FDL Finance for Development Lab

The Architecture of Delay:

Lessons from Ethiopia's Sovereign Default for the Common Framework

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Martin Kessler

Lili Vessereau

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Introduction

Is the current debt treatment architecture working? Most agree that it delivers results that are too slow and inefficient. But are those growing pains that will sort themselves out? A new system in need of tweaks? Or a decadent process requiring a complete overhaul? Nowhere is this lack of consensus more visible than in Ethiopia's case. There is a case to see it as a "success" of the Common Framework. The agreement with the IMF on a programme ("Staff Level Agreement") was achieved in July 2024, and bilateral creditors under the G20 Common Framework provided financing assurances by July, unlocking a large IMF loan. It took another 8 months to reach the "Agreement-in-Principle", i.e., translating the commitment to debt relief into precise parameters, and three months for the OCC to sign an MoU. The bilateral debt stock of restructured external public debt amounted to over $12.4 billion, out of $13.6 billion of restructurable claims. What is not to like?

Quite a lot, it seems. The extraordinary statements issued by the Bondholder Committee on the one hand and by Debt Justice on the other, following the agreement in principle between Ethiopia and its bondholder committee, were both equally dissatisfied with the process and its outcome. Ethiopia applied in January 2021, a few weeks after Chad, for a treatment under the Common Framework. An Official Creditor Committee was only convened in September 2021, eight months later. The civil war in Tigray stopped any advances of IMF programmes and debt treatment. Only five years later, on June 29, 2026, an Agreement-in-Principle (AIP) was reached on the 2024 Eurobond, settling a dispute which had been simmering for almost 3 years, under the threat of a lawsuit in UK courts. A cautious letter by the OCC, in August 2026, approved the deal as comparable.

The contentious process – and its apparent resolution – has direct implications not only for Ethiopia, but for the architecture more broadly: other prospective countries hesitate to treat their debt through the Common Framework, seeing such conflicts and legal action as a potential precedent. While the case is "special", other restructuring cases have also been special in their own ways, and all illustrate the system's successes or failings.

This paper aims to recap the main disagreements underlying this controversy. It involves all the usual elements of conflicts in a restructuring, first in terms of substantive outcomes: what is the appropriate quantum of relief? How to allocate losses? Many of the elements that usually help answer those questions – the Debt Sustainability Analysis, the Comparability of Treatment and the use of VRIs – have been at the heart of the debate.

But perhaps, what this long process illustrates is the difficulty of managing sets of creditors with diverging interests and views. The weakness of a rigid, sequential process – where official creditors agree on their terms first, and other creditors must then match them – is illustrated by the fact that a relatively minor claim (a $1 billion Eurobond, or less than 10% of treated debt) can become a significant irritant, and how the evolution of the macro-framework over time puts it into conflict with the comparability of treatment.

The paper seeks to illuminate these debates, beginning with a brief description of the origins of Ethiopia's macro-financial fragility due to a strategy of state-driven development without external liberalisation. A first treatment of bilateral debt in 2019 planted the seeds of a later, deeper crisis. The second section describes the restructuring process from 2023 to its conclusion in 2026. The third

section examines how contingent instruments were used to bridge the gap between the two views of distress, and why the first attempt failed on comparability while the second succeeded.

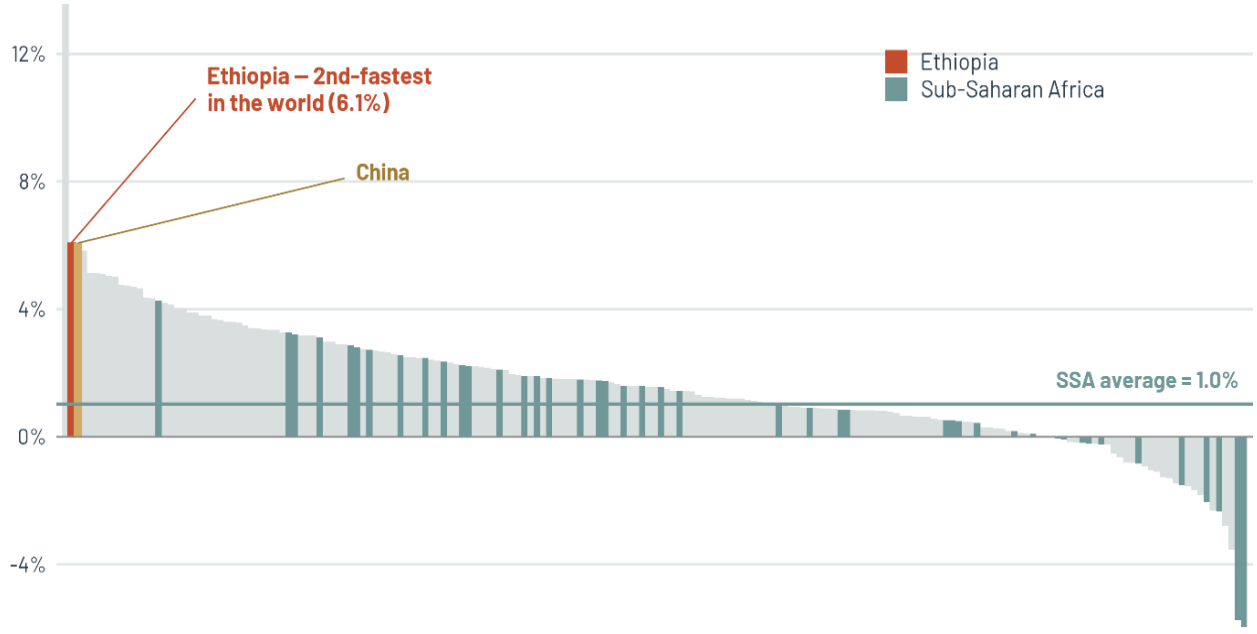
1. Ethiopia's debt-fueled growth process, 2004–2023

1.1. Growing on borrowed terms

In the decade and a half following HIPC and MDRI relief, Ethiopia's external debt changed, replacing concessional, multilateral-dominated stock with a hybrid portfolio in which semi-concessional bilateral lending - primarily Chinese - and commercial market borrowing came to play a larger role.

Since the early 2000s, Ethiopia pursued an ambitious, state-led "developmental state" model that leveraged massive external borrowing and domestic financial repression to fuel infrastructure-driven growth. After the end of the Ethiopian Civil War, which spanned from 1974 to 1991 and claimed about 1.4 million lives, the government sought to turn to a developmental state, largely relying on State-Owned Enterprises to industrialise and grow. After a decade of volatile growth, the strategy proved successful: between 2010 and 2024, annual per capita growth rates reached 6.1% (Figure 1), the second-highest in the world, behind Guyana and equal to China.

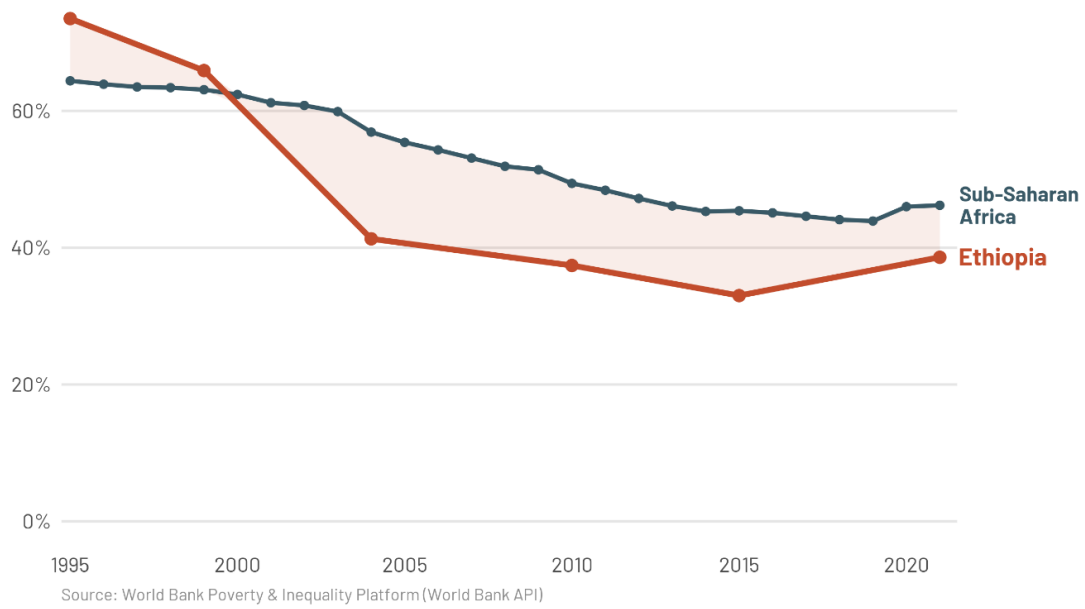
Figure 1: GDP per capita growth, Ethiopia and the rest of the world



Source: WDI, World Bank, 2026

While impressive, this was largely catching up (Harvard Growth Lab, 2022): from the 3rd poorest country in the world in 2004, with an average income per capita at 25% of that of Sub-Saharan Africa, it became the 18th poorest in 2024, now at 60% of the continent's average. At the same time, extreme poverty headcount, measured at the World Bank's $3.00-a-day line (2021 PPP), fell significantly from around 41 per cent in 2004 to 33 per cent in 2015 (Figure 2), before stalling around COVID-19 and the civil war.

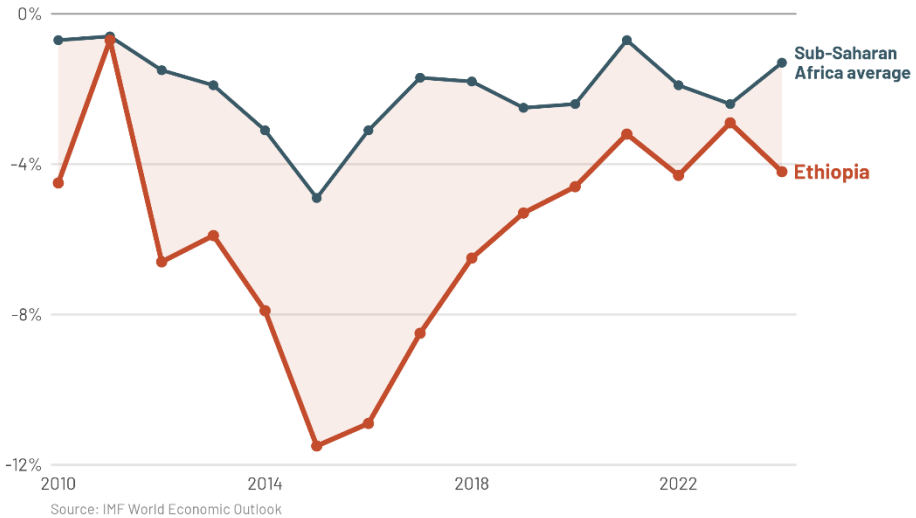
Figure 2: Extreme poverty headcount (less than $3 a day) in %, Ethiopia and SSA median



Source: World Bank Poverty & Inequality Platform (World Bank API)

This success was built on spectacular ramping up of investment, and in particular public investment. Between the 1990s and the 2010s, investment as a share of GDP more than doubled from 15% to 37%. With low domestic savings, the gap was filled by external finance, and especially debt. The current account deficit narrowed from almost 11 per cent of GDP in 2015 to 4.5% in 2019 (Figure 3), financed predominantly through external borrowing rather than foreign direct investment. Export performance, meanwhile, remained low: goods and services exports stagnated at 8 to 10 per cent of GDP, concentrated on a narrow basket of low-elasticity primary commodities (coffee, leather, cut flowers, khat) that offered little defensive capacity against terms-of-trade shocks. Industrial growth was mainly in the construction sector, and while garments exports had grown at a spectacular rate, they started from a low base.

Figure 3: Current account balance (% of GDP), Ethiopia and SSA average



Source: IMF World Economic Outlook

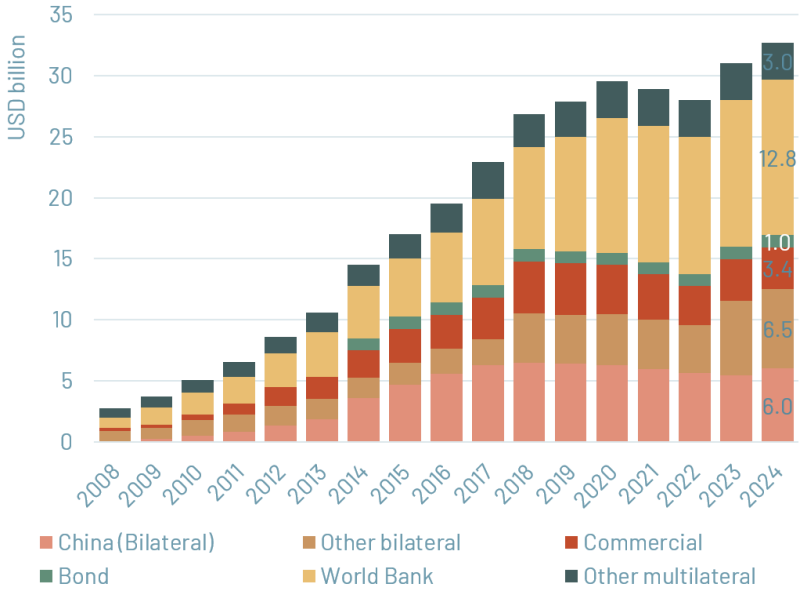
Limited domestic savings were heavily mobilised to be redirected toward public investments through financial repression. The Commercial Bank of Ethiopia, a state-owned bank which dominated the banking sector, purchased an important amount of SOE bonds (IMF, 2020; IMF, 2025a). In addition, between 2011 and 2019, each new loan had to be matched with a 27 per cent purchase of National Bank of Ethiopia (NBE) bills to fund the state-owned Development Bank of Ethiopia.[1] From 2022 to 2025, a new rule similarly required commercial banks to buy Treasury bonds worth 20 per cent of new loans.[2] Deposit rates below inflation led to negative real returns for savers while giving banks cheap funds to lend to the state, leaving less credit for private firms. The NBE also financed government spending through money creation, fuelling inflation when spending outpaced production. Meanwhile, the overvaluation of the birr made imports artificially cheap for those who obtained foreign exchange, which was rationed and allocated to selected imports. This encouraged import demand and weakened export incentives, worsening dollar shortages. Lowering the costs of public investment therefore came at the expense of private companies and savers (IMF, 2025a).

External and macroeconomic fragilities built up. Foreign exchange reserves remained at low levels, under two months of imports, from 2017 onwards – and thus below the three-month rule-of-thumb. The exchange rate regime compounded this fragility: an administratively determined birr, kept at an overvalued official rate, generated a parallel-market premium that widened from a manageable 20 per cent in 2016 to over 100 per cent by early 2024[3] after inflation spiked in the aftermath of the civil war. Inflation had been a persistent feature from 2015 onwards, often in the double digits, due to the use of monetary financing of the fiscal deficit and the financial repression embedded in the developmental-state model, but it jumped to about 30% in 2022-23. As a result, the real exchange rate appreciated by over 40%.

Much of the debt took the form of semi-concessional and commercial lending. Following the completion of the Heavily Indebted Poor Country Initiative in 2004 and the Multilateral Debt Relief Initiative in 2006, the government shifted toward non-concessional and bilateral financing - particularly from China and a $1 billion Eurobond in 2014 (cf. Figure 4) - to fund major projects including railways and various industrial parks.[4] From 2000 to 2023, 83% of the debt contracted by Ethiopia with China was non- or semi-concessional[5] with a weighted average interest rate of 3.7% and a weighted average maturity of 15 years. Of a total external public debt estimated at $32 billion, $16 billion was multilateral, and often at very concessional terms, but commercial loans (including bonds) and bilateral exposure were becoming more expensive.

[1] The Reporter, https://www.thereporterethiopia.com/8938/; and "NBE Repeals Controversial Bond Bill," Capital Ethiopia, November 25, 2019, https://capitalethiopia.com/2019/11/25/nbe-repeals-controversial-bond-bill/.
[2] Directive No. MFAD/TRBO/001/2022 and Shega, "Ethiopia's Central Bank Ends Mandatory T-Bond Purchases," and
Shega, June 2025, https://shega.co/news/ethiopias-central-bank-ends-mandatory-t-bond-purchases.
[3] News Agencies, "Ethiopia Says Talk of Birr Devaluation 'Completely Unfounded,'" Al Jazeera, accessed April 29, 2026, https://www.aljazeera.com/economy/2023/1/19/ethiopia-deputy-financemin-rumour-of-fx-devaluation-unfounded.
[4] "Ethiopia Launches $1 Bln Debut Eurobond, Finds Strong Appetite: IFR," Finance, *Reuters*, December 4, 2014, https://www.reuters.com/article/business/finance/ethiopia-launches-1-bln-debut-eurobond-finds-strong-appetite-ifr-idUSKCN0JI1LT/.
[5] "AidData | China's Global Loans and Grants Dataset, Version 1.0." Accessed June 3, 2026. https://www.aiddata.org/data/chinas-global-loans-and-grants-dataset-1-0.

Figure 4: Debt composition over time



Source: World Bank IDS

Note: In the rest of the text, we will use IMF sources for external debt (typically, programme document), which differ slightly from these data. This illustrates the historical perspective.

By 2018, the IMF downgraded Ethiopia to "high risk" of debt distress (IMF, 2018) as the debt-to-GDP ratio had increased from 39 per cent in 2010 to 61 per cent in 2018. The deterioration was largely driven by debt of state-owned enterprises - notably Ethiopian Electric Power and Ethiopian Railways. At the same time, SOEs' investments themselves were heavily concentrated in non-tradable sectors that generated little export revenue. On the revenue side, Ethiopia's tax-to-GDP ratio fell from approximately 12 per cent in the early 2010s to roughly 7.1 per cent by 2022.

1.2. Rescheduling under the 2019 IMF programme

In 2018, the low level of reserves was alarming and led to a large IMF programme, which was predicated on reducing debt vulnerabilities. Ethiopia negotiated a reprofiling of its bilateral debt, notably with China, providing temporary breathing room. However, a devastating convergence of civil conflict, pandemic shocks, and climate emergencies quickly overwhelmed these isolated measures.

Through a series of successful renegotiations in 2018 and 2019, Ethiopia reprofiled over US$2.5 billion in Chinese loan exposures by extending maturities on key infrastructure projects. In September 2018, following the Forum on China-Africa Cooperation in Beijing, Prime Minister Abiy Ahmed announced that the maturity of the Addis Ababa-Djibouti Railway loan had been extended from ten to thirty years. In October 2018, Sinosure the Chinese export credit insurer, announced that it has absorbed approximately US$1 billion in losses on the railway project.[6] This was followed, in February 2019, by the announcement that Ethiopia had successfully renegotiated repayment terms on a substantial share of its external obligations - a programme of bilateral reprofiling that ultimately covered, beyond the aforementioned railway, the Omo Kuraz sugar complex, and the GERD Dedessa–

[6] Emily Feng and David Pilling, "Chinese Investments in Africa Go off the Rails," Chinese Politics & Policy, *Financial Times*, December 5, 2018, https://www.ft.com/content/82e77d8a-e716-11e8-8a85-04b8afea6ea3?syn-25a6b1a6=1.

Holeta power transmission line. Taken together, the value of Chinese exposures reprofiled in this round exceeded US$2 billion in face value, even before factoring in the multi-creditor maturity extensions that followed.

Reprofiling debt allowed Ethiopia to request a large blended ECF-EFF arrangement of SDR 2.1 billion, approved in December 2019. This was, at the time, the largest programme (relative to quota) for a PRGT-eligible country, representing 700 per cent of quota.[7] By IMF rules, which evolved after COVID-19, any large access size for PRGT countries required the country to reach a moderate risk of debt distress by the end of the programme. Reprofiling was thus made necessary for access to occur.

This arrangement in support of "Ethiopia's Homegrown Economic Reform Plan" was effectively suspended by the outbreak of the devastating Tigray War in November 2020. In addition to the humanitarian tragedy, with one of the highest numbers of civilian deaths in recent history, Ethiopia endured high economic and fiscal costs. By late 2021, the United Nations reported that the combination of collapsed tax revenues and surging military outlays had already drained over $1 billion from the treasury.[8] The subsequent reallocation of capital toward the war effort had profound consequences for the national budget. In the fiscal year 2022/23, defense spending had quadrupled to 14.9% of total government expenditure, making it the nation's second-largest expense after debt servicing.[9] The economic damage incurred during the initial phase of the conflict was equally devastating; the Ethiopian government's own assessments estimated $22.7 billion in infrastructure destruction and an additional $6 billion in lost productivity. When combined, these losses and physical damages represented roughly 26% of Ethiopia's GDP between November 2020 and December 2021.[10]

This internal instability was further exacerbated by environmental and global shocks. Recurring droughts necessitated high-volume emergency spending on food imports, which put unsustainable pressure on the nation's limited foreign exchange reserves. The pandemic prompted additional emergency support - a Rapid Financing Instrument disbursement of SDR 300.7 million in April 2020 (approximately USD 411 million), along with approximately US$220 million in relief under the G20 Debt Service Suspension Initiative (DSSI) between May 2020 and June 2021.

Those refinancing operations were not sufficient in size to avoid a debt treatment. While loans can be refinanced or rescheduled relatively easily, the looming maturity of the USD 1 billion Eurobond in December 2024 created a major refinancing risk. On 29 January 2021, Ethiopia announced its intention to seek a treatment under the newly created G20 Common Framework, with an Official Creditor Committee co-chaired by China and France formed in September 2021. The Common Framework was in its infancy, and did not necessarily indicate any need for haircuts in Present Value (PV) terms: at this time, the perspective, expressed for instance by State Minister Eyob Tekalign, was that "the country

[7] Note, however, that the size in terms of quota is exaggerated by the fact that Ethiopia is, after China, the country with the lowest quota to GDP ratio, since the quota formula has not been updated, penalizing fast-growing countries.

[8] "Humanitarian Catastrophe Unfolding Before Our Eyes, Secretary-General Tells Security Council, Warning Ethiopia's Youth Will Be Ultimate Casualties | UN Meetings Coverage and Press Releases," n.d., accessed February 6, 2026, https://press.un.org/en/2021/sgsm20866.doc.htm.

[9] *The New Humanitarian | Fallout of War and Drought Leaves Ethiopians Mired in Poverty*, August 1, 2023, https://www.thenewhumanitarian.org/news-feature/2023/08/01/boom-bust-fallout-war-and-drought-leaves-ethiopians-mired-poverty.

[10] *Ethiopia Damage and Needs Assessment - Volume A (English)*, Text/HTML (n.d.), accessed February 6, 2026, https://documents.worldbank.org/en/publication/documents-reports/documentdetail.

has no problem with solvency; rather the required debt rework is because of short-term liquidity challenges." However, because the 2024 Eurobond maturity loomed large, amounting to 72% of gross reserves and 27% of goods exports, it was not possible to achieve a treatment only with bilateral rescheduling.

2. Uneven timelines and clashing narratives: negotiating with bilateral and private creditors

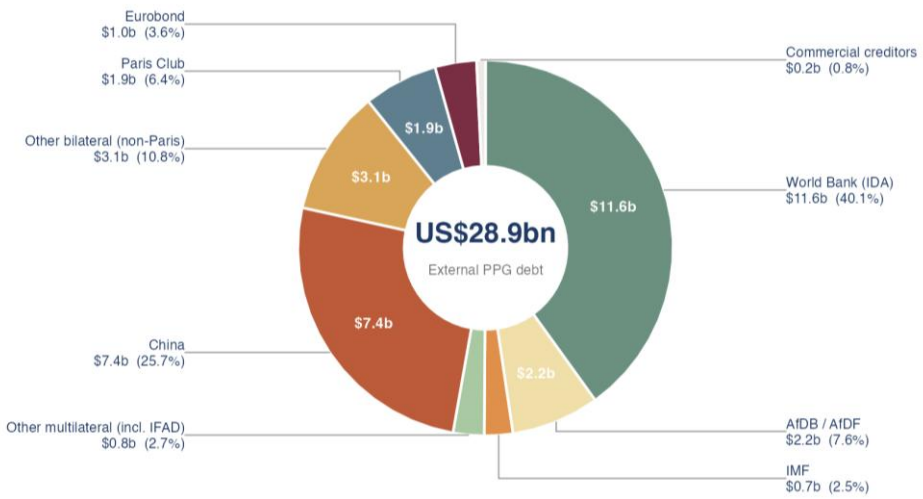
Between 2021 and the end of 2022, the war stopped the programme and any debt operations. Ethiopia remained current on its debt but suffered a series of downgrades from B in April 2020 to CCC in November 2021. The Official Creditor Committee agreed to suspend payments in November 2023, and Ethiopia missed its first coupon in December 2023, going into default.

Ethiopia agreed on a programme in July 2024, and the IMF's projection implied a small but significant need to reduce the present value of debt by mid-2028. The Official Creditor Committee (OCC) accepted this analysis and used it to provide financing assurances in July 2024, until the treatment was implemented in July 2025 through a Memorandum of Understanding between Ethiopia and the OCC.

2.1. Two views of distress: liquidity versus solvency

Official creditors accounted for most of Ethiopia's debt. In addition to multilateral institutions ($15.5 billion), and especially the World Bank ($11.6 billion), which made up more than half of the debt stock, bilateral creditors were the main restructurable creditors with $12.4 billion outstanding, including $7.4 billion from China. Since the Paris Club accounted for a relatively small share, a Common Framework made sense first and foremost to coordinate a diverse set of official creditors. The share of commercial debt was very small, and the $1 billion bond was a relatively minor part of the debt stock.

Figure 5: External public and publicly guaranteed debt by creditor, end-June 2023



Source: IMF Country Report, N..24/253 (ECF Request, July 2024). Debt Composition table, end-June 2023. Multilateral 53% | Bilateral 43% | Bond+commercial 4%.

After the end of the civil conflict, Ethiopia sought to resolve its distress. In August 2023, Ethiopia secured a debt-service standstill from China, its largest bilateral creditor. This was then followed in November 2023 by an agreement with the OCC co-chaired by China and France to suspend payments.

Following this official relief, Ethiopia asked its private bondholders for a parallel debt-service standstill.

Prior to this, and throughout 2023, discussions with bondholders on rescheduling the 2024 bond continued. Some documented offers and counter-offers show that there was a bargaining space: according to the Ad Hoc Bondholder Committee, bondholders offered to reschedule the bond a year prior to the default[11]. Without a macro-fiscal framework in place, this was rejected. In the aftermath of the standstill with bilateral creditors, the pressure to interrupt payments to private creditors was high. While not explicitly a consequence of CoT, it was interpreted that way: if no payments were going to bilateral creditors, the same should go for private creditors. This principle was further set in stone in the standard MoU published by the US G20[12]. However, time was too short to get to an agreement: reporting from the time shows a wide gap between the parties on coupon and maturity[13].

On December 8, 2023, the Ethiopian authorities announced they would not pay the $33 million coupon payment on the sole $1 billion Eurobond due three days later and defaulted. The Ethiopian Government explicitly cited the need to ensure the "equitable treatment" of all its creditors.[14] While pre-emptive restructurings are known to allow for faster recovery and return to market than post-default restructuring (Asonuma and Trebesch, 2016), time had run out.

Between December 2023 and June 2024, the IMF and the country negotiated a Staff Level Agreement, with a devaluation and floating of the birr as the centrepiece. The four-year Extended Credit Facility of approximately $3.4 billion, or 850 per cent of quota, the largest PRGT-supported programme in terms of quota extended to a low-income country, was formally approved by the Executive Board on 29 July 2024 and conditioned on the simultaneous float of the birr. The dollar price of the Ethiopian currency roughly halved within ten days of the announcement, moving from 57 ETB/USD to 112**.** While this measure succeeded in stabilising FX reserves - which rose to $3.4 billion by October 2024[15]– it also doubled the local-currency burden of servicing foreign debt.[16]

It included a Debt Sustainability Analysis, which implied the need for a debt restructuring, with two main targets. After restructuring, its DSA rating should indicate a "moderate" risk of debt distress, meaning its expected debt-burden indicators remain below the relevant thresholds under the baseline scenario (IMF 2024, p. 53). Since Ethiopia was rated at a "weak" debt carrying capacity, those bounds are relatively tight: it can carry a PV of external Public and Publicly Guaranteed (PPG) debt-to-exports ratio of no more than 140%, and 10% of debt service to exports (the two other criteria, debt service to revenues and PV of PPG debt to GDP, were less binding). One major evolution between the previous

[11] "More than a year prior to its default, the Committee presented a proposed rescheduling to Ethiopia which it considered eminently affordable – a judgment which in retrospect was absolutely correct. Rather than accept this reprofiling, Ethiopia entered into default in December 2023." Source: https://www.prnewswire.com/news-releases/ethiopia-ad-hoc-bondholder-committee-statement-on-the-conclusion-of-restricted-discussions-with-ethiopia-regarding-the-defaulted-2024-notes-302813708.html

[12] https://home.treasury.gov/news/press-releases/sb0506

[13] https://www.reuters.com/world/africa/ethiopia-edges-towards-default-bondholder-talks-falter-2023-12-08/

[14] Dawit Endeshaw et al., "Ethiopia Bondholder Call Scheduled for Thursday as Default Looms," Markets, *Reuters*, December 11, 2023, https://www.reuters.com/markets/ethiopia-investor-call-scheduled-thursday-after-bondholder-talks-break-down-2023-12-11/.

[15] *Quarterly Economic Profile - Ethiopia* (UNDP, 2025).

[16] "Ethiopia's Public Debt Surges as Currency Depreciation Continues," *Ethiopian Policy Institute*, January 21, 2025, https://ethiopianpolicy.com/2025/01/21/ethiopias-public-debt-surges-as-currency-depreciation-continues/.

DSA, dating back to 2019, and the one in 2024 was the fact that Debt Carrying Capacity had been downgraded from "medium" to "weak, tightening bounds for a restructuring (in particular from a 180% threshold for debt-service-to-exports to 140%).

The main breaches were clearly on the flow side – as they had been for some years. The IMF programme required financing of $10.7 billion to reconstitute reserves from close to 0 to 3 months of imports. New financing from multilateral lenders was relatively large: over $7 billion in 4 years. The remaining $3.5 billion gap was expected to come from debt relief. From a DSA standpoint, debt service indicators, especially in terms of exports, needed to be resolved: debt service to exports was projected to reach 17.7%, or 7.7 per centage points above the threshold for a return to a "moderate" risk of distress (IMF, 2024).

However, major disagreement arose on the stock indicator, which implied a loss of present value for private creditors. The debate between the official sector and commercial creditors was centred around the projected behaviour of the present value of the public external debt-to-exports ratio at the end of the IMF programme (FY2027/28). Under the baseline, the public-external-debt-to-exports ratio reached 154% by the end of the programme period in July 2028, or $29 billion of debt against $19 billion of projected exports (up from $11 billion in 2023). The problem mainly lay in the denominator: a low export base, as the same debt stock, measured against GDP, remained far below its 30% threshold throughout the projection period.

Because this stock ceiling was breached, the IMF argued that a flow-based rescheduling was insufficient to restore sustainability, thereby mandating a reduction in the present value of the debt. While the distance between 154% and 140% is small, multilateral debt is not restructurable and represented about half of the stock, or about 30% in PV terms. As a result, the remaining $13.6 billion of restructurable debt needed to fall by 15 to 20% in present value to restore sustainability. The Official Creditor Committee accepted this view and provided financing assurances based on these parameters, committing to support the programme.

Table 1: Debt burden indicators against DSA thresholds, FY2023/24 and FY2027/28

Indicator	Threshold (weak DCC)	FY2023/24 (start)	FY2027/28 (programme end)	Gap at end	Breach at end?
PV of PPG external debt-to-exports (%)	140	218.9	154.0	+14.0	BREACH
PPG external debt service-to-exports (%)	10	8.4	17.7	+7.7	BREACH
PPG external debt service-to-revenue (%)	14	6.1	16.3	+2.3	BREACH
PV of PPG external debt-to-GDP (%)	30	11.8	16.0	-14.0	below
Public debt-to-GDP (%) — benchmark	35	31.1	27.6	-7.4	below

However, bondholders advanced a liquidity view, **arguing that Ethiopia's crisis was mainly one of reserves availability in the short run**. They defended the view that accelerating exports would follow the depreciation and enable the country to remain sustainable with only a maturity extension. Adding weight to the creditors' position, newspapers reported that an internal memo by the World Bank Chief

Economist labelled the official DSA as potentially "faulty," suggesting that the analysis actually pointed to a short-term liquidity issue.[17]

Two additional factors complicated the restructuring efforts, namely the opacity of Chinese debt and the prospect of repayment of the Eurobond principal in the next year. Because one-quarter of Ethiopia's external debt was held by Chinese entities, and had been restructured in 2019 under terms that were opaque to external observers (see, for instance, Sickell and Escobar, 2026), bondholders remained hesitant to offer deep concessions without verifiable information on the terms of the treatment.

2.2. The Breaking Point

The Common Framework is designed to be sequential. First, official creditors need to give financing assurances to the IMF, and then agree on their own terms. Only then can the debtor seek, from its other creditors, a treatment "at least as favourable" as the one granted by official creditors. This comparability is assessed by the OCC. This sequence is a direct consequence of IMF lending rules: the IMF requires financing assurances from official bilateral creditors before approving a programme, but can lend into arrears to private creditors as long as the debtor is negotiating in good faith. It also prevents the debtor from using the relief from the official creditors to repay others. While parallel talks are not explicitly forbidden, private creditors do not know what can be considered "comparable" until official terms are published.

Ethiopia's first proposal to bondholders sought to follow this parallel process, offering private investors in October 2024 before any agreement on terms with the OCC. The proposal offered an 18% reduction in nominal terms, a maturity extension, and a reduction of coupons to 5%. Ethiopia presented this as an attempt to engage early and pursue a parallel approach. The caveat was thus – prior to any agreement with official creditors – that such a proposal needed to be endorsed as comparable with any bilateral agreement. As could be expected, this first proposal was rejected by bondholders, who did not believe in the need for a reduction in the present value of debt.

Bilateral discussions advanced faster, eschewing complex instruments. The hope for a parallel treatment quickly collapsed on the reality of creditor composition: official creditors – and in particular China – represented a much larger share of debt outstanding. There was political pressure to go fast, after Zambia had taken almost 4 years to complete its restructuring. Making this agreement dependent on complex negotiations with bondholders would have delayed discussions. In March 2025, the Agreement in Principle (AIP) was signed, followed by an MoU in July 2025. While this rapid settlement was a success of the Common Framework, showing that official creditors were willing to accept a sizable present-value loss and follow the IMF macro-framework for efficient debt relief, it also meant the COT would force other creditors to accept comparable treatment. Any change in the macro-fiscal framework would be more difficult to reflect in subsequent treatments. One widely held view is that the OCC moved too quickly, based on uncertain and overly pessimistic IMF projections. Yet, the call for rapid and deep enough debt treatment had been repeated in all major multilateral statements. This

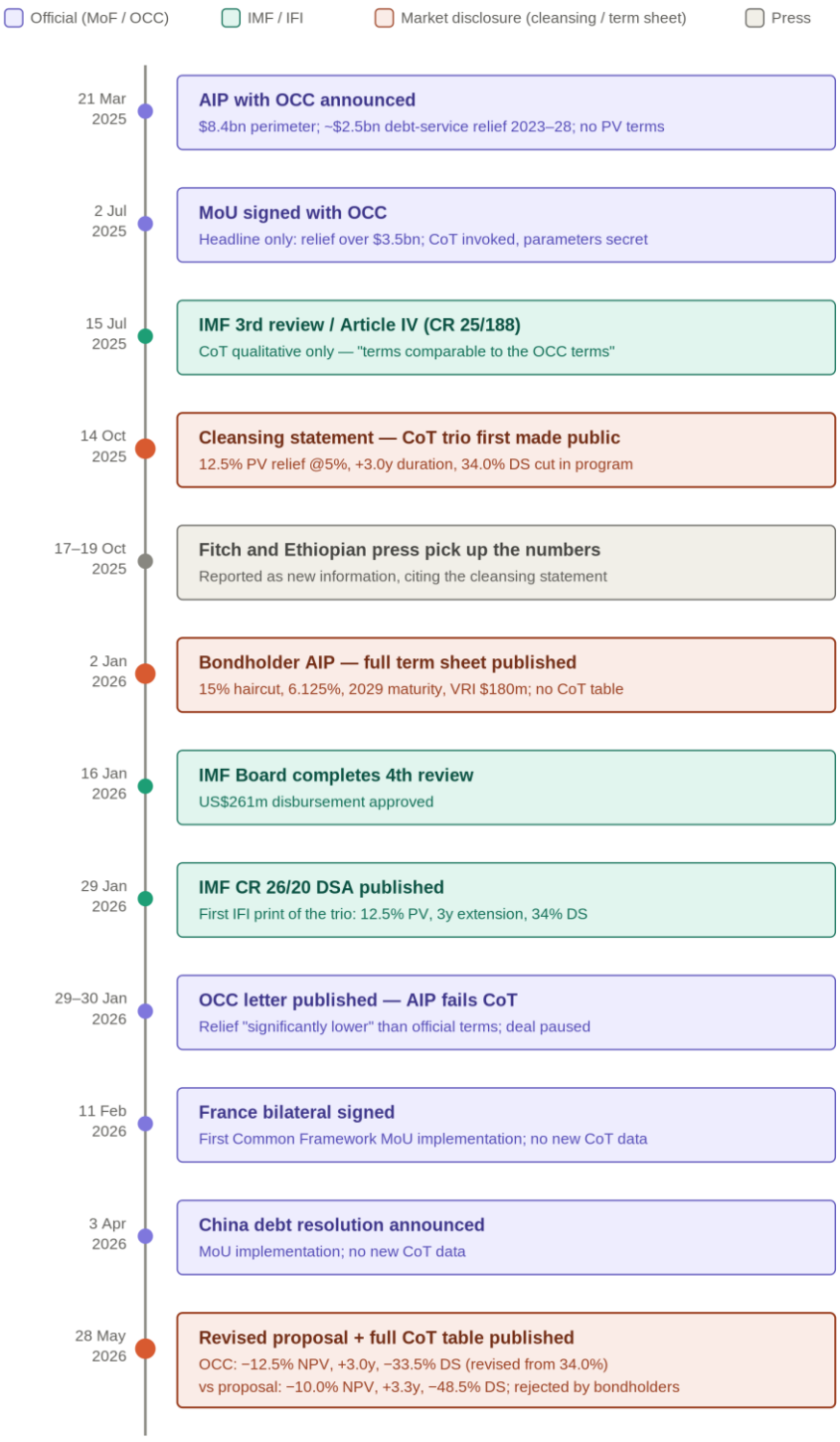
[17] https://www.reuters.com/world/africa/world-bank-staff-question-ethiopia-debt-assessment-reached-with-imf-memo-shows-2024-12-23/ Strohecker K. "Exclusive: World Bank Staff Question Ethiopia Debt Assessment Reached with IMF, Memo Shows," Reuters, December 23, 2024, https://www.reuters.com/world/africa/world-bank-staff-question-ethiopia-debt-assessment-reached-with-imf-memo-shows-2024-12-23/.

tension is unavoidable in a sequential approach where the first treatment dictates the terms of the second, especially when information around parameters remained opaque.

However, information on the restructuring remained scarce, preventing a fast second stage. After the AIP with official creditors, two sets of parameters governed restructuring of others (non-OCC bilaterals and private creditors): the IMF DSA and COT. However, COT parameters remained non-public for 7 months after the AIP. The Global Sovereign Debt Roundtable (GSDR) of April 2026 later noted that early access to the parameters is essential to ensure a timely process.[18] Debtors – and their advisors – tend to resist such early publication: they believe that a cloud of uncertainty can help in providing negotiating room. However, in this case, it slowed the resolution for no significant gains in bargaining power. In the meantime, with very little information on COT parameters, discussions with bondholders stalled. They reopened fully only in September 2025 under NDA, followed by the cleansing statement of 14 October 2025 – whose function is to share restricted information with markets – which finally made the main COT parameters public.

[18] Global Sovereign Debt Roundtable, 6th Co-chair report, April 2026 https://www.imf.org/-/media/files/about/faq/gsdr/041526-6th-gsdr-cochairs-progress-report.pdf

Figure 6: Timeline of Comparability of Treatment disclosures, March 2025 to May 2026



3. The Value Recovery Instrument and Comparability of Treatment

3.1. Could VRIs save the day?

A Value Recovery Instrument was proposed to bridge disagreement over export projections. Discussions in late 2025 converged on a 15% haircut and a contingent instrument that would depend on export over- or underperformance relative to IMF projections. This would match the programme

parameters under the baseline, but also in an upside case where Ethiopia's ability to carry debt would improve if exports performed better than the IMF projected (and symmetrically if worse). In theory, VRIs have two related but distinct uses: an insurance instrument that matches a country's ability to repay across different states of the world, protecting against distress in a negative shock, and providing upside in a good surprise. The second is to bridge disagreements between debtors (or the IMF itself) and creditors: the debtor tends to be more pessimistic about its ability to repay, and views a return to distress as very costly. Creditors are more optimistic and disagree with the projections. In the "insurance" use, a VRI should be symmetrical. In the "disagreement" case, the upside is more important to the creditor, and less valued by the debtor.

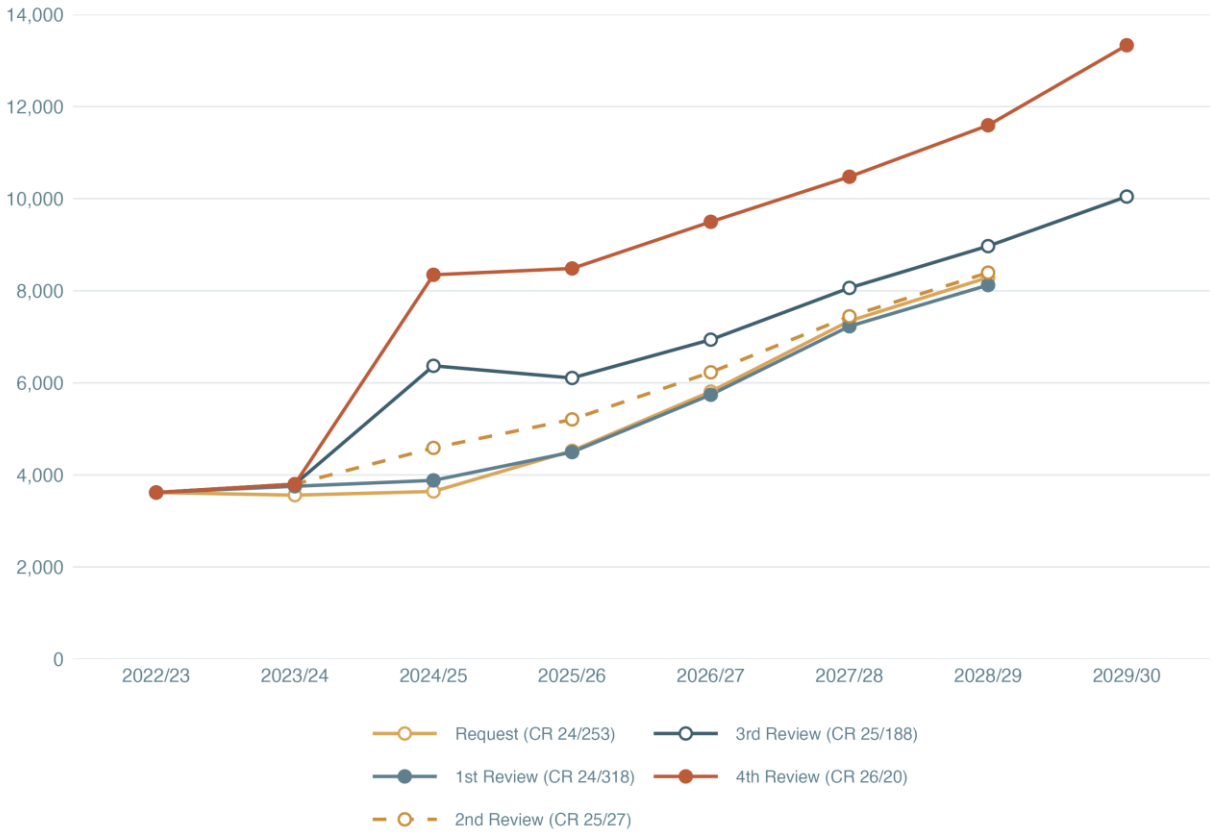
In practice, many hurdles make them difficult to implement. VRIs are often engineered to provide an upside to creditors, even compared to a "reasonable" baseline. Panizza (2024) attributes this to unequal bargaining power, the myopic motivations of debtor governments (which want to exit default as fast as possible), and market illiquidity. They also end up missing their insurance objective if the underlying variable is imperfectly correlated to actual ability to repay. Another downside is that they complicate CoT calculations.

These downsides explain why Ethiopia and its creditors struggled to reach a consensus. Cohen et al. (2020) note that investors tend to heavily discount VRIs, which limits their usefulness. This is why it took several months to settle on a VRI: in September 2025, both sides thought a VRI could bridge the gap, but Ethiopia offered a VRI capped at USD 180 million in notional[19], and the bondholder committee asked for a USD 400 million instrument and a steeper payout (4.75%); the restricted talks ended without agreement in October 2025.

A deal was reached in early January 2026, when bondholders and Ethiopia concluded an Agreement in Principle, using the IMF's goods exports projections from the 3rd review as a baseline. The formula was complex, mixing considerations on goods exports and reserves, with step-up and step-down amortisation payments. However, by the time consensus was found, the third review's projections were already outdated, and the OCC rejected the deal on the basis of Comparability of Treatment. The value of the VRI based on new information was simply too high to match CoT parameters (see annex for calculations). On paper, linking it to exports made sense, but restricting it to goods exports was problematic. Bondholders were tying Ethiopia's debt service to the one line item that was clearly rising. Moreover, Ethiopia would forfeit the highs of a commodity cycle over the coming years, as rising gold and coffee prices would trigger higher debt service, and subsequently suffer the lows of a possible commodity price fall.

[19] Paying bondholders 1.5 per cent of any export overperformance against the IMF baseline between FY 2026/27 and FY 2035/36, with annual payments capped at USD 30 million

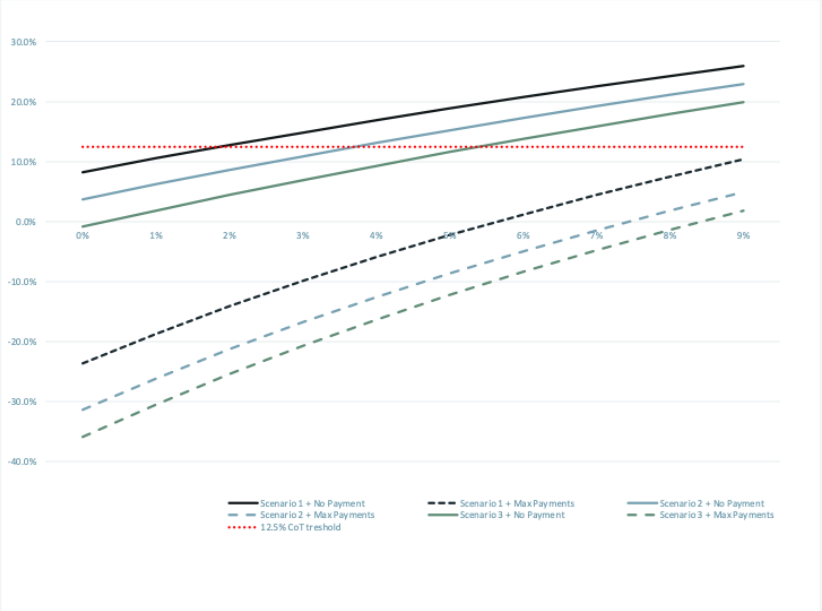
Figure 7: Goods export revisions, July 2024 to January 2026



The deal was thus vetoed on 29 January 2026 by the OCC, co-chaired by China and France. The OCC argued that the proposal did "not fully meet the requirements of the Comparability of Treatment principle"[20] by offering private bondholders better terms than those accepted by bilateral creditors. What shifted between October 2025 and January 2026 was information about the projections available to all parties: the fourth review documented record FY 2024/25 export earnings - USD 3.46 billion in gold and USD 2.65 billion in coffee - making the export-linked step-up near-certain to trigger under any plausible baseline.

[20] "Ethiopia to Reopen $1 Billion Bond Deal Talks after Official Creditors Unhappy | Reuters," accessed June 30, 2026, https://www.reuters.com/world/africa/ethiopia-says-official-creditors-reject-eurobond-restructuring-terms-2026-01-30/.

Figure 8: NPV Haircut as a function of the discount rate for VRI



Source: authors' own calculations

On February 2, 2026, the Ad Hoc Committee of bondholders – representing over 45% of the outstanding bonds – threatened to initiate a lawsuit in the English courts.[21] The legal foundation of the claim rests on the fact that Ethiopia's $1 billion Eurobond is governed by English law, which grants creditors the right to seek enforcement in London if a sovereign borrower fails to meet its contractual obligations. The creditors invoked the "acceleration clause", a standard provision in the bond documentation that allows lenders to demand full and immediate repayment of the entire outstanding principal upon a default or material breach.

The threat of a lawsuit was probably a negotiating tactic. The bondholders' committee needed leverage – after all, if Ethiopia was able to repay, courts could help in making them whole. The lawsuit did not seem to have been formally initiated, but it helped in strengthening their negotiating position, putting pressure on Ethiopia and on the OCC to reach an agreement.

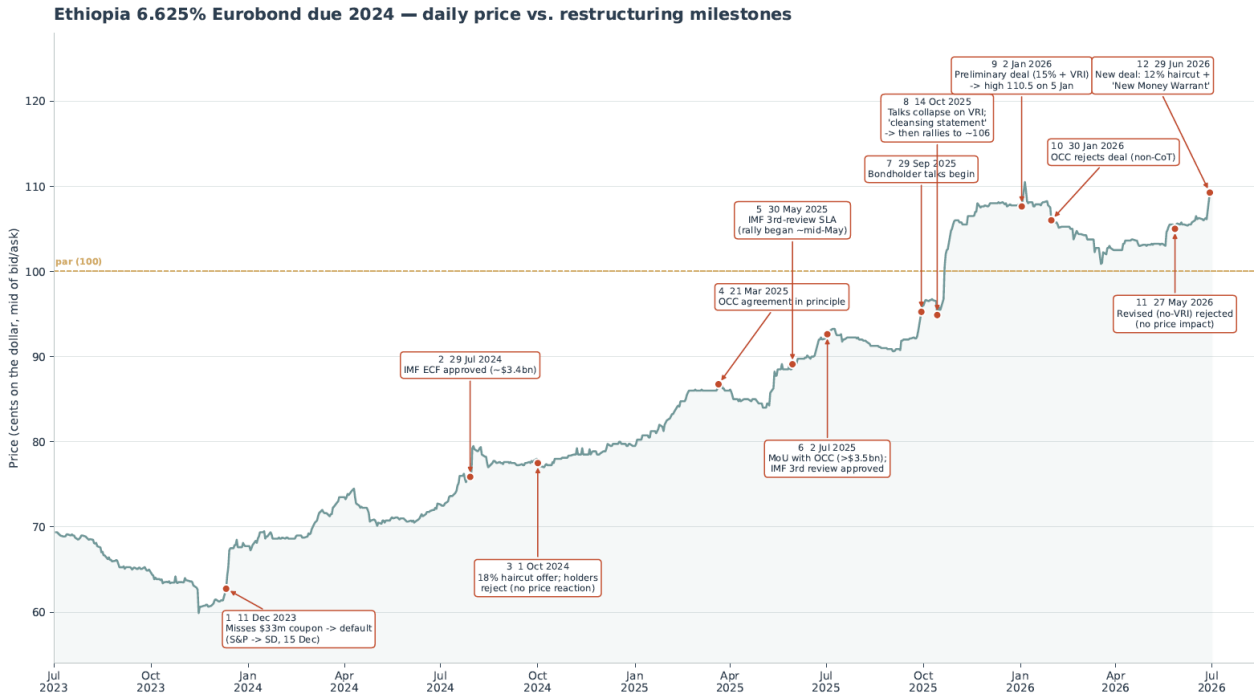
Negotiations restarted but were locked between improved ability to repay and CoT parameters. After the OCC veto on 29 January 2026 (made public by Ethiopia the following day) and the bondholders' threat of English-law proceedings on February 2nd, Ethiopia returned to the table in May 2026 with a revised proposal. That proposal sought to cure the comparability breach by removing the Value Recovery Instrument altogether, bringing the headline terms back towards the bilateral CoT benchmark. Bondholders rejected it on 28 May.[22] Stripping the contingent claim resolved the comparability problem only by eliminating the upside participation that had induced bondholders to accept a haircut. The May proposal thus failed for the mirror-image reason the January one had: where

[21] Duncan Miriri et al., "Ethiopia Investors Plan Legal Action as Row over $1 Billion Bond Overhaul Escalates," Africa, *Reuters*, February 2, 2026, https://www.reuters.com/world/africa/ethiopia-investors-plan-legal-action-row-over-1-billion-bond-overhaul-escalates-2026-02-02/.
[22] Duncan Miriri, "Key Events in Ethiopia's Journey towards Debt Restructuring," Africa, *Reuters*, February 4, 2026, https://www.reuters.com/world/africa/key-events-ethiopias-journey-towards-debt-restructuring-2026-05-28/.

January offered bondholders too much contingency to satisfy the OCC, May offered too little to satisfy the bondholders.

Furthermore, expected recovery improved throughout the negotiations. Bond prices collapsed in 2023 to 60 cents on the dollar as a default became increasingly likely, but rebounded over the next two and a half years, reaching 108 at resolution at the end of June 2026. The bond by then was worth $1,099 (with capitalised past due interest), showing only a very small discount on markets. Counterintuitively, the failure of the October 2025 negotiations led to a sharp price improvement. Two interpretations emerge: either the market viewed prospects for legal action positively (Henning, 2026), or the near-simultaneous publication of the COT terms of the OCC Agreement in Principle implied better terms than the market expected. In the end, the deal was as good as what investors expected throughout the period.

Figure 9: Daily price of the Eurobond, 2023-2026



3.2 A warrant as an innovative way to bridge the gap

A new agreement in principle was reached on 29 June 2026 through a different instrument, replacing the export-linked VRI with a "New Money Warrant." The negotiation's basis remained the one bondholders rejected in May[23]. Under the new proposal, it added a "New Money Warrant" as a separate, tradable security granting holders the right, but not the obligation, to subscribe at par to a future Ethiopian Eurobond (up to USD 1 billion, allocated one-for-one against existing holdings) carrying a coupon fixed at 450 basis points over six-year U.S. Treasuries at the time of issue, and 8 years' maturity (amortising in instalments over years 6-8). Crucially, Ethiopia retains an optional redemption right: rather than issue the bond, it may repurchase the warrant.

[23] See table 2 for parameters.

The warrant's principle is elegant, as it aligns with market perceptions of risk rather than more ambiguous or manipulable triggers. In mid-2028, markets will look through the risk at a six-year horizon, and as imperfect as they are, they will assess risk in a way that reflects Ethiopia's probability of default. If they deem Ethiopia too risky, they will not exercise the warrant, and its value will be 0. If they think that its spread should be 350, they will use the warrant that will provide them a spread of 450 – thus a premium. To cap this premium – in particular if the spread narrows even more and makes Ethiopia a safe bet – the government has the possibility to buy back the warrant in cash. The maximum price is 9% of the notional (or $90m), but the pricing mechanism is otherwise left undecided by summer 2026.

Figure 10: NPV Haircut as a function of the discount rate, comparing the VRI and the warrant

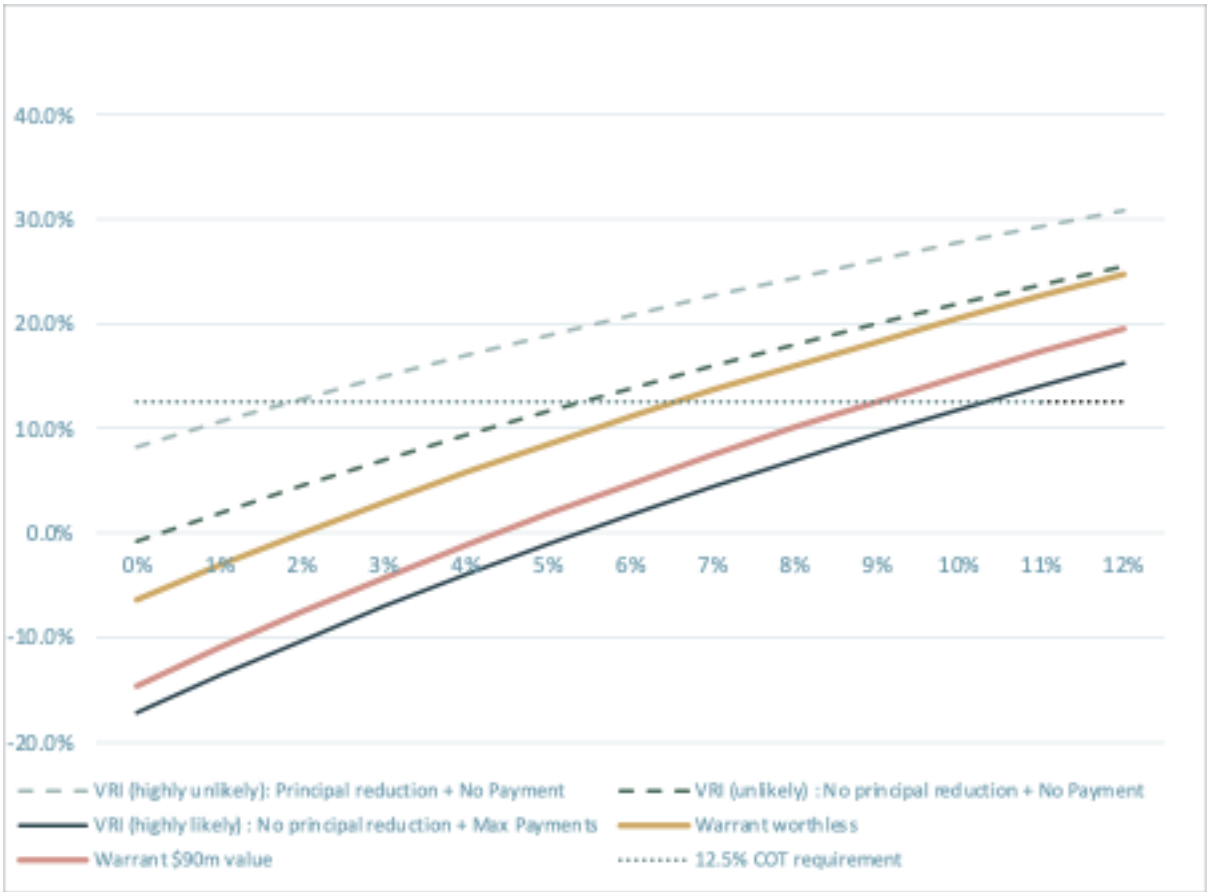


Table 2: Bondholder proposals compared, January, May and June 2026

		January 2026 (rejected by the OCC)	May 2026 (rejected by bondholders)	June 2026 (current AIP)
Haircut		15% haircut	12% haircut	
New bond size		$850m	$880m	
Amortisation	15 Jul 26	$350m	$180m	
	15 Jul 27	-	$100m	
	15 Jul 28	$350m	$300m	
	15 Jul 29	$150m, with possible downside adjustment	$300m	
Maturity		15 July 2029		
Coupon, paid 15 Jan and 15 Jul		6.125%	6.15%	
Consent fee		0.5% of original nominal		
Past due interest		$99.375m (3 missed coupons, Dec 23 to Dec 24), paid in full at settlement		
Downside protection for Ethiopia		Final tranche cut to $100m, or $50m, if exports undershoot the IMF baseline	None	
Upside instrument for bondholders	Type	Value Recovery Instrument	None	New Money Warrant
	Value	2.5% of exports above the IMF baseline		Right to subscribe to a future $1bn Eurobond at par, 7 year tenor, 450bps over 6 year Treasuries
	Duration	Potential yearly cash flow between 2028 and 2037		Single exercise window of one year, opening 1 July 2028
	Cap	$180m notional, with a $35m annual cap		$90m through optional redemption capped at $90 m
	Conditions	Payment blocked in any year gross reserves fall below a preset threshold		
Compensation to Ad Hoc Committee		Costs split between Ethiopia and bondholders	Not specified	$10m work fee paid by Ethiopia, plus advisory costs deducted from settlement proceeds

Under this new arrangement, we estimate the loss in PV to be about 10% for bondholders if the warrant was worth nothing, and 3% if it was worth its ceiling price. The range of possible outcomes is narrower (since the value of the contingent claim is smaller). Which deal is better for which party depends on the probabilities of each contingent scenario, which are hard to assess, especially for the warrant. Overall, if the warrant turned out to be worthless (Ethiopia's spread remains above 450 basis points and the warrant expires), the NPV cut would be 10%. If it was bought back at its maximum value of $90m, the haircut would be 3 per cent.

Is it comparable? Ultimately, this is a generous deal for bondholders. There are always trade-offs between the three criteria[24] (Maret and Setser 2024 for the case of Zambia): bondholders get a lower haircut in exchange for providing more cash-flow relief during the programme: 48% against 34% for

[24] Cash flow relief during programme period, extension of maturity of the claims, and loss in present value

the OCC[25]. This 48% figure is a bit artificial, pushing payments just a week after the fiscal year[26] ends. The key question was how much NPV loss they needed to provide to be comparable with the 12.5% provided by the OCC: there is no hard rule to balance different criteria, so this is ultimately a judgement call. In January, the OCC had rejected a deal where the likely loss in PV was close to 0. In May 2026, bondholders had rejected the offer of a 10% loss. On August 21, 2026, Ethiopia published a letter from the OCC sent on July 31st confirming the favourable assessment of the comparability of treatment. This letter nevertheless highlights that, when assessed against the three indicators of comparability, "*it remains relatively low*". This ambivalence reflects the fact that ultimately the NPV loss was sufficient, but barely.

Table 3: Comparability of Treatment indicators across the OCC MoU and successive proposals

	OCC MoU	January 2026 deal, rejected by OCC		May 2026 deal, rejected by bondholders	June 2026 deal, accepted	
		VRI = 0 (unlikely)	VRI = max (likely)		if warrant value = 0	if warrant value = $90m
dNPV (1 - PV/Claim)	13%	13%	1%	10%	10%	3%
Duration extension (yrs)	3.0	2.9	2.9	3.3	3.3	3.3
dDS during IMF programme	34%	44%	44%	48%	48%	48%

The settlement's ambiguity is reflected in the CoT assessment's uneasiness. The OCC highlights New Money as a potential positive contributor to comparability but warns that if the New Money warrant were to confer "excessive benefits to bondholders, such as through repurchase or redemption", it would adjust its debt treatment. It is unclear how this would be implemented, but a cash giveaway of $90 million was probably seen as excessive, coupled with the uncertainties of the pricing mechanism.

[25] This is unusual, as in most cases bondholders provide less cash relief (they like to be paid upfront), but in this case as the bond was maturing during the programme, any extension reduces cash flow during the programme period.

[26] Note that the 48% reduction in cash flows during the programme is only obtained because the $300 million payment scheduled for July 15, 2028, is excluded. The reason is that the period considered ends with the Ethiopian fiscal year, on July 7th (and for some unclear reason, not the end of the IMF programme on July 29th). If it was included, this would fall to about 18%, below the OCC's own 33.5% This parameter is thus only "comparable" for a few days difference. While this matches the letter of the assessment, it does betray its spirit.

Conclusion: lessons for the Common Framework and VRIs

The Common Framework was initially created as a "unique mechanism to provide low-income countries (LICs) with orderly and coordinated debt restructurings, with broad creditors' participation". It achieves this by bringing Paris Club and non-Paris Club bilateral creditors under a single Official Creditor Committee. Ethiopia has shown the Common Framework's resounding success from this point of view. From others ' perspectives, it has also shown its limitations. In particular, by setting a rigid timeline and limiting information sharing across creditor groups, even an efficient agreement with official creditors does not necessarily translate into a rapid agreement with private creditors.

Ethiopia illustrates this rigidity: each party tried to overplay their hand, leading to a two-year stalemate. The IMF underestimated exports, and its projections evolved only very late, even as evidence was showing signs of acceleration. Bilateral creditors sought to move quickly and imposed a default that was not strictly necessary, while bondholders threatened to sue to gain leverage. While the sovereign is in principle in charge of negotiations, several overlapping constraints block it.

Debt treatments will be contentious in any case, but key reforms can make them more efficient. Information should be shared faster. It took seven months from the official AIP to disclosure of the main terms, and over a year for the full CoT table. Parallel processes are promising but the essential test will be whether information on the key parameters are shared from the official creditors to other groups as soon as they are agreed. Comparability of treatment partly failed to ensure fair burden sharing: ultimately, the treatment was generous to bondholders: they obtained a very slightly higher NPV loss in exchange for a higher, but somewhat artificial, cash relief during the programme. This was at the cost of a long waiting time.

Value Recovery instruments should be defined earlier on in the process, and the IMF could be clearer in setting its parameters. The problem arose when the parameters of the DSA evolved – as exports growth rebounded and started to disagree with the parameters set by the CoT. The only way to avoid such a discrepancy is to resolve bondholders treatment faster – including through VRIs. The SRDSF does provide a fan chart which gives a range of possible outcomes and thus of possible feasible value recovery pathways. The LIC-DSF – even its new version – does not. In case of restructuring, some version of an uncertainty band would be useful in providing debtor and creditors with more direction in valuing VRIs.

The new money warrant is an innovative instrument that should be used more. It raises some specific questions – in particular the spreads at which the new bond can be issued, but in principle it works as an option on an underlying government bond. This provides the upside, but without a reference to a specific – and always somewhat flawed – variable. This option does not have an underlying instrument: basing it on a bond price would make it too easy to manipulate. Using the collective market appreciation of sovereign risk at the end of the programme avoids potential market manipulation of the underlying asset.

This case also shows that when a bond is small, CACs do not prevent holders from acting as holdouts. The courts can be used as a pressure mechanism, perhaps even more in the UK. While not a Common Framework case, Sri Lanka had shown that US courts could support a country in need of a stay as the resolution of its restructuring was taking place. In addition, while the US executive can seek

to protect a sovereign from attachment through executive orders, the UK does not have such tools. Strengthening protection of borrowers could be achieved in the UK – it would not put the UK legal system out of step, but more in tune with the US.

Despite all its specificities, Ethiopia's restructuring can bring useful lessons to future Common Framework cases.

Annex

Modelling the January Package Haircut: Methodology, Key Assumptions and Key Takeaways

The NPV haircut framework applied in the DraftPV model follows the standard Paris Club methodology, computing the creditor's loss as the difference between the present value of the pre-restructuring claim and the combined present value of the new bond and the Value Recovery Instrument (VRI), discounted at a reference rate of 5 per cent. Formally:

$$Haircut = 1 - \frac{PV\ new\ bond + PV\ VRI}{PV\ former\ bond}$$

The former Eurobond - a USD 1 billion, 6.625 per cent instrument originally maturing in December 2024 - serves as the reference claim. Its three terminal cash flows (two semi-annual coupon payments of USD 33 million in December 2023 and June 2024, and a USD 1,033 million bullet in December 2024) are compounded forward to the April 2026 settlement date at the 5 per cent discount rate, yielding a baseline present value of approximately USD 1,175 million. This forward-compounding convention is consequential: it inflates the reference claim by roughly USD 175 million above face value, since missed coupons are treated as rolled rather than forgiven. The effect is creditor-favourable- a 12.5 per cent CoT haircut applied to USD 1,175 million requires Ethiopia to return only USD 1,028 million in present value rather than the USD 875 million implied by a straight 12.5 per cent cut on the nominal USD 1 billion claim.

The new Eurobond carries a notional of USD 850 million (a 15 per cent face-value reduction), a coupon of 6.125 per cent per annum, and an amortisation schedule concentrated in the near term: USD 350 million due July 2026, USD 350 million in July 2028, and a residual "Final Amortisation" tranche in July 2029 whose size is contingent on Ethiopia's export performance. At settlement, Ethiopia also pays past due interest of USD 99.375 million and a USD 5 million consent fee. At the 5 per cent reference rate, the combined present value of the new bond and PDI amounts to approximately USD 1,039 million. The VRI layers an additional contingent payment stream on top of this: 2.5 per cent of annual goods export overperformance relative to the IMF 3rd Review baseline, capped at USD 35 million per year over a ten-year window from January 2028, subject to a cumulative notional cap of USD 180 million under the Term Sheet.

Methodology and Scenario Construction

The model maps three mutually exclusive economic outcomes, defined by the intersection of Ethiopia's export performance with the two contractual mechanisms: the final amortisation step-down clause, which depends on total exports only, and the VRI trigger, which depends on both total exports and reserve requirements.

In Scenario 1, cumulative goods exports in FY2026/27 and FY2027/28 fall below 85 per cent of the IMF 3rd Review baseline, reducing the final amortisation to USD 50 million. Based on the IMF fourth review, this scenario appears (and appeared) highly unlikely;

In Scenario 2, exports reach 85-95 per cent of baseline, reducing final amortisation to USD 100 million. Likewise, this scenario appeared unlikely based on the IMF fourth review.

In Scenario 3, exports meet the baseline or better, final amortisation remains at USD 150 million;

Across all three scenarios, we assume that the reserve requirement is either unmet ("no payment") or fully satisfied, with exports reaching the maximum USD 35 million VRI payment ("payment"). This framing captures the full range of possible outcomes between these two bounds. Because the final amortisation is based on export levels in FY2026/27 and FY2027/28, scenarios 1 and 2 with maximum payments include exports strongly picking up after those years to reach the USD 180 million total maximum payment across years. In Scenario 3, exports are assumed to pick up immediately, resulting in less discounted payments and serving as an upper bound for payment outcomes.

Modeling shows that the instrument could not be both CoT-compliant and commercially meaningful

Compared to the bilateral comparability of treatment benchmark disclosed in Ethiopia's cleansing statement of 14 October 2025, the proposed VRI instrument performs poorly in every contractually relevant scenario. The OCC sets three reference indicators: an NPV haircut of 12.5 per cent at a 5 per cent discount rate, a duration extension of three years, and a 34 per cent debt service reduction during the IMF programme.

The only scenarios fulfilling the comparability of treatment are scenarios without any VRI payment, as any VRI payment breaches comparability of treatment and even implies a negative haircut for creditors. While scenarios 1 and 2 without payments meet the 12.5 per cent criterion, the very low likelihood of those scenarios should be stressed. Relative to the fourth IMF review projections, exports reaching 95 per cent of the third review projections in FY26/27 and 27/28 imply a decline of approximately 29 per cent, while reaching 85 per cent corresponds to a decline of about 36 per cent. The most likely scenario, scenario 3, only complies with CoT if no VRI payment is made, as it produces a haircut of 13.21% at a 5 per cent discount rate without VRI payments. (cf. Figure 8).

The creditors' CoT compliance claim therefore requires two contradictory conditions to hold simultaneously: that the VRI will pay enough to justify the label "contingent recovery" for bondholders, and that it will pay zero, which is the only CoT-compatible outcome. The maximum annual VRI payment consistent with exactly meeting the 12.5 per cent CoT threshold for a Scenario 3 bond structure is zero. The bond alone does not satisfy CoT, and any VRI payment - however small - widens the shortfall further. The instrument cannot be both commercially meaningful and CoT-compliant.

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