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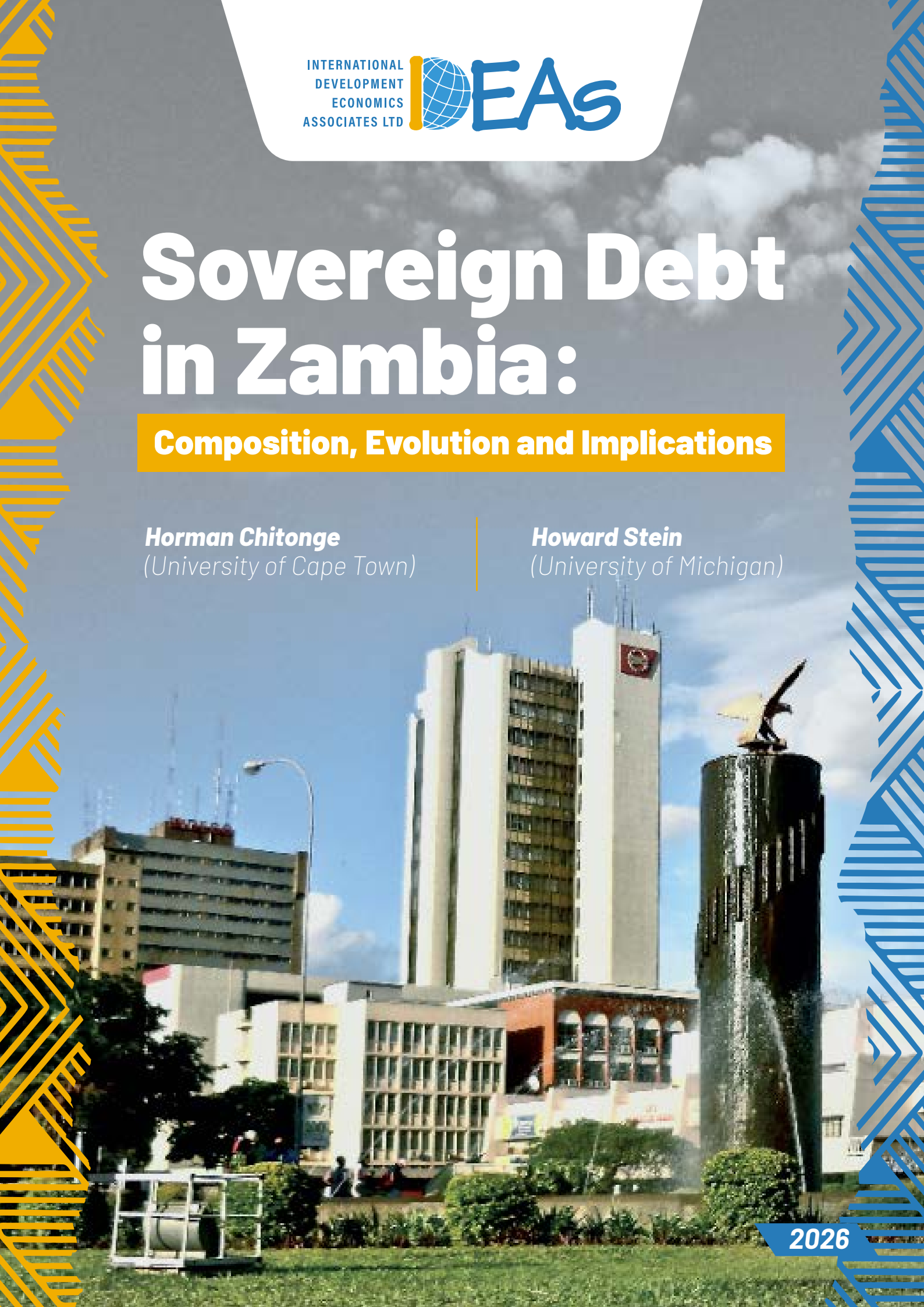


Sovereign Debt in Zambia:

Composition, Evolution and Implications

Horman Chitonge
(University of Cape Town)

Howard Stein
(University of Michigan)



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Abstract

On November 13, 2020 Zambia became the first African country in the Covid-19 era to default on its Eurobond debt after missing a coupon payment of US\$42.5 million. Since then other African countries have also defaulted as the continent once again finds itself in another debt crisis. At the end of 2025, 21 sub-Saharan Countries were either in debt distress or at high risk of falling into debt distress. The paper presents and criticizes the standard view of the IMF and other mainstream neoclassical economists that largely blames the default on Zambian mismanagement and corruption. It carefully traces the ill-conceived procyclical conditions placed on IMF loans which have prolonged the crisis and investigates the slow progress of the G20 Common Framework used to coordinate debt relief. An alternative deeper structural explanation is presented which links the crisis to the adoption of neoliberal policies, the colonial style extractive economy and the problematic global financial architecture which forces poor countries to accumulate dollars for vital imports and debt servicing. While the restructuring of sovereign debt is needed urgently to provide relief, the main and long-term challenge in Zambia is to transform the colonial economy by diversifying and broadening production and export activities in the country.

JEL Classification

E66; O11; O55

Key words

Zambia, debt crisis, structuralist explanations

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Horman Chitonge

(University of Cape Town)

Email for Correspondence:

horman.chitonge@uct.ac.za

Howard Stein

(University of Michigan)

Email for Correspondence:

howstein@umich.edu

Introduction

Zambia made international headlines as the first country to default on its sovereign debt after the start of the COVID-19 pandemic. The default was a result of the Zambian government failing to remit payment on a \$42.5 million coupon which was due on November 13, 2020. The repercussions of the default are not only restricted to rising interest rates associated with the low sovereign credit rating, but extend to the entire Zambian society.¹ The default has had several other negative effects on the economy, particularly in terms of the uncertainty resulting from the failure to agree with creditors on a debt restructuring deal. For the past three years, the country has been in extended discussions with official and private creditors to restructure its external debt which has become unsustainable. Zambia is not the only country that is facing unsustainable public debt. Many countries in Africa and other developing regions are reported to be facing unsustainable public debt burdens, worsened by the COVID-19 pandemic. At the end of 2020, when Zambia defaulted on its external debt obligations, it was reported that six African countries were in debt distress, while 14 other African countries were at high risk of falling into debt distress (AEO, 2021:45).² In this paper, we discuss the sovereign debt situation in Zambia, focusing on the composition of the debt, the factors that contributed to the default including the problems with the structure of global financial architecture and the implications this has had on the economy and society broadly. To contextualise the analysis of what led Zambia to default on its external sovereign debt, the paper also provides an overview of the composition of public debt in Zambia and how this has evolved over time.

The paper starts with an overview of the sovereign debt crisis in Zambia. Part II examines the orthodox interpretation of the causes of the sovereign debt crisis, the associated IFI policies that have been imposed on Zambia arising from the interpretation, and the challenges emerging from the debt crisis. Part III provides a structuralist interpretation and a critique of the orthodox understanding of the sovereign debt crisis and its associated policies. The last part sums up the discussion by highlighting key points from the analysis.

Part I: The Sovereign Debt Crisis in Zambia

Overview

Zambia, like many developing countries, has faced unsustainable public debt levels before. During the 1980s, the Zambian government, as a result of declining prices and production of copper which is the country's major foreign exchange earner, had to borrow, mainly from the IMF and World Bank, to meet its public expenditure needs. As a result of this, external public debt rose steadily over the 1980s and the country was forced to implement the IMF and World Bank's Structural Adjustment Programme (SAP). By the 1990s, Zambia's public debt was estimated to be over \$7 billion, which was more than twice the country's gross domestic product (GDP) and debt service alone was more than 50 percent of the country's export revenue (ZCDD, 1994). In the early 2000s, through the Multi-lateral Debt Relief Initiative (MDRI) and the Highly Indebted Poor Countries Initiative (HIPC) programme, the country's public debt was reduced from \$7.1 billion to about \$500 million at the end of 2006 (Mbewe et al, 2024).

¹ Zambia's sovereign credit rating has since been rated as Restricted Default (RD), a rating that has continued until the country agrees with official and private creditors to restructure the debt.

² Debt distress refers to a situation where a country is unable to fulfil its debt obligations. Although it's common to use public-debt-to-GDP ratio as an indication of a country's debt burden, there is no single cut off point of public debt-to-GDP when a country enters into distress, because there are many reasons why a country may fail to honour its debt obligations.

As this paper illustrates, the levels of public debt started to rise again from 2010 onwards, with sovereign debt rising from 37 percent of GDP to over 140 percent in 2020 before declining slightly in 2021 and 2022. We argue in this paper that one of the major reasons why sovereign debt has been a recurrent problem in Zambia is the structure of the economy, which relies overwhelmingly on mineral (mainly copper) export for foreign exchange earnings.³ Given this, every time there is a fall in the prices of the country's main foreign exchange earner, the economy experiences serious balance of payment challenges, which forces the country to borrow. The second reason is that when commodity prices are high and with that the country's revenue, government increases spending on public projects financed through mainly external borrowing, with the implicit assumption that commodity prices will remain high, and the country would be able to meet its public debt obligations. However, prices of commodities are volatile and when they fall, the country faces serious challenges of unsustainable public debt as is currently the case.

Zambia is only one of the countries in Africa struggling with a large foreign debt burden. As of December 2025, the joint World Bank and IMF Debt Sustainability Analysis lists 21 countries in SSA in distress or with a high risk of falling into debt distress (World Bank, 2026). In December 2022 Ghana became the second country to default in the COVID-19 era followed by Ethiopia in December, 2023.

According to the country's Ministry of Finance reports, Zambia's total sovereign debt was estimated at \$33.52 billion dollars at the end of June 2023, representing 114 percent of GDP. Of this public external debt (central government and public guaranteed debt) was the largest component, amounting to \$19.6 billion, which includes \$1.38 billion in accumulated arrears on interest payments (RoZ, 2023a). External debt accounted for 60 percent of total sovereign debt. Domestic debt was estimated at \$13.61 billion as of the end of June 2023, accounting for the remaining 40 percent of total sovereign liabilities (Table 1). By the end of 2023, total public debt reached 134% of GDP before declining to 116% in 2024 with external debt rising to 71% of the total (RoZ, 2025).

Table 1: Zambia's Sovereign External and Domestic Debt (June 2023).

	Billion \$US (%)	Total	Percent
External Debt (a)		19.91	59.39
Central Government	15.36 (45.83)		
Government Guaranteed Debt	1.74 (5.48)		
Government Securities held by Non-Residents (Treasury Bonds)	2.71 (8.08)		
Domestic Debt (b)		13.61	40.61
Government Securities	9.49 (28.3)		
Government Loans	0.05 (0.16)		
Arrears	3.75 (11.12)		
Total (a + b)		33.52	

Source: Authors based on data from Ministry of Finance's Public Debt Summary (ROZ, 2023).

Note: the figures in brackets indicate percentages of total public debt stock.

³ Export of minerals still account for over 75 percent of foreign revenue (ROZ, 2022)

Although sovereign debt has been declining from a peak of 141 percent of GDP in 2020, the country is still facing unsustainable levels of public debt which has serious impact on economic and social development. The growing challenges around the rising sovereign liabilities in the country are exacerbated by the protracted nature of the debt relief negotiations, compounded by the recent collapse of initiatives to restructure the country's public debts to sustainable levels and reduce the negative impact of debt distress on the country's economic growth prospects. In June 2023, the Official Creditor Committee (OCC) agreed to restructure the US\$6.3 billion bilateral loans, but debt restructuring talks collapsed in November 2023 when the OCC objected to the proposed restructuring of the US\$3 billion agreed between the Government of Zambia and bondholders. In March 2024, there were reports of Zambia having reached a debt restructuring deal with private creditors and bondholders (see Chibuye, 2024), but it remained unclear whether official creditors would accept the deal. As of May 2025, three bilateral debt restructuring agreements (France, India, and Saudi Arabia) under the OCC deal have been signed but progress has been very slow on all other negotiations (IMF, 2025). Failure to agree on a debt restructuring deal with creditors has left the country in a difficult economic situation characterised by uncertainty, low investments, high debt service obligations, and low export revenue due to declining production of the country's main export, copper. This situation has been compounded by the depreciation of the local currency (Kwacha) against major global currencies in which the country's external debt is denominated, in particular the US dollar which accounts for over 82 percent of Zambia's external debt, (see RoZ, 2023b). The depreciation of the Kwacha in 2015 and in the two years prior to the default made the repayment of debt denominated in foreign currency more costly and unsustainable, and contributed to the 2020 default. The unsustainability of Zambia's debt burden is clearly evident from several indicators including the external debt-to-export revenue ratio which increased from 2.3 percent in 2012 to 33.3 percent in 2019 before declining to 24 percent in 2020 and subsequent years (IDS, 2024).⁴

The growing share of public resources allocated to debt servicing and principal repayment has meant that there are few resources left for social development and investment in productive projects. It has been estimated that debt servicing costs alone increased from 10 percent of public expenditure in 2014 to over 30 percent in 2020, with debt service costs and wages taking up 90 percent of domestic resources (Mbewe, et al, 2024:14). This generates a vicious cycle that reinforces the crisis by redirecting resources from productive investment to merely servicing the debt. In an effort to manage the debt crisis, the government has restricted borrowing as well as spending on infrastructure and other projects meant to build productive capabilities. In a recent government report, the measures taken to contain the debt crisis include "limiting external borrowing to only concessional sources; ceasing of the issuance of guarantees; rescoping of projects financed by external loans; cancellation of USD 2.1 billion of undisbursed balances on external loans; suspension of works on ongoing loan financed projects; and continuation of selected previously loan financed projects through the National Budget" (RoZ, 2023b: 1). Before considering alternative explanations of the origins and causes of the debt crisis in Zambia, it is important to examine the composition of the debt in further detail.

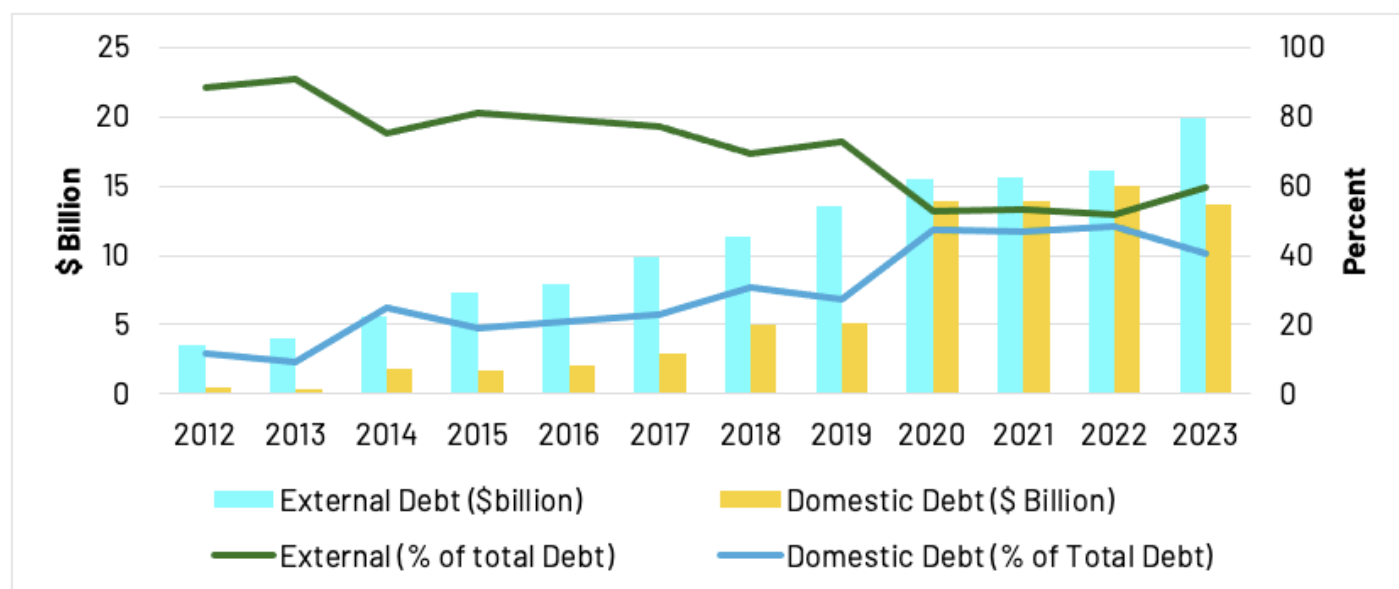
Composition of Sovereign Debt in Zambia

Zambia's sovereign debt has several components which are interesting to consider in order to understand the nature of the sovereign debt crisis. The most basic way of disaggregating sovereign

⁴ The low debt service disbursement after 2020 is partly attributed to ongoing negotiations with creditors to restructure components of the country's external debt. International debt statistics show that while before 2020, disbursement on public and public guaranteed external debt average about \$2,2 billion dollars between 2014 and 2020, only \$492 million was disbursed in 2021 and \$992 million in 2022. With a return to more normal payments the debt service to export ratio climbed back to 30.5% in 2024 (World Bank, 2025).

debt in Zambia is distinguishing external from domestic debt. From 2010 to the present, the dominant component of Zambia's public debt, like many African countries where financial and capital markets are underdeveloped, has been external debt. In the Zambian case, public external debt has been the largest component, constituting over 80 percent from 2012 to 2017, before declining to around 60 percent between 2020 and 2023 (Figure 1) before rising again to 71% in 2024.

Figure 1: Public Debt: External vs Domestic



Source: Authors, based on International Debt Statistics

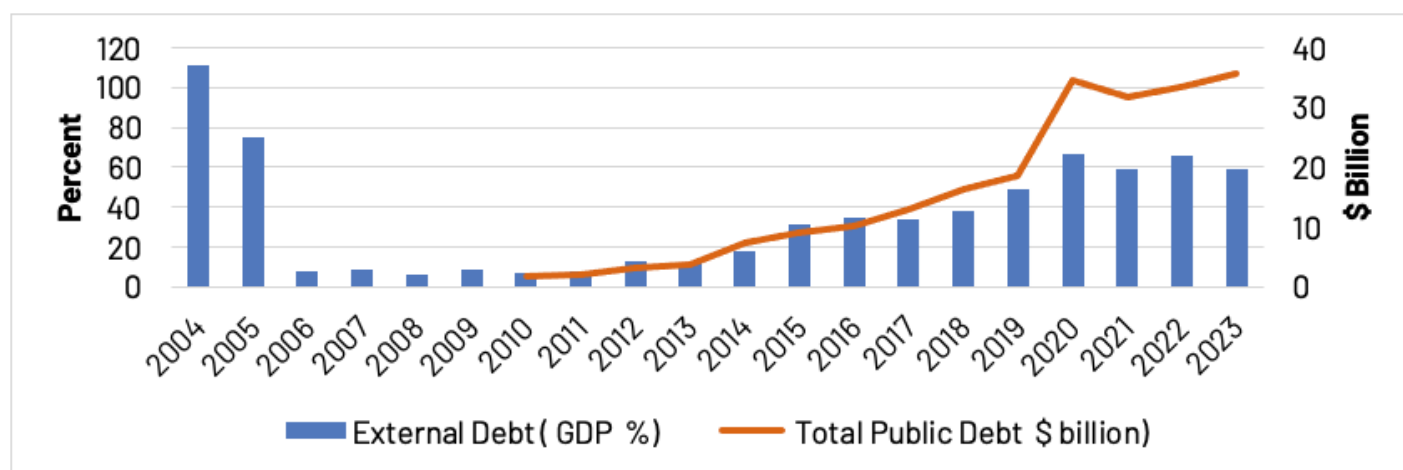
Although government borrowing through government securities represents a small proportion of total public debt, its share has been rising over time from just over 11 percent in 2012 to 47 percent in 2020, before declining to 40 percent in 2023. There are two important factors which explain the rising share of domestic debt in total public debt. The first is the growth of domestic capital markets, especially bond markets which have seen growth in Zambia and elsewhere on the African continent. Local Currency Bond Markets are becoming an important sources of development finance in several African countries, though some studies suggest that they concentrate more on short-term instruments (Dafe et al, 2018). The second factor is that, as the cost of borrowing from international markets rose prior to the country's default on its sovereign debt in 2020, the Zambian government turned to borrowing on domestic capital markets as the most readily available source of finance, mainly because domestic borrowing does not carry exchange rate risks as long as it is not held by non-residents.

Mbewe et al (2024) have noted that from 2016, government intensified its mobilization of resources to finance a growing fiscal deficit by increasing both the size and frequency (from quarterly to bimonthly) of auctions of Treasury Bills and Bonds (TBs). As indicated in Figure 1, the share of public domestic debt more than doubled from 20 percent in 2016 to over 47 percent in 2020. In dollar terms, public domestic debt rose from less than half a billion dollars in 2012 to more than \$15 billion in 2022. There are four main holders of government securities on the local market: commercial banks, Non-Banking Financial Institutions (NBFIs) such as insurance and pension funds, the Bank of Zambia and non-residents. Banks and NBFIs mainly participate through short terms lending through T-Bills, while the Bank of Zambia and non-resident investors concentrate on buying government bonds (IMF, 2023a).

External Sovereign Debt

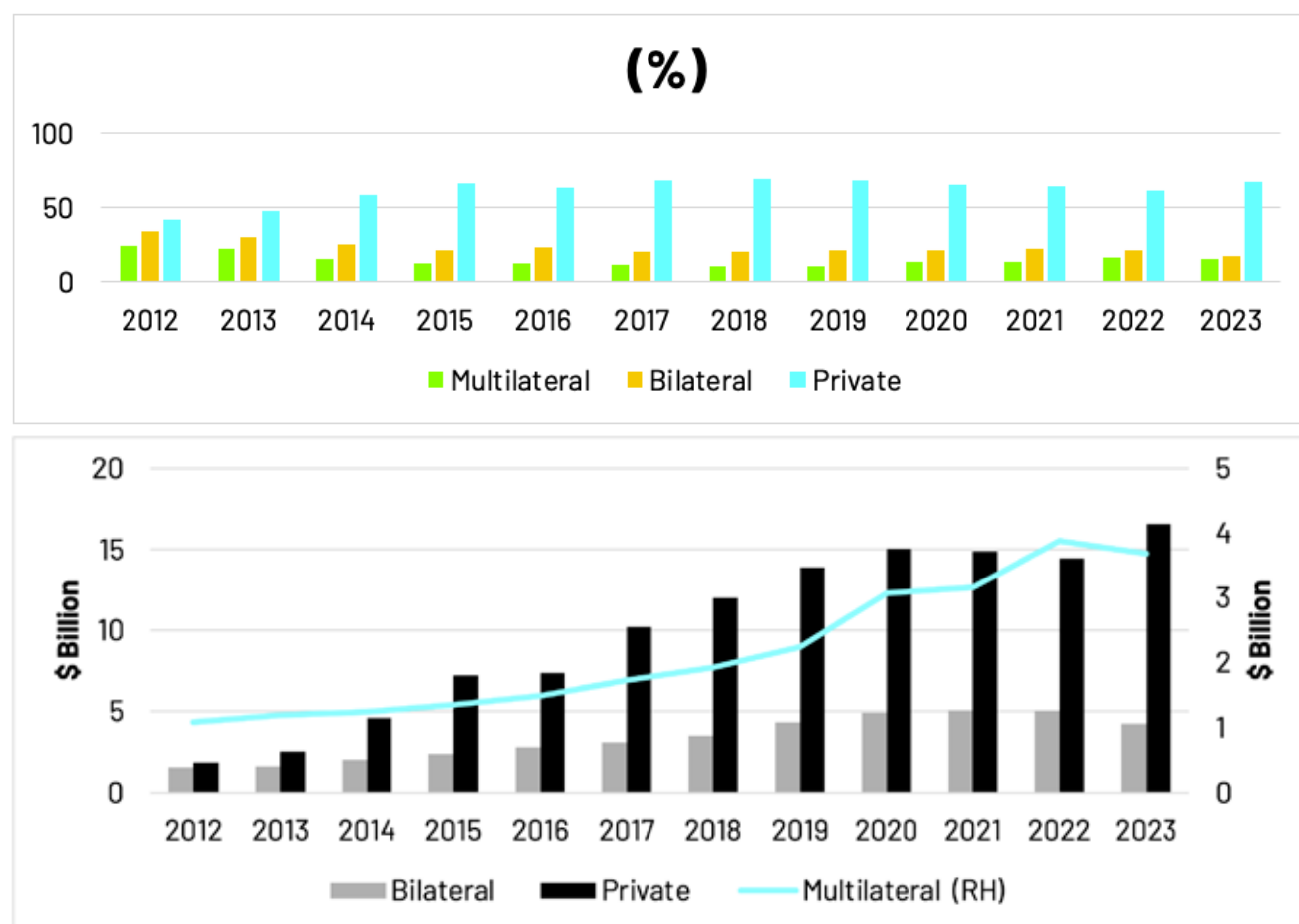
External debt has remained the largest component of Zambia's sovereign debt, rising from just about 7 percent of GDP in 2010 to over 60 percent in 2020 (Figure 2). In dollar terms, external debt expanded by almost 2000% from less than \$1.7 billion in 2010 to over \$33 billion in 2023. The growth of external borrowing highlights the growing financing needs of the government, amid the growing fiscal deficit which had to be financed from external borrowing (Mbewe et al, 2024). The cost of servicing the accumulated external debt and arrears on domestic debt has significantly contributed to a growing fiscal deficit in recent years leading up to the country's default on its sovereign debt.

Figure 2: External Debt to GDP (%) and Total Public Debt (\$Billion)



Source: Authors, based on International Debt Statistics

While public domestic debt in Zambia constitutes about two-fifths of sovereign debt, the focus in international media has been on external debt. This is understandable given that the sovereign debt crisis is predominantly related to external debt. As Figure 3 illustrates, external debt in Zambia has three broad components: bilateral (official creditors), multilateral and private creditors mainly Eurobond holders (Figure 3).

Figure 3: Composition of External Sovereign Debt by Creditor

Source: Authors, based on International Debt Statistics (Note: these two figures are combined into one).

The largest share of Zambia's external debt, since 2012, has been held by private creditors (commercial and private bondholders). The share of private creditors in total sovereign external debt averaged 61 percent for the period from 2012 to 2022, peaking at almost 70 percent in 2019 before declining to an average of 65 percent from 2020 to 2023. If we disaggregate the private creditors into Eurobond holders, commercial non-bond holders and non-resident holders of government securities (T-Bills and T-Bonds), commercial non-bond holders had the largest share of almost \$4 billion (including arrears), followed by Euro-bondholders at \$3.62 billion and non-resident holders of government securities at \$2.71 billion in 2023 (RoZ, 2023). After the 2020 default, borrowing from private creditors ended abruptly, with the government turning to concessional borrowing mainly from bilateral and multilateral lenders. As of 2020, the government has not been contracting non-concessional loans. However, the share of private creditors in total sovereign debt has not declined, partly due to outstanding disbursements of interest on loans as well as the repayment of the principal.

Bilateral debt, which accounted for about 30 percent of total debt in 2012, has declined steadily to around 20 percent between 2017 and 2023. The steadiness of bilateral debt in Zambia's external sovereign debt can be attributed to the fact that most of the official creditors provide concessional loans with very low interest rate, with some moving from loans to grants in recent years (Mbewe et al, 2024). As noted above, the Zambian government has taken a decision, as part of its public debt management strategy to not contract non-concessional loans which means financing the fiscal deficit through official creditors (bilateral), multilateral instruments, and domestic borrowing (ROZ, 2023b).

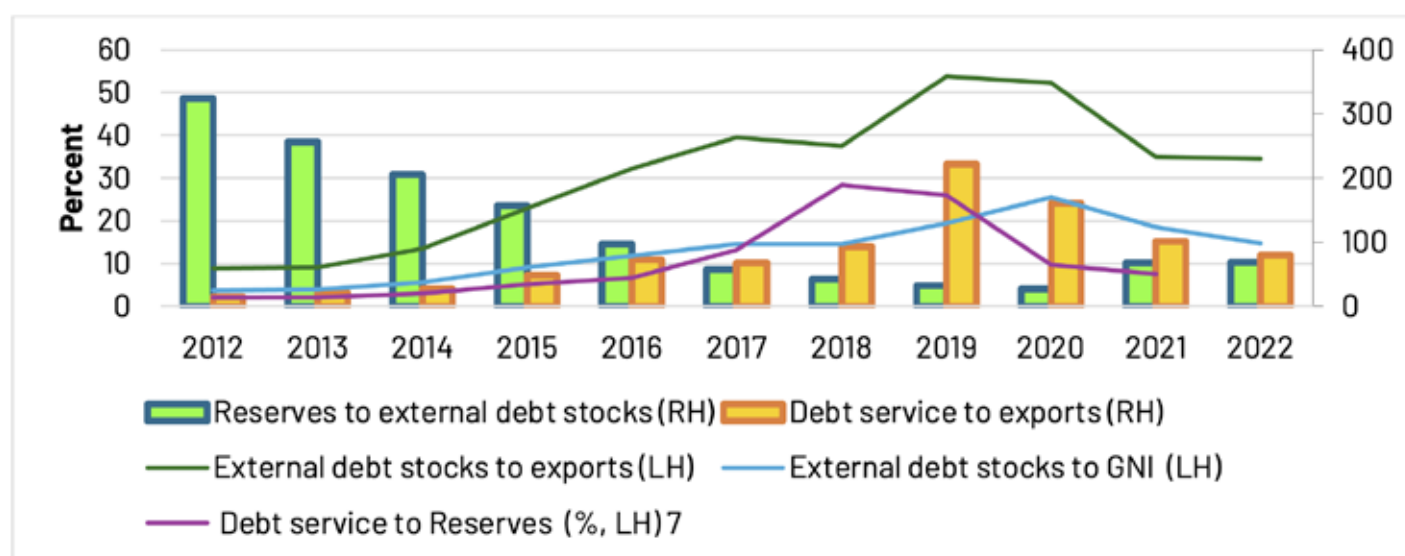
Figure 3 also illustrates Zambia's growing reliance on bilateral concessional instruments. Bilateral borrowing rose from just \$1.5 billion in 2012 to almost \$5 Billion in 2020. We see the rise of bilateral

borrowing from 2019 when debt sustainability concerns were raised by various institutions including the IMF and World Bank (IMF, 2023a). Similarly, the share of multilateral debt in Zambia's external debt has also been rising, from just \$1 billion in 2012 to almost \$4 billion in 2022. Much of this increase occurred between 2019 and 2022.

According to the Ministry of Finance's public Debt Summary report, as at June 30 2023, the country had a total of 46 creditors, 12 of the instruments were multilateral with a total debt amount of \$3.7 billion, 13 were bilateral instruments with a total debt of \$4.25 billion, while commercial non-bondholder instruments were 12 with a total debt amount of \$3.8 billion, three Eurobonds with a total value of \$3.62 billion (all figures include arrears, RoZ, 2023: 2). Private lenders together with the non-resident holders of government securities accounted for over \$16 billion of external public and public guaranteed debt. As discussed below, this large number of creditors has contributed to the challenges the country is facing in terms of reaching a deal to reschedule sovereign debt under the Common Framework.

When we look at the key debt indicators, the unsustainability of sovereign external debt in the Zambian economy becomes quite apparent. For instance, the foreign reserves as a ratio of external debt declined drastically from almost 50 percent in 2012 to just 4 percent in 2020, before recovering slightly to 10 percent in 2021 and 2022 (Figure 4). Other indicators including the debt service to reserve ratio, external debt to export revenue and debt service to exports reflect the growing pressure on the Zambian economy to meet its external sovereign debt obligations, especially starting from 2016 onwards.

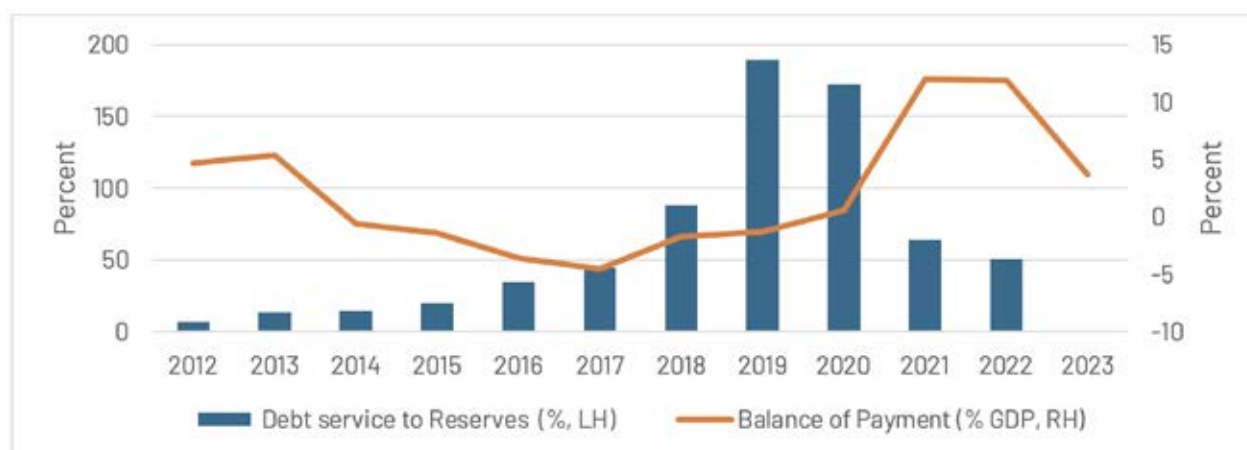
Figure 4: Key Debt Sustainability Indicators



Source: Authors, based on International Debt Statistics

The slight recovery of the reserve to external debt ratio from 2021 can be attributed to the suspended external debt service as the country entered negotiations to rescheduling external debt with official and private creditors.

The pressure on Zambia is clearer when we consider debt service levels and the balance of payments as a share of GDP (Figure 5).

Figure 5: Total External Debt Service and Balance of Payments

Source: Authors, based on International Debt Statistics

Total external debt obligations (which include external debt service for the private sector) as a percentage of reserves rose from 7 percent in 2012 to a peak of almost 190 percent in 2019. As the level of external debt rose, the balance of payments on the current account was negative from 2014 until 2020 when the country suspended debt service on its external debt.

The low reserves relative to external debt stock in 2020 is attributed to a number of factors including the impact of the COVID-19 pandemic as well as the drastic drop in the production and price of the country's main export, copper, and other minerals, and the decline of domestic revenue as economic activities slowed down which in turn affected domestic revenue mobilisation (ROZ, 2023b).

The country's unsustainable external debt burden is also clearly visible when we look at the public external debt to-export revenue ratio, which increased from 60 percent in 2012 to almost 360 percent in 2019 and 2020 before moderating to 250 percent in 2021 and 2022 (Figure 6).

Figure 6: Public External Debt Service and Export Revenue

Source: Authors, based on International Debt Statistics and World Development Indicators

We see the debt service to export revenue rising steadily peaking at almost 14 percent in 2019, significantly above the 9 percent IMF benchmark. This shows the reduced capacity of the country to cover its external debt obligations from export earnings and indicates the pressure placed on the

country by declining official development aid (ROZ, 2022). The external debt service to reserve ratio has consistently been above the 9 percent threshold recommended by the IMF since 2015, rising to 33 percent in 2019, and 24 percent in 2020, before moderating to 12 percent in 2022 (see Figure 4 above). With such high levels of debt burden, it is not surprising that the country in October 2020 was unable to remit the payment due on its \$42.5 million Eurobond coupon, leading to default on its external debt.

To put the magnitude of the debt burden into perspective, annual interest repayment on external public and public guaranteed (PPG) debt rose from \$51.1 million in 2012 to \$514 million in 2019 just before the default. Principal repayment on PPG external debt rose from \$108 million in 2012 to \$567 million in 2019 (World Bank, 2025). If we put interest payments together with repayment of principal on long-term debt, we see that the country was expected to remit a total of almost \$1.1 billion dollars in 2019 alone. This is why the external debt to export revenue ratio rose to a third of the country's total export earnings in 2019 (Figure 4). Similarly, total external debt, which includes external debt incurred by the private sector and not guaranteed by the state, reflects the tremendous pressure on the country, even without considering domestic debt obligations. Total external debt to Gross National Product (GDP) confirms rapidly rising external debt burden which went from 25 percent in 2012 to 130 percent in 2019. The ratio peaked at 170 percent in 2020 and has remained high after 2021 (Figure 4).

Even if the central government was not responsible for all the external debt, the fact that the country was expected to remit this high volume of payment denominated in foreign currency (mainly US dollars, Euros, and Yen), exerted huge pressure on foreign currency reserves and eventually on the Kwacha (local currency). This is one of the main reasons why the local currency depreciated against the dollar and other major currencies by 67 percent between 2018 and 2022 (ROZ, 2023b: 3). The depreciation of the Kwacha further pushed up the cost of servicing external debt in the context where the country's major income is in Kwacha. The Zambian situation highlights the risks involved in external borrowing, especially the short-term loans denominated in foreign currency (Fofack, 2021) and the problematic nature of the global financial system which both pushes countries towards foreign borrowing and exposes them to the perils of doing so.

As part of its strategy to manage external debt, the Zambian government has now embarked on a programme to promote the growth of domestic capital markets with the view of reversing the current situation in which foreign denominated debt accounts for 70 percent of total debt, with domestic debt only making up the remaining 30 percent. The vision now is "to focus on gradually growing the domestic market in order to move from the current 70:30 external-domestic financing respectively to 55:45 in 2024 and 45:55 in 2025" (ROZ, 2023b: vi).

The rest of the paper will focus on competing explanations of the origins and causes of the debt crisis in Zambia, beginning with the orthodox narrative which tends to blame the crisis on profligate government spending and mismanagement while ignoring the underlying structural causes.

Part II Origins of Zambia's Sovereign Debt Default: The Orthodox Perspective

As mentioned earlier, Zambia became the first African country in many years to default on its Eurobond debt after missing a payment of US\$42.5 million in November 2020. Mainstream economists and the Bretton Woods Institutions have attribute the default to profligate spending and corruption within the Zambian government. After critically reviewing this interpretation, we will focus on laying out underlying structural causes of the debt crisis and why the neoclassical economic approach and its associated

policy recommendations help perpetuate and exacerbates the global system and economic structures that led to the debt crisis. It is worth reviewing the orthodox view of the anatomy of the Zambian debt default to provide a surface level representation of the cumulative events leading to the debt crisis and to pinpoint the instrumental nature of this narrative to justify the standard pro-cyclical orthodox intervention of the IMF.

The orthodox narrative can be laid out by drawing on papers from Zambian Institute for Policy Analysis and Research (Mbewe et al. 2024), the Joint World Bank-IMF Debt Sustainability Analysis (World Bank 2023), the technical assistance report on governance and anti-corruption in Zambia (IMF 2023a) and the Extended Credit Facility agreement (IMF 2022a).

The neoclassical economic story begins with the debt relief that Zambia received from HIPC and Multilateral Debt Relief Initiative which allowed Zambia to reduce its debt from \$7.1 billion in 2004 to only \$500 million in 2006. Rising copper prices and a positive macroeconomic landscape result in robust economic growth and a stable currency through 2010. International reserves rose to an average of 2.7 months of imports in 2005-09 from 1.6 months in 2000-04 with inflation falling to 8 percent in 2010 from over 17% in 2003. Tight monetary policy was kept in place with domestic lending rates averaging 28%. Following this “impressive macroeconomic performance”, the World Bank reclassified the country from a low-income country to a lower middle-income country. This reduced its access to concessional lending and induced the government to seek finance from commercial capital markets (Mbewe et al. 2024).⁵

The economy kept doing well from 2011 to 2014 largely due to growing copper production and high commodity prices,⁶ steady domestic food production and growth in the communications and transport sectors. The exchange rate was stable, inflation fell within a reasonable 6 to 8 per cent and reserves climbed to 4.3 months of imports (Mbewe et al. 2023).

So where did Zambia go wrong in the orthodox view? The problem was the usual suspects seen through the lens of the IMF’s monetarist framework “high fiscal deficits, inefficient public investment, weak controls on spending” leading to “Zambia accumulating large fiscal and external imbalances” (IMF, 2023a, p.8). Between 2011 and 2014, revenues averaged 17 percent while expenditures increased from 20% to 23% of GDP raising the deficit from 2.8% of GDP to 5.8% of GDP (Mbewe et al. 2024).

Though orthodox economists abhor fiscal deficits, the pattern of deficit spending and monetary expansion was one that was widely followed by many African governments in the aftermath of the Great Recession in part because they were able to avoid the IMF and their usual procyclical fiscal cutbacks during downturns. Zambia was one of the exceptions and agreed to a three-year PGRF (Poverty Reduction Growth Facility) IMF loan in 2008 which forced them to raise their interest rates and reduce deficits through 2008-10 delaying measures to counter the Great Recession until after 2010. This was a unique moment in the post-adjustment period where the commodity boom allowed governments to build up reserves to avoid the IMF which created the policy space that was not available for three decades (Stein 2015).

⁵ This is a rather misleading perspective. For example, Ghana became a lower-middle income country in 2010 but accessed the sovereign bond market in 2007. A key change was the growing concentration of wealth and related funds which were seeking higher returns particularly following the cut in interest rates after the Great Recession. The big attraction on the African side was that private markets did not have the punishing neoliberal conditionality of concessional lending. One would of course not expect neoclassical economists to recognize this fact. See Olabisi and Stein, 2015, 2024.

⁶ Monthly copper prices never fell below \$7000 per metric tonne except for one month between January 2011 and February 2014 and exceeded \$8000 per month for roughly half of the time. Compare that to the period January 2000 and October 2003 when prices never exceeded \$2000 per metric tonne. Prices still stayed above \$6400 for the rest of 2014. They dropped below \$5000 in 2015 and below \$4500 in 2016. Up to the month before the default in November 2020 prices only exceeded \$7000 for two months in 2017 and fell mostly between \$5500-\$6500. See Index Mundi, 2024

The same policy space was largely lost following the COVID-19 shock with reserves plummeting from 5 months of imports for SSA (excluding Nigeria and South Africa) to only 3.2 months of imports in 2022. Dozens of African governments signed agreements with the IMF which led to procyclical fiscal policies and the decline of deficits from an 5.8% average in 2020 to 3.9% in 2022 to an expected 2.2% in 2024 (IMF, 2022b, 2023b).

An additional problem in the eyes of orthodoxy is poor governance and corruption which is “associated with weak economic growth, lower investment, fiscal revenue, higher inequality and worse inclusive growth performance” (IMF, 2023a, 13). Drawing on a paper from the Effective States and Inclusive Development (ESID) Research Centre⁷ which is wholly funded by the UK government (ESID 2024) known for its neoliberal orthodoxy and an assortment of sources of varying quality,⁸ the report argues:

...the attempts to address democratic deficits and corruption in 2001-2008 was halted by the untimely death of President Levy Mwanawasa in 2008. Under administrations that followed (2009-2021), Zambia saw a return of a clientelistic groups where informal rules became dominant, and the overlap of public positions and private business interests became a common feature. Appointments in public service often were based on party/political affiliation and being representative of a particular social identity rather than necessarily on competence. Political competition, short-term goals from election to election, accompanied by the enduring politics of clientelism affected Zambia’s bureaucracy to fulfil its mandate effectively...Corruption became particularly entrenched and institutionalized during 2016-2021 (p.14)

Hence “embedded governance weaknesses cannot be overestimated in accumulation of sovereign debt and the subsequent crisis” (ESID 2025, p.16).

One would expect that the orthodox diagnosis of the problem will lead to orthodox policy recommendations in line with the long-term neoliberal agenda of the IMF.

The Post-Default Dynamics: Orthodox Solutions and Their Complications

After defaulting on sovereign debt towards the end of 2020, it became clear that Zambia had reached a breaking point in terms of its capacity to shoulder its external sovereign debt. By the end of 2020, the country was expected to disburse a total of \$1.1 billion in interest and principal repayment annually, which was way beyond its sovereign debt carrying capacity (IMF 2023). Since the end of 2020, the country has been involved in discussions with different creditors to restructure its debt to sustainable levels. The restructuring of sovereign external debt has been conducted under the G20’s Common Framework, involving the official (bilateral) creditors, multilateral and private creditors. Initial agreement with the Official Creditors Committee (OCC) led to the approval of the \$1.38 billion extended credit (ECF) Facility by the IMF in August 2022.

Terms of the Extended Credit Facilities

On August 31, 2022, the Executive Board of the IMF approved a 38-month arrangement under the Extended Credit Facility (ECF) for an amount equivalent to SDR 978.2 million (around US\$1.3 billion, or 100 percent of quota).

⁷ See Chelo and Hinfelaar (2021)

⁸ For example, a 2020 Transparency International Report on corruption and anti-corruption in Zambia https://knowledgehub.transparency.org/assets/uploads/kproducts/Overview-of-corruption-and-anti-corruption-in-Zambia_Final.pdf; and a dispatch from Afrobarometer, (Dispatch, no. 3 on Zambians view that the government has failed to halt corruption, <https://www.afrobarometer.org/publication/ad493-new-presidents-zero-tolerance-confronts-zambians-perception-government-failure/>)

The opening sentence in the ECF document sets the tone:

Years of fiscal profligacy led to Zambia accumulating large fiscal and external imbalances. Consistently high fiscal deficits were driven by high spending on wages, subsidies, and inefficient public investment that failed to deliver growth dividends. The accumulation of non-concessional external debt to finance this spending led to a ballooning debt burden, with the associated debt-servicing costs gradually crowding-out social protection and investment in human capital. Spending routinely overshot budget allocations reflecting weak spending controls (IMF 2022a, p.4).

Irrespective of their state of finances, the Covid-19 pandemic put poor countries in crises. But in the case of Zambia these imbalances led to a growing debt burden and “left Zambia vulnerable with the Covid-19 shock putting Zambia into distress” (IMF 2022a, p.4). Hence, according to the orthodox explanation, the main cause of the debt crisis in Zambia was not the structural weaknesses of Zambia’s economy which it shares with most African countries but its deficit spending.

ECF conditionality included the usual procyclical regressive rise in taxes and cuts in expenditures. Zambia was expected to generate government surplus of 3.2% by 2025 compared to a deficit of 6% in 2020. On the revenue side VAT exemptions are removed on a number of foodstuffs while duties are to rise on items like beverages, cement, coal and fertilizer. To ease the impact of rising domestic fuel prices due to the rapid devaluation of the Kwacha and rising oil prices, prices were frozen by the government at December-2019 levels for two years with subsidies claiming a combined 3.9 percent of GDP in 2020-21. The government had resumed cost-plus pricing in December 2021 but were still maintaining a policy of lower excise and VAT taxes. These breaks were to be immediately removed in September 2022. Subsidies in agriculture for seeds and fertilizer were also to be dramatically curtailed reducing government spending in this area from 3% of GDP in 2020 to only 1% by 2025 (IMF 2022a, pp.7-14).

External debt was to be restructured through negotiations under the G20 Common Framework, but the government was not permitted to renegotiate domestic debt though 26% was held by foreigners because it would “weaken market and business confidence” (IMF 2022a, p.14). All debt generation was to be carefully controlled with the passage of a new debt management bill and expected to report all external government debt or debt guaranteed by the public sector. As noted above, new external borrowing was to be limited only to concessional debt hence keeping it carefully controlled by multilateral and bilateral donors while limiting contracted undisbursed project loans to only \$1.4 billion of which the majority was from the World Bank and AfDB (IMF 2022a, pp.14-15)

The “strengthening governance” section is used as cover by the Fund to put in place a long list of neoliberal priorities including a government commitment to a new Public-Private Partnership Act aimed at strengthening PPP partnerships. Zambia Electricity Supply Corporation (ZESCO), the state-owned electricity enterprise was expected to reverse a policy of charging below cost tariffs and fees and restore cost-reflective tariffs, which led to a sharp rise in the price of electricity.⁹ Spending was to be carefully monitored with the expansion of the IMF promoted electronic public financial system IFMIS (Integrated Financial Management Information System)(IMF 2022a, pp.16-17).

Closely related to broader governance issues is the priority to build the independence of the central bank so they can focus on IMF style single targeting of inflation. In preparation of the IMF agreement the government proposed a new Bank of Zambia Act aimed at strengthening the Bank’s mandate, autonomy and governance. With pressures to deal with the currency crisis, the Central Bank undertook a more

⁹ Between 2019 and 2022, electricity prices went up dramatically in Kwacha terms and amounted to a 26% rise in dollar terms. See <https://www.global-climatescope.org/markets/zm/>

interventionist approach that disturbed the Fund including “tightening interbank foreign exchange market quotation rules”; “use of moral suasion” and “prioritization of FX demand for specific sectors” and were now expected to reverse these measures (IMF 2022a, p.18).

Like almost all Fund facilities, emphasis is on contractionary monetary policy to reduce inflation and promote macro-stabilization. Authorities must “stand ready to tighten monetary policy” at the sign of any inflationary or currency pressure (IMF 2022a, p.10). Broad money growth is expected to shrink from an average growth of 25% in 2018-20 to only 10% in 2023-25. Credit to the private sector is expected to fall from 12.2% of GDP to 9.6% over the same period. Inflation was expected to decline to 6-8% from 19% in 2020. The very high lending rates which were still at 26% in 2022 seemed to properly reflect the conditions of the country and able to presumably deliver sufficient monetary contraction (IMF 2022a, p.58).

Instead of suggesting that Zambia put in restrictions on their open capital account or try to diversify their economies away from reliance on copper exports (more on this below) neoliberal orthodoxy assumes that there is an optimal approach within the existing system. To deal with potential outflows, climate change and shifts in copper prices they are directed to reach “an optimal level of unencumbered reserves of around five months of prospective imports” which means the accumulation of \$11 billion by the central bank by 2025 and would require debt restructuring of \$8.4 billion (IMF 2022a p.18,19).

The IMF assumed debt relief would be in place by 2022 (IMF 2022a, p. 19). That has proven to be much more elusive than planned perhaps in part due to a lack of operational rules in the G20 Common Framework which was only created in 2020. The Common Framework was aimed at continuing to empower the IMF by making it the lead coordinator and technical advisor. However, bringing China into the fold has proven challenging which in the past has had its own approach to debt relief under the BRI Debt Sustainability Framework.

Bilateral and Private Creditors Negotiations

As alluded to earlier, in June 2023, Zambia’s government secured a provisional deal to restructure US\$6.3 billion of debt from official creditors including China. In October 2023, however, Zambia did a separate restructuring deal with private bondholders for another US\$3 billion. The official credit committee which is co-chaired by China and France and deputy chaired by South Africa blocked the latter deal because bondholders would get 18 cents more on the dollar than official creditors were offered.¹⁰ Bondholders argued it was justified because they provided more debt relief than bilateral lenders based on a net present value basis while taking principal haircuts of 18% when official creditors took none (Fabricus, 2023).

China’s involvement has created further complications. The Chinese Sustainability Framework which was developed in 2019 is very different than the World Bank-IMF G20 Common Framework. The Chinese approach emphasizes that it is important to understand what the debt is used for and that in contrast with the Fund and Bank they believe that debt distress does not mean that debt cannot be sustained in a forward-looking sense. High debt does not necessarily mean that more borrowing cannot occur.

China decides sometimes without consistency when its lending banks are considered official or commercial. China has accepted that the China Development Bank (CDB) be treated as an official lender in Sri Lanka but in Zambia, it has argued that the CDB is a commercial creditor and should receive

¹⁰ There has been some progress in 2024 but not everyone is yet on board. It was reported in the Financial Times the end of February 2024, that India and China had come to the terms of an agreement on debt rescheduling (Cotterill 2024). In March it was reported by Agence France Presse (2024) that the country had come to an agreement with Eurobond holders but there were still some holdouts.

smaller losses. They also are very hesitant to agree to any haircuts preferring to defer debt repayment as this was an issue related to liquidity as opposed to an insolvency problem. It is still not clear that they would be willing in the Common Framework to alter this strategy for coordination purposes. (Brautigam 2022; Cooray and Walker 2023).

Brautigam (2022) drawing on Chinese loans in Africa from the CARI (China Africa Research Initiative) database points to a pattern of uncoordinated loans by different Zambian government agencies and enterprises. Between 2010-15 alone, Zambia signed at least 36 different contracts for projects in the country totaling over \$4 billion. While China has lent around \$10 billion from 2000-19 which is well below the largest recipient Angola (\$43 billion), the country has more lenders than any other in Africa. In all, Zambia is the only African country with more than 10 lenders and is estimated to have loans from 18 different sources (eight banks and lending agencies and 10 from Chinese contractors.) In contrast, 88% of all African countries have one to five contractors. Zambia is also a very attractive place for Chinese companies which dominate engineering contracts. On average, Chinese firms held 34% of contracts in Africa, but were awarded some 69% of contracts in Zambia.

One reason for the large number of Chinese players was contract facilitated financing (CFF) which gives foreign companies the option to build, finance and operate public facilities like roads in exchange for guaranteeing payments regardless of traffic or toll collection. By 2017, CFF accounted for 35% of Zambia's budget for public roads. By 2019, despite subsequent cancellation of some contracts, there were nearly \$900 million worth of CFF contracts between Zambia and eight Chinese firms. The lack of coordination and large number of players "means that corralling the Chinese creditors in the G20's Common Framework will be exceedingly difficult" (Brautigam 2022, p. 1349). The poor coordination on the Zambian side was a product of the assault on state planning capacity during the structural adjustment period. As one insider recounts: "It was a perfect storm. In the 1990s, all planning went out the window. The capacity to do project appraisals went out the window. And the Chinese companies were saying: 'Don't worry about finance. We can arrange the finance'" (ibid, p. 1361).

Beyond Orthodoxy: Towards a Structural Understanding of the Debt Crisis

The orthodox focus on imprudent spending habits, corruption and poor governance misses the real underlying causes of the debt crisis which are structural in nature. From a structural perspective, there are several factors which have contributed to the current sovereign debt crisis in Zambia. One of the key factors is the country's borrowing trends after 2010, with a growing component of non-concessional loans with higher interests and shorter repayment terms. Borrowing from commercial capital markets was partly supported by robust economic growth in the period from 2002 until 2014, where average annual growth was over 6 percent. The strong growth, primarily driven by consistent increases in copper demand, prices and production, made the country attractive to lenders, especially non-concessional private lenders. Given Zambia's high dependence on copper export, a sharp decline in the prices of commodities (including copper) in 2014 resulted in reduced revenue (World Bank 2018).

The decline in copper prices on global markets led to a 35 percent decline in the country's export revenue, leading to precipitous depreciation of the Kwacha in 2015 (Mbewe et al. 2024: 4). Although export and public revenue declined, public spending, focused mainly on infrastructure, wage hikes, fuel subsidies, and emergence power generation following droughts in 2015 remained high, resulting in a fiscal deficit. With low domestic revenue collection of just 17 percent of GDP, public expenditure could only be sustained by borrowing both on the international and local capital markets. The deteriorating fiscal situation in the country is evident when one considers the fact that the fiscal deficit rose from an average of 3.6% of GDP in 2011, to the average of 9.6 % for the period between 2017 and 2021 (RoZ 2022: 6).

Fiscal Imbalances

The high fiscal deficit in the country is the result of three related factors: Covid-19 and expanded public infrastructure investment coupled with sharp falls in copper prices (World Bank 2019). The growing fiscal deficit was largely financed through increased borrowing through commercial markets (e.g., a \$750 million Eurobond in 2012, a 1 billion Eurobond in 2014 and a 1.25 billion Eurobond in 2015) as well as bilateral loans mainly from China, and multilateral loans from financial institutions. The growing fiscal deficit has been financed through three major sources: concessional loans (before the default), domestic markets through Treasury Bills and Treasury Bonds, and the accumulation of public expenditure arrears by postponing the payment of suppliers of goods and services to government institutions, VAT refunds etc. (World Bank 2018).

After the default on sovereign debt in 2020, the country increased its borrowing on domestic markets as a way to contain the sovereign debt crisis, although external debt still remains the largest component of the country's sovereign debt as shown above. Intensified borrowing on domestic capital markets is partly a response to the rising interest rates on commercial bond markets after the default rendered non-concessional borrowing unsustainable. Some investors now regard Zambian bonds as too risky. The weakening fiscal position in the country was worsened by the COVID-19 pandemic in 2020, which affected production and public revenue while requiring the country to finance measures aimed at containing the spread of the virus and reduce the impact of the pandemic on the Zambian economy and society. COVID-19 pandemic financing pushed the fiscal deficit in 2020 to almost 15 percent of GDP (RoZ, 2022). The expenditure pressure this created culminated in the country's default on its sovereign debt in the second half of the year. Although the 2020 sovereign debt default laid bare the ongoing challenges the country was facing, the sovereign debt crisis started to manifest several years before that. The Debt Sustainability Analysis (DSA) by the IMF in 2017 and 2019 sounded the warning bells and put the country on high risk list of debt distress countries.

Liberalisation of the Capital Account

A key feature of the public debt dynamic in Zambia and some other parts of Africa has been the capital account liberalization including non-resident ownership of domestic government debt which was heavily encouraged by some neoclassical economists. Annual reports from the Central Bank of Zambia indicate a surge of inflows as government expanded its debt from K80.3 billion in 2019 to K 210 billion in 2022. Non-resident holdings exploded from K8.8 billion in 2019 or 11% to K 54.6 billion in 2021 or 29% before falling back to K 47.4 B or 23% of the total in 2022. By the end of 2024, it non-residence holdings grew to K 57.6 B or 25.1% of total debt. By the end of April, 2025 it expanded further to K59.2 B." (IMF, 2025). The vicissitudes of inflows and outflows has contributed to currency volatility with implications for the servicing of international debt. The growing challenges around the rising sovereign liabilities in the country are compounded by the recent collapse of initiatives to restore the country's public debts to sustainable levels and reduce the negative impact of a high debt burden on the country's economic growth prospects.

Economic Structure

As is the case with other African countries, the Zambian debt crisis and the economy's inability to withstand even minor external shocks, is based on the way in which the country's economy is structured. Unless the structures of these economies are radically transformed to create resilience, sovereign debt problems will persist. During both current and past sovereign debt crises, the fiscal

imbalance that led to contracting sovereign external debt was induced by the decline of the price of the country's major export – in Zambia's case, copper – which led to reduced foreign currency earning and declining capacity to service external debt. The colonial economic structure that has persisted is a major factor in all the sovereign debt crises, and any long-term solution will require transforming the colonial structure that still characterises most economies on the continent. While the restructuring of sovereign external debt provides short-term liquidity relief, it does not address the root causes of the crisis. Without transforming the colonial economic structure, the country will continually face the humiliating experience of sovereign debt restructuring.

The structural imbalance of exports in Zambia and Africa as a whole is striking. In 1995, 87.55% of SSA exports (excluding South Africa) were in unprocessed raw materials. By 2014, this concentration had increased to 92% before falling back to a very high level (89%) in 2022. Zambia displays a similar pattern with 93.9% of exports in unprocessed raw materials in 1995. The figure for 2022 was still a very high 89.2%. Copper (Ores and Metals) dominated and accounted for nearly 75% of exports in 2022 and remains similar to the levels in 1995 (over 80%).

It should be emphasized that funds borrowed were not used to transform the economy in a manner that could have helped prevent the debt crisis. Zambia's sovereign debt was allocated in a productive manner to expand roads, railway, energy and telecoms. However, no funds were used to diversify the economy away from the reliance on mineral exports towards important areas like import-substitution or export-oriented manufacturing (Mafa and Mathiason 2022)

Although the orthodox explanation of the debt crisis focuses on fiscal indiscipline on the part of the Zambian government, the fiscal imbalances in the country can be attributed to several factors including capital flights to which the country is more susceptible. Zambia experiences high levels of capital flight through various means, including transfer pricing and mis-invoicing.¹¹ The other important factor is that the country's public revenue to GDP is low, estimated at around 17 percent in 2021. This is largely related to country's struggles with collecting tax revenue from extractive activities. This is reflected in the frequent adjustment of the tax regime. The other factor which is highlighted in this paper is that a large proportion of government bonds are held by foreign investors, making these instruments effectively external debt assets.

The Role of Foreign Reserves

Reserve holding do not prevent crises and the need to return to IMF punishing conditionalities. IMF-recommended "optimal" reserve holdings equivalent to 5 months of imports, did not help other countries avoid a debt crisis in 2019. In 2014, just prior to the end of the African commodity boom, only 12 SSA countries had IMF loans. By the end of 2021, 43 SSA countries were obliged to turn to the IMF for loans (Stein 2024). The situation was worse for countries with open capital accounts. Among the problematic policies was the liberalization of the capital account in February 1994¹² which has allowed foreign ownership of domestic debt and the associated volatility of exchange rate (McCulloch et al., 2003). Countries accumulate reserves in good years instead of using them to transform their economies leading to a vicious cycle of commodity dependence (see below). Zambia, like other countries with open capital accounts, are plagued with currency volatility and pressures on reserves.

¹¹

https://www.eurodad.org/financing_development_an_assessment_of_domestic_resource_mobilisation_illicit_financial_flows_and_debt_management

¹² Prior to the 1997 Asian crisis The Fund was heavily promoting capital account liberalization and was considering including it as part of the Articles of Agreement for all IMF members.

Putting aside the practical challenges of debt restructuring of the magnitude discussed above, expanding foreign exchange reserves could theoretically provide resources to help diversify economies away from commodity dependence. However, the pressing need for reserves pushes governments to expand commodity exports when prices are high to accumulate reserves to defend themselves from the IMF and to finance vital imports when prices fall. This generates a vicious cycle of commodity dependence. It also does not deal with structures that ineluctably drives SSA countries back into the arms of the IMF and hence entrenches the existing system with its global power asymmetries and hierarchy of currencies (Stein 2024). In the case of ECF loans, for example, half of the loan is directed to build central bank reserves rather than to any productive purpose (IMF, 2022a, p.20).

Other problems exist in part due to years of neoliberal policies. We have seen how neoliberalism demobilized the planning capacity of the state with implications on the capability to oversee and coordinate a myriad of international projects. There is however a deeper problem, as Zambia, like many countries on the continent, is dominated by economists trained solely in the neoclassical economic model and hence have done little to challenge the institutionalization of neoliberal policies. Agriculture, for example, would benefit from massive state investment, in particular in developing irrigation capacity to deal with the growing vicissitudes of rainfall patterns from climate change. The absence of these investments left the country ill prepared for the 2015-16 drought that affected more than 2 million Zambians. Food imports have dramatically increased in part due to shifting rainfall patterns and have more than doubled between 2010 and 2021 to \$570 million in 2021. (WITS 2024).

Closely related to this problem is poorly developed power infrastructure and an undiversified electricity sector with an overreliance on hydro in the drought-prone southern region of the country. Droughts in 2015 resulted in power outages of 8-12 hours per day, adversely impacting industrial production and compelling the Zambian government to increase electricity imports. Export earnings fell by 35% due to reduced copper production which was itself related to electricity rationing to mines and diminishing copper prices. The Kwacha depreciated by 40% as a result, leading to a rise in inflation to 18% while authorities pursued contractionary monetary and fiscal policy in line with orthodox procyclical economic advice.¹³

Structural Problems of the Global System

Zambia, like all African countries, occupies a subservient position in the global financial system. The multiple debt crises of African countries in the post-independence period are a symptom of the nature of the international financial architecture at the core of 21st century capitalism. The key characteristic of this architecture is the hierarchy of currencies that has helped define a country's standing in the global order. African countries find themselves at the bottom of the hierarchy with currencies that are unstable with no international circulation and are therefore under constant pressure to accumulate hard currency.

Following the end of Cold War economic competition and alternatives for African countries outside of the West, related to currency hierarchy and control of financial flows, declined rapidly. The transformation curtailed policy space and pushed countries into accepting donor-driven neoliberal conditionality up to and including the latest round of IMF loans. The impact of these neoliberal policies strengthened dollar hegemony, weakened African economies, and pushed them into greater dependence on commodity exports leading to a cycle of boom and bust and associated debt crises (Stein 2024).

¹³ The description not the characterization comes from Mbewe et al, 2024. In their view the problem was "weak fundamentals" not the underlying structural conditions.

There is widespread evidence that IMF loans tend to deepen poverty in developing countries despite IMF claims to the contrary.¹⁴ The ECF has a section devoted to social spending leading to the reduction of poverty and inequality. While recognizing that poverty has risen in the country from 58.7 to 60.1% between 2015 and 2020, the ECF asserts that fiscal consolidation will free up critical resources for social spending without explaining how this is to be done. The current ECF plan includes a continuation of the World Bank sponsored monthly social cash transfer that provides 110 Kwacha to nearly a million recipients. This is a laughably low sum, less than \$4 per month and less than 10% of the minimum wage. The ECF has also sponsored a feeding program to keep girls in school. They are also supporting the continuation of a food security pack program to some 260,000 rural inhabitants and point to the hiring of new medical staff and teachers in 2022 with no mention of the continuity of these positions. Without providing supporting evidence, the Fund asserts that “[o]verall, for low-income households, the benefits from increased social spending should outweigh the impact from the removal of fuel and electricity subsidies.” (IMF 2022a.p14). The assertion also ignores the impact of contractionary fiscal and monetary policy, including the rise in VAT taxes on food, on the poor. Moreover, the composition of fiscal adjustments proposed clearly shows declines in social protections and employee compensation.

Part III: Implications of the Sovereign Debt Crisis in Zambia and Conclusions

There are several implications of the current sovereign debt crisis in Zambia. First of all, the high cost of servicing the debt has meant that a higher proportion of the limited resources mobilised in the country goes to meeting external debt obligations. In 2022, debt service obligations accounted for close to 40 percent of government budget, which exceeded resources dedicated to education, health and social welfare expenditure combined (Chitonge 2023). Secondly, the huge debt burden the country is facing has resulted in growing arrears on both domestic and external debt. According to a report by the IMF, arrears on external debt in 2023 amounted to 11.5 percent of GDP (IMF 2023a). Arrears on domestic debt were estimated at 10 percent of GDP in 2020 and have increased further as the fiscal deficit remains stubbornly high (Mebwe et al. 2024). This heavy debt burden puts pressure on many macroeconomic fundamentals including inflation, exchange rates (with the local currency coming under severe pressure), but also reduced social spending as resources are channelled to meet external debt obligations. The most important implication, however, is that efforts aimed at financing structural transformation in the economy are overlooked as servicing of external debt is prioritised. With an untransformed economic structure, sovereign debt crisis will certainly remain a recurring problem for Zambia and other African countries. The fourth implication of sovereign debt in Zambia is the loss of policy space as the IMF and other multilateral creditors impose conditionalities and other austerity measures on borrowing countries. Fifth, the impasse created by the failure to reach external debt restructuring agreements with creditors has imposed a huge perception premium on Zambia’s economy which has affected several aspects of the economy including the flow of long-term investments. The failure to finalise a sovereign debt restructuring deal has further weakened the country’s prospects of restoring debt sustainability and embarking on a sustainable growth path. Although talks on restructuring Zambia’s sovereign debt have continued, prolonged negotiations around debt restructuring had a negative impact on the economy, including low investor confidence, pressure on the local currency which has depreciated considerably in the last half of 2023, which in turn made the burden of servicing external debt even more onerous.

¹⁴ See Biglaiser and McGavran, 2022

In November, 2025 S&P finally upgraded Zambia debt to CCC+/C a deeply junk bond category from selective default. after a Eurobond exchange in June, 2024 and agreements in place to restructure 94% of external debt. A key holdout prolonging the implementation of the agreements is the Export-Import Bank that demands preferred creditor status like the World Bank or African Development Bank (IMF, 2025, Veri, 2025)

Conclusion

This paper has discussed various aspects of the sovereign debt crisis in Zambia. It has presented the composition of sovereign debt in the country, disaggregating public sovereign debt into various components. Factors responsible for the sovereign debt crisis as well as the implications of the country's huge external public debt burden are outlined. The paper has also offered explanations behind the country's default on its sovereign external debt in 2020, highlighting the differences between orthodox and heterodox explanations. While the paper has identified several factors which explain why Zambia is experiencing an external sovereign debt crisis, we argue that the main reason for the current economic challenges including the huge debt burden is largely attributed to the surviving colonial structure of the economy which makes it vulnerable to even minor shocks.

As during colonial times, the Zambian economy, like many other African economies, has continued to rely on the export of primary commodities for foreign currency earnings. This is largely because the country has not managed to transform its colonial economy to diversify economic production and exports and thereby enhance its economic resilience. While restructuring of sovereign debt is needed urgently to provide relief, the primary and long-term challenge for Zambia is to transform its economy by diversifying and broadening production and export activities in the country.

There is little doubt that transforming the structure of Zambia's economy is very challenging in the current global economic and financial structure. A starting point is a commitment by the Zambian state to industrial policy. The current industrial policy framework is severely limited in both scope and focus. A review of the activities of key institutions that play a part in promoting industrial growth such as the Zambia Development Agency (ZDA), the Industrial Development Corporation (IDC) and the Citizens Economic Empowerment Commission (CEEC) attest to the fact that the main industrial strategy consists of creating an enabling environment for private sector growth. Part of the problem in Zambia and other countries is the impact of neoclassical economic training on policy advisors who provide government with little understanding on how promote industrialization beyond the flawed logic of fiscal consolidation and austerity. The absence of a central coordinating agency - a vital part of any effective Industrial Policy framework- is also a key issue (Stein, Chitonge and Elhiraika, 2026). These are only a few of the challenges that need to be addressed for Zambia and other African countries to begin to escape the vicious cycle of commodity dependence.

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Horman Chitonge (University of Cape Town)
& Howard Stein (University of Michigan)