Analysis of Ethiopia debt restructuring negotiations with bondholders

Debt Justice and Afrodad, December 2025

1. Summary

In October 2025, debt restructuring negotiations between Ethiopia and its bondholders broke down for a second time. Bondholders, led by VR Capital and Farallon Capital Management, once again threatened to sue Ethiopia in the UK.[1]

The Ethiopian government's October 2025 proposal to bondholders was worse for Ethiopia and better for bondholders than their October 2024 proposal. It would:

- Mean bondholders were repaid 13%-33% more than bilateral creditors
- Lead to bondholders making 18%-79% more profit than they would have made lending to the US government

However, bondholders rejected this proposal. Instead, they want much higher payments if Ethiopia's exports over the next decade exceed IMF predictions, without any cap on the maximum amount. We estimate that the bondholder proposal would:

- Mean bondholders were repaid 13%-57% more than bilateral creditors
- Lead to bondholders making 18%-126% more profit than they would have made lending to the US government

However, there is no theoretical maximum to these numbers - bondholders could make gigantic returns with their proposal, with no corresponding downside to bondholders if Ethiopia is hit by shocks.

2. October 2024 proposal

In October 2024, Ethiopia made a proposal to bondholders comprising:

- An 18% haircut to 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 was agreed.

We estimated that, including the interest payments from before the default, bondholders would have made 31% more profit than if they had lent to the US government, if they accepted the proposal.[2] This was 24% profit for buyers of the bonds

[1] https://www.reuters.com/world/africa/ethiopias-debt-restructuring-hits-impasse-bondholders-eye-legal-action-2025-10-14/

[2] https://debtjustice.org.uk/wp-content/uploads/2025/01/Ethiopia-debt-restructuring_01.25.pdf

when they were first issued and 38% for buyers of the bonds at the prices traded at from start-2022 to November 2024.[3]

The net present value of the restructured bonds from start-2022 would have been $865 million. This proposal was rejected by the bondholders in October 2024.

3. Ethiopian government proposal October 2025

The Ethiopian government proposal in October 2025 comprised:[4]

- A 15% haircut on the original principal
- Repayment of the remaining principal between 2026 and 2029
- 6.125% interest
- The missed interest payments from December 2023 and 2024 to be paid when the restructuring proposal is agreed.

The proposal also includes a "value recovery instrument" (VRI) which would pay bondholders 1.5% of Ethiopia's exports above the IMF's predictions every year until 2037. This would be capped at a maximum of $30 million a year. There is also a downside adjustment that if Ethiopia's exports in 2027/28 were 5% less than predicted by the IMF, the final principal payment in 2029 would fall by $50 million. If exports in 2027/28 were 15% less than predicted by the IMF, the final principal payment would be cut by $100 million.

The net present value of the restructured bonds under the baseline for this proposal, dated from start-2023, would be $933 million. In addition, the VRI could be worth up to $165 million in NPV terms (dated from start-2023) for bondholders. This makes the total possible cost to Ethiopia of this proposal $1,098 million in NPV terms, dated from start-2023. If instead the downside adjustment was triggered, and there were no VRI payments, this would reduce the cost to Ethiopia to $855 million.

For buyers of the original bonds in 2015, over their lifetime and that of the restructured debt, in the baseline deal they would make 25% more profit than lending to the US government. This rises to 47% profit with the maximum amount from the VRI. If the downside adjustment were triggered, and no payments under the VRI, bondholder profit would still be 18%.

For buyers of the bonds between 2022 and 2024, the profit from the baseline deal is 40%. This rises to 79% if the maximum cap of the value recovery instrument is reached. It is still 28% if the downside adjustment is triggered.

[3] https://debtjustice.org.uk/press-release/bondholders-would-still-make-30-profit-from-rejected-ethiopia-deal

[4] https://www.mofed.gov.et/media/filer_public/ce/a8/cea89033-e2af-4da6-9fe8-3241301b9b8e/ethiopia_-_cleansing_statement_october_2025_14_october.pdf

Bondholders still rejected this proposal.

4. Bondholders' proposal October 2025

The bondholders proposal accepted the same baseline proposal as the Ethiopian government. They wanted the downside adjustment to only be triggered if exports over 2024/25-2027/28 were lower than expected by the IMF, making it less likely to happen. The big difference in the bondholder proposal is that bondholders wanted the VRI to be 4.75% of Ethiopia's exports above the IMF's predictions from 2024/25 to 2027/28, and 2% each year after from 2027/28 to 2035/36. Crucially, this proposal included no maximum cap, meaning Ethiopia could be left paying unspecified extra amounts.

The documents published by the Ethiopian government suggest the bondholder proposed VRI could cost 122% more than the Ethiopian government value recovery instrument proposal. For our calculations, we have made this an annual payment of $67 million rather than the $30 million cap in the government proposal.

While there is huge uncertainty, if VRI payments were 122% higher, this would increase profit for original buyers of the bonds to 75% more than lending to the US government. For buyers of the bonds between 2022 and 2024 it would increase it to 126%.

In 2024/25 Ethiopia's goods exports are reported by the government to be $1,955 million higher than expected by the IMF. This would trigger an annual payment of $93 million under the bondholder proposed VRI, which is higher again than the $67 million estimated above. Exports being higher than predicted by the IMF does not necessarily mean government revenue will be.

Table 1. Profit rates for bondholders under different proposals

Proposal	Net Present Value[5]	Profit for buyers of bond 2015	Profit for buyers of bond 2022 to 2024	Central profit estimate
2024 Ethiopia government	$865 million	24%	38%	31%
2025 Ethiopia government	$855 million - $1098 million[6]	18%-47%	28%-79%	36%
2025 bondholders	$855 million - >$1302 million[7]	18%-75%	28%-126%	48%

[5] From start-2023, 5% discount rate.

[6] $855 million downside adjustment, $933 million baseline, $1098 million maximum value recovery instrument

[7] $855 million downside adjustment, $933 million baseline, $1302 million possible value recovery instrument, but theoretically unlimited

5. Comparison with bilateral restructuring deal

Bilateral creditors agreed a debt restructuring deal in March 2025. The details of the deal have not been made public – we call on bilateral creditors to release the full details of the agreement.

The Ethiopian government has now released the pre-restructuring schedule of payments to bilateral creditors. We have estimated from these that the NPV of Ethiopia's pre-restructuring debt to bilateral creditors was $7,500 million (dated from start 2023). This was compared to a nominal amount owed of $7,939 million as of end-June 2023.

The Ethiopian government update on the bondholder negotiations says the restructuring deal reduces the NPV of the debt to bilateral creditors by 12.5%. This means we can estimate that the NPV of the new debt is $6,563 million. This in turn is 82.7% of the amount lent. There is no VRI in the restructuring deal with bilateral creditors.

In contrast, under the baseline deal with bondholders, the NPV of the restructured debt would be 93.3% of the amount lent ($933 million compared to $1,000 million). Even with no VRI payments, bondholders would be repaid 13% more than bilateral creditors. With the maximum VRI payments under the government proposal, this would rise to bondholders being repaid 33% more. And under the indicative bondholder VRI proposal, bondholders could receive 57% more than bilateral creditors – but it could of course be much more than this.

Table 2. Possible amounts repaid to bilateral creditors and bondholders

	Nominal amount owed pre-restructuring	NPV of debt post restructuring	Amount being paid compared to amount lent	Amount more bondholders would receive than bilateral creditors
Bilateral creditors	$7,939 million	$6,563 million	82.7%	
Bondholders baseline	$1,000 million	$933 million	93.3%	13%
Bondholders, Ethiopian government proposed VRI	$1,000 million	$1098 million	109.8%	33%
Bondholders, bondholders proposed VRI	$1,000 million	>$1,302 million	130.2%	57%

6. Conclusion

The rejection by bondholders continues to reflect the persistent weakness of the G20 Common Framework in achieving creditor coordination, making it unimplementable, porous and repugnant in its current form. Additionally, the Common Framework is vague in how it will ensure the principle of comparability of treatment is implemented, merely indicating that assessment of comparable efforts should be based on changes in nominal debt service, debt stock in present value terms and duration of treated claims, but not saying how these criteria should be used, or publicly releasing comparability of treatment calculations.

The absence of clear guidelines of assessment of comparability leaves participating borrower countries exposed to private creditors' prolonged holdouts. Several proposals have been advanced to ensure equal distribution of debt service burden. AFRODAD in its report, for example, recommends a solution in the introduction of compensatory tax advantage equivalent to the foregone debt relief for private creditors and bondholders, providing a bottom-line advantage at the country level.

Ultimately, however, the challenge of private creditors blocking debt restructuring can be only be resolved through a legally binding framework that consists of global consensus on rules and principles under the auspices of the United Nations, i.e. a UN framework convention on debt, which is the only inclusive and democratic space for reforms in debt restructuring and overall global debt architecture. Reforms should include mandatory domestic legislation in creditor countries to ensure private lenders participate in debt cancellation and enforce comparability of treatment.

The calculations for the briefing are available in the spreadsheet here: https://debtjustice.org.uk/wp-content/uploads/2025/12/Ethiopia-calculations_12.25.xlsx