LITMUS TEST?

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Zambia's President Hakainde Hichilema meets with IMF managing Director Kristalina Georgieva in Lusaka, Zambia January 23, 2023. IMF Photo/Kim Haughton/Handout via REUTERS

Moves by the International Monetary Fund (IMF) and China to rescue debt-stricken Sri Lanka have been heralded as a positive sign for resolving Zambia's debt restructuring process – but economists warn that the southern African nation still has a long way to go.

The IMF said on 7 March that Sri Lanka, which defaulted on its sovereign debt in April 2022, had obtained financing assurances from all its major creditors, including China. On 20 March, the IMF agreed a funding package worth about $3bn to support Sri Lankan economic reforms.

The global management of sovereign debt restructurings has been **hampered by China's reluctance to offer debt relief** comparable with other creditors. The IMF, in turn, has been unwilling to put pressure on Beijing by lending to those with arrears to China.

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Progress on Sri Lanka may break the log-jam, according to research from Gabriel Sterne, head of global emerging markets at Oxford Economics in London. Sterne sees grounds for optimism there will be increased co-operation over Zambian debt between China and the IMF.

"It would be terrible for both if, despite strong efforts by the Zambian authorities, the IMF found its Zambia program disrupted by China's refusal to provide generous debt relief," Sterne writes.

Others caution against reading too much into progress in Sri Lanka. Chinese debt restructuring support there has "some positive implications for the restructuring of debt from China to indebted African countries like Zambia," says Caesar Cheelo, an economist in Lusaka. But the connection between Sri Lankan and Zambian debts to China is "rather weak," he says.

Zambia's debts quadrupled between 2014 and 2019 before the 2021 default. Finance Minister Situmbeko Musokotwane said 15 March that the country is working with creditors including China to **agree a debt restructuring by the end of March** or soon after.

Failing G20 framework

There isn't any straightforward read-across from Sri Lanka to African debt restructuring, says Harry Broadman, chair of the emerging markets practice at Berkeley Research Group LLC in Washington.

"While precedents are perceived as important, in the end, they rarely matter as much as people believe they should." Broadman is also sceptical of the idea that an era of co-operation between China and the IMF is set to unfold. More likely is a "recognition that they are bedfellows" who need to work out how to achieve their goals, he says.

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The most important factor for Zambia will be the credibility of the negotiating framework used, Cheelo says. The G20 Common Framework set up in November 2020 "has proved inadequate" for negotiations on the treatment of multilateral debt, he says. The framework does not yet have a successful debt restructuring to its name.

In Zambia, says Cheelo, private commercial creditors such as Eurobond holders did not come to the framework table and have stuck to a parallel negotiating process, which "seems to have caused information asymmetries."

Cheelo doubts that the credibility of the G20 framework can be salvaged. Countries such as Zambia may need to carry out separate debt restructuring talks with pockets of creditors, he says. That would mean multilateral creditors, official bilateral creditors, Eurobond holders, private commercial creditors, China, and others all being dealt with separately.

While progress is likely to be made in both the Sri Lanka and Zambia debt restructurings over the next few months, they are still "far from being resolved", says Mark Bohlund, senior credit research analyst at REDD Intelligence in London.

He sees **Ghana** as the restructuring deal that looks easier to get through, due to the lower debt relief likely to be sought and the greater homogeneity of the creditors.

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