



# Republic of Zambia

## Ministry of Finance

Investments and Debt Management Department



# GOVERNMENT DEBT PORTFOLIO REVIEW

2020 - QUARTER 4

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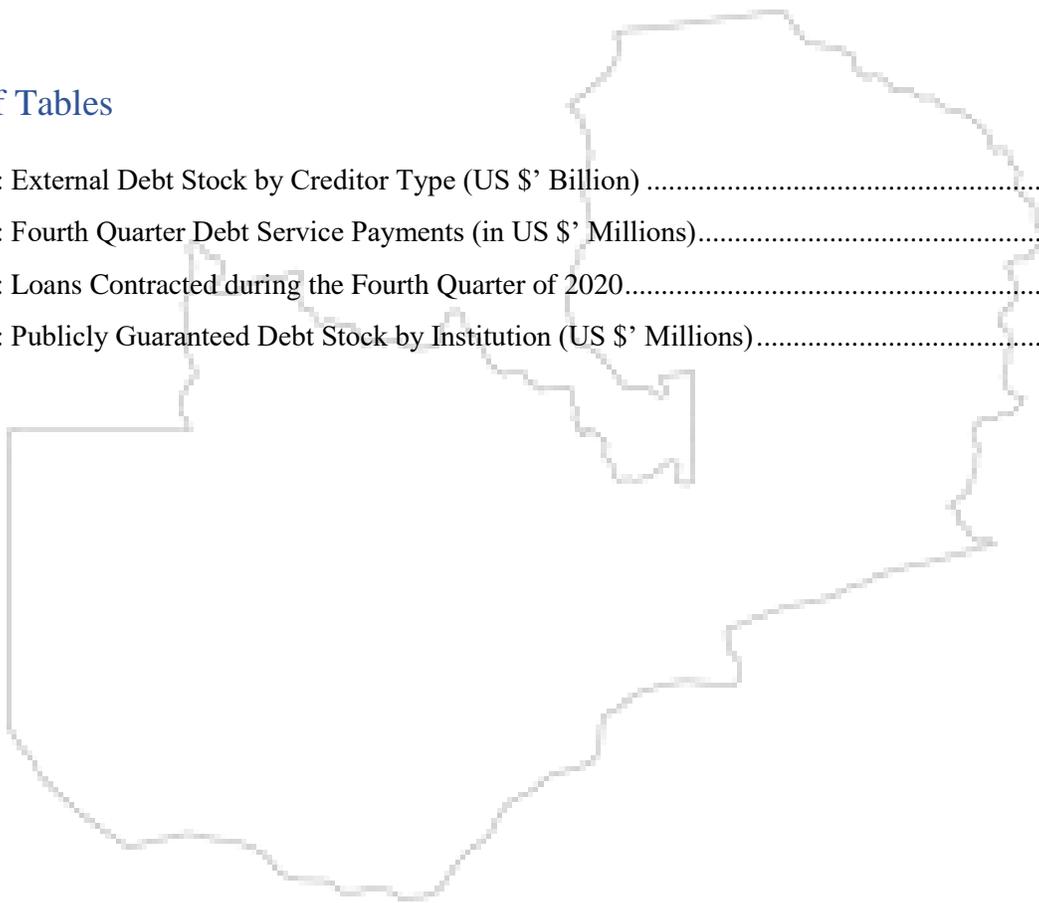
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## Foreword

I am pleased to share the Debt Portfolio Review (DPR) report for the fourth quarter of 2020. This report demonstrates the continued commitment by Government of the Republic of Zambia to enhancing debt transparency. This report is, therefore, the first in the series of quarterly debt reports that Government will be publishing as part of its commitment in the Economic Recovery Program (ERP) 2020 – 2023. The DPR reports on Public and Publicly Guaranteed debt stock, highlighting the drivers of stock movements during the fourth quarter of 2020. The DPR also highlights some of the challenges that Government continued to face in the area of debt management and measures taken to address those challenges.



*Fredson K. Yamba*

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**SECRETARY TO THE TREASURY**

## Working Definitions

In this report, unless the context otherwise requires:

**Export Credits** refers to Buyer's Credit, a financial arrangement in which a bank or financial institution in the exporting economy extends a loan directly to the Republic of Zambia as the importing economy to pay for the purchase of goods and services from the exporting economy

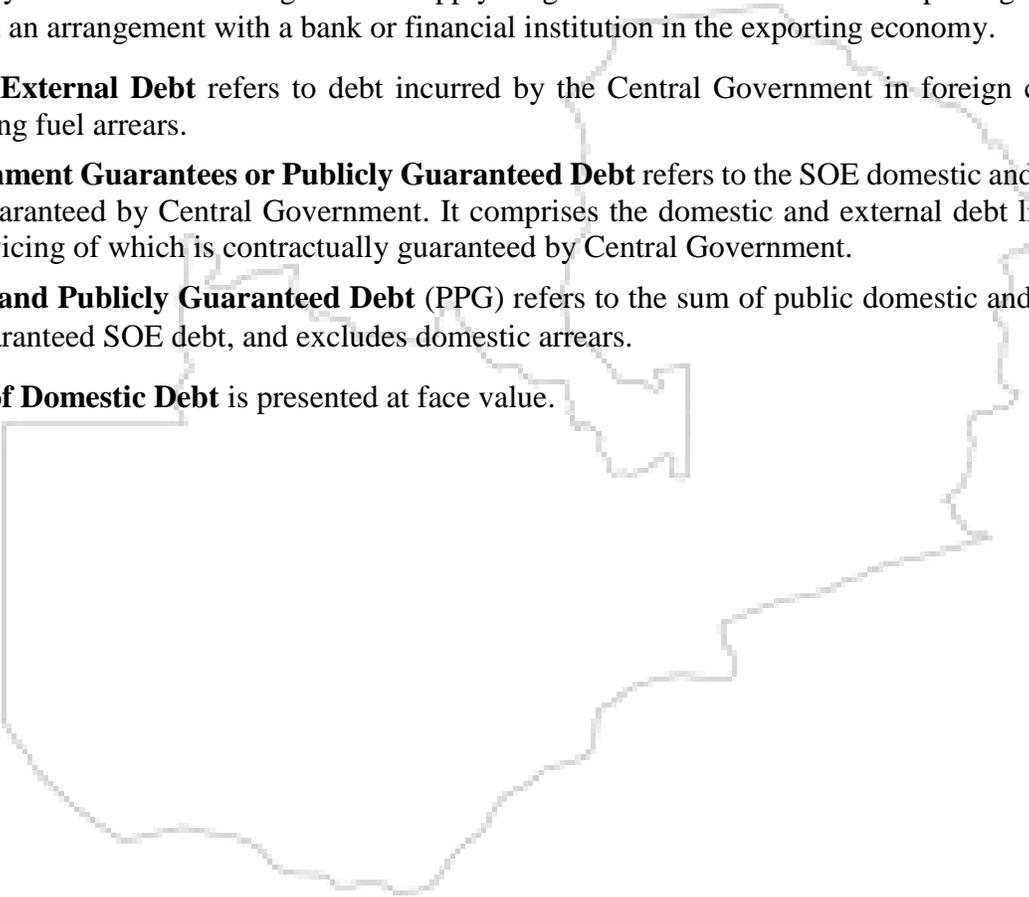
**Suppliers Credits** refers to a financial arrangement in which the contractor in the exporting economy covers the financing for the supply of goods and services to the importing economy through an arrangement with a bank or financial institution in the exporting economy.

**Public External Debt** refers to debt incurred by the Central Government in foreign currency, excluding fuel arrears.

**Government Guarantees or Publicly Guaranteed Debt** refers to the SOE domestic and external debt guaranteed by Central Government. It comprises the domestic and external debt liabilities, the servicing of which is contractually guaranteed by Central Government.

**Public and Publicly Guaranteed Debt (PPG)** refers to the sum of public domestic and external and guaranteed SOE debt, and excludes domestic arrears.

**Stock of Domestic Debt** is presented at face value.



## Executive Summary

At the end of Quarter 4 of 2020, Public and Publicly Guaranteed debt increased to US \$20.46 billion from US \$20 billion at the end of quarter 3 of 2020. This was as a result of the increased stock of external debt which rose to US \$12.74 billion from US \$12.4 billion at end of quarter 3 while domestic debt stock increased to US \$ 6.14 billion (ZMW130.2 billion @ USD1:K21.2) at end of quarter 4 from US \$ 5.60 billion (ZMW 118.7 billion @ USD1:K21.2) at end of quarter 3 of 2020. On the other hand, the stock of publicly guaranteed external debt reduced to US \$1.58 billion from US \$1.59 billion recorded at the end of quarter 3.

External debt rose in Q4, on account of a combination of disbursements to ongoing projects financed mainly by Multilateral creditors and a slow reducing debt stock due to nonpayment of debt service to various non-multilateral creditors owing to Governments liquidity challenges. This led to a net accumulation of debt service arrears of US \$198 million in Q4 culminating into an arrears stock of US \$841 million accumulated during the 2020 fiscal year.

The increase in Domestic debt was driven by the need to finance the budget deficit. The Domestic debt market has been under pressure to meet Governments financing needs owing to existing difficulties in securing external budget support.

Guaranteed external debt stock reduced marginally in Q4 due to reduced disbursements to projects owing to defaults by the SOE's and cross defaults by the central government. On the other hand, debt service payments continued, thereby reducing the stock of guaranteed debt at end Q4.

## Public and Publicly Guaranteed Debt

The stock of Public and Publicly guaranteed debt at the end of Q4 of 2020 amounted to US \$20.46 billion or 107.69 percent of GDP, representing an increase of 2.3 percent from the stock of US \$20 billion recorded at the end of Q3 of 2020. Of this amount, public external debt amounted to US \$12.74 billion, public domestic debt amounted to US \$6.14 billion (K130.2 billion @ USD1:K21.2) while Government guaranteed debt amounted to US \$1.58 billion.

The stock of Public and Publicly guaranteed debt as at end December 2020 represented a 5.5 percent increase from the end 2019 figure of US \$ 19.4 billion (US \$11.66 billion in external debt, US \$ 6.22 billion (K 80.2 billion @ USD1: 12.9) in domestic debt and US \$ 1.56 billion in publicly guaranteed debt).

The increase of 2.3 percent between the end of quarter 3 and the end of quarter 4 stock was due to the following;

1. Continued disbursements on already contracted project public external loans
2. An increase in the domestic debt (through issuance of Government securities) to finance the Budget
3. The slow reduction in debt stock due to principal debt service arrears amounting to US \$111.5 million, accrued by Government in Q4 2020 arising from the debt service standstill on external public debt.

## External Public Debt

The stock of public external debt as at 31<sup>st</sup> December 2020 stood at US \$12.74 billion from US \$12.4 billion as at end September 2020, representing an increase of 2.7 percent. The increase was mainly on account of continued disbursements on already contracted project loans mainly from multilaterals and supplier creditors and the slow reduction in debt stock due to accumulation of principal debt service arrears amounting to US \$111.5 million as at 31<sup>st</sup> December 2020.

The end December 2020 stock increased by 9.2 percent in comparison to the end December 2019 stock of US \$11.66 billion.

## Composition

### *Public External Debt Stock by Creditor Type*

The total public external debt stock at end December 2020 was largely composed of commercial debt, which represented 46.4 percent. Bilateral and Multilateral debt represented 29.9 and 23.7 percent, respectively. When compared to Q3 of 2020, the composition of public external debt remained the same.

**Table 1: External Debt Stock by Creditor Type (US \$' Billion)**

Type of Creditor	Debt Stock*	%
<b>BILATERAL</b>	3.81	29.9%
<b>MULTILATERALS (INCLUDING PLURILATERALS)</b>	3.02	23.7%
<b>COMMERCIAL</b>	5.91	46.4%
<b>O/w EUROBONDS</b>	3.00	
<b>Total</b>	<b>12.74</b>	

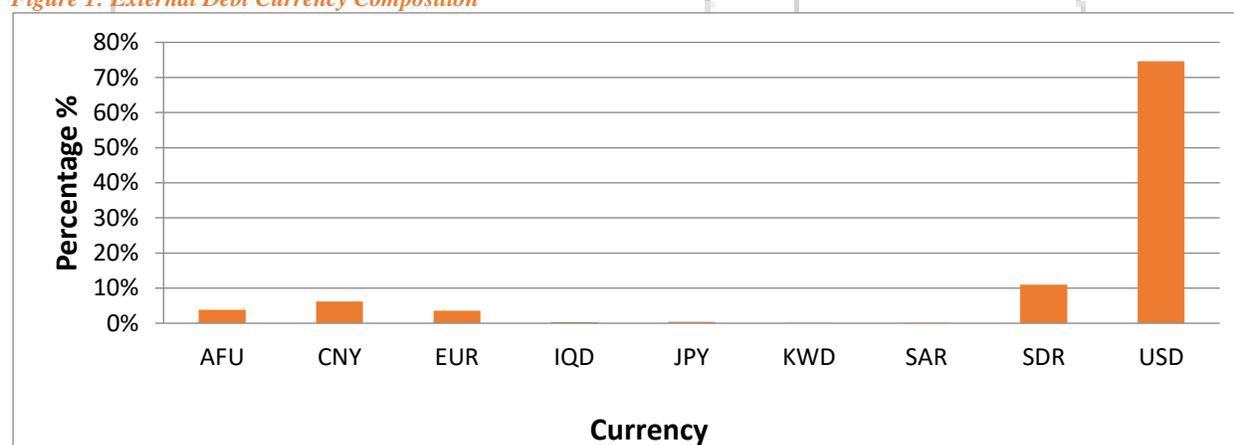
Source: Ministry of Finance

Notes: \*Includes future principal repayments and principal arrears;

### Public External Debt Stock by Currency Composition

Public External Debt Stock as at end December 2020 was largely denominated in United States Dollars, which accounted for 74.6 percent of the stock of debt. SDR denominated debt accounted for 11 percent of the debt stock, while debt denominated in Chinese Yuan accounted for 6.1 percent of the external public debt stock. The remaining 8.3 percent was made up of a combination of the African Development Bank currency (AFU), the Japanese Yen (JPY), Iraqi Dinar (IQD), Kuwait Dinar (KWD) and Saudi Riyals (SAR).

**Figure 1: External Debt Currency Composition**

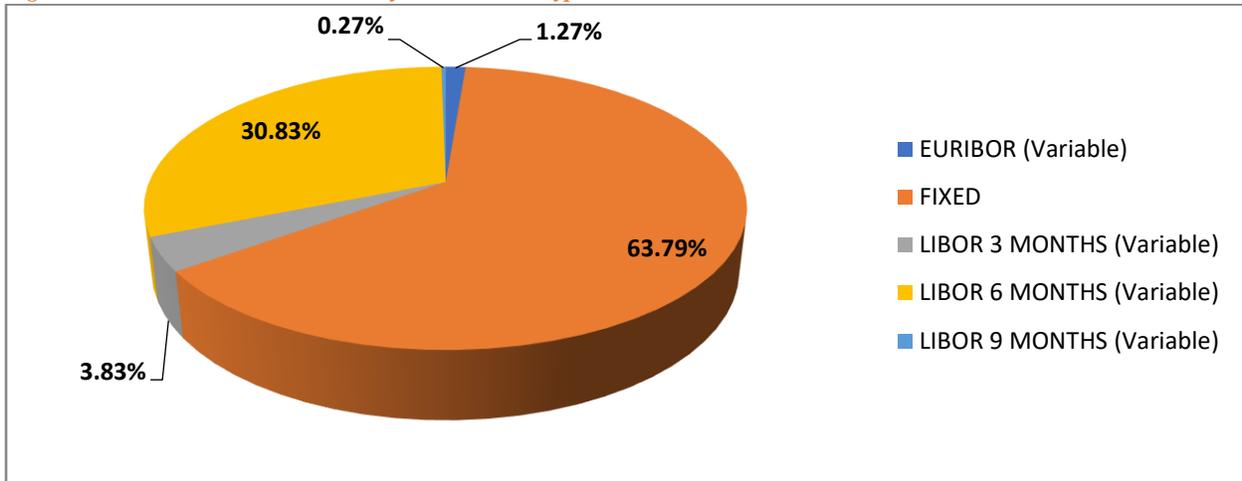


Source: Ministry of Finance

### Public External Debt Stock by Interest Rate type

At the end of Q4 2020, 63.8 percent of the public external debt stock comprised of loans priced at fixed rates while the residual was composed of loans priced at floating rates referenced to Libor and Euribor rates as shown in the figure below:

Figure 2: Public External Debt Stock by Interest Rate Type



Source: Ministry of Finance

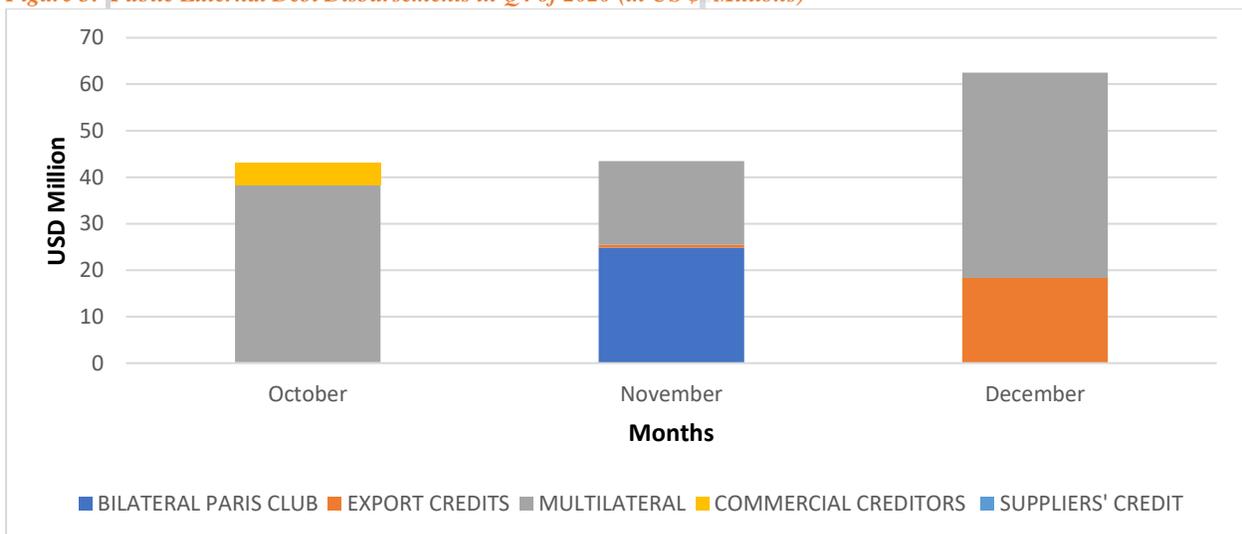
### Public External Debt Disbursements

During the fourth quarter of 2020, total disbursements amounted to US \$149.2 million bringing total disbursements for the entire year, at end December 2020, to US \$1.2 billion compared to the initial budget projection of US \$1.7 billion.

The lower outturn on disbursements was mainly due to low disbursement rates from the majority bilateral and/or commercial creditors who halted disbursements during the year arising from the accumulation of arrears on debt service, coupled with the moratorium being implemented by Government on the acquisition of new non-concessional external loans.

Figure 3 below shows the level of disbursements during the quarter under review by month.

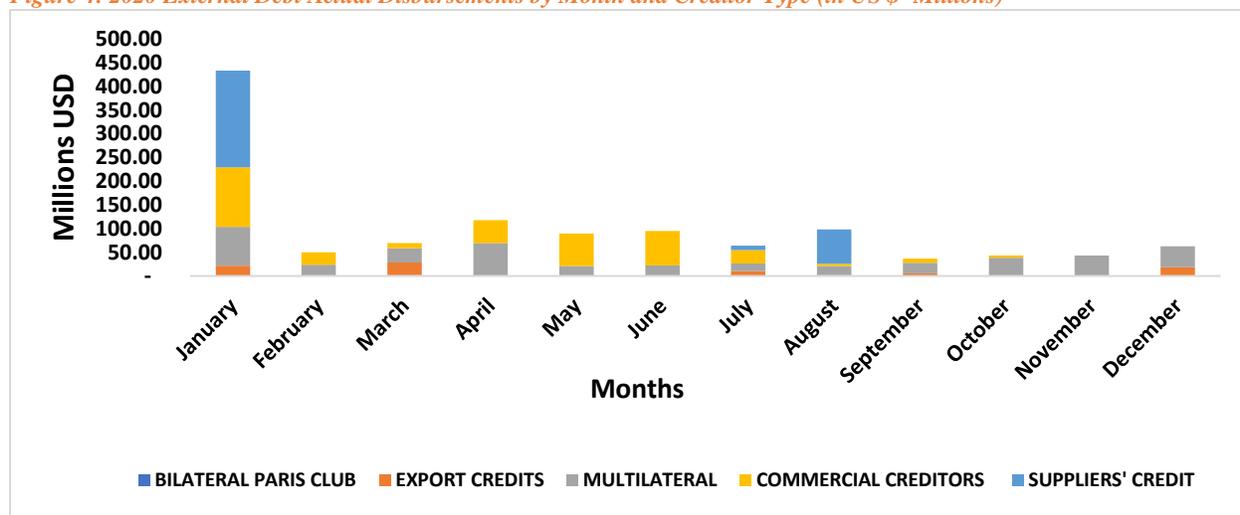
Figure 3: Public External Debt Disbursements in Q4 of 2020 (in US \$' Millions)



Source: Ministry of Finance

Figure 4, which depicts the month on month trend, shows that disbursements declined drastically after January 2020 due to halting of disbursements by commercial creditors except for a few facilities attributed to supply contracts for which procurement had already been done.

Figure 4: 2020 External Debt Actual Disbursements by Month and Creditor Type (in US \$' Millions)



Source: Ministry of Finance

## External Debt Service

During the year 2020, Government was faced with economic and liquidity challenges, which were exacerbated by the COVID 19 pandemic. This led to the inability by Government to fully meet its debt obligations to all its external creditors.

In August 2020, Government sought debt service deferment under the auspices of the Paris Club and G20 Debt Service Suspension initiative (DSSI) from its Paris Club and G20 creditors in order to obtain temporal debt service relief while working towards formulating a debt management strategy that would restore public debt to a more sustainable trajectory. Government also made efforts to reach out to its other creditors i.e. non-Paris Club and non-G20 to seek debt service relief under DSSI comparable terms.

However, not all creditors were willing to participate in the DSSI. Therefore, in order to address the liquidity challenge and ensure fair, transparent and equitable treatment of all its creditors, Government in October 2020 suspended debt service payments to all external creditors with the exception of multilateral creditors and very few bilateral and/or commercial creditors financing nearly-completed priority projects which are of critical social or economic importance.

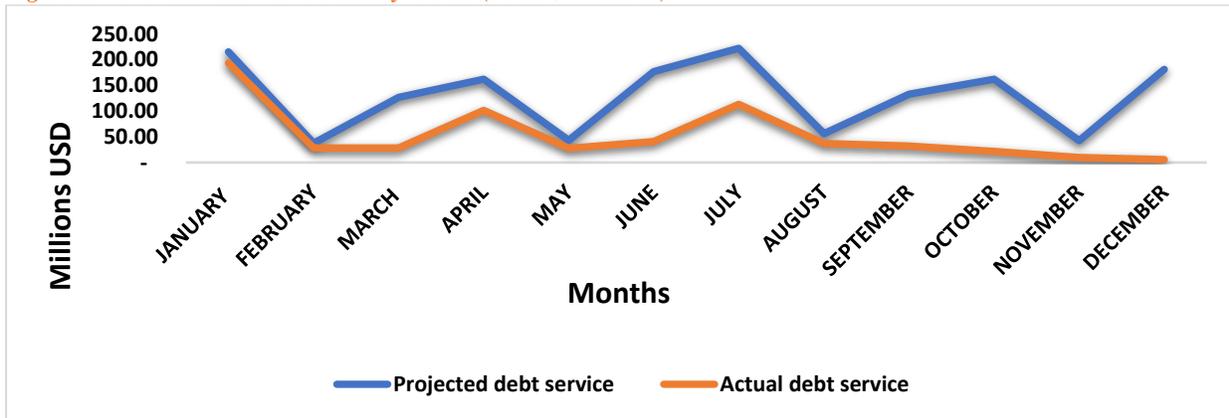
Arising from these developments, total debt service on public external debt amounted to US \$36.9 million in quarter 4 of 2020, representing only 5.8 percent of the total debt service in 2020.

### External Debt Service by Month

Figure 5 depicts the variance between actual and projected debt service payments debt service payments for the year 2020. As at end 2020, actual debt service amounted to US \$639.68 million

accounting for only 41 percent of the Budget projection of US 1.56 billion. The poor outturn in debt service was on account of the liquidity challenges being faced by the Treasury which prevented the Government from meeting its debt service obligations fully and in a timely manner. Debt service was at its lowest in the last quarter of 2020 on account of the debt service standstill that Government decided to implement as announced in October,2020. <sup>1</sup>

Figure 5: 2020 External Debt Service by Month (in US \$' Millions)

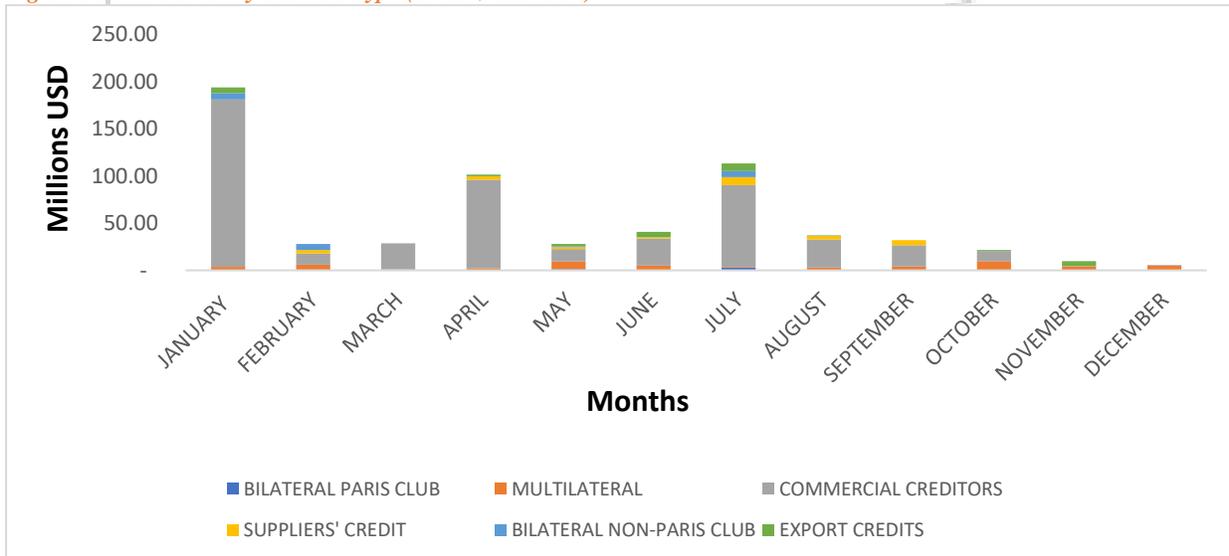


Source: Ministry of Finance

#### External Debt Service by Creditor Type

Figure 6 below depicts debt service payments in 2020 by creditor type. After end October 2020, payments were made only to Multilaterals and few commercial creditors financing selected priority projects<sup>2</sup>.

Figure 6: Debt Service by Creditor Type (in US \$' Millions)



Source: Ministry of Finance

<sup>1</sup> [https://www.mof.gov.zm/?wpfb\\_dl=287](https://www.mof.gov.zm/?wpfb_dl=287)

<sup>2</sup> [https://www.mof.gov.zm/?wpfb\\_dl=287](https://www.mof.gov.zm/?wpfb_dl=287)

*Table 2: Fourth Quarter Debt Service Payments (in US \$' Millions)*

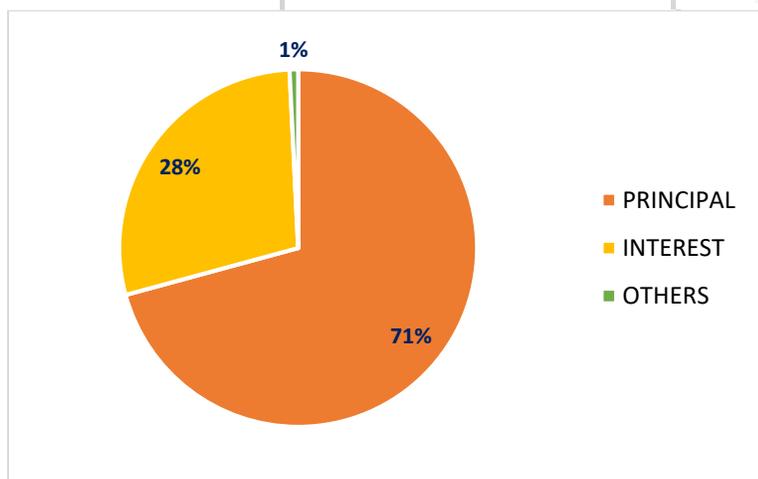
CREDITOR TYPE	OCTOBER	NOVEMBER	DECEMBER
BILATERAL PARIS CLUB	-	-	-
MULTILATERAL	9.60	4.27	4.87
COMMERCIAL CREDITORS	11.05	0.50	0.87
SUPPLIERS' CREDIT	-	-	-
BILATERAL NON-PARIS CLUB	-	-	-
EXPORT CREDITS	0.88	4.90	-
<b>TOTAL</b>	<b>21.52</b>	<b>9.67</b>	<b>5.73</b>

Source: Ministry of Finance

### *Arrears on External Debt Payments*

During the 4<sup>th</sup> quarter of 2020, Government accumulated a total of US\$198.0 million public external debt service arrears broken down as US \$ 111.5 million principal, US \$ 83.5 million interest payments and US \$ 3 million for other debt service related payments, bringing the stock of arrears at end 2020 to US \$841 million.

*Figure 7: Public External Debt Arrears Composition (in US \$' Millions)*



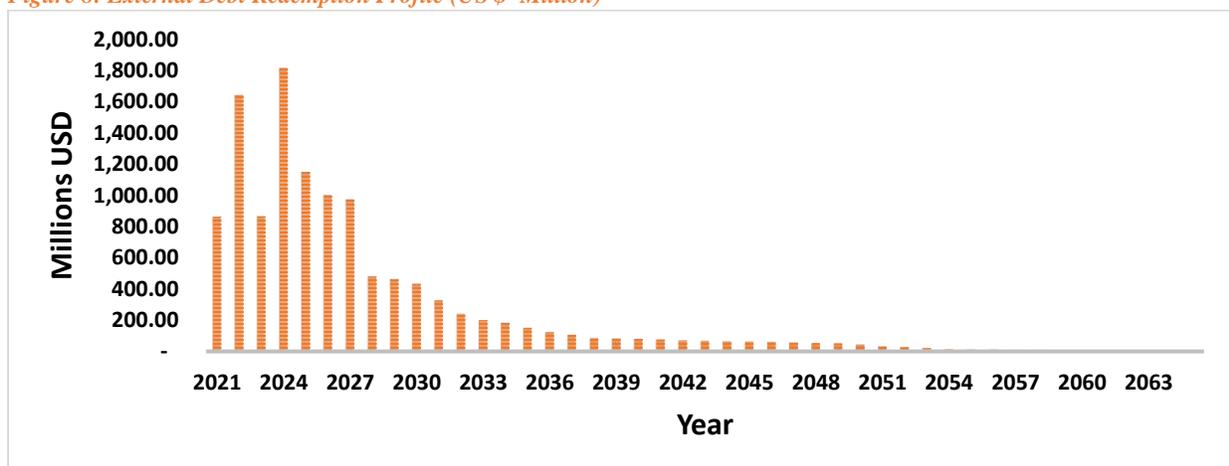
Source: Ministry of Finance

Of the total arrears accrued, 71 percent can be attributed to principal arrears while interest and other debt charges accounted for 28 percent and 1 percent, respectively.

### *External Debt Redemption Profile*

The redemption profile in figure 8 shows peaks in the years 2022, 2024 and 2025 to 2027 representing the significant refinancing risks in the Eurobond maturity years. The graph declines after 2030 reflecting less refinancing risks in the outer years.

Figure 8: External Debt Redemption Profile (US \$' Million)



Source: Ministry of Finance

## External Loans Signed

During the fourth quarter of 2020, the Government of the Republic of Zambia signed a total of four (4) loans amounting to US \$ 73.5 million from the International Development Association and the African Development Bank Group to support the Government’s COVID – 19 intervention efforts, complete already commenced projects as well as to provide financing to the social sector.

Table 3: Loans Contracted during the Fourth Quarter of 2020

	CREDITOR NAME	NAME	LOAN AMOUNT (US \$)
1	IDA	Irrigation Development and Support Project (IDSP)	30,000,000.00
2	IDA	Zambia Covid-19 Emergency Response and Health Systems Preparedness Project	20,100,000.00
3	African Development Bank	Nacala Road Corridor Phase IV Supplementary Financing	12,623,588.84
4	African Development Bank	Sustainable Livestock Enhancement and Management project (SLIMP)	10,818,982.55
		<b>Total</b>	<b>73,542,571.39</b>

Source: Ministry of Finance

## Government Guarantees

The stock of publicly guaranteed external debt stock was US \$ 1.58 billion as at end Q4 compared to US \$ 1.59 billion as at end Q3, 2020. This reduction in stock was on account of a slowdown in disbursements to guaranteed projects arising from the debt service standstill by the Government of Zambia which resulted in a cross default to guaranteed facilities, combined with debt service payments made by the SOEs. The end December 2020 stock of US \$1.58 billion represented a 0.8 percentage increase from the end 2019 stock of US \$1.56 billion. The bulk of the guarantees relate to the state-owned power utility company ZESCO and the Kafue Gorge Lower Power project, a subsidiary owned by ZESCO.

The table below provides a summary of the composition of the publicly guaranteed debt stock by institution.

*Table 4: Publicly Guaranteed Debt Stock by Institution (US \$' Millions)*

<b>INSTITUTION</b>	<b>END 2020 STOCK (USD)</b>	<b>% COMPOSITION</b>
Kafue Gorge Lower	932.02	59.1
ZESCO	527.41	33.4
Public Service Pensions Fund	52.73	3.3
Development Bank of Zambia	27.50	1.7
ZAMTEL	22.20	1.4
Zambia National Building Society	15.00	1.0
<b>TOTAL</b>	<b>1,576.85</b>	

Source: Ministry of Finance

## Domestic Debt

Zambia's domestic debt as at end 31<sup>st</sup> December 2020 stood at **ZMW130,214,691,510.56** from ZMW118,689,182,181.56 in September 2020. This increase was driven by the need to finance the budget deficit. Due to Government's inability to secure external budget support, the Domestic market has been under pressure to meet non-project expenditure related such as the Fertilizer Input Support Programme, fuel arrears, Covid-19 related expenditures including drug procurement, dismantling of domestic arrears, and economic empowerment programmes.

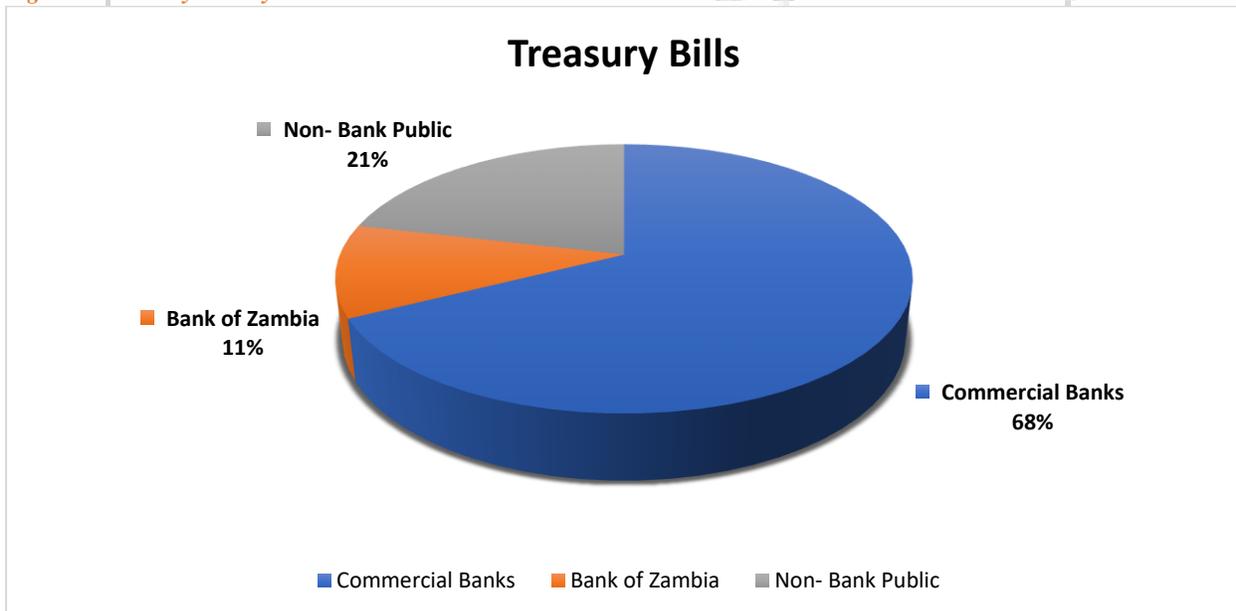
The Government securities composed of ZMW33,009,332,962.00 in Treasury Bills and ZMW97,205,358,548.56 in Government Bonds in December 2020. This composition is attributed to market preference for longer dated instruments during the period and the issuance of Government bonds to finance priority programmes such as food security and payment of arrears related to oil procurement.

### Composition of Domestic Debt by Holder as at end December, 2020

#### Treasury Bills

Commercial banks holdings dominated the Treasury bills portfolio at end 2020. Commercial bank holdings accounted for 68 percent and the Non-banks, 21 percent. Bank of Zambia holdings stood at 11 percent (Figure 9).

Figure 9: Treasury Bills by Holder

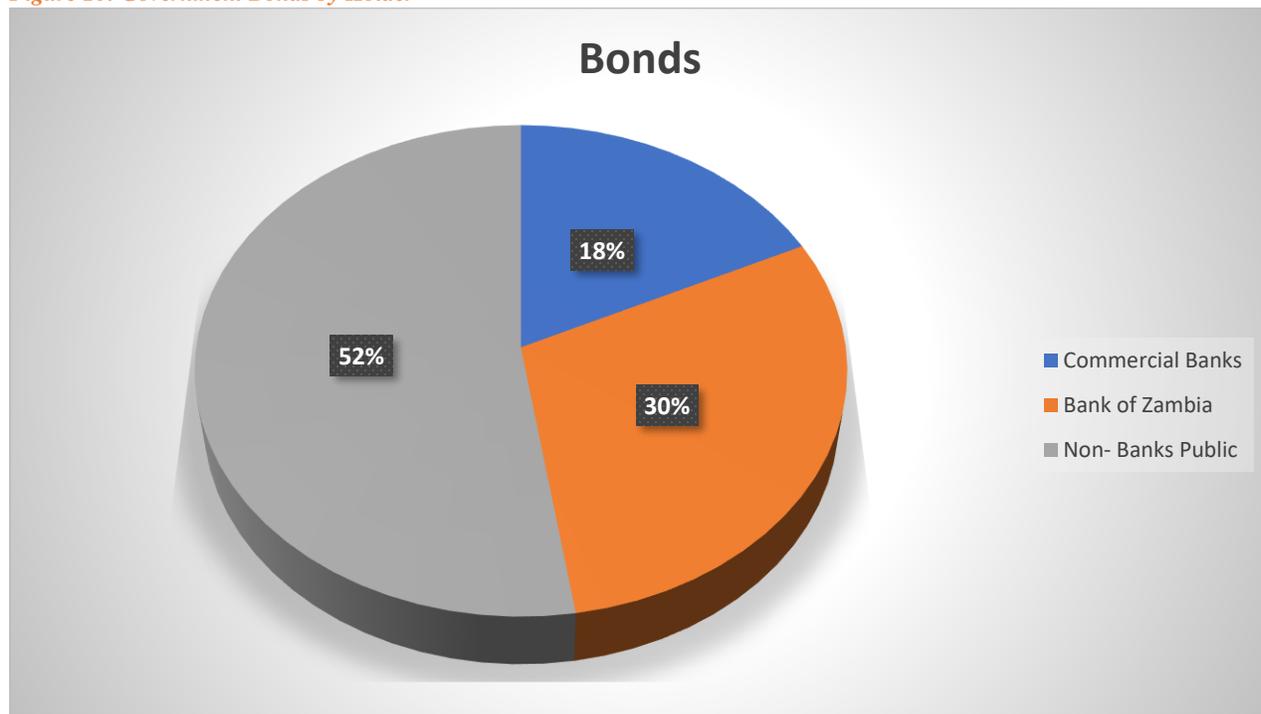


Source: Bank of Zambia

## Government Bonds

Non-Bank Public portfolio dominated the holding of Bond stock as at end 2020 at 52 percent while Bank of Zambia and Commercial Banks accounted for 30 percent and 18 percent, respectively, as depicted in figure 10.

Figure 10: Government Bonds by Holder



Source: Bank of Zambia

## Foreign Participation on Government Securities

The non-resident holding in Government securities increased to ZMW18,452,472,667 at end December 2020 representing 14.17 percent of the entire domestic debt stock portfolio. Non-resident holdings of Government Securities were composed mainly of Government Bonds amounting to ZMW17,187,421,699 while Treasury bills amounted to ZMW1,265,050,968. This is in contrast to the end third quarter position comprised of Government Bonds amounting to ZMW14,112,559,199 and Treasury bills at ZMW825,968.

## Yield Rate on Government Securities

Yield rates on Treasury Bills trended downwards from 21.39 percent in September 2020 to 19.80 percent in December 2020. Similarly, on Bonds, on average there was a downward trend in the yield rate from 32.55 percent in September in 2020 to 32.39 percent in December 2020.

## Debt Service on Government Securities – Principal and Interest Cost on Government Securities

The total interest cost payment on Government securities in the last quarter of 2020 increased to ZMW4,300,337,332.03 from ZMW4,291,030,807.19 in the third quarter of 2020. This increase was attributed to the increase in interest rates and the volume of outstanding Government securities.

On the other hand, principal repayment declined to ZMW8,003,025,503.84 in last quarter of 2020 from ZMW10,997,492,364.89 in the third quarter of 2020

