of the SC included asset managers (acting either directly or on behalf of funds or other accounts they manage) Amia Capital; Amundi (UK); RBC BlueBay Asset Management; Farallon Capital Management; and Greylock Capital Management. This steering committee was advised by Newstate Partners (now Ankura Sovereign Advisors) and Weil, Gotshal & Manges (London).

On October 26, 2023, Zambia announced that it reached an agreement in principle with the SC on comparable debt treatment on restructuring of Zambia's three outstanding bonds: (i) 5.375 percent coupon bonds due 2022 in the amount of US\$750 million, (ii) 8.5 percent coupon bonds due 2024 in the amount of US\$1 billion, and (iii) 8.97 percent coupon amortizing bonds due 2027 in the amount of US\$1.25 billion. The announcement led to a sharp rally in all bonds.

The proposal meant to provide cash flow relief (via reduced coupon payments) and outstanding debt relief (via principal reduction or "haircut") to support the restoration of macroeconomic stability and debt sustainability of Zambia (Base Case scenario). The proposal also provided for faster repayment terms and higher coupons on one of the two new Eurobonds to be paid in the event that: (i) Zambia's debt carrying capacity improved or (ii) Zambia exceeds current IMF projections of exports (of goods and services) and tax revenue (Upside Case scenario).²⁴ An SC spokesperson stated

22 "Zambia's debt relief deal with bilateral creditors, initial analysis," Debt Justice. https://debtjustice.org.uk/wp-content/uploads/2023/07/Analysis-of-bilateral-restructuring_07.23.pdf.

23 A long-standing PC principle, the CoT requires the debtor to seek at least as much relief from other creditors as that provided by the members of the PC. See Hinz (2022) for an extensive discussion on this.

24 This state-contingent approach was in line with the agreement Zambia reached with the OCC.

that “[t]his proposal represents an innovative and sustainable solution which we hope will set a positive precedent for future sovereign debt restructurings under the Common Framework.”²⁵

However, while welcomed by the Zambian authorities, the proposal was turned down by the OCC, which concluded that although the CoT would be achieved in the Upside Case scenario, it would not be achieved in the Base Case scenario.²⁶ Yet, there was no consensus among OCC members on the magnitude of additional concessions that would be required from bondholders to comply with the CoT principle in the Base Case.²⁷ Thus, the problem was in the definition of the CoT.

Furthermore, it appeared that the proposal would breach the Debt Sustainability Analysis (DSA) targets. The debt service-to-revenue ratio would reach 16.7 percent in 2025, 2.7 percentage points higher than the 14 percent target, while the present value of the debt stock-to-exports ratio would be marginally breached (by 1 percentage point), at 85 percent in 2027.²⁸ Finally, the 33 percent NPV reduction under the bondholders’ proposal fell short of 40 percent reduction offered by the OCC.²⁹ Some commentators also pointed out the relatively high frontloaded payments (in the form of amortization and cash bonus) to bondholders during the duration of the ECF.³⁰

In November, the SC submitted a revised proposal to the OCC, which according to IMF was compatible with the ECF parameters and DSA targets. However, the OCC members still found the revised proposal to be incomparable with relief granted by the OCC. Complicating matters further, the OCC Co-Chairs also advised that there was no consensus among OCC members as to the magnitude of additional NPV concessions that would be required from bondholders in the Base Case to comply with the CoT principle. Table 2 compares the OCC and SC proposals under both scenarios.

25 The Zambia External Bondholder Steering Committee. “Le Comité Directeur Des Détenteurs d’obligations Externes de La Zambie Conclut Un Accord de Principe Avec La Zambie Sur La Restructuration de La Dette.” October 27, 2023. <https://www.prnewswire.com/news-releases/le-comite-directeur-des-detenteurs-dobligations-externes-de-la-zambie-conclut-un-accord-de-principe-avec-la-zambie-sur-la-restructuration-de-la-dette-301969931.html>.

26 The OCC stated that despite providing the NPV concessions consistent with the deal agreed between Zambia and the OCC, this offer was not in compliance with the CoT in the Base Case scenario due to a shorter extension of the duration and lower contribution to the closing of the balance of payments financing gap during the ECF program period.

27 “Zambia Dealt Major Setback as Official Creditors Object to Bond Deal.” <https://money.usnews.com/investing/news/articles/2023-11-20/zambia-dealt-major-setback-as-official-creditors-object-to-bond-deal>.

28 “Update on Agreement-In-Principle with Bondholders,” November 20, 2023, London Stock Exchange. <https://www.londonstockexchange.com/news-article/32BT/update-on-agreement-in-principle-with-bondholders/16216314>.

29 “Zambia: IMF Questions Bond Revamp Deal,” Bloomberg. <https://www.bloomberg.com/news/articles/2023-11-10/zambia-says-imf-has-questions-on-its-3-billion-bond-revamp-deal>.

30 Brad Setser, October 27, 2023. https://x.com/Brad_Setser/status/1717917477508628751.

TABLE 2. Comparison of the revised SC and the OCC proposals

Debt Relief Indicator	Base Case		Upside Case	
	OCC	Bondholders	OCC	Bondholders
Nominal haircut (percent) ^a	0	16	0	16
Duration extension (years)	12	8	6	6
Contribution to the financing of the IMF program (2023–25) (percent)	95	80	95	80
Overall debt relief				
(PV/PV@5%) ^b	39	41	13	18
(PV/PV@5%) with consent fee	39	40	13	17

Notes: ^aNominal haircut calculated on contractual claims. ^bOCC methodology comparing the PV of post-restructured debt to pre-restructured debt evaluated at 5 percent discount rate.

Source: The Zambia External Bondholder Steering Committee.

As shown in Table 2, the revised SC proposal provided more debt relief on PV basis than that of the OCC (by 2 percentage points of PV in the Base Case and 5 percentage points in the Upside Case) and (unlike the OCC proposal) included a face value haircut.

In a press release, the SC expressed its frustration with the outcome and the current process, which relies heavily on the OCC’s assessment of CoT in circumstances where lack of transparency inhibited discussion on, or independent assessment of, the CoT. The SC felt that the OCC was demanding debt relief from commercial creditors that is materially higher than either the government or the IMF deemed necessary to restore debt sustainability. In doing so, the SC claimed that the OCC was creating intercreditor equity issues, thus undermining the CoT principle embedded in the CF.³¹

The Centre for Trade Policy and Development, a non-profit Zambian think tank, stated that “*despite* being a cornerstone of sovereign debt restructuring, the Paris Club (PC) and the G20 have not provided detailed guidance on the definition and application of “comparability of treatment.”³² In turn, Finance Minister Nkulukusa forewarned (in January 2024) that “[b]efore we go to the (bondholder) steering committee, we have to agree on what we mean by comparability of treatment.”³³

31 The Zambia External Bondholder Steering Committee, “Zambia External Bondholder Steering Committee Statement Regarding OCC Stance on Comparability of Treatment.” November 20, 2023. <https://www.prnewswire.com/news-releases/zambia-external-bondholder-steering-committee-statement-regarding-occ-stance-on-comparability-of-treatment-301993342.html>.

32 Center for Trade Policy and Development. June 2023. <https://ctpd.org.zm/wp-content/uploads/2024/02/P6-1.pdf>.

33 “Zambia aims to agree conditions for debt relief by first quarter,” Reuters, January 4, 2024. <https://www.reuters.com/world/africa/zambia-aims-agree-conditions-debt-relief-by-first-quarter-2024-01-04/>.

The refusal by the OCC to accept the revised proposal submitted by the SC had an impact on Zambia's financial markets. The US\$1.25 billion notes due 2027 fell by 5 percent to trade at 59.6 cents on the dollar, the most in more than a year. The kwacha fell 0.4 percent to a record low of ZMW23.275/US\$.³⁴ Sensing the deadlock, Zambia's President Hakainde Hichilema spoke with French President Emmanuel Macron during the COP28 climate summit in Dubai in December 2023, where he reportedly said:

“Some official creditors felt that the private creditors were not yet at par with them. 98 percent of official creditors were on board a memorandum of understanding on debt restructuring. And then there are investors saying is this (the debt restructuring) going to happen? The delays are giving a push on inflation.”³⁵

As negotiations continued, on March 25, 2024, the Ministry of Finance announced that, following discussions during March 18–25, 2024, it has reached an agreement with the SC members representing the larger creditor committee of bondholders on the key commercial terms of a proposed restructuring transaction related to bonds maturing in 2022, 2024 and 2027.^{36,37} The structure of the agreement remained unchanged compared to the “agreement in principle” reached on October 26, 2023, with revised terms outlined in Table 3 for both the Base Case and Upside Case scenarios.³⁸

34 “Zambia’s Bonds Plunge as China-Led Lenders Foil Revamp Deal,” Bloomberg, November 20, 2023. <https://www.bloomberg.com/news/articles/2023-11-20/zambia-s-official-creditors-reject-revised-bond-restructure-deal>.

35 “Zambia Lobbying for Creditors to Meet as Restructuring Drags,” Reuters, December 22, 2023. <https://www.reuters.com/world/africa/zambias-official-private-creditors-meeting-over-restructuring-proposal-president-2023-12-22/>.

36 “Zambia Agrees Deal with Bondholders, Win for G20 Common Framework,” Bloomberg, March 25, 2024. <https://www.bloomberg.com/news/articles/2024-03-25/zambia-agrees-deal-with-bondholders-key-win-in-years-long-saga>.

37 “Government of the Republic of Zambia Reaches Agreement on Debt Restructuring Terms with the Steering Committee of the Ad Hoc Creditor Committee of Holders of Zambia’s Eurobonds.” *Ministry of Finance and National Planning*, March 25, 2024. <https://www.mofnp.gov.zm/?p=7786>.

38 “Statement Re Restructuring of Eurobonds.” London Stock Exchange. <https://www.londonstockexchange.com/news-article/32BT/statement-re-restructuring-of-eurobonds/16393988>. Interestingly, the Ad Hoc Committee of the bondholders (represented by the SC) owned or controlled 33 percent of the outstanding bonds, while the members of the SC themselves owned or controlled about 16 percent of the bonds.

TABLE 3. Key commercial terms of a proposed restructuring transaction between Zambia and SC (March 2024)

Financial Features ^a		Base Case		Upside Case	
Outstanding claims as of Mar 31, 2024		USD 3.890 bn			
New Bonds	New Bonds	Bond A	Bond B	Bond A	Bond B
	New Face Value	\$1.70 billion	\$1.35 billion	\$1.70 billion	\$1.35 billion
	First amortization year	2024	2051	2024	2032
	First maturity year	2033	2063	2033	2035
Amortization Profile	Amortization Profile	\$75 million down payment		\$75 million down payment	
		11% in Jun-24		11% in Jun-24	
		~4.65% in Dec-24		~4.65% in Dec-24	
		~9.24% in Jun-25		~9.24% in Jun-25	
		17% in Jun-26	3 equal instalments in Dec-51, Dec-52, and Dec-53 (\$450 million per instalment)	17% in Jun-26	4 equal instalments from Jun-32 to Jun-35 (\$337.5 million per instalment)
		17% in Jun-27		17% in Jun-27	
		7.5% in Jun-28	7.5% in Jun-28		
		0.5% in Jun-29	0.5% in Jun-29		
		0.5% in Jun-30	0.5% in Jun-30		
		0.5% in Jun-31	0.5% in Jun-31		
Two equal instalments of remainder in Jun-32 and Jun-33	Two equal instalments of remainder in Jun-32 and Jun-33				
5.75% p.a. accruing from reference date until June-31	0.50% p.a. accruing from reference date until maturity	5.75% p.a. accruing from reference date until June-31	0.50% p.a. accruing from reference date until trigger date ^b		
7.50% p.a. accruing from Jun-31 until maturity	Payment dates each 30-Jun and Dec-31	7.50% p.a. accruing from Jun-31 until maturity	7.50% p.a. accruing from trigger date until Jun-3, o/w 6.00% PIK accruing over the same period		
Payment dates each 30-Jun and 31-Dec		Payment dates each 30-Jun and 31-Dec	7.50% p.a. accruing from Jun-31 until maturity		
			Payment dates each Jun-30 and Dec-31		
Coupon Structure					

Notes: ^aIn addition, the transaction would involve a consent fee of 1.5 percent of the original face value of bonds (US\$3bn) to incentivize participation in the exchange offer.

^b“Trigger date” is the date when the terms relevant to the Upside Case take effect.

Source: Zambian authorities.

Subsequently, the government received confirmation from the OCC that the agreed terms were consistent with its assessment of CoT and with the ECF parameters. Under the agreement, bondholders would write off approximately US\$840 million of their claims and provide cash flow relief of approximately US\$2.5 billion during the ECF period. The weighted average maturity of new securities will be 15 years and 8 years under the Base Case and the Upside Case, respectively, resulting in significant NPV concessions from the bondholders.

The agreement with the SC also included Zambia accepting certain non-financial terms of the new bonds, including: (i) a “most favored creditor” (MFC) clause (that will require the government to ensure other creditors do not receive a better recovery in the restructuring in NPV terms),³⁹ (ii) a loss reinstatement clause (if Zambia were to default during the ECF), and (iii) some data disclosure requirements.

The IMF welcomed the progress reached in negotiations and urged all creditors and the authorities to advance discussion toward restoring debt sustainability in Zambia. It also praised the Zambian authorities’ good faith effort toward reaching a restructuring agreement with external private creditors on comparable terms and consistent with program parameters.⁴⁰

IV. Domestic debt and financial stability considerations

Delays in reaching an agreement with external creditors and inability to re-access the market forced Zambia to rely mainly on two sources of funding to finance budgetary gaps: the domestic debt issuance and IMF’s Special Drawing Rights (SDR).⁴¹

In the summer of 2021, Zambia’s domestic debt market experienced sizable foreign inflows. This happened on the backdrop of an improved macroeconomic outlook and the election of a new (reformist) president and resulted in non-resident holdings (NRH) of domestic debt increasing rapidly from US\$800 million to more than US\$3 billion by June 2021 (IMF, 2022, Figure 2), which constituted a non-trivial 25 percent of total domestic debt.

39 The MFC clause that the bondholders extracted in the March 2024 agreement is a substantive innovation whose forward implications deserve more attention than it has received. Buchheit and Gulati (2026) argue that MFC clauses are the most promising contractual mechanism for solving the credible-commitment problem that bedevils multi-creditor restructurings: each creditor class fears that its concessions will subsidize a less-impaired recovery for some other class. By making it “practically and politically impossible” for the sovereign to grant better terms to a subsequent holdout, an MFC clause supplies an *ex ante* guarantee that the comparable treatment principle will be enforced *ex post*. The Zambia MFC clause points toward an architecture in which CoT is no longer a discretionary judgment by an OCC but a contractually enforced *ex ante* rule. Whether this proves to be the Zambia deal’s most enduring contribution to CF practice will depend on how it is replicated elsewhere.

40 “Transcript of IMF Press Briefing.” <https://www.imf.org/en/News/Articles/2024/03/07/tr030724-transcript-of-imf-press-briefing>.

41 On August 31, 2022, Zambia received US\$1.3 billion equivalent of SDRs from the IMF. The government used an estimated 50 percent of that allocation to finance social sector spending including the social cash transfer program and clearance of pension arrears.

Some analysts noted that the IMF's withholding of support pushed Zambia towards suboptimal borrowing decisions, such as draining its one-off SDR allocation (Maret, 2023). It also led to repurposing of project loans for emergency spending and—once these sources dried up—to over-reliance on domestic debt markets. The harsh reality is that eighteen months elapsed between Zambia's formal CF application (February 2021) and the IMF Executive Board's approval of the ECF (August 2022). While much of this delay reflected the time required to assemble the OCC and secure its financing assurances, the IMF's in-house process contributed to the protracted limbo. A faster response might have reduced Zambia's dependence on the suboptimal domestic-debt financing pattern documented in Maret (2023) and, consequently, reduced the size of the NRH problem. The latter effectively gave non-resident investors a debtor-in-possession-type seniority among creditors, ringfencing NRH from the perimeter.

It is considered good practice for low- and middle-income country public debt management not to borrow excessively in the domestic market even in the most *tranquil* of times due to inherent disadvantages (e.g., high cost of borrowing, potential for crowding out of private investment, etc.). The same considerations make borrowing too much in the domestic debt market in a *post-default* situation (when less expensive long-term concessional financing for recovery would be more suitable) even less appropriate. So, when the authorities turned to local borrowing (as the only available option), this came at a cost of higher risks and eventually of higher dependency.

This could have been the main reason why—upon the approval of the ECF in September 2022 and following the start of debt restructuring negotiations—Zambia's authorities decided to exclude local-currency debt from the restructuring perimeter altogether: domestic financial institutions were holding too much of local-law debt, spurring concerns about financial instability in the banking sector if those holdings were to be impaired as a result of a restructuring.

However, this exclusion almost derailed the negotiations' process. As it is commonly done for low-income countries (at least until recently), the WB-IMF's DSA for Zambia was compiled based on residency criterion as opposed to currency or jurisdiction (i.e., issuance law) criteria. This meant that all local-currency/law debt held by non-residents was treated as external debt in the DSA, creating a sharp discrepancy between *the scope of the DSA* (which envisioned the NRH to be restructured) and *that of the restructuring proposal* (which envisioned leaving domestic-law debt—even if it was held by non-residents—outside of the perimeter of the debt exchange). To put this issue in context, as of end-2021, the NRH were at US\$3.2 billion, just shy of Zambia's outstanding stock of Eurobonds (Table 1).

As expected, the exclusion triggered pushbacks from some creditors invoking inter-creditor fairness considerations. Furthermore, this was rightfully seen by these creditors as a zero-sum game: an increase in non-restructurable debt (i.e., leaving the NRH out) meant additional debt relief had to be delivered from other sources/creditors.

From debt service perspective too, this created a problem. The NRH took up approximately 50 percent of cash flows available for debt service to all external creditors over the 2022–26 period. Another 32 percent was expected to be taken up by other debt excluded from the restructuring—multilateral agencies, payables, and SDR allocation—leaving little for official creditors and Eurobond holders, implying longer grace periods for the new (i.e., restructured) claims and bonds, other things equal.^{42,43}

As a result, during the negotiations China began insisting on including the NRH in the restructuring perimeter. Similar (albeit less vocal) demands came from the Eurobond holders.⁴⁴ This uncertainty and discussions around a potential restructuring of NRH then led to capital outflows from the bond market, draining foreign reserves and putting more pressure on the kwacha. The NRH shrunk to US\$2.6 billion from US\$3.2 billion over the second half of 2022 (IMF, 2023a).

The IMF also acknowledged that “[r]eflecting a combination of tighter global financial conditions and uncertainty around the debt restructuring process, non-resident investors withdrew from the domestic debt market in 2022—they did not reinvest proceeds of maturing holdings, engaged in some secondary market sales, and did not provide new inflows of funds to the market” (IMF, 2023b, Debt Sustainability Analysis, page 4). It became clear that the lingering uncertainty began affecting Zambia’s domestic currency and debt markets, putting the economy under further strain.

When the deal was reached in June 2023, the OCC went along with the decision to leave domestic debt out of the perimeter of the restructuring. While this may have been justified by financial stability concerns (certainly by mid-2021), it was in some ways self-inflicted and was a function of the delays in restructuring external debt.⁴⁵ IMF (2023b, page 4) acknowledged this (and other idiosyncrasies) delicately as follows:

“These discussions covered several important issues, including the exclusion on non-resident holders (NRH) of domestically-issued debt from the proposed debt treatment. The OCC reached an agreement on all of these issues for Zambia, taking into account its specific circumstances, but official creditors recognized that these issues deserve further discussion in other cases, as well as a more systematic approach through exchanges in relevant fora.”

42 Ministry of Finance and National Planning of the Republic of Zambia, Lazard Frères, White & Case LLP. “Certain Assumptions Relating to the DSA,” November 2022. <https://www.mofnp.gov.zm/wp-content/uploads/2022/11/Certain-Assumptions-Relating-to-Zambias-DSA.pdf>.

43 “Investor Presentation,” Ministry of Finance and National Planning of the Republic of Zambia, October 2022. <https://www.mofnp.gov.zm/wp-content/uploads/2022/10/2022-10-07-October-Investor-Presentation.pdf>.

44 “China Delays Zambia Debt Deal Over Local Loans, US Official Says—Bloomberg,” January 23, 2023. https://www.bloomberg.com/news/articles/2023-01-23/china-delays-zambia-debt-deal-over-local-loans-us-official-says?in_source=embedded-checkout-banner.

45 In this regard, Zambia’s case resembles that of Greece, where politics-driven delays resulted in “smart money” leaving Greek debt market and a sizable chunk of those debt securities ending up on the balance sheets of the European Central Bank and local Greek banks, making it difficult (i.e., both politically and financially costly) to restructure.

A relevant question to ask is whether domestic debt could have been restructured without triggering a financial crisis. As it turns out (see Section V), if designed properly, a restructuring (i.e., with due accounting of the costs imposed on the financial sector as a result of restructuring), instability can be avoided.⁴⁶

V. Summary of key outcomes and lessons learned

The first week of June 2024 saw the international bondholders vote through their part of Zambia's debt restructuring, making Zambia the first to complete a full-blown debt rework under the CF architecture. Although Zambia's debt restructuring arrangement has come to fruition, more than *three-and-a-half years* of trials and tribulations of seeking debt relief have exposed some shortcomings of the guiding mechanism of the process. "It was painful for Zambia—we fully recognize that. So, we have to improve. But we delivered." said William Roos, the co-chair of both the PC and of Zambia's OCC at the close of the debt restructuring process in June 2024.⁴⁷

The jubilation of 2020 of coming up with a consensus-based document was matched with the exuberance of Zambia being the first African vulnerable country to finalize an agreement with the OCC. In June 2023, The New Financing Pact in Paris prematurely called the agreement reached between Zambia and the OCC "historic."⁴⁸ In August 2023, the leaders of the G20 countries had welcomed the progress made on Zambia and "the recent agreement between the Government of Zambia and the official creditor committee on debt treatment and looked forward to a swift resolution." In October 2023, all bilateral agreements with official creditors were in place and Zambia was seen as the country about to become a success template for debt treatment.

What transpired between October and December 2023, with the subsequent rejection of proposals finalized with the private creditors by Zambia's OCC, exposed the structural flaws of the CF and the underlying process, some of which are worth summarizing here.

First, Zambia's case highlights the lack of predictability and enforceability of various steps and timelines. While not a formal requirement of debt exchanges, these and related aspects of coordination come at a significant premium in cases where the number of creditors (or any parties trying to reach a negotiated deal) is high.

46 See Grigorian et al. (2012), Anthony et al. (2020), and Grigorian and Vessereau (2026) for details of domestic debt restructurings in Jamaica, Barbados, and Ghana, respectively, which addressed the issue of financial stability explicitly as part of the restructuring design.

47 "Zambia's Debt Restructuring Limpers over Line as Painful Test Case," Reuters. June 4, 2024. <https://www.reuters.com/world/africa/zambias-debt-restructuring-limpers-over-line-painful-test-case-2024-06-04/>.

48 Chair's summary of discussions at the Summit on a New Global Financing Pact | Summit for a New Global Financing Pact. June 22-23, 2023. <https://www.elysee.fr/admin/upload/default/0001/15/4748a23641c5b2d55a47d63d7ed2e16963c11195.pdf>.

Second, there existed a lack of clarity on both the definition and enforceability of the CoT, which reduced the trust in the process and delayed implementation. A concrete way forward, developed in Grigorian (2026), is a Two-tier CoT under which the universal requirement (a single comparability test spanning official and private creditors) is replaced by two separate tests—one for official creditors (including both PC and non-PC bilateral lenders) and a distinct one for all external private creditors. The Zambia experience speaks directly to why this is preferable: the prolonged dispute between the OCC and the bondholder Steering Committee in late 2023 was not about whether each group’s deal was internally fair within its class, but about whether two structurally different deals across classes could be reconciled to a single CoT yardstick over which the official creditors held effective veto power. A Two-tier framework, by separating the two questions and pre-defining the methodology used to test each, would have removed the late-stage ambiguity that delayed the Zambia deal by close to six months.

Third, while not specific to the CF, there was a significant asymmetry of bargaining powers between bilateral and private creditors. Here, a small number of well-organized bilateral creditors with political power (including at least a theoretical ability to influence the relevant decisions of the IMF and the World Bank) have an advantage over a larger number (and the types) of dispersed private creditors (i.e., commercial lenders, bondholders, trade creditors, etc.). Bringing China and India into the mix not only complicated the process; it also increased the bargaining power of large bilateral creditors as a group.

However, it would be uncharitable to conclude from this that China’s behavior in the Zambia process was strategically obstructionist. Makoff et al. (2026) and Grigorian and Tang (2026) argue that several of China’s procedural interventions in Zambia were substantively constructive: the insistence that the IMF take seriously the inclusion of non-resident holdings of domestic debt forced a long-overdue confrontation with the residency-versus-jurisdiction asymmetry in the DSA, and the subsequent OCC rejection of the bondholders’ first proposal—initially decried as a delay tactic—established a precedent under which CoT now has some operational bite where, historically, it was “linguistically flaccid” (Buchheit and Gulati, 2026). On a more charitable reading, the Zambia case can be read as one in which the friction generated by China’s participation produced policy improvements that may benefit future CF cases, even at the cost of substantial delay in the case at hand.

Fourth, and related to this, not unlike the PC’s own rules, the CF imposes a particular sequencing on the negotiations’ process, requiring the official creditors to strike a deal first (achieved in June 2023), which then becomes the yardstick for everyone else (based on the CoT).⁴⁹ This is neither necessary nor sufficient for achieving a comprehensive deal but clearly delayed the outcome.

49 While in sovereign debt restructuring cases of 1980s through much of the early 2000s the lead role of some official bilateral creditors (e.g., the US or the PC) may have been justified by the relative size of their exposures, in cases such as Zambia’s, the *de facto* (procedural) subordination of private bondholders to the official creditors is hard to justify from a normative perspective.

Fifth, these delays in the process have likely resulted in changes in the composition and structure of sovereign debt, with domestic debt growing more prominent in size and importance, threatening to trigger financial instability, if restructured.

Finally, not restructuring domestic-law debt prevented a deeper reduction of Zambia's overall sovereign debt from taking place. On whether the fear of financial instability was justified, if the domestic-law debt were to be restructured, the authorities and their advisers appeared to have thought so. While non-resident investors held over a quarter of the stock of domestic-law government debt, the Zambian financial sector held the balance. These securities accounted for almost one third of the banking sector's assets (a high ratio by any measure), making it likely that a deep restructuring of these holdings could have required public resources to recapitalize the affected institutions and caused financial instability. It could have also potentially impaired the private sector's access to finance (and therefore economy's ability to grow) and triggered capital outflows.

IMF (2021) and Grigorian (2026) provide a framework for thinking about the decision on whether to undertake a domestic debt restructuring and how to design it. According to this approach, the decision to restructure any type of claims (e.g., external, domestic, non-financial state-owned company debt, etc.) should depend on the relative economic costs of doing so, the amount of debt relief that could be secured from each type of claims, and of total debt relief required to reach sustainability. If a decision is made to restructure domestic debt, the approach essentially argues that domestic debt should be restructured up to a point where the gross debt relief accrued to the budget by restructuring still exceeds the costs of recapitalization of affected institutions and of ringfencing financial stability.⁵⁰ Both decisions (i.e., whether to restructure and how much) are complex choices requiring significant amount of data and technical analysis. If properly internalized, the financial stability costs will lead to smaller haircuts and lower probability of domestic debt to be restructured than otherwise. However, if the total debt as well as the share of domestic debt in total are high—both are the case in Zambia—“zero restructuring” is unlikely to be optimal using the IMF (2021) metric. If so, by not restructuring domestic-law debt the authorities most likely “left money on the table” and contributed to the delays in negotiations (by asking for too much relief from external creditors).

A back-of-envelope estimate illustrates the order of magnitude of foregone relief for Zambia. At end-2021, total domestic debt stood at US\$14.5 billion, of which US\$3.2 billion was held by non-residents (Table 1). Under the framework in Grigorian (2026), the resident-held component (US\$11.3 billion) generates net debt relief equal to the gross haircut minus the costs of recapitalizing affected institutions and ringfencing financial stability. The non-resident component, by contrast, generates relief with no domestic recapitalization offset because non-resident bondholders are not part of

50 Grigorian (2026) shows that there is a maximum value of haircut beyond which the gross relief obtained from imposing a higher haircut on debt holders are outweighed by recapitalization and financial stability costs, rendering the marginal (and potentially even total) net debt relief negative.

the domestic financial system. A 30 percent haircut—equivalent to that received by (external) bondholders—applied uniformly would therefore yield approximately US\$1.0 billion in clean (recap-free) relief from the NRH alone, plus some fraction of US\$3.4 billion in gross relief from the resident-held portion after subtracting recapitalization costs. Even on conservative assumptions about the bank-held share and the recap cost as a fraction of the haircut, the resulting additional net debt relief—almost surely in excess of US\$1.5 billion—would have been comparable in magnitude to the cash-flow relief secured from external bondholders over the ECF period. The case for at least restructuring the non-resident holdings, where the financial-stability rationale for exclusion is essentially absent, appears especially strong in retrospect.

As to the capital outflows, restructuring of domestic-law debt could have also been accompanied by the introduction of short-term capital control measures to prevent the non-resident bondholders from liquidating their positions in kwacha and repatriating their earnings in FX (prior to the announcement of the debt exchange).⁵¹ Interestingly enough, foreign inflows surged again in late 2022 and early 2023, causing the NRH to climb 24 percent in one quarter (to US\$2.7 billion at end-June from US\$2.2 billion at end-March 2023), breaching expectations.⁵² This forced the Bank of Zambia to announce, in June 2023, that it would limit foreign participation in domestic debt auctions to a maximum of 5 percent of annual planned issuance.⁵³ Ironically, this was done one day before the restructuring deal with the OCC was announced.

Over a period of three-and-a-half years, Zambia's economy and financial markets remained hostage to a long-drawn process, unable to move forward and restore growth, a key prerequisite for debt sustainability. With a draft debt restructuring deal in place, we hope that Zambia's return to fiscal and financial normalcy is a foregone conclusion and that the lessons learned from the process are not lost on the international community.⁵⁴

At the time of this writing, the full resolution of Zambia's debt restructuring hinges on an unresolved dispute with the African Export-Import Bank (AfreximBank), and to a lesser extent the Trade and Development Bank, over whether African regional lenders must share in debt relief or be treated as multilateral financial institutions with preferred creditor status and thus be spared any write-off of their claims. AfrximBank has refused to participate in the CF restructuring on the latter ground, asserting that it operates as a regional multilateral institution analogous to the African Development Bank or the World Bank. The OCC and the IMF have taken the contrary position that regional lenders whose mandate, ownership structure, and risk-sharing approach differ materially

51 Raising interest rates and/or devaluing the kwacha too could have made capital flight from Zambia more costly for the investors (and therefore less likely to happen), but they would have imposed higher costs on local economic agents and are therefore less desirable.

52 "Debt Statistical Bulletin," Ministry of Finance and National Planning, https://www.mofnp.gov.zm/?page_id=3495.

53 "Zambia Debt Revamp Deal May Come This Week, President Signals—Bloomberg," June 21, 2023. <https://www.bloomberg.com/news/articles/2023-06-21/zambian-president-signals-debt-revamp-deal-may-come-this-week>.

54 "African Lenders Set Up Early-Warning Network on Debt Distress," Bloomberg, January 30, 2026. <https://www.bloomberg.com/news/articles/2026-01-30/african-lenders-set-up-early-warning-network-on-debt-distress>.

from the established multilateral framework cannot claim equivalent preferred creditor status, a position consistent with the treatment of these regional banks in Ghana's debt restructuring, where comparable claims were included in the perimeter.

The unresolved dispute matters beyond Zambia for two reasons. First, the AfreximBank exposure is sizable in absolute terms, and continued exclusion materially reduces the net debt relief that the CF process has delivered, while complicating CoT calculations on the residual perimeter. Second, the broader question of how regional development banks fit into a sovereign restructuring architecture designed around a binary multilateral/non-multilateral distinction is one that is certain to recur in future African cases, and possibly in Latin American ones, given the role of regional development banks in some debt portfolios. The Zambia outcome is therefore likely to set a procedural precedent on regional-bank preferred creditor status, either by establishing exclusion as a contestable default or by forcing a structured negotiation that future cases will reference. The issue warrants dedicated treatment beyond the immediate resolution of the Zambia case.

Appendix. Zambia’s debt restructuring: Timetable of relevant events

Period	Events
May-20	Zambian government hires French financial advisory firm Lazard Frères to advise on restructuring of its \$11 billion foreign debt
Jun-20	Zambia requests to have its debt payments frozen under the G20 Debt Service Suspension Initiative (DSSI) due to COVID-19
Nov-20	Zambia misses \$42.5 million payment on one of its international bonds; becomes Africa’s first pandemic-era sovereign to default
Feb-21	Zambia formally applies for debt treatment under the G20 Common Framework for Debt Treatments (CF)
Aug-21	Opposition leader Hakainde Hichilema secures a landslide victory in August over Edgar Lungu in presidential elections
Dec-21	Zambia and the IMF reach a Staff-Level Agreement on an Extended Credit Facility (ECF) Arrangement
Jun-22	16 creditor governments form an Official Creditor Committee (OCC) to start working on restructuring the loans to Zambia
Jul-22	On July 18, the OCC provides “financing assurances,” a commitment to provide debt relief sufficient to establish debt sustainability
Aug-22	IMF Executive Board approves an SDR 978.2 million (about US\$1.3 billion) 38-month ECF Arrangement
2022	In parallel, debt negotiations continue with bondholders
Jun-23	Zambia announces that an agreement with the OCC has been reached to restructure a combined \$6.3 billion of loans, signs a Memorandum of Understanding (MoU)
Oct-23	Zambia reaches an “Agreement in principle” with a Steering Committee representing investment and pension funds holding three Eurobonds worth \$3 billion in total
Nov-23	OCC rejects the bondholders’ proposal on grounds that it does not provide enough debt relief
Nov-23	Bondholders claim the OCC is demanding debt relief from them that is materially higher than either Zambia’s government or the IMF deem necessary
Dec-23	Completion of the second review of ECF by the IMF Executive Board gives Zambia access to US\$187 million additional funding; brings the total IMF financial support disbursed under the arrangement to about US\$561 million
Dec-23	The government continues to negotiate with its private creditors, including Eurobond holders, consistent with the ECF parameters and on comparable terms, as defined by the OCC
Mar-24	Government of Zambia reaches agreement on debt restructuring terms with the Ad Hoc Creditor Committee of holders of Zambia’s Eurobonds

References

- African Development Bank. (2021). From Debt Resolution to Growth: The Road Ahead for Africa. *African Economic Outlook 2021*. Côte d'Ivoire.
- Anthony, Myrvin, Gregorio Impavido, and Bert van Selm. (2020). Barbados' 2018–19 Sovereign Debt Restructuring: A Sea Change? IMF Working Paper 20/34. Washington, DC: International Monetary Fund.
- Buchheit, Lee, and Mitu Gulati. (2026). Enforcing Comparable Treatment in Sovereign Debt Workouts. In D. A. Grigorian (Ed.), *Sovereign Debt Restructuring in the Era of Common Framework: China, Domestic Debt, and the Way Forward*. Edward Elgar Publishing, London, UK.
- Geda, Alemayehu. (2021). The Economic and Social Impact of COVID-19 in Zambia, UNCTAD Research Paper No. 79, UNCTAD/SER.RP/2021/22. https://unctad.org/system/files/official-document/ser-rp-2021d22_en.pdf.
- Grigorian, David A., Trevor Alleyne, and Alejandro Guerson. (2012). Jamaica Debt Exchange. IMF Working Paper 12/244. Washington, DC: International Monetary Fund.
- Grigorian, David A. (2026). Restructuring Domestic Sovereign Debt: An Analytical Illustration. In D. A. Grigorian (Ed.), *Sovereign Debt Restructuring in the Era of Common Framework: China, Domestic Debt, and the Way Forward*. Edward Elgar Publishing, London, UK.
- Grigorian, David A., and Winston Tang. (2026). "China and the Common Framework: Understanding the Motives Behind Debt Relief Provision to Low-Income Countries." In D. A. Grigorian (Ed.), *Sovereign Debt Restructuring in the Era of Common Framework: China, Domestic Debt, and the Way Forward*. London: Edward Elgar Publishing.
- Grigorian, David A., and Lili Vessereau. (2026). Ghana: A Case Study of Sovereign Debt Restructuring Under the G20 Common Framework. In D. A. Grigorian (Ed.), *Sovereign Debt Restructuring in the Era of Common Framework: China, Domestic Debt, and the Way Forward*. Edward Elgar Publishing, London, UK.
- Hinz, Livia. (2022). Private Sector Involvement in Sovereign Debt Governance in the Post-Pandemic World: The Role of the 'Comparability of Treatment' Principle. *European Journal of Legal Studies* 14(1), 25–44.
- International Monetary Fund. (2023a). Zambia: Second Review Under the Arrangement Under the Extended Credit Facility, IMF Country Report No. 2023/439, December. <https://www.imf.org/en/Publications/CR/Issues/2023/12/20/Zambia-Second-Review-Under-the-Arrangement-Under-the-Extended-Credit-Facility-Requests-for-542876>.

International Monetary Fund. (2023b). Zambia: 2023 Article IV Consultation, First Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review, Country Report No. 2023/256, July. <https://www.imf.org/en/publications/cr/issues/2023/07/13/zambia-2023-article-iv-consultation-first-review-under-the-extended-credit-facility-536340>.

International Monetary Fund. (2022). Zambia: Request for an Arrangement Under the Extended Credit Facility, IMF Country Report No. 2022/292, September. <https://www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196>.

International Monetary Fund. (2021). Issues in Restructuring Sovereign Domestic Debt, IMF Policy Paper, December. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/11/30/Issues-in-Restructuring-of-Domestic-Sovereign-Debt-510371>.

International Monetary Fund. (2010). Zambia: Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, IMF Country Report No. 10/383, December. <https://www.imf.org/external/pubs/ft/scr/2010/cr10383.pdf>.

International Monetary Fund. (2006). Zambia: Fourth Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Modification of Performance Criteria, and Financing Assurances Review—Staff Report; and Press Release on the Executive Board Consideration. <https://www.elibrary.imf.org/view/journals/002/2006/263/002.2006.issue-263-en.xml>.

Makoff, Gregory, Théo Maret, and Logan Wright. (2026). “Sovereign Debt Restructuring with China at the Table: Forward Progress but Lost Decade Risk Remains.” In D. A. Grigorian (Ed.), *Sovereign Debt Restructuring in the Era of Common Framework: China, Domestic Debt, and the Way Forward*. London: Edward Elgar Publishing.

Maret, Théo. (2023). The Cautionary Tale of Zambia’s Domestic Debt. Blog. September 11. <https://www.sovdebtoddties.com/p/the-cautionary-tale-of-zambias-domestic>.

Saab, Samer. (2023). Macrofinancial Linkages and Financial Stability in Zambia. In *Zambia: Selected Issues*, Country Report No. 2023/257, July. <https://www.imf.org/en/Publications/CR/Issues/2023/07/13/Zambia-Selected-Issues-536343>.

UNICEF. (2022). Zambia Health Budget Brief: Sustainable Financing of Healthcare Delivery. <https://www.unicef.org/esa/media/11336/file/UNICEF-Zambia-Health-Budget-Brief-2022.pdf>.