# The status of Ethiopia's debt restructuring, January 2025

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT


## 1. Summary

This report analyses the status of Ethiopia's debt restructuring as it progresses through the G20 Common Framework for Debt Treatments. In particular, it looks at the proposal the Ethiopian government made to bondholders in October 2024, which was rejected by bondholders.

Our research finds that if bondholders had accepted the proposed restructuring, they would still have made 30% more profit than if they had lent to the US government. Furthermore, Ethiopia's debt would only hit IMF sustainability targets if bilateral creditors accepted being repaid significantly less than bondholders. Furthermore, bilateral creditors would have to receive hardly any debt payments between 2025 and 2030, a period during which bondholders would receive most of their payments.

The Ethiopian government proposal was good for bondholders. By rejecting it, bondholders were demanding even greater profits, at the expense of greater costs falling on the Ethiopian people and bilateral creditors.


## 2. The IMF Debt Sustainability Assessment

Ethiopia is currently restructuring its external debt through the G20 Common Framework for Debt Treatments. Under the Common Framework, the IMF determines what level the debt should be reduced to. The IMF has said that the restructuring and policies under the IMF programme should reduce debt indicators to:[1]

- External government debt service: 14% of government revenue and 10% of exports
- Present value of external debt: 140% of exports

The IMF assessed that in 2023 the present value of Ethiopia's external government debt was 204% of exports, and estimated it would rise to 220% by 2025. If the debt was being paid in full, external debt service in 2025 would be 26.3% of revenue and 24.7% of exports. External debt service was expected to stay above 17% of exports until 2030, based on pre-restructuring payment schedules, and be only just below the threshold of 10% from 2031 to 2034.[2]

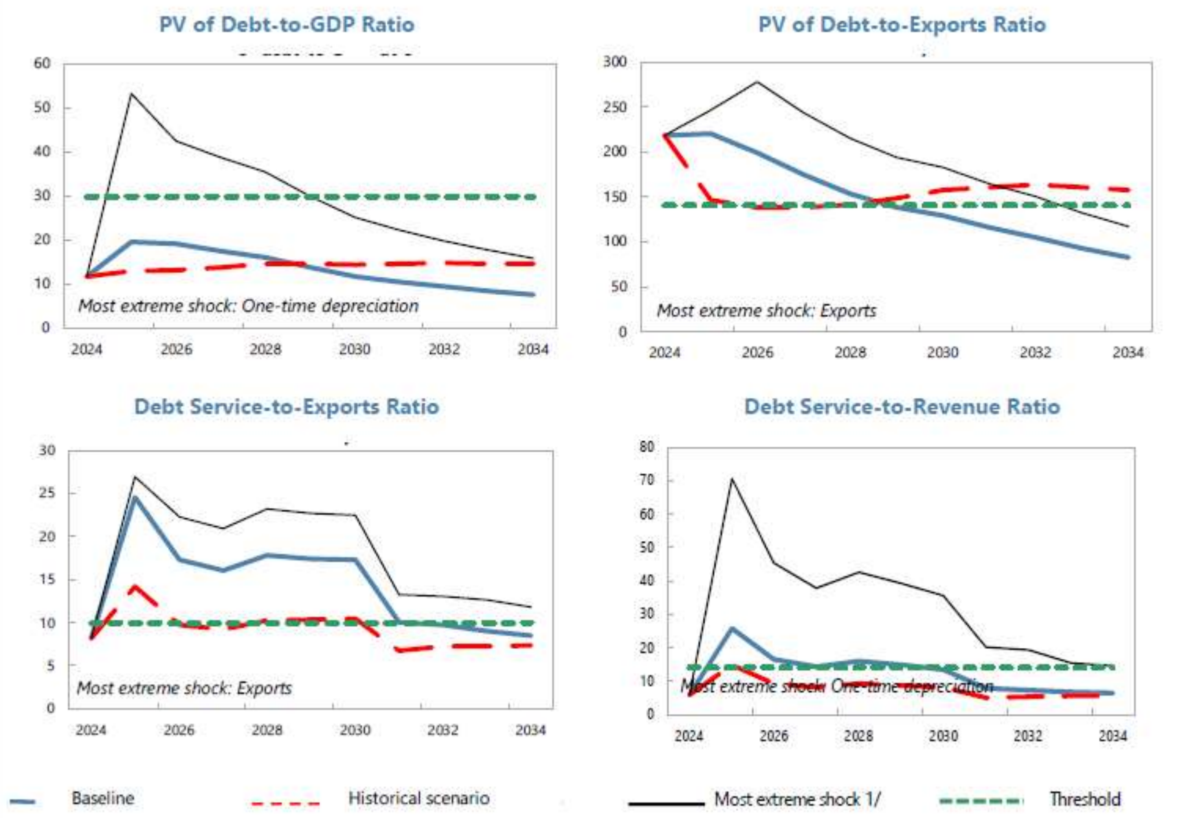
The present value of the debt as a percentage of exports was expected to drop below the 140% threshold by 2029. However, this is based on high debt payments through the 2020s paying the debt off. This is not happening – external debt payments to bilateral and private creditors are not currently

[1] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778

[2] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778

being made, and doing so would breach the external debt service to exports ratio through the 2020s until 2030 (see Graphs from IMF report below).[3]

**Figure 1. The Federal Democratic Republic of Ethiopia: Indicators of Public and Publicly Guaranteed External Debt**




If the IMF targeted indicators were met after the restructuring, Ethiopia would be on the threshold between being assessed by the IMF as at moderate or high risk of debt distress. Any shock or negative change would move Ethiopia above the thresholds and so back to high risk of debt distress. However, an IMF 2024 guidance note[4] says that:

*"restoring debt sustainability implies reducing the risk rating to at least a moderate risk of external debt distress" over the period of the IMF programme. And that: "depending on the country's vulnerability to future shocks, the restructuring strategy may require targeting 'some space' or 'substantial space' to absorb shocks and limit the risk of the country falling back to high risk, considering the observed distribution of shocks applicable to the country".*

Ethiopia is vulnerable to shocks. The IMF Debt Sustainability Analysis finds that one shock could increase:

- The present value of external debt to exports ratio by 40%
- The external debt service to exports ratio by 33%
- The external debt service to revenue ratio by 160%

[3] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778
[4] https://www.imf.org/en/Publications/Policy-Papers/Issues/2024/08/05/Supplement-to-2018-Guidance-Note-on-the-Bank-Fund-Debt-Sustainability-Framework-for-Low-553151?cid=em-COM-123-48853

Therefore, under the IMF guidance note, debt risk should be reduced to moderate with space to absorb shocks, implying debt levels should be reduced to well below the thresholds. But this is not what the IMF is aiming for in Ethiopia as there will be no space to absorb shocks if the IMF targets are met. The fact the IMF is only targeting reducing debt levels to the thresholds means the IMF is breaking its own policy in the case of Ethiopia, by requiring a weaker restructuring than its policy says is needed.

**Box 1. IMF and World Bank Debt Sustainability Analyses**

The IMF and World Bank use two different debt sustainability models. That used for Ethiopia is called the 'Low Income Countries' model but actually covers 69 low-lower-middle and upper-middle income countries.

The analysis uses four indicators:

- Present value of government external debt as a percentage of GDP
- Present value of government external debt as a percentage of exports
- External government debt service as a percentage of exports
- External government debt service as a percentage of revenue

The IMF and World Bank set thresholds for each of these indicators. The thresholds differ depending on whether the IMF and World Bank regard a country as having 'Weak', 'Medium' or 'Strong' debt carrying capacity. Debt carrying capacity is determined based on a composite indicator (CI) based on the World Bank's Country Policy Institutional Assessment and the IMF's World Economic Outlook indicators on the trade balance, reserve levels, remittances, country GDP growth and world GDP growth. If the CI is less than 2.69, a country is classified as having weak debt carrying capacity, between 2.69 and 3.05 medium, and over 3.05 strong. Ethiopia's CI is currently 2.31, which corresponds to a weak debt carrying capacity. In 2019, the CI was 2.8 corresponding to a medium debt carrying capacity.

The thresholds are:

| Debt carrying capacity | PV external debt to GDP | PV external debt to exports | External debt service to exports | External debt service to revenue |
|---|---|---|---|---|
| Weak | 30 | 140 | 10 | 14 |
| Medium | 40 | 180 | 15 | 18 |
| Strong | 55 | 240 | 21 | 23 |

A country is classed as:

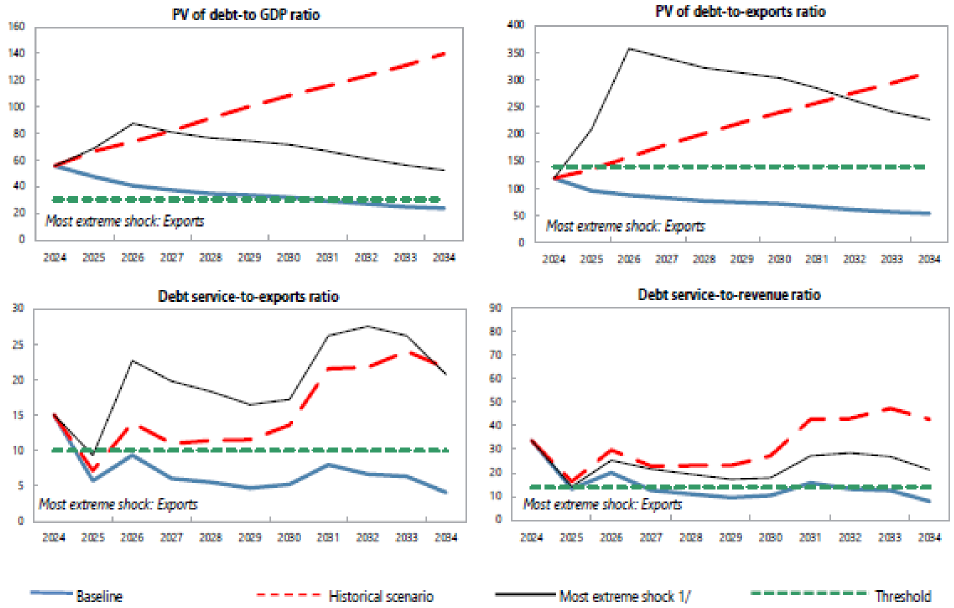
- 'In debt distress' if it has defaulted on any external debt or is considered to be about to
- 'High risk of debt distress' if any of the four thresholds are breached in the IMF's baseline scenario
- 'Moderate risk of debt distress' if the four thresholds are not breached in the baseline scenario, but at least one of them is in one of the IMF and World Bank's shock scenarios
- 'Low risk of debt distress' if no thresholds are breached in the baseline or any shock scenario

Ethiopia was classed as at low risk from 2010 to 2014, moderate risk from 2015 to 2017, high risk from 2018 to 2023, then in debt distress since the debt suspensions and defaults of late-2023. Of the 69 countries the IMF and World Bank assess in this way, 12 are currently in debt distress, 24 at high risk, 26 at moderate risk and 7 at low risk.

This approach to using the Debt Sustainability Analysis, which breaks IMF policy, has also been used in Ghana and Zambia. In both countries, the restructurings are reducing debt levels and payments to around the IMF thresholds, but without space to absorb shocks.

For example, the Zambia Common Framework restructuring is expected to reduce external debt service to around 14% of government revenue from 2025 to 2033, exactly the level of the IMF threshold for countries with weak debt-carrying capacity – but this threshold is still breached in 2026 and 2031. The present value of debt only falls below the 30% of GDP threshold in 2031 (see Graphs from IMF report on Zambia below).[5]

**Text Figure 3. Zambia: Alternative baseline, Base Case Treatment – Indicators of PPG External Debt, 2024–2034[1/]**




1/ Includes the agreed treatments and the authorities' strategy for the other commercial creditors. Sources: IMF staff projections based on the main elements of the agreed treatments and the authorities' restructuring strategy.

In Zambia, creditors argued that if Zambia moves from 'Weak' to 'Medium' debt carrying capacity, it would be able to pay more. Therefore, bilateral creditors inserted a clause in their debt restructuring deals that if the IMF and World Bank assess Zambia as moving from 'Weak' to Medium', debt payments would increase. Bondholders extended this clause even further, granting themselves increased debt payments if Zambia's exports and government revenues between 2026 and 2028 are higher than the IMF's current expectations, even if by just $1, and even if Zambia remains at 'Weak' debt carrying capacity. If these scenarios happen, Zambia's external debt service is projected to be around the IMF threshold of 18%, but would breach it in 2026 and 2031-2034 (see Graphs from IMF report on Zambia below).[6]

[5] https://www.imf.org/en/Publications/CR/Issues/2024/06/26/Zambia-Third-Review-Under-the-Arrangement-Under-the-Extended-Credit-Facility-Requests-for-551111
[6] https://www.imf.org/en/Publications/CR/Issues/2024/06/26/Zambia-Third-Review-Under-the-Arrangement-Under-the-Extended-Credit-Facility-Requests-for-551111

**Text Figure 4. Zambia: Alternative baseline, Upside Case Treatment – Indicators of PPG External Debt, 2024-2034[1/]**


1/ Includes the agreed treatments and the authorities' strategy for the other commercial creditors. Sources: IMF staff projections based on the main elements of the agreed treatments and the authorities' restructuring strategy.

In Ghana, the IMF has not yet published projections for debt levels and payments following the restructuring. Debt Justice estimates that external debt service is likely to be around the IMF threshold for Ghana of 18% of revenue.[7] Ghana's restructuring does not include any clauses to change payments if debt carrying capacity changes, or the economy performs better than predicted by the IMF.

**Box 2. Net present value**

Net present value is a way of calculating debt owed using the interest and principal payment schedule. The concept is based on the idea that the same nominal payments in the future are worth less than now. The reasons why future payments are worth less differ depending on whose perspective a deal is looked at from, but include inflation, economic growth and where else the money could have been invested. The IMF uses a discount rate of 5%.

In this briefing we use the IMF 5% discount rate for calculations of net present value, on the assumption that debtor government revenue will increase 5% a year in nominal terms, due to inflation and economic growth. When calculating profit for bondholders, the discount rate we use is the interest rate on US government bonds at the time the bondholder investment was made, for the duration of all the debt payments being covered.

### 3. Ethiopia's external debt levels

The IMF does not break down the present value of the debt by creditor group. It does say that, in nominal terms, the external debt is as presented in the table below, as of end-June 2023.

[7] https://debtjustice.org.uk/wp-content/uploads/2024/10/Restructurings-comparison_15.10.24.pdf

**Table 1. Ethiopian government external debt stock, and estimates of net present value, pre-restructuring**

| | Nominal debt stock, $ million, end-June 2023[8] | Net present value estimate, $ million | Net present value / nominal value |
|---|---|---|---|
| **Multilateral** | **$15,269 million** | **$9,331 million** | **0.611** |
| Of which: World Bank | $11,589 million | | |
| Of which: AfDB | $2,198 million | | |
| | | | |
| **Bilateral** | **$12,406 million** | **$10,877 million** | **0.877** |
| Of which: China | $7,421 million | | |
| Of which: Saudi Arabia | $1,099 million | | |
| Of which: Italy | $510 million | | |
| | | | |
| **Private** | **$1,255 million** | **$1,292 million** | **1.029** |
| Of which: Bonds | $1,000 million | | |
| | | | |
| **Total** | **$28,930 million** | **$21,500 million** | **0.743** |

To estimate the net present value of the external debt by creditor group, we have used the World Bank International Debt Statistics database. This says the present value of Ethiopia's external debt was $21.5 billion at end-2022.[9] The IMF and World Bank debt sustainability assessment suggests the present value was $21.4 billion at end-2023.[10]

To estimate the net present value by creditor group, we have first estimated the average interest rate for that group, using the World Bank International Debt Statistics database. This is complicated for bilateral creditors because they suspended payments during the Covid pandemic in 2020 and 2021, but these missed interest payments are scheduled to be paid in the mid-2020s. Across 2016-2030 we have estimated that the average interest rate on bilateral debt is 3%.[11] If the bilateral debt was scheduled to be paid over 15 years, from 2023 to 2037, this makes the net present value of the bilateral debt $10,877 million.[12]

For the private creditor net present value, we have used the payment schedule for bonds, and applied this to the small amount of non-bond debt the IMF says is owed as well. For multilateral debt we have assumed it is the remainder of the total, after accounting for bilateral and private debt.

[8] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778
[9] World Bank International Debt Statistics database.
[10] Calculated from https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778 and IMF World Economic Outlook for GDP figures
[11] Calculated from World Bank International Debt Statistics database
[12] We do not know the principal payment schedule on the bilateral debt. But the IMF Debt Sustainability Analysis shows that $2,076 million is due to be paid in bilateral principal and interest across two years from 2024 to 2026. Our 15 year payment schedule has $2,324 million due to be paid over these two years, suggesting that the maturity might be longer, and therefore if anything our estimate of the present value of the bilateral debt is an overestimate.

## 4. The proposal to bondholders

In October 2024 the Ethiopian government made a restructuring proposal to bondholders:[13]

- An 18% haircut on the original principal
- Repayment of the remaining principal between 2027 and 2031
- 5% interest
- The missed interest payments from December 2023 and 2024 to be paid when the restructuring proposal is agreed

Bondholders rejected the proposal.[14]

## 5. Impact of the proposal on bondholder profit

Buyers of the original bonds have been paid 6.625% interest from late-2014 to mid-2023, when payments were suspended. If instead bondholders had bought safe US government debt, they would have been paid 2.8% interest for debt maturing in 15 years. Taking account of these interest payments, and the new payment schedule from the Ethiopian government restructuring proposal, we calculate bondholders would be paid 24% more than if they had lent to the US government instead. Bondholders who bought the bonds originally would still make significant profit if they accepted the restructuring proposal, and this was paid in full, compared to lending to the US government.

However, many of Ethiopia's bondholders will have bought the bonds more recently. The price of Ethiopia's bonds fell briefly to 84 cents at the start of the Covid pandemic. They again fell below 90 cents in the final quarter of 2021, but this time kept falling, reaching 64 cents in late-2021, before Ethiopia applied for debt relief through the Common Framework. The bond price reached a low of under 50 cents in mid-2022. The price has since been rising, but as of November 2024 it is still around 75 cents. The average price between start-2022 and November 2024 is 67 cents.

For a trader who has bought Ethiopian bonds at that average price of 67 cents, if they accepted the restructuring proposal and were paid in full on the new schedule, they would make 38% more than if they had lent to the US government instead. This is based on a US government debt yield of 3.6%, the average for 7-year debt across 2022-2024.

Information on the number of bonds being traded and when current bondholders bought their bonds is not made publicly available. But whenever current bondholders bought their bonds, we calculate that they would still make significant profit if they accepted the Ethiopian government restructuring proposal. If half of current bondholders bought the bonds when they were first issued, and half in the last two years, they would collectively make 31% profit, compared to if they had lent to the US government instead.

## 6. Comparing the proposal to bondholders with bilateral debt

We estimate that if the proposal were accepted, the net present value of the payments to bondholders from end-2022 would be $865 million, at a 5% discount rate.[15] This would mean that for every $1 lent, bondholders would be repaid 86.5 cents in net present value terms. If this restructuring were matched by other private creditors, it would reduce the total net present value owed to private creditors to $1,086 million.

---

[13] https://projects.sodali.com/ethiopia/details

[14] https://www.bloomberg.com/news/articles/2024-10-03/ethiopia-bondholders-reject-18-haircut-proposal-as-unreasonable

[15] This is dated from start 2023, so include the missed interest payments

This is only slightly below the 87.7 cents bilateral creditors were due to be repaid on their original, pre-restructured lending. If comparability of treatment between creditors was measured in terms of how much creditors are being repaid in net present value, compared to how much they lent originally – as we think should be the case – then the proposal to bondholders would require very little net present value reduction from bilateral creditors. To reduce the net present value of debt owed to bilateral creditors to 86.5 cents for every dollar lent would require a reduction of $146 million in net present value terms – 1.3%. Across all of Ethiopia's external debt these private and bilateral restructurings would reduce the net present value by just $352 million, 1.6%.

**Table 2. External debt owed to creditor groups in comparison to proposal to bondholders**

| | Nominal debt stock, $ million, end-June 2023[16] | Net present value estimate pre-restructured debt, $ million | Net present value / nominal value | Net present value estimate post-restructured debt, if match terms offered to bondholders, $ million | Net present value / nominal value |
|---|---|---|---|---|---|
| **Multilateral** | **$15,269 million** | **$9,331 million** | **0.611** | **$9,331 million** | **0.611** |
| **Bilateral** | **$12,406 million** | **$10,877 million** | **0.877** | **$10,731 million** | **0.865** |
| **Private** | **$1,255 million** | **$1,293 million** | **1.030** | **$1,086 million** | **0.865** |
| **Total** | **$28,930 million** | **$21,500 million** | **0.743** | **$21,148 million** | |

The Paris Club and G20 do not define how they assess comparability of treatment. The Paris Club say they use three criteria for the assessment:[17]

- Change in net present value. (Using the percentage change in net present value perversely favours creditors the higher the interest rates they lent at originally)
- Change in duration of the cash flows to be received
- Change in nominal debt service during the IMF programme period

However, they do not say how these three criteria are used in the assessment. And they do not publish the assessments. There is therefore no way to know on what basis they decide whether restructurings by different groups of creditors are comparable or not. Academic research has found that in practise: "official bilateral (government-to-government) debt is junior, or at least not senior, to private sovereign debt such as bank loans and bonds. Private creditors are typically paid first and lose less than bilateral official creditors."[18]

**7. Present value-to-exports threshold**

The IMF says that as of 2023, the net present value of Ethiopia's government external debt is 204% of exports. If the restructuring reduced the net present value by 1.6%, this would take it down to

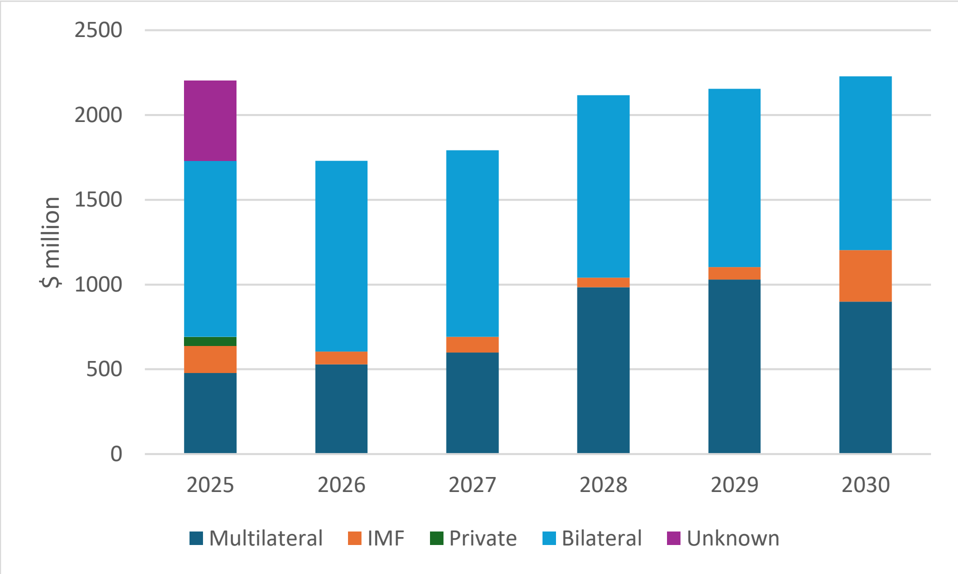
[16] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778
[17] https://clubdeparis.org/en/communications/page/what-are-the-main-principles-underlying-paris-club-work
[18] https://www.nber.org/system/files/working_papers/w25793/w25793.pdf

201% of exports. The remaining reduction to the IMF threshold of 140% would have to come from austerity alongside any growth in exports. Restructuring would account for just 5% of the effort to get Ethiopia's debt down to the IMF threshold.[19]

The IMF predict that Ethiopia's nominal exports in US$ will grow by an average of 12.7% a year from 2025 to 2029,[20] and 10.4% a year over the whole debt sustainability analysis projection of 2024-2043.[21] This is very optimistic. The IMF say historically Ethiopian exports have grown by 6.4% a year. 10.4% average export growth would be over 60% more than the historical average, and 12.7% almost double.

**8. Debt service to exports threshold**

**Graph 1. Estimate of external debt service by creditor group, pre-restructuring**[22]




The IMF expects Ethiopia's external debt service to stay well above the IMF threshold of 10% of exports until 2030 prior to the restructuring. There is limited information in the IMF debt sustainability assessment of which creditor groups this debt service is to, but below we have estimated it based on current payment schedules.

Graph 1 above includes little private sector debt service because the bond, and so most of the private debt, was due to be paid off by end-2024 on the original schedule. The impact of the proposal to bondholders by itself is just to increase debt service in the 2025-2030 period. Following multilateral and private debt service, there is little space for any bilateral debt service between 2025 and 2027, and none at all between 2028 and 2030 (see graph 2 below).

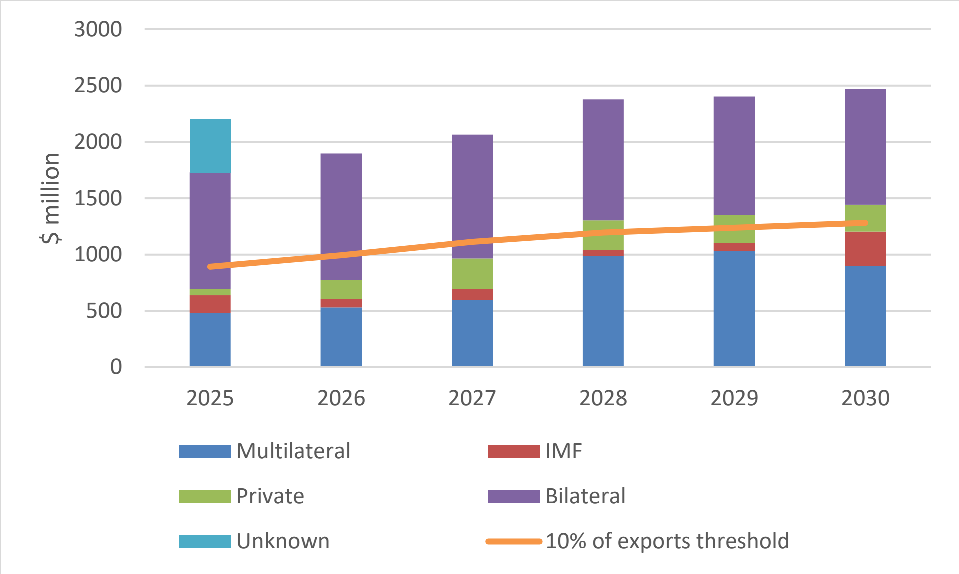
[19] 3 percentage points of the 64 percentage point reduction required.

[20] Calculated from https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778

[21] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778

[22] Figures for 2025 come from the IMF Debt Sustainability Assessment, but these do not add up to the total amount stated by the IMF, so we have left in an unknown amount. For 2026-2030, IMF debt service comes form the IMF website, bilateral debt service from our estimate based on International Development Statistics data. Multilateral debt service is the remainder from the IMF Debt Sustainability Assessment's figure for total debt service.

**Graph 2. Estimate of external debt service by creditor group, post private creditor restructuring, based on Ethiopia government proposal**[23]




**9. Squaring the circle – requiring more debt relief from bilateral creditors**
If the proposal to bondholders were matched by a similar level of net present value repayment compared to the amount lent, there would only need to be a small reduction in bilateral debt for the treatment to be comparable. But this would mean restructuring would only reduce the net present value of the debt by 5% of the required amount, and there would be hardly any space to make payments to bilateral creditors between 2025 and 2027, and none between 2028 and 2030.

The only ways the proposal to bondholders could be compatible with comparable treatment and meeting the IMF thresholds is through a mixture of:

1) Bilateral creditors accepting that they will be repaid significantly less than bondholders
2) Bilateral creditors moving most of the payments to them later than 2030, allowing bondholders to be repaid first
3) Significant amount of the debt reduction to come from austerity in Ethiopia, rather than debt relief from creditors

Below we look at the first two of these.

**a) Bilateral creditors accepting that they will be repaid significantly less than bondholders**
Debt Justice analysis of the Common Framework restructurings has found that in Ghana bondholders and bilateral creditors are being repaid similar amounts, but in Zambia bondholders are being repaid significantly more.[24]

**Table 3. Bondholder and bilateral deals in Ghana and Zambia**

---

[23] Figures for 2025 come from the IMF Debt Sustainability Assessment, but these do not add up to the total amount stated by the IMF, so we have left in an unknown amount. For 2026-2030, IMF debt service comes from the IMF website, bilateral debt service from our estimate based on International Development Statistics data. Multilateral debt service is the remainder from the IMF Debt Sustainability Assessment's figure for total debt service.
[24] https://debtjustice.org.uk/wp-content/uploads/2024/10/Restructurings-comparison_15.10.24.pdf

| | Amount being paid to bilateral creditors for every $1 lent | Amount being paid to bondholders for every $1 lent | Amount more bondholders are being repaid than bilateral creditors |
|---|---|---|---|
| **Ghana** | 67 cents | 64 cents | -4% |
| **Zambia** | 51 cents | 63 cents | 23% |
| **Average** | | | 10% |

If the average difference from these restructurings was replicated in Ethiopia, this would mean bilateral creditors would be repaid 78.6 cents for every dollar lent, compared to the 86.5 cents in the proposal to bondholders. This would increase total debt relief to Ethiopia to $1,332 million, 6% reduction in the net present value of the total external debt. This in turn would reduce the present value of the debt from 204% of exports to 192%. This is lower than under the true comparable treatment scenario but would still leave 80% of the effort in reducing the debt to the IMF threshold to domestic austerity and export growth.

**Table 4. One possible scenario for restructuring**

| | Nominal debt stock, $ million, end-June 2023[25] | Net present value estimate pre-restructured debt, $ million | Net present value / nominal value | Net present value estimate post-restructured debt, if bilateral get repaid less than bondholders, $ million | Net present value / nominal value |
|---|---|---|---|---|---|
| **Multilateral** | **$15,269 million** | **$9,331 million** | **0.611** | **$9,331 million** | **0.611** |
| **Bilateral** | **$12,406 million** | **$10,877 million** | **0.877** | **$9,751 million** | **0.786** |
| **Private** | **$1,255 million** | **$1,292 million** | **1.029** | **$1,086 million** | **0.865** |
| **Total** | **$28,930 million** | **$21,500 million** | **0.743** | **$20,168 million** | |

**b) Bilateral creditors moving most of the payments expected to after 2030, allowing bondholders to be repaid first**

The pattern from recent restructurings, including in Ghana and Zambia, is for bilateral creditors to move payments significantly into the future, at relatively low interest rates, but not to reduce any of the debt principal. Moving bilateral payments from the 2020s to the 2030s and later will have to happen in the Ethiopia restructuring in order to meet the IMF debt service thresholds. But it will only be possible through bilateral creditors being repaid less than the proposal to bondholders, as above.

Furthermore, even with no payments to bilateral creditors from 2028-2030, we estimate that the proposal to bondholders would lead to the IMF threshold for debt service to exports being breached between 2028 and 2030.

[25] https://www.imf.org/en/Publications/CR/Issues/2024/07/29/The-Federal-Democratic-Republic-of-Ethiopia-Request-of-an-Arrangement-Under-the-Extended-552778

If moving bilateral payments into the future was attempted without a significant reduction in the net present value of the debt, this would imply very high interest rates on bilateral debt from 2030 on. This is because there is virtually no space for payments between 2025-2030. And in the IMF Debt Sustainability Analysis, on the current payment schedules Ethiopia's external debt service is only just below the 10% threshold for exports from 2031 to 2034 (the latest year they model payments to). There is little space for extra payments in this period to bilateral creditors, and no space for the high interest rates which would be required if a) bilateral creditors moved payments out of the 2020s and b) got paid similar net present value/nominal amounts as the proposal to private creditors.

Ethiopia's proposal to bondholders can only be consistent with IMF debt sustainability targets if bilateral creditors accept being repaid less in net present value/nominal terms than bondholders. By rejecting the proposal, bondholders are demanding that the Ethiopian people and bilateral creditors pay even higher costs, so that bondholders can make even higher profits.

**10. Illustrative scenario**

We do not know what the potential deal between bilateral creditors and Ethiopia might be. We do know the pattern from Ghana and Zambia is for bilateral principal payments to be made once bondholders have been repaid. And that any payments to bilateral creditors from would breach the IMF external debt service to exports threshold from 2028 to 2030. Based on this, below we model one possible outcome. If for example there were:

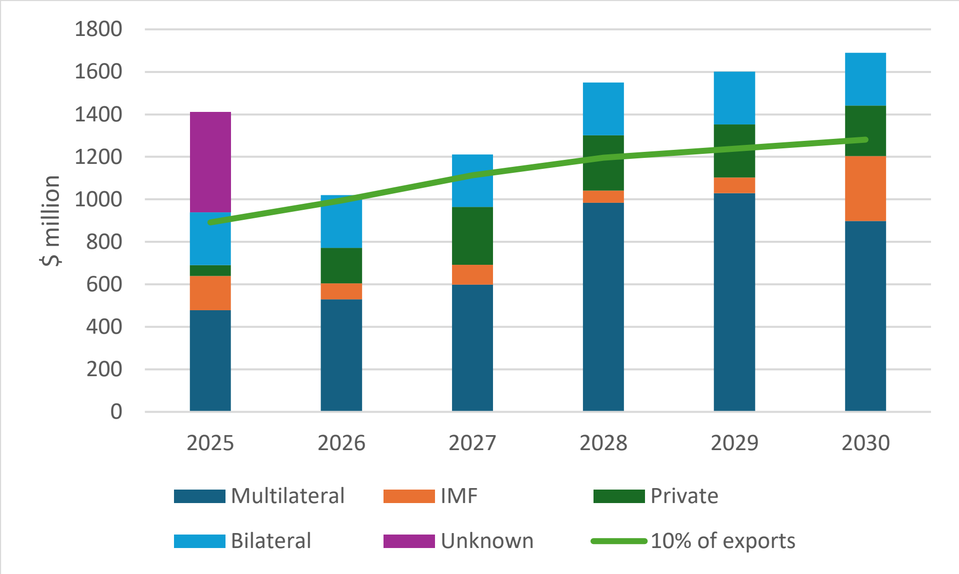
- No reduction in bilateral principal
- Interest rates were reduced from 3% to 2%
- Principal repayments took place from 2032 (after the bonds had been paid off under the Ethiopian government proposal) to 2040
- The Ethiopian government proposal to bondholders was implemented

Then:

- The net present value of bilateral debt would be reduced to $8,941 million. This would mean bilateral creditors would be repaid 72 cents in net present value terms for every $1 lent. Compared to the proposal to bondholders, bondholders would be repaid 20% more than bilateral creditors.
- The IMF threshold for external debt service to exports would still be breached between 2028-2030 (but not between 2025 and 2027).

**Graph 3. Estimate of external debt service by creditor group, post private creditor restructuring, based on Ethiopia government proposal, and bilateral restructuring, based on assumptions above**[26]

[26] Figures for 2025 come from the IMF Debt Sustainability Assessment, but these do not add up to the total amount stated by the IMF, so we have left in an unknown amount. For 2026-2030, IMF debt service comes from the IMF website, bilateral debt service from our estimate based on International Development Statistics data. Multilateral debt service is the remainder from the IMF Debt Sustainability Assessment's figure for total debt service.




### 11. Impact of the debt crisis on social protection

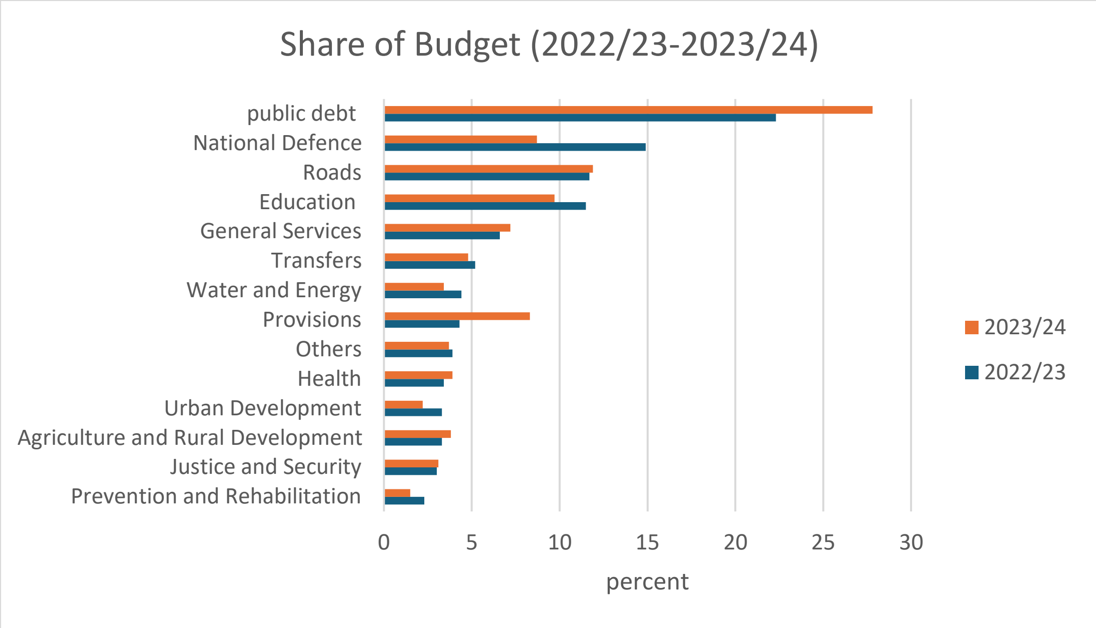
The IMF program in Ethiopia constitutes comprehensive reform packages including moving to a market-determined exchange rage, combating inflation alongside restoring debt sustainability. A key component of the program is reducing the public deficit through tax increases and spending cuts. The IMF has advised the government to implement tighter monetary policy to mitigate the inflationary impact of transitioning to a market determined exchange rate. In order to safeguard the vulnerable section of the population and maintain important social spending, the program has provision to create space for priority public spending and strengthening social safety nets.

The country's budget for FY 2024/25 constitutes a spending package of 1.5% of GDP to help mitigate adverse social impact of the foreign exchange reform. This includes expanding the existing targeted social safety nets (PSNP) to support the vulnerable population. The expansion of the PSNP includes provision of temporary direct subsidies on selected food items and medicines. The Ethiopian government also planned to provide temporary fuel subsidies to partially address the large and adverse welfare effect on households.  The authorities also plan to raise the fertilizer subsidy from 0.3% to 0.5% of GDP to counter a decline in cereal yields and associated price increase in cereals due to fertilizer shortages.

The Ethiopian national assembly approved an additional budget of US$582 billion in November 2024. The government stated that a substantial share of the additional budget will be utilized to cushion important social sectors from the adverse effects of the reform.

Mounting debt servicing took a toll on important social and economic sectors by crowding out the limited resources. As the figure below shows, debt servicing accounts for 22.3% and 27.8% of the government budget allocation in 2022/23 and 2023/24 respectively. Moreover, the budget allocated for debt service is substantially higher than that of important social sectors. In 2022/23, the budget for debt service accounted for 22.3% while that of water and energy, education, and health combined accounted for 19.3%. In 2023/24, the budget for debt servicing increased to 27.8% of total budget, which is 11 percentage points higher than that of water and energy, education combined.

**Graph 4. Ethiopian government budget shares**




If the ongoing debt restructuring negotiations between Ethiopia and its creditors are successful, it would allow the country to access external finance to spend in important social and economic sectors.

**12. Ring-fencing Social Sector Spending and Socio-economic Rights for Ethiopia**
Ethiopia, like many African countries, entered the bond market primarily to mobilise resources for new infrastructure including roads, energy, industrial parks, and expansion of sugar factories. Bonds usually present several risks, particularly for African countries. While they lack conditionality, their terms of lending are more expensive and more risky than official loans carrying an average of 6% interest rate and maturity of 11 years compared to concessional loans which often carry an interest rate of 1.6% on average and have a longer maturity of at least 29 years. Bond debt is generally motivated by the need for higher returns quickly. Often, such investments are guided by reckless attitudes i.e. lack of due diligence on the part of creditors with little or no consideration for the social and political implications of the borrowing or potential default.

The G20 Common Framework favors the creditor-diktat narrative, where the debt service must continue as part of any restructuring package if it is to regain market access and return to debt sustainability. This means, creditors' right to payment must be prioritised as it is good for the debtor in the long run or they run the risk of being shut out of the debt market, regardless of the seriousness of the debt crisis. In international law, this creditor-priority norm lacks a legal basis. It also presents a critical jurisprudential question of whether it is right to prioritise creditor over debtor's socio-economic rights where resource constraints are apparent. Despite the laudable objectives and potential of past and existing sovereign debt restructuring regimes such as the Common Framework, they not only frustrate international cooperation but limit the efforts of sovereign debtor countries to progressively fulfill the socio-economic rights of their citizens. This practice falls short of the requisite international cooperation envisaged by, for example, the Universal Declaration of Human Rights, the UN Charter, and the International Convention on Economic, Social, and Cultural Rights (ICESCR)[27]

[27] Bello, Muhammad (2024). Reimagining Sovereign Debt in International Law through the lens of Socio-Economic Rights. Pretoria University Law Press

It has been argued that the creditor priority norm despite it not having an international legal basis and the voluntary nature of existing sovereign debt restructuring initiatives under ICESCR for example which states in Article 2(1) that, "*Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, to achieve progressively the full realization of the rights recognized in the present Covenant by all appropriate means, including particularly the adoption of legislative measures*", debtor countries can be allowed to suspend debt servicing commitments to create the space to implementation of socioeconomic rights of its citizens a as essential interests of the state. Besides, sovereign debt is often guaranteed by the taxes remitted by citizens of a state.  Under general international law, it can be further argued as proposed by Bello (2024), the Draft on State Responsibility by the International Law Court, that a debtor state can invoke the principle of necessity using socioeconomic rights as a debtor's essential interest. Under this draft, where a state is facing a serious and imminent danger beyond its control e.g. a financial crisis, health pandemic, floods, or war and there is no other way to avert the danger, it may avoid or suspend its financial obligation to protect an essential right if it is the most plausible way.

In a series of working papers[28] by AFRODAD examining Legal debt and Contractual frameworks in four countries i.e. Ethiopia, Ghana, Malawi, and Chad, it finds that Ethiopia does not have explicit guiding laws on private debt restructuring. Debt restructuring is often left to be decided by parties with almost all of the contracts on sovereign debt with external lenders agreed to be settled by arbitration outside of Ethiopia. The risks here are that Ethiopia has no sufficient expertise in arbitration and arbitration abroad is expensive. However, since international law as illustrated recognises a suspension of debt obligation where payment would jeopardise vital essential services, the Government of Ethiopia can consider invoking such during its negotiations under the Common Framework to ensure social sector spending and socio-economic rights of its people are not adversely affected. In a recent publication  on debt restructuring under the G20 Common Framework (CF), AFRODAD additionally proposes that at the center of reforming the CF, since it is evident there are competing demands of fulfilling socio-economic rights and debt repayment experienced by a debtor country, debt write-offs, and outright cancellation must be included in the CF, especially in countries that face persistent debt distress. This is broadly in recognition that there is a need for balancing and prioritisation of these demands without necessarily neglecting the demands of fulfilling socio-economic rights. Additionally, the paper stresses the need to use up-to-date date sustainability indicators that account for climate shocks and sustainable development.

[28] Pending Publication