Ethiopia's (Delayed) Sovereign Debt Restructuring

2021–2026

How to cite this paper: Henning, C. Randall: "Ethiopia's (Delayed) Sovereign Debt Restructuring, 2021–2026", Finance for Development Lab. Working Paper 10, 2026
Keywords: sovereign debt restructuring, Ethiopia, G20 Common Framework, Official Creditor Committee, bondholders, collective action clauses, comparability of treatment, IMF
JEL Codes: F33, F34, F53, H63, O55

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Working Paper 10

October 2026

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Acknowledgments: The author thanks Martin Kessler, Mamo Mihretu, Marina Zucker-Marques and three anonymous reviewers for comments on previous drafts. He also wishes to acknowledge Safae Irghis, Sisir Bhandari, Frieder Dengler, and Mateo Mayo for excellent research assistance. He is especially grateful to the many people with whom he met in the course of his research for their insights into Ethiopia's policymaking, the IMF program and debt restructuring. He alone is responsible for any shortcomings that might remain.

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Executive Summary

Ethiopia was the third country to request a debt restructuring under the Common Framework and, with 139 million people, the most populous to restructure debt on a multilateral basis over the last two decades. The Ethiopian government owed its debt mainly to multilateral development banks (MDBs) and official bilateral creditors, with China looming especially large in its creditor profile – a consequence of longstanding bilateral cooperation with Beijing on economic development. The distinctive elements of Ethiopia's restructuring – the long delay owing to civil war, the prominence of China, disputes over debt sustainability and the resistance of certain bondholders, among others – illuminate several intriguing questions about the robustness of the Common Framework.

This paper reviews the economic and political backdrop to Ethiopia's debt problems in the early 2020s and examines the country's initial request for restructuring, the long hiatus in negotiations, the initiation of the IMF program, and a dispute over its debt sustainability analysis. The paper then traces Ethiopia's negotiations with official creditors, bondholders and other commercial creditors in some detail, highlighting disputes among them over the provision of comparable treatment.

The long hiatus offers a semi-controlled experiment that sheds light on the extent to which a high-growth country can grow out of a debt problem and whether such problems can therefore be treated as liquidity rather than restructuring cases. Because available sources of emergency finance had been exhausted, though, the paper concludes that Ethiopia would have been very unlikely to escape restructuring under the circumstances foreseeable when negotiations were initiated. Nonetheless, the restructuring took far too long to deliver, even taking account of the fact that it had been delayed for three years by the civil war. A *deep* restructuring might have been worth a long wait; but Ethiopia's was *shallow* compared to those for Zambia, Ghana and Sri Lanka. Its duration-to-relief ratio is an upside outlier among debt restructuring cases.

Ethiopia's case also demonstrates that the introduction of collective action clauses (CACs) in bond contracts does not render vulture fund strategies entirely obsolete, that frontier economies on the threshold of market access are particularly vulnerable, and that the composition and chairmanship of the bondholder committees affect the course of these negotiations. The sequential negotiating process succumbed to the "moving-target problem" – variation in the country's economic prospects from one phase of negotiation to the next that creates conflict over comparable treatment. Finally, Ethiopian officials would probably avoid using the Common Framework if they were given an opportunity to replay their debt restructuring. However, the alternative of negotiating bilaterally with Chinese creditors and then broadening the agreement to remaining creditors would have faced formidable obstacles of its own.

Introduction

In February 2021, Ethiopia became the third country to request a debt restructuring under the Common Framework. With 139 million people, it is the second most populous country in Africa and the most populous country to undergo a multilateral debt restructuring over the last two decades. The country was profoundly shaken by a civil war over the Tigray region during the Covid-19 pandemic, and its IMF program and restructuring were delayed for roughly three years as a consequence. Its debt was owed mainly to multilateral development banks (MDBs) and official bilateral creditors, with China looming especially large – a legacy of longstanding bilateral cooperation with Beijing on economic development. These distinctive elements – the long delay, the prominence of China, disputes over debt sustainability and the resistance of certain bondholders to providing comparable treatment – raise several intriguing questions about the robustness of the Common Framework in comparative perspective.

This paper reviews the economic and political backdrop to Ethiopia's debt problems in the early 2020s. It then examines the country's initial request for restructuring, the long hiatus in negotiations, the initiation of the IMF program, a dispute over its debt sustainability analysis, and the negotiations with official creditors, bondholders and other commercial creditors. Along the way, the paper explains why Ethiopia was potentially vulnerable to holdout bondholders and asks whether the country might have been able to skate through its predicament with a liquidity treatment instead of a full debt restructuring. The final section draws lessons from the substantive issues raised by the case and for the institutional arrangements for sovereign debt restructuring.

1. Economic and Political Backdrop

Until relatively recently, Ethiopia had pursued an economic model that was statist and inwardly oriented. Its growth was driven largely by infrastructure investment organized through the state and financed from abroad. Successive governments' historical aversion to open-market liberalism was such that Ethiopia has still not acceded to membership in the World Trade Organization (although the current government resumed active accession negotiations in March 2025 and agreement could come soon). Accordingly, trade generally and exports in particular have been stunted and, though external debt was not particularly high relative to GDP, Ethiopia found itself unable to service it given the country's limited export base.[1] The country's economic growth had nonetheless been very high, consistently surpassing 10 percent per year during 2004–2015 and remaining in the high single digits until the pandemic. Its economic prospects thus might have made Ethiopia, with the right mix of policy reforms and liquidity support, a candidate to grow out of its debt problem.

Ethiopia had received debt relief almost two decades earlier under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) – $3.3 billion under HIPC and 100 percent debt cancellation by the IMF, World Bank and African Development Bank in the

[1] During 2023–24, exports amounted to merely $3.8 billion, about 2.5 percent of the country's 2024 GDP of $150 billion. For diagnosis of the slowdown in Ethiopia's exports and growth after 2015, see Hausmann et al. (2022).

amount of $2.3 billion under MDRI.[2] Ethiopia's external borrowing was cautious during the years immediately following this relief but accelerated in the mid-2010s. China and the MDBs financed the country in roughly equal amounts during this period, with the official bilateral creditors in the Paris Club providing relatively little. Between 2005 and 2020, though, Ethiopia's sovereign external debt ballooned by a factor of ten, from less than $3 billion to roughly $30 billion, about 28 percent of the country's GDP.[3]

The Ethiopian People's Revolutionary Democratic Front (EPRDF) had ruled the country since 1991, applying the state-led, highly interventionist economic model. In March 2018, Abiy Ahmed became its chairman and, in April, Prime Minister. By December of the following year he had dissolved the Front, replaced it with the Prosperity Party, and announced the shift to a significantly more liberal, mixed-economy model. The Homegrown Economic Reform Agenda (HGER) of 2019 sought to stabilize the macroeconomy, rationalize sectoral state-owned enterprises (SOEs), and lay the basis for further economic development. In domestic discourse, the government presented its programs with the IMF and World Bank as part of the HGER.

In December 2019, Ethiopia secured approval of an IMF program under the Extended Credit Facility and Extended Fund Facility (ECF/EFF) in the amount of $2.9 billion to support its economic reforms. As the HGER signaled a turn away from the state-led model of development investment, the IMF described the shift in approach as "transformational."[4] The World Bank provided parallel financing. At that time, IMF staff assessed Ethiopia again to be at "high" risk of external and overall debt distress – although its debt was not deemed "unsustainable" and a debt restructuring was not required.[5] Nonetheless, prior to agreement with the Fund, the Ethiopian government had secured significant reprofiling from Chinese creditors on a bilateral basis – principally a long maturity extension on the China Eximbank loan for the Addis Ababa–Djibouti Railway project – and committed to seeking modest further relief under the program.[6]

However, three developments pushed the program off track in short order.[7] First, the outbreak of the Covid pandemic in early 2020 created extreme uncertainty over the path of the economy, and the IMF pivoted from the ECF/EFF program to providing $411 million through the Rapid Financing Instrument (RFI), a much smaller amount than had been available under the program. Second, a simmering dispute with Egypt and Sudan over the Grand Ethiopian Renaissance Dam (GERD) erupted, and the Trump administration suspended support for the program along with bilateral assistance in September 2020. Third, political relations between the Abiy government and the regional government in Tigray deteriorated into civil war in November 2020. Several official creditor countries – the United States and

[2] IMF (2004); IDA (2007). The HIPC portion amounted to $2 billion in relief in present-value terms.
[3] Kessler and Vessereau (2026a) discuss the debt buildup.
[4] IMF (2020a).
[5] Its external debt in 2019 was $27.1 billion, according to the Ethiopian Ministry of Finance and Economic Planning (2022a), only 28.3 percent of GDP, which dropped to 26.8 percent in 2020. Normally, these stock ratios are manageable even for low-income countries; Ethiopia's challenge, as discussed, was capacity to service given the narrowness of its export base. Hereafter, this source will be abbreviated as "Ministry of Finance."
[6] Kessler and Vessereau (2026a). See also IMF (2020a 9, paragraph 10). Such relief thus filled part of the financing gap under the program.
[7] Notwithstanding a staff-level agreement on the first review in August 2020. See IMF (2020b).

other Western countries – refused to provide financing assurances at the first program review, owing in large measure to their objections over the war.

Political Conflict and Civil War

Prime Minister Abiy's transformation of the governing party, now the Prosperity Party, was at the root of the civil war. The Tigray People's Liberation Front (TPLF), which had been the strongest wing of the EPRDF coalition, refused to participate in the party reform and withdrew to its regional base in the north. When, during the Covid pandemic, the national government suspended an election that had been scheduled for late August 2020, the TPLF defiantly proceeded with its own regional election in September. After a tense standoff, the war erupted in November, leading to extensive casualties and human suffering over the following two years.

For three years, the United States, along with other Western governments, blocked revival of the IMF program, and thus progress on restructuring, on humanitarian grounds stemming from the conflict. In early November 2022, the war was concluded with a political agreement signed in Pretoria, South Africa, followed ten days later by a military agreement in Nairobi, Kenya. These agreements paved the way for resumption of Western assistance, although it would be several months before the United States and others verified implementation of the agreement.

China, by contrast, did *not* suspend aid or political support during the civil war. The Chinese government blocked resolutions in the UN Security Council that would have imposed UN sanctions on Ethiopia, and Foreign Minister Wang Yi visited Addis Ababa in December 2021 in "strong support" of Prime Minister Abiy in the midst of the war. Although Chinese firms had to evacuate about 600 Chinese employees from the Tigray region when the fighting broke out, China continued humanitarian aid and large infrastructure projects such as the Addis–Djibouti Railway. During Covid, Chinese agencies effectively suspended new lending; but China would be the principal provider of debt service relief under the G20's Debt Service Suspension Initiative (DSSI) and later cancelled a small amount of interest-free loans.[8]

China's biggest lenders to Ethiopia were the China Eximbank and the China Development Bank (CDB), which lent primarily to projects in the energy, transport and telecommunications sectors. Eximbank typically made loans to government infrastructure projects, supporting Chinese construction companies through suppliers' credits. It backed projects for the Addis Ababa–Djibouti Railway, Addis Ababa Light Rail Transit system, and electricity and telecommunications investments. The CDB lent to Ethiopian SOEs, such as Ethio Telecom, and (non-dam) power generation, road building and industrial parks, with a government guarantee. As of 2021, the estimated outstanding obligations to the China Eximbank were at least $5.4 billion and to the CDB at least $1–2 billion.[9] The Renaissance Dam project had no foreign creditors; but development of the electrical grid surrounding the GERD, Koysha Dam and other hydroelectric projects was financed by China Eximbank as buyer's credits in the amount of $1.6–

[8] Brautigam and Huang (2023).
[9] Author's estimates based on Ministry of Finance (2021, 12) and IMF (2024a).

2.0 billion. China Communications Construction Company, China Railway Construction and Engineering, ZTE, Huawei, and Sinohydro also financed projects in Ethiopia.

Onset of Covid

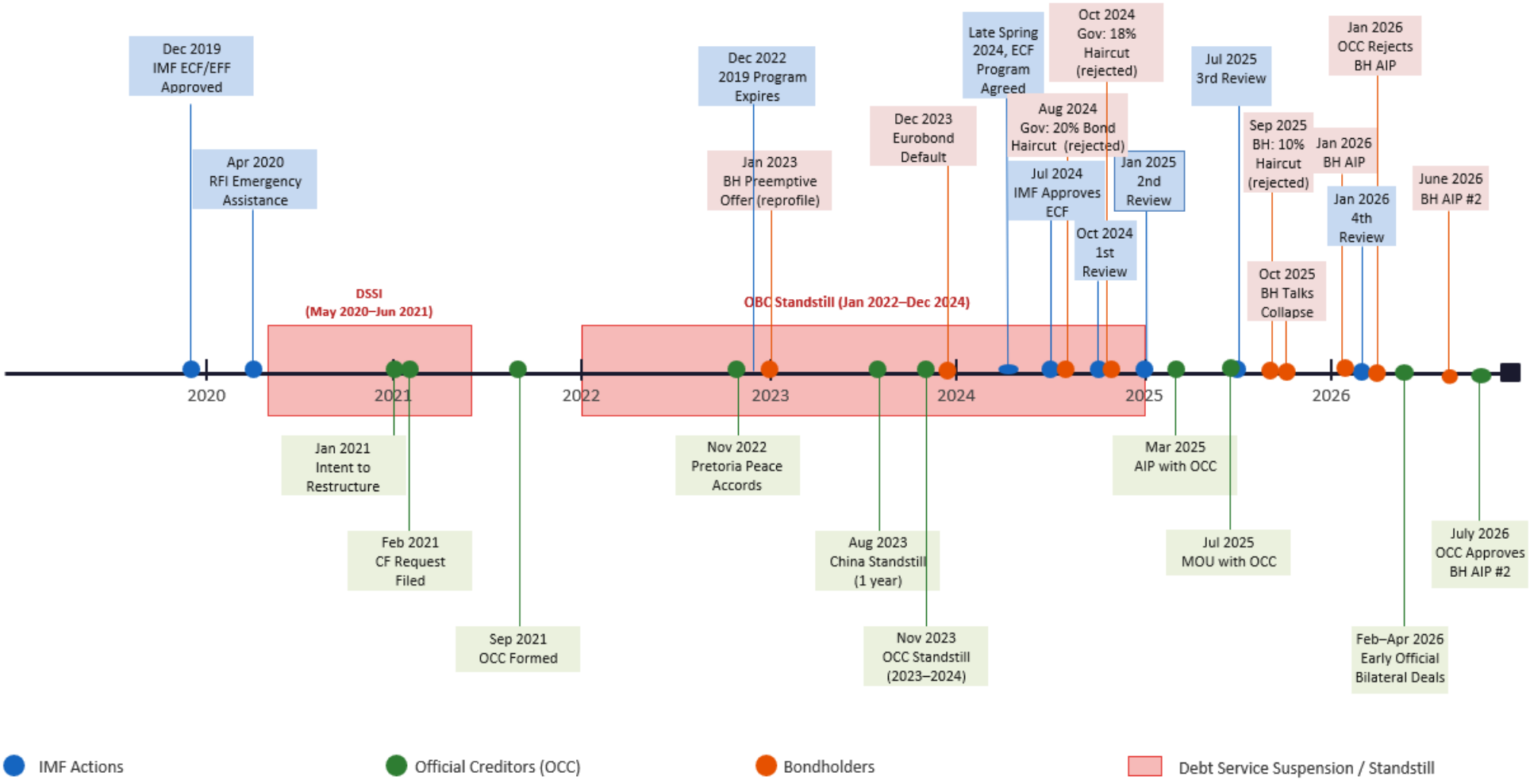
The Covid-19 pandemic marked an inflection point in Ethiopia's external financial trajectory. At the onset, Ethiopia was still under the ECF/EFF arrangement with the IMF dating from December 2019. Ethiopia was one of the first countries to secure emergency funding through the RFI and relief on debt service to the IMF itself in modest amounts through its Catastrophe Containment and Relief Trust (CCRT).

In addition, Ethiopia received debt service relief from its official bilateral creditors through the DSSI. This relief began in May 2020 and continued through June 2021, but not through the second half of that year, although such relief had in principle been available.

Having gone off track early, the ECF/EFF program eventually expired in December 2022. The Fund's Executive Board would not be willing to extend new financial assistance until the civil war could be brought to an end and the United States and European countries were satisfied on human rights and humanitarian grounds.[10] Officials in Addis Ababa nonetheless declined to request an extension of DSSI service relief for the second half of 2021, and the government serviced its debt to official bilateral creditors through 2022 and private bondholders through late 2023 – which required payments of $2.1 billion in 2022 alone.[11] (For the timeline, see Figure 1.)

[10] Ethiopia received no new funds from the IMF after the payment under the RFI in April 2020, until July 2024.
[11] Ministry of Finance (2022b, 28). Ethiopia serviced its debt to multilateral creditors throughout the debt restructuring period.

Figure 1. Timeline of Ethiopia's Sovereign Debt Restructuring, 2019–2026



Restructuring Request and Long Hiatus

About two months after the Common Framework was agreed, the Ethiopian government indicated that it would request a debt treatment and formalized the request in early February 2021. But, owing to both the novelty of the Framework and disruption associated with the civil war, this request was placed on a slow track. It was not until late September 2021 that the Official Creditor Committee (OCC) convened[12] its first meeting,[13] and progress stalled afterward.

The United States had been principally responsible in 2020 for blocking Executive Board consideration of the first review of the 2019 IMF program.[14] Ethiopian authorities thought that they had fulfilled their obligations under that program at the time and that the civil war was a "lame excuse" for program suspension. From their standpoint, moreover, the U.S. position only worsened during the first two years of the Biden administration – which highlighted human rights and humanitarian concerns surrounding the war.[15] Expressing the frustration of his government, Eyob Tekalign, the State Minister for Finance, who was chiefly responsible for overseeing the debt restructuring, lamented, "We trusted the Fund and we trusted G20 countries."[16]

The posture of the Chinese authorities was very different. China was not blocking assistance through the international financial institutions (IFIs), as mentioned above, and Ethiopian authorities viewed their Chinese counterparts as quite cooperative. "Fantastic" is the word used by one official to describe Chinese cooperation. On the other hand, Chinese authorities did raise strenuous objections to excluding the MDBs from the debt restructuring perimeter generally.[17] These objections could well have delayed the program and restructuring had they not already been suspended on other grounds. Instead, the matter was hashed out in long talks in the G20 and the Global Sovereign Debt Roundtable (GSDR) over the other restructuring cases during 2022 and 2023, so that a *modus vivendi* on the MDBs' contribution would apply to Ethiopia in 2024–25.

In February 2023, Ethiopia sent a high-level delegation to Beijing led by Finance Minister Ahmed Shide. The delegation held talks with key Chinese financial institutions and creditors, including the CDB, the Industrial and Commercial Bank of China (ICBC), and China Eximbank.[18]

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[12] The OCC eventually consisted of representatives from fourteen countries: Denmark, France, Finland, Israel, Italy, Japan, Korea, Sweden, South Africa, and Switzerland (Paris Club countries), plus China, India, Saudi Arabia, and Turkey (non-Paris Club countries). The United States was not a member. See, https://clubdeparis.org.

[13] Italian Government (2021).

[14] The U.S. International Financial Institutions Act requires the Secretary of the Treasury and the U.S. Executive Directors at the IMF and World Bank to "channel assistance" away from countries whose governments "engage in a pattern of gross violations of internationally recognized human rights." See U.S. Government Printing Office (2026).

[15] Interviews, Ethiopian official and former officials, Addis Ababa, February 4, 2026, and by video conference, March 5 and April 9, 2026. Blinken (2021a) and (2021b). U.S. sanctions were designed to allow humanitarian assistance.

[16] Jorgelina do Rosario and Rachel Savage, "Exclusive: Ethiopia Debt Relief Delay Partly Due to Civil War, State Finance Minister," Reuters, October 15, 2022.

[17] Ethiopia is one of the World Bank's largest IDA clients.

[18] "Why Ethiopia Is Taking Its Debt Relief Case Directly to China, Bypassing the G20," *South China Morning Post*, March 4, 2023.

But, notwithstanding the peace accord, the humanitarian crisis in Ethiopia's Tigray region persisted in 2023; millions of people needed food and other assistance. U.S. support for Ethiopia remained conditional on progress under the peace agreement toward "transitional justice" and accountability for wartime abuses.[19] On March 15, 2023, U.S. Secretary of State Antony Blinken arrived in Ethiopia for a two-day visit. He met with Prime Minister Abiy Ahmed, Finance Minister Ahmed Shide and other senior officials and urged the government to take steps to fully implement the agreement and allow humanitarian aid to reach those in need.[20] He also announced that the United States would provide $331 million in additional humanitarian aid and was working with other countries to augment this assistance.

Although official bilateral creditors would not yet approve a new program or proceed with restructuring negotiations, they did agree to another debt service standstill. First, in August 2023, the Chinese government agreed to a one-year standstill (through July 7, 2024).[21] Then, in late November 2023, the OCC as a group agreed to suspend service for the years 2023 (retroactively) and 2024. Mamo Mihretu, Governor of the National Bank of Ethiopia (NBE), announced that the suspension would save Ethiopia $1.5 billion in payments during the two years.[22] The suspension was designed to tide the government over through negotiations on the program and restructuring. At about the same time, the authorities suspended payments to eurobond holders, on the reasoning that they should treat all external creditors "equitably."[23] Fitch Ratings then formally declared Ethiopia to be in default.[24]

While relations with Western governments thawed and sanctions eased, Ethiopian authorities initiated conversations with IMF officials about a new program. In spring 2023, they requested financial assistance in the amount of $2 billion, five times the country's quota at the Fund.[25] The program would support a revised version of the Homegrown Economic Reform Agenda (HGER 2.0), which Ethiopian authorities were in the process of updating.[26]

2. New IMF Program

Discussions between the Ethiopian authorities and IMF staff concluded in the late spring of 2024 on a new Extended Credit Facility (ECF) arrangement, and, once financing assurances had been

[19] See, for example, Simon Marks, "U.S. Raises Alarm over Ethiopian Rights Abuses before IMF Visit," Bloomberg, March 4, 2023.
[20] "US Announces $331m in New Aid to Ethiopia as Blinken Meets Abiy," *Al Jazeera*, March 15, 2023.
[21] Chinese officials negotiated over the standstill and struck their agreement with Ethiopia separately from others within the OCC – in tension with the decision to negotiate collectively under the Common Framework.
[22] Agence France-Presse, "Ethiopia Secures US$1.5 Billion in Debt Relief," December 1, 2023; Paris Club (2023). Suspended payments were to be repaid after a two-year grace period over 2027–29. The accompanying term sheet noted that China would apply its own distinct terms.
[23] Ministry of Finance, "Ethiopia Holds Global Investor Call and Reiterates Its Intention to Treat All Its External Creditors Equitably," press release, Addis Ababa, December 15, 2023. Ethiopia had, however, continued to service its debt to bondholders during its first period of DSSI relief.
[24] Fitch Ratings (2023).
[25] Jorgelina do Rosario, "Exclusive: Ethiopia Seeking $2 Billion Under IMF Program, Sources Say," Reuters, April 13, 2023.
[26] IMF (2023). We leave aside for the moment the contentious question of the extent to which the HGER is actually "homegrown."

collected from the official creditors and prior actions taken, the Executive Board approved the program in the amount of $3.4 billion at the end of July 2024.[27]

Having found Ethiopia's debt to be unsustainable, the IMF made the program contingent on negotiation and completion of the debt restructuring that the government had requested more than three years earlier. That restructuring was to fill one-third of the country's external financing gap, with the other two-thirds split equally between the ECF from the Fund and new programs from the World Bank.[28] Securing financing assurances under the program was relatively easy compared to other cases, where it had become controversial: the official creditors had had plenty of time to prepare for this request and the IMF had relaxed somewhat its policy regarding the nature of these assurances.[29]

[27] IMF (2024a).

[28] In the end, the Bank's share would prove to be larger than one third. Its support comprised two Development Policy Operations (DPOs) of $1.5 billion in July 2024 and $1 billion in July 2025, a Financial Sector Strengthening Project loan of $700 million in January 2025, and a package of $1.45 billion in July 2026, plus at least $455 million in other commitments. See "Ethiopia," Finances One, World Bank Group, at https://financesone.worldbank.org/countries/ethiopia?skip=0.

[29] Specifically, the Fund had altered its Lending into Official Arrears (LIOA) policy to be able to approve programs when staff were confident of receiving assurances from a country that had not yet formally delivered them (Henning 2024). This "credible official creditor procedure" had been established with previous delays in receiving financing assurances from China in mind, but was determined to apply, in this and future cases, to the OCC as a whole when it involved the Paris Club and operated under the Common Framework. See IMF (2024a, 28, para. 63) and (2024b). Another reason that financing assurances were less difficult was that the amount of the debt treatment would be more modest than in other cases.

Table 1. The Federal Democratic Republic of Ethiopia:

Public and Publicly Guaranteed External Debt Profile

	Debt Stock 1/			Debt Service (US$ millions)		
	In US$ Millions	In % of Total	In % of GDP	2023/24	2024/25	2025/26
External Debt (Total)	**28,930**	**45.0**	**18.1**	**920**	**2,557**	**1,916**
International Financial Institutions	**15,269**	**23.8**	**9.6**	**650**	**694**	**553**
IMF	709	1.1	0.4	230	232	60
World Bank	11,589	18.0	7.3	331	363	387
AfDB/AfDF	2,198	3.4	1.4	52	55	58
Other IFIs	773	1.2	0.5	37	44	48
Bilateral Official Creditors 3/ 4/	**12,406**	**19.3**	**7.8**	**115**	**761**	**1,315**
Paris Club	1,853	2.9	1.2	21	109	168
Non-Paris Club	10,553	16.4	6.6	94	653	1,147
of which: China	7,421	11.5	4.6	93	588	1,023
of which: Saudi Arabia	1,099	1.7	0.7	0	48	95
Bonds (Eurobond)	1,033	1.6	0.6	33	1,066	0
Commercial Creditors 4/ 5/	222	0.3	0.1	122	68	37
Nominal GDP (US$ million)	159,766	–	–	–	–	–

Source: IMF, Ethiopia: Request for ECF/EFF, Debt Sustainability Analysis, July 12, 2024.
1/ Consistent with the DSA coverage and may differ from official debt statistics on external debt.
2/ Includes roll-over of T-bills and staff's estimate of standstill agreement with official bilateral creditors.
3/ Includes loans backed by export credit agencies.
4/ Includes pre-HIPC arrears waiting to receive HIPC comparable treatment.
5/ Loans from commercial banks and credit suppliers non-backed by ECAs.

The statistics published in the IMF's debt sustainability analysis (DSA) with the ECF program request in July 2024 showed that the total debt of Ethiopia's public sector was $64.3 billion (as of the end of 2023), of which $35.3 billion was domestic. Out of concern for the capital of domestic banks, which had been effectively forced to accumulate government liabilities under Ethiopia's system of financial repression, the treatment of domestic debt was quite limited. The Commercial Bank of Ethiopia's loans to SOEs were shifted onto the balance sheet of the finance ministry, and T-bills in the portfolios of pension funds were converted into long-term bonds. External debt, by contrast, which amounted to $28.9 billion, would be the main target of the restructuring. (See Table 1.) A little more than half of the external debt, $15.3 billion, was owed to the multilateral development banks (and the IMF). A little less than half, $12.4 billion, was owed to official bilateral creditors, of which $7.4 billion in turn was owed to China.[30] The next largest official bilateral creditors were the United Arab Emirates and Saudi Arabia,

[30] The categories are confused by the fact that the China Eximbank is the only designated official creditor, yet the credits of other Chinese state-owned lenders such as CDB and ICBC are included in this figure. China Eximbank's

with about $3 billion and $1 billion, respectively, on deposit at the NBE, the central bank.[31] Ethiopia also owed roughly $1 billion on its single, ten-year eurobond, which had been issued in December 2014. Because a significant share of its debt was concessional, particularly that owed to the MDBs, debt service was modest as a percentage of GDP; it was projected to be 1.2 and 0.9 percent in 2024–25 and 2025–26, respectively. Service was considerably larger relative to exports, however. Two additional aspects of the program are interesting: the foreign exchange reform and the DSA.

Foreign-Exchange Reform

The ECF contained most of the usual elements of an IMF program, including fiscal deficit reduction, monetary policy reform and structural adjustment. The more sensitive and controversial aspect, however, was the reform of the foreign-exchange regime, a legacy of the old Ethiopian economic model and a reform priority of the Fund. A multitiered system of exchange rates and exchange controls, the regime effectively subsidized some economic sectors and penalized others, required the NBE to allocate foreign exchange administratively, constrained imports and presented a general obstacle to Ethiopia's economic engagement with global markets. A central question confronting the architects of the program was whether the reform should be gradual or a "big bang."

Given their large commitments in support of the program, World Bank staff were also very interested in the foreign exchange reform and in particular in convergence between the official and market exchange rates, the gap between them being very large. They favored a rapid adjustment to the market rate over a gradual one. Ethiopian officials, for their part, initially held differing views about the necessity of reforming the foreign exchange system at all. Sorting out these different views and coming to consensus was a principal reason for the extended period of deliberation over program design prior to staff-level agreement in the late spring of 2024 – which settled on the big bang approach.[32]

Meanwhile, in Addis Ababa, officials on the government side were concerned about the inflationary impact of the currency depreciation that would result from the transition to market exchange rates. Officials at the NBE were confident that, while inflation would rise, it would be contained by monetary tightening, which was already underway, and measures to mitigate the effects on sensitive sectors and import products. NBE officials were concerned that a series of small, incremental devaluations would produce a wave of speculation that would overwhelm their reserves; so they had favored the big bang approach over gradualism. A larger question for Ethiopian officials, though, was whether the reform would be part of program conditionality, which they strongly preferred, or a prior action.[33] Owing to lingering distrust among leading member states, however, the IMF Executive Board insisted that it be

exposure was reportedly $5.38 billion. The obligations to other, "non-official" state creditors were removed from this line in subsequent tables. Compare IMF (2024a; 2026b), DSA, Text Table 2, p. 5, in both cases.

[31] The UAE's exposure became evident in the DSA for the second program review of January 2025.

[32] The staff-level agreement itself was never announced publicly in order to avoid aggravating exchange-market speculation.

[33] Interview with a former Ethiopian official, via video conference, April 9, 2026.

a prior action, and the central bank announced the reform on July 29, a few hours before Board approval.[34]

With the unpegging of the birr, the currency depreciated about 30 percent during the trading day and by 45 percent shortly thereafter. Between July 2024 and April 2026, the birr depreciated by 64 percent.[35] Inflation, which had peaked at over 30 percent in 2022, was declining when the reform took hold and continued to decline through the second half of 2024 and 2025, to slightly below 10 percent in early 2026.[36]

Debt Sustainability Analysis

Shortly after the DSA was released publicly with the documents on the new program, it became controversial.

The Fund rated Ethiopia's debt as "unsustainable" and its debt carrying capacity as "weak," based on actual and projected breaches in the thresholds for three ratios that apply to external debt: present value of debt-to-exports, debt service-to-exports, and debt service-to-revenue. To render debt sustainable, the PV of debt-to-exports ratio would need to be reduced from 154 to 140 percent, the debt service-to-exports ratio from 17.7 to 10 percent, and the debt service-to-revenue ratio from 16.3 to 14 percent, all by the end of the program, July 2028.[37] (The starting values are the Fund staff's baseline projections for July 2028, not actual figures for July 2024.) To meet these targets, the Ethiopian government proposed a package of relief measures to creditors that included an 18 percent reduction of the principal on the eurobonds. This proposal was soon rejected by the ad hoc bondholder committee.[38]

Prompted by the standoff between Addis Ababa and the bondholders, Indermit Gill, Chief Economist at the World Bank, and Brian Pinto, formerly of the Bank and serving as a consultant, circulated an internal memo that examined the merits of the DSA.[39] They observed that reforms needed to reverse financial repression and correct the overvalued exchange rate would add to the debt burden, but that the interest rate on the debt would nonetheless remain significantly below the rate of economic growth in the long run – a fundamental condition for sustainability. They argued that the DSA erred in focusing primarily on external debt, which appeared unsustainable by the debt-to-exports ratio because exports were small; instead, total (external and domestic) debt should be the focus of the analysis. They conceded that reform would raise borrowing costs and slow growth temporarily, and that much rested

[34] National Bank of Ethiopia (2024a) and (2024b).
[35] Author's calculation.
[36] As measured by the year-over-year consumer price index. World Bank (2026) and www.tradingeconomics.com.
[37] IMF 2024a, DSA, paragraph 22 and Table 1.
[38] Duncan Miriri, "Ethiopia Expects 'Tangible Progress' on Deal with Creditor Nations by December," Reuters, October 1, 2024; Fasika Tadesse and Jorgelina Do Rosario, "Ethiopia Asks Already Defiant Bondholders to Take an 18% Haircut," Bloomberg, October 2, 2024; Jorgelina Do Rosario, "Ethiopia Bondholders Say 18% Haircut Offer Isn't Reasonable," Bloomberg, October 3, 2024.
[39] Pinto and Gill (2024). These authors had examined the debt sustainability frameworks in earlier writing, including Pinto (2019).

on realizing substantial, but uncertain, returns on high-profile projects such as the Addis Light Rail and the Addis–Djibouti Railway.

Pinto and Gill's bottom line was two-pronged. First, correctly interpreted, the DSA showed that Ethiopia had a liquidity but not a solvency problem: the country needed a maturity extension, in the absence of new concessional financing, but bondholders were right that the DSA did not indicate that a haircut on principal was necessary. Second, however, the DSA suffered from flaws in its analytical framework (the Debt Sustainability Framework for Low-Income Countries, or LIC-DSF), and correcting these flaws would probably have shown that Ethiopia's long-term debt problem remained serious.

The memo prompted consternation within the Bank, as the institution had given its approval to the DSA during program formulation. When it was leaked to the media, the memo further stirred up the debate among the parties to the negotiations over the amount of restructuring that should be required.[40] Although it did not dismiss the possibility that Ethiopia would need a restructuring, on balance the memo gave comfort to bondholders in their resistance to cuts to principal. Officials at the Fund and in Addis thought the timing of the memo was decidedly inconvenient. But it did not change the official position of the Bank, and the DSA was not revised along the lines of Pinto and Gill's critique.

3. Official Creditor Negotiations

By the time the new IMF program was approved, official creditors and bondholders had had three years to organize themselves, provide financing assurances, and initiate serious discussions with Ethiopian authorities. We might thus have expected them to come to agreement with officials in Addis Ababa fairly quickly. Although the time to agreement compared favorably with other country cases, it was longer than we might have expected given the lead time for preparation.

Ethiopian authorities initially proposed that the official creditors and bondholders negotiate in parallel,[41] but in the event simultaneous progress could not be maintained. While the talks began together once the IMF program was approved, they soon diverged, as the authorities were able to settle with the official creditors long before settling with the bondholders.

Ethiopia announced agreement in principle with the OCC in March 2025, and a memorandum of understanding (MOU) finalized the terms in July 2025.[42] The agreement applied to $8.4 billion of its debt stock and offered relief of more than $3.5 billion, including $2.5 billion (or 34 percent of pre-restructuring service due) during the period of the IMF program (up to July 2028). It extended the maturity on the debt by three years (on average) but included no face value reduction. Overall, the finance ministry calculated the reduction in the present value of the debt to be 12.5 percent.[43]

[40] Karin Strohecker, "World Bank Staff Question Ethiopia Debt Assessment Reached with IMF, Memo Shows," Reuters, December 23, 2024.
[41] Interview, by video conference, March 5, 2026. This was along the lines advocated by Hagan and Setser (2024).
[42] Ministry of Finance (2025).
[43] Fitch Ratings (2025). See also "Ethiopia Says It Formalises Debt Rework with Official Creditors," Reuters, July 2, 2025; Dawit Endeshaw and Duncan Miriri, "Ethiopia Clinches Initial Deal with Official Creditors amid Bondholder Standoff," Reuters, March 21, 2025.

In his background press briefing on the agreement, William Roos of the Paris Club noted among other things that "the work of chairing the OCC jointly with China had been very constructive and now we are used to working together. . . We have been able to find a consensus first between us and then to negotiate with Ethiopia." He also noted that the United Arab Emirates, Kuwait and Poland – being outside the G20 grouping – had chosen to renegotiate their claims on Ethiopia separately from the OCC.[44]

Once the MOU was signed, Ethiopia proceeded to negotiate with each official creditor bilaterally to restructure its credits along the lines that had been agreed multilaterally. Bilateral agreements were signed by France, Italy and four other countries during February–June 2026. Substantial progress was made in negotiations with China in the spring and its agreement was finalized in July, along with India's and Finland's. Each bilateral agreement was accompanied by discussion of, or commitments to, new credits, such as for the new Bishoftu International Airport in the case of the agreement with China.[45] But, as of August 2026, bilateral agreements with three other members of the OCC remained pending.[46]

Note also that the present-value reduction of the debt restructuring was quite shallow relative to those for the other cases under the Common Framework.[47] This raises in turn the question as to whether Ethiopia might have been able to skate through its predicament without a debt restructuring at all. Indeed, some of the participants in the process asked themselves whether – given the three-year hiatus and the responsiveness of the Ethiopian economy to the reform program – the country would have been better off treating its case as a liquidity rather than a solvency problem. This question hung over Ethiopia's negotiations with the holders of its eurobond issue.

4. Bondholder Negotiations

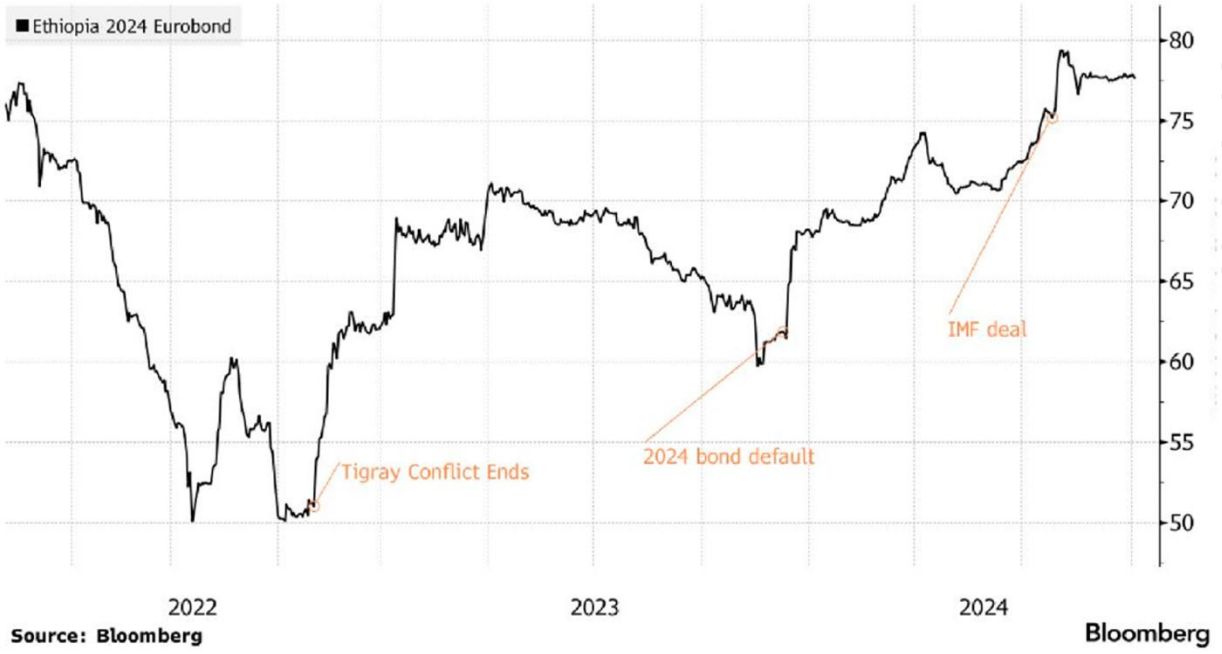
Although the government in Addis Ababa had serviced its outstanding eurobonds on a current basis throughout the pandemic and civil war, it was becoming clear to bondholders in early 2023 that the low level of foreign exchange reserves would probably prevent the government from redeeming them as they came due in 2024. They were also aware that the government could be enjoined from redeeming them by official creditors, who would be accepting a standstill. A core investor group led by VR Capital and Farallon Capital Management made a preemptive offer to the Ministry of Finance in January 2023, proposing to extend the maturity of the bonds (a reprofiling) rather than to reduce the

[44] Karin Strohecker and Libby George, "Exclusive: Official Creditors Grant Ethiopia More Time to Pay Debt, No Write-Down," Reuters, April 4, 2025.
[45] "Landmark Ethiopia-China Talks Unlock Debt Deal, New Airport Financing," ENA news service, Addis Ababa, April 3, 2026.
[46] Progress on bilateral negotiations is now posted by the Paris Club at https://clubdeparis.org/en/sites/clubdeparis/accueil/pays-accords-signes/recherche-accords-signes/fiches/e/ethiopie-2-juillet-2025.html. Bilateral agreements will not be necessary for Korea and Japan because their existing terms are already more favorable than the terms of the restructuring.
[47] Owing principally to the ratio of the present value of the external debt to exports being modestly above the threshold, 154 compared to 140 percent. The debt service-to-exports ratio was a larger overshoot, 17.7 compared to 10 percent, however (IMF 2024a, 19, Fig. 1).

principal.[48] But Ministry officials did not respond to this offer, choosing to negotiate first with the official creditors, and defaulted on the bonds in December 2023.

With the default, the bondholder committee was formally constituted. It was assembled as an ad hoc grouping under the co-chairmanship, again, of VR Capital and Farallon. Other members of the group included Morgan Stanley Investment Management, Franklin Templeton and Aurelius Capital Management. Of these, VR Capital and Aurelius were well known for pursuing holdout strategies, with the founder of Aurelius, Mark Brodsky, having come from Elliott Management, which had (in)famously but successfully litigated over its Argentine holdings. Morgan Stanley is usually regarded as a less aggressive investor. Many of the holdings of this group would have been purchased at large discounts, the price of these bonds in the secondary market having varied between 50 and 70 cents on the dollar during 2022–23. (See Figure 2.) Together, the members of the bondholder committee held 45 percent of the outstanding bonds, which, while not a majority, was well above the 25 percent threshold needed to frustrate the activation of the collective action clause (CAC) in the bond contract.[49] Their legal advisor was Weil, Gotshal & Manges, based in London, and their financial advisor was Ankura Sovereign Advisors (formerly Newstate Partners).

Figure 2. Secondary Market Price of the 2024 Eurobond, 2022–2024



The Ethiopian government responded to the bondholders once the IMF program was approved and negotiations with the OCC were well underway, in August 2024. In a social media post, Ethiopia proposed a 20 percent haircut, which bondholders rejected immediately. In October, Ethiopian officials

[48] Bondholders later briefly confirmed making this offer, defended it as "affordable" for the government, and lamented its decision to instead default on the bond as unnecessary. See Ethiopia Ad Hoc Bondholder Committee, "Statement on the Conclusion of Restricted Discussions with Ethiopia Regarding the Defaulted 2024 Notes," PR Newswire, June 29, 2026.

[49] Because Ethiopia issued only one bond series, the problem of aggregating voting across multiple series did not arise.

more formally proposed an 18 percent haircut, which was also rejected on the grounds that the country faced a liquidity, not a solvency, problem – the analytical dispute that had prompted the internal debate among World Bank staff over the DSA. The talks thus stalled for almost a year, until after the OCC's MOU was finalized, and in September 2025 the bondholder committee offered a 10 percent haircut, which the government in turn rejected. At the time of the IMF–World Bank Annual Meetings in Washington, D.C., in October 2025, the parties were at an impasse, at which point the bondholders *threatened to sue* for full payment in UK courts, the jurisdiction of the bond issue.

With this threat looming in the background, the bondholders and the Ethiopian Ministry of Finance reached an agreement in principle (AIP) over the Christmas/New Year's holiday and announced the result in early January 2026.[50] The main agreement provided for a 15 percent face-value reduction, an interest rate of 6.125 percent (compared to 6.625 percent on the original bonds), and an amortization schedule ending in July 2029 (3½ years from the date of the agreement and 4½ years after the original December 2024 maturity). This part of the AIP was roughly comparable in present-value terms to the OCC settlement's 12.5 percent reduction, though the two agreements reached that similar result by different means.[51]

However, in order to reconcile the conflicting views about prospects for the Ethiopian economy, the bondholders insisted upon, and the government accepted, a value recovery instrument (VRI) as part of the agreement.[52] The VRI provided additional recovery for the bondholders if Ethiopian exports exceeded IMF forecasts (as of the third program review in June 2025). If exports exceeded the projections, bondholders would receive additional payments amounting to 2.5 percent of the difference. These payments were to be capped at $35 million per year.[53]

The activist NGOs Debt Justice and Afrodad criticized this agreement, tentative as it was, arguing that bondholders would reap excessive returns. According to the analysis by Debt Justice, the bondholders had extracted an outcome considerably more favorable than the settlement reached with the official bilateral creditors – a finding that seemed to invite the OCC to disallow the agreement on the grounds that it did not provide comparable treatment.[54]

The authorities in Addis Ababa nonetheless submitted the AIP for "non-objection" to the IMF and the OCC. The Fund's task in this division of labor was to examine the agreement for consistency with program parameters and for assurance that the financing gap faced by the country was fully covered on a forward basis. The OCC examined the agreement's adherence to the principle of comparability of treatment (COT). The central scenario envisioned in the AIP would not by itself have raised objections; but the VRI was another matter. The OCC was concerned that payouts under the upside scenario would

[50] Republic of Ethiopia (2026).
[51] Fitch Ratings (2025). The OCC agreement had achieved this mainly through maturity extension, without a haircut on principal.
[52] As in other cases of debt restructuring where bondholders thought the IMF's economic projections were unduly pessimistic and the prescribed debt treatments unnecessarily large.
[53] Republic of Ethiopia (2026).
[54] Debt Justice (2026). See also "Stop the Vultures" (no date) at https://debtjustice.org.uk/campaigns/stop-the-debt-vultures. The NGO argued that bondholders had extracted these more favorable terms by threatening to sue.

violate at least one of the three criteria for comparability; specifically, that the present-value reduction accepted by the OCC would turn out to be substantially larger than that accepted by the bondholders. By January 2026, it had already become clear that the Ethiopian economy, tax revenue and exports were responding well to the reforms that had been introduced with the program; the upside scenario looked quite likely.

Although the IMF did not provide a definitive, final response, neither did it object to the AIP. It was understood informally that the Fund believed that the baseline scenario was consistent with the parameters of the Fund program but it was silent, even informally, about the upside scenario that could trigger the VRI. Declining to address the upside scenario probably reflected a view on the part of Fund staff that, given the overperformance relative to earlier forecasts and the breathing room it afforded Ethiopia, any additional payout would not be large enough to affect the viability of the program. Fund officials might also have expected the reaction of the OCC to overshadow financing-gap considerations.

The OCC, for its part, *rejected* the AIP on the grounds that the VRI, if triggered, would violate comparability of treatment.[55] Adjustment of terms under the upside scenario, recall, was not a feature of its MOU with Ethiopia. Interestingly, the OCC's position on the matter was unanimous; China Eximbank was not an outlier on this occasion.[56]

Participants differ as to the usefulness of the information that the OCC provided to bondholders about what exactly would be required to satisfy comparability. The OCC provided what some participants characterize as "very clear guidance," in the form of examples of bondholder agreements that would qualify. Not bound by such examples, however, bondholders developed offers outside these parameters and sought additional information, including what exactly would trigger the clawback clauses. Apparently, the underlying formula was not disclosed; so, when the bondholder position fell far from the examples provided, the effort required to close the gap on a comparable basis remained obscure. As of April 2026, the message from the OCC was that the bondholders should nonetheless not wait for more specific numbers before revising their offer.

Although the OCC rejected the January 2026 AIP unanimously, it is fair to say that the China Eximbank took a particular interest and an especially insistent stance *vis-à-vis* the bondholders.[57] Chinese participants argued in general that the high interest rates earned on bond holdings should come with greater effort on debt treatment in a restructuring, and that a distinction should be made between "productive" and "consumptive" financing, placing eurobonds in the latter category.[58] Specifically in Ethiopia's case, Chinese officials were attentive to the identity of the bondholders as "real-money" or "distressed" investors and attached significance to the distinction in assigning settlement obligations. In their view – one that is, of course, broadly shared – holdout litigators in particular should not be rewarded for weaponizing the legal system against the debtor and other

[55] Ministry of Finance (2026a).
[56] Not-for-attribution interview with a knowledgeable participant, by video conference, May 7, 2026.
[57] Similar to the Chinese stance in the Zambian debt restructuring.
[58] Ethiopian officials argue, by contrast, that their bond issue funded investment. Interview with a former official, Addis Ababa, February 4, 2026.

creditors. The Chinese argument was especially relevant in the Ethiopian case because the eurobond issue lent itself to holdout litigation strategies.

Through the OCC, which of course China co-chaired, Eximbank officials posed numerous questions about the investors, their committee, and the agreement in principle. Much of the questioning was intended to ensure that bondholders contributed their fair share to the restructuring (even though it was small relative to the official bilateral creditors' share). But much of it also reflected their interest in understanding the fine details of the restructuring process – by drilling down through issues that Paris Club and Western officials in previous periods had tired of discussing or had not seriously considered. Chinese officials asked about the financial roles of different members of the committee (depositors, trustees, and investors), the nature of beneficial interest, and legal identity. They questioned the authority of members of the bondholder committee, especially the co-chairs, to represent their investors, and sought information about the investors not represented on the committee.[59]

Meanwhile, within days of the OCC's rejection of the January deal, the bondholders, through their legal advisor, restated their intention to sue for payment in UK courts, declaring the OCC position to be "completely unreasonable."[60] They followed up in early April by submitting to the Ethiopian authorities a "pre-action letter," required under UK legal procedure, notifying them of their intent to file suit.[61]

Generally, CACs have made holdout strategies unviable, especially "single-limb" CACs that provide for aggregated voting across bond issues. But Ethiopia had issued only one bond series in a relatively small amount, $1 billion. Moreover, those bonds had been trading at a deep discount for three years prior to the IMF program. Holdout investors ("vulture funds") could therefore buy them up relatively cheaply, accumulate a large enough position to block the activation of the CAC (25 percent or more), and threaten to sue for full payment. Ethiopia was thus vulnerable to holdout strategies on the part of a handful of litigious investors wielding relatively small amounts of capital.

The prospect of bringing the case to court in the UK highlighted the stakes involved in legislation before Parliament that would, in cases involving debt restructuring, limit recovery to no more than what official bilateral creditors obtain under their MOU with the debtor.[62] The legislation was promoted by Debt Justice in the United Kingdom and the Jubilee USA Network in the United States, specifically the New York State legislature in Albany.[63] Opponents of the legislation in both countries argued, among other things, that it was unnecessary because CACs had solved the holdout creditor problem.

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[59] Not-for-attribution interviews, Washington, D.C., April 2026.
[60] Duncan Miriri and George Obulutsa, "Ethiopia Investors Plan Legal Action as Row over $1 Billion Bond [Overhaul] Escalates," Reuters, February 2, 2026.
[61] Matthew Hill, "Ethiopia Bondholders Start Process to Sue Government over Defaulted Debt," Bloomberg, April 18, 2026; Karin Strohecker, "Ethiopia Gets Formal Notice for Legal Action after Scuppered Debt Deal," Reuters, April 22, 2026.
[62] The UK legislation is described, among other places, in Olivares-Caminal, Dahan, and Hart (2025). See also Connelly, Ferreira Lima, and Tan (2024).
[63] Description and commentary are provided by Butler, Clark, and Lyratzakis (2024); Ciuffetelli et al. (2024); and Makoff (2024).

The Ethiopian case shows, however, that CACs have not in fact made holdout investor strategies entirely obsolete: small issuers and issuers of a very small number of bond issues can still be vulnerable.[64] Ethiopia's bondholders repeatedly used the plausible threat of litigation as a negotiation strategy, and their prospects in court were by all accounts very favorable.[65] If such a suit were successful, the episode could reinvigorate political support for the legislation. (The possibility was not merely theoretical. A court judgment against Zambia in favor of the vulture fund Donegal International in 2007 inspired the passage of the Debt Relief (Developing Countries) Act 2010.[66]) These considerations were top of mind as the bondholders weighed their options in spring 2026.

Investors in Ethiopia's bonds seemed relatively unperturbed by the negotiating impasse. The bonds traded at 106 cents on the dollar in the secondary market even *after* the OCC rejected the January AIP. Bond investors anticipated early payment of about $100 million in past-due interest under the baseline scenario, plus, notwithstanding the rejection of the VRI, a continued possibility of some recovery under an upside scenario. Such anticipated payments offset the expected losses on principal in the valuation.

From a practical standpoint, the priority for the government in Addis Ababa in this matter was to avoid an outcome for the bondholders that could trigger the clawback clause in the MOU with the official creditors.[67] Because the debt owed to the official creditors was eight times larger than the eurobond debt, such an outcome would have been far more expensive for Addis than any payout to bondholders under the VRI.

During May 6–27, 2026, in the shadow of the pre-action letter, the government and bondholders entered restricted discussions in which Addis presented yet another offer, which Ethiopian officials had precleared for COT consistency with the French and Chinese OCC co-chairs. The new proposal eliminated the troublesome VRI, provided a 12 percent face-value reduction, and offered an exchange bond with amortization and interest that the government calculated would have reduced the present value by 10 percent, compared to the 12.5 percent accepted by the official creditors.[68] But this proposal was rejected by bondholders, and Addis publicly committed to remaining in arrears until an arrangement that the OCC deemed comparable was reached. In June 2026, the parties thus reverted to a standoff, with some of the bondholders signaling their intent to follow through on formal legal action in court.

The importance of the standoff lay not so much in the amount of debt in question, which was relatively small, but in the basic assertion that eurobond investors should not have to provide comparable treatment when economic circumstances permit repayment. By spring 2026, Ethiopia's

[64] Supporting the position taken by Ghosh (2024).
[65] Actually collecting on a judgment in their favor was another matter, however, given the limits imposed by sovereign immunity.
[66] *Donegal International Ltd v Zambia & Anor*, Judgment, England and Wales High Court, February 15, 2007; Debt Relief (Developing Countries) Act 2010, at https://www.legislation.gov.uk/ukpga/2010/22/contents.
[67] The clawback clause enables the official creditors to restore their original claims (that is, cancel their restructuring) under several circumstances, including the debtor's servicing other external creditors before they agree to provide comparable treatment.
[68] Ministry of Finance, Federal Democratic Republic of Ethiopia, "Update on the Restructuring of Ethiopia's 6.625% Notes Due 2024," Addis Ababa, May 28, 2026. See also "Ethiopia's Official Statement on Comparability of Treatment – External debt Restructuring," Addis Ababa, May 20, 2026.

prospects had improved significantly over the year since Addis reached agreement in principle with the OCC. The country held about $4 billion in gross international reserves, about two months of import cover, and was expected to run a current account deficit of 2.4 percent of GDP for the year, while growing around 9–10 percent.[69] Bondholders argued that Ethiopia was able to repay (proportionately) considerably more than was provided for in the OCC settlement. Effectively, their position was that Ethiopia's legal obligation to them trumped the OCC's MOU – which represented a serious challenge to debt restructuring arrangements in general and the Common Framework in particular, raising the stakes considerably.

The standoff also came at a delicate moment as far as the UK government was concerned. Britain was scheduled to host the G20 summit meeting in 2027 and intended to make debt and development financing an important element of its agenda. It would have been inconvenient, to say the least, if UK courts had at the same time ruled in favor of full payment to the eurobond holders.

Fortunately, that outcome was avoided when another set of cloistered negotiations in June yielded a settlement that eventually proved acceptable to the official creditors. The agreement retained the features of the offer that investors had rejected the previous month – a 12 percent cut in face value, along with similar treatment of interest and maturity, for a present-value reduction of 10 percent.[70] But it added a "new money warrant," which provided for an upside payout capped at 9 percent of the original face value, or $90 million. Ethiopia retained the option to pay that amount to bondholders instead of issuing the warrant, the value of which would depend on the market yield of the exchange bonds. Kessler and Vessereau (2026a, 2026b) calculate the present-value reduction for bondholders under this deal to be between 3 and 10 percent.[71] The China Eximbank and the Paris Club secretariat reviewed the deal but did not object, pending consideration by the full OCC.[72]

At the end of July, the co-chairs of the OCC sent a letter to the Ministry of Finance signaling that the full committee considered the bondholder agreement to be compliant with comparability of treatment, "at this stage." But it explicitly kept the door open to disallowing it at a later stage, if, for example, bondholders ended up receiving "excessive benefits" through repurchase or redemption of the new money warrant. In that event, the letter said, the OCC would take proportionate compensation as provided for by the MOU.[73] The OCC's decision, in other words, was not "one shot" but rather would

[69] IMF (2026a).
[70] Ministry of Finance (2026b).
[71] Using the official discount rate of 5 percent. Jones (2026) calculates a slight present-value *increase* using the same discount rate. Kessler and Vessereau (2026a, 19) conjecture that the OCC co-chairs offset the bondholders' modest PV reduction against a larger debt service sacrifice when indicating preliminarily that the overall result delivered comparable treatment. Debt Justice criticized the result as favoring bondholders over official creditors by 17 percent. Using 12 percent as the exit yield on the bonds as the discount rate instead, though, the present-value reduction is 20 percent or greater (Kessler and Vessereau 2026a, 17).
[72] Ministry of Finance *(2026b)*. As described elsewhere, COT is calculated using three criteria and there are tradeoffs among them. Note that the division of financial sacrifice on the part of creditors is unusual in this case. In Sri Lanka and Ghana, for example, bondholders took greater debt service payments during the IMF program in exchange for making a larger sacrifice in present-value terms.
[73] Ministry of Finance (2026c). As noted below, however, the clawback clause revokes the debt treatment and reopens the negotiation but does not prescribe a particular outcome.

be subject to periodic review; the committee sought to keep the bondholders' feet to the fire throughout the bond repayment period.

The settlement revealed interesting dynamics among the bondholders, specifically between some of the distressed specialists and the "real-money" investors. It is probable that VR Capital and Farallon did not have full support to follow through on litigation threats by actually filing with the court. While those two firms litigate with some frequency, several of the other creditors on the ad hoc committee, principally large asset managers such as Morgan Stanley, do not typically sue for recovery. Aside from wanting to avoid public criticism for aggressive legal action, the large investment funds had more to lose across other parts of their portfolios if litigation had galvanized political support for the UK legislation.[74]

Meanwhile, as the dispute with the bondholders was playing out, the official creditors were settling their bilateral agreements with Ethiopia under the MOU with the OCC. Although three countries settled bilaterally in during February-April 2026, the threat of legal action on the part of bondholders injected uncertainty into negotiations with the remainder. Official creditors considered how they might share, on a comparable basis, in whatever benefits the bondholders extracted. The clawback clause in the MOU could allow them to cancel the OCC debt treatment and revert to their original claims. But this was generally regarded as insufficient, as it would simply reopen the whole restructuring, setting negotiations back to square one; it would not provide for a new, comparable settlement. Such deliberations delayed the conclusion of several of the remaining bilateral agreements.

The importance of the dispute between the OCC and bondholders also lies in the precedent that it could set for other cases of debt restructuring, ones in which the size of the claims could be far larger. The mantra voiced by the G20 and OCCs that debt restructuring proceeds "case by case" would suggest that the outcome in one case does not determine the others. Nonetheless, despite the relatively small stakes in dispute in this particular bond renegotiation, the official creditors, including the Chinese, were behaving as if the treatment of Ethiopia could very well matter for treatments in subsequent cases.

5. Commercial Creditors

Once the MOU was signed with the OCC, Ethiopian authorities began their conversations with the other commercial creditors alongside their negotiations with the bondholders. Into this group fell the CDB, ICBC, Zhongxing Telecommunication Equipment Corporation (ZTE) and Chinese railway, engineering and electrical power companies. Non-Chinese commercial creditors included Société Générale, Standard Chartered Bank and Deutsche Bank, as well as perhaps a few non-bank corporate

[74] In the bondholder statement, Farallon made clear its preference to bring the case to court, but said that it would not pursue that course in order to preserve the "proper functioning of the committee." See Ethiopia Ad Hoc Bondholder Committee, "Statement on the Conclusion of Restricted Discussions with Ethiopia Regarding the Defaulted 2024 Notes," June 29, 2026, at www.prnewswire.com.

firms. All in all, the authorities in Addis negotiated with more than ten such commercial creditors over a total amount in the neighborhood of $2.5–4.0 billion.[75]

Owing to the number and diversity of these creditors, and the necessity of negotiating with them one by one rather than as a group, these negotiations proceeded slowly. Ethiopian authorities and their financial advisors had to repeat their case and explain the basics of the Common Framework and comparability of treatment in meetings with each creditor. As in other cases, although Sinosure, the Chinese export credit insurer, insured the large majority of these credits, it insisted on observing from the back of the room, figuratively and literally, and would not serve as a central point of contact for these talks.

In late 2025, Ethiopian authorities announced an agreement in principle with the CDB, to which they owed well over $1 billion.[76] Minister of Finance Shide led a delegation to China in March 2026 to hold discussions with CDB, ICBC and other commercial creditors, along with the China Eximbank. As in other cases, the agreement reached with the OCC represented the minimum required to satisfy comparable treatment. Ethiopian authorities were free to ask for more and probably did so.

These talks were facilitated, though also somewhat complicated, by coupling them with discussion of new projects. CDB, for example, pledged an initial $500 million at commercial interest rates for construction of the Bishoftu International Airport, a project organized by the African Development Bank as lead arranger and in which the Bank of China and ICBC might also be involved.[77] (It was precisely such projects that the U.S. government and other Western official creditors had worried could become vehicles for Chinese creditors to recoup after the fact their losses on debt restructuring – vehicles that would usually not be available to Western creditors.)

As of July 2026, none of the agreements with commercial creditors had been finalized. Minister Shide had indicated that he wanted to have all agreements – commercial, bondholder and official bilateral – finalized by October 2026.[78]

In the fifth review of the program, conducted in May and published in July 2026, the IMF forecast the evolution of Ethiopia's external position on assumptions based on the OCC MOU, bilateral agreements and agreements in principle with commercial creditors.[79] The updated DSA showed, among other things, the external debt service-to-exports ratio falling from 29 in 2026 to 12.4 percent in 2028 and the service-to-revenue ratio falling from 39 to 15.3 percent over the same period, both well

[75] The IMF's number of $2.5 billion in debt to external commercial creditors should be considered a lower bound. (IMF 2026b) In addition to that, Ethiopian authorities would have also asked for some of the non-publicly guaranteed debt to be restructured.
[76] IMF (2026b, DSA, overview and paragraph 26). The Fund stated that the agreement in principle was consistent with program parameters and reported that it satisfied the OCC on comparability as well.
[77] African Development Bank Group, "The $10 Billion Mega-Airport Financing Partnership between Ethiopian Airlines and African Development Bank Takes Off," August 12, 2025, at https://www.afdb.org.
[78] Eyasu Zekarias, "Ethiopia Aims to Complete Debt Restructuring with Commercial Creditors by October 2026," *Capital News*, May 6, 2026, at https://capitalethiopia.com/2026/05/06/ethiopia-aims-to-complete-debt-restructuring-with-commercial-creditors-by-october-2026/.
[79] IMF (2026b, DSA, Table 1).

below the thresholds that apply to countries with a medium debt-carrying capacity.[80] The country was thus expected to migrate from "high" to "moderate" risk of debt distress by the end of the program, while economic growth remained in the high single digits and inflation moderated – assuming that the war in the Middle East ended soon.

Assessment and Conclusions

With the hiatus arising from the civil war, an exogenous event, the Ethiopian case offers a semi-controlled experiment. It sheds light on (a) the evolution and learning under the Common Framework in the interim (2021–2024), (b) the extent to which a high-growth country can grow out of a debt problem, and (c) whether such problems can therefore be treated as liquidity rather than restructuring cases.

Measured from the date of request for debt treatment to its actual delivery, Ethiopia's debt restructuring took six years, even longer than Zambia's. Of course, the extended duration owed to the nearly three-year hold that the United States and other Western official creditors placed on financial assistance, during which the restructuring was also frozen, not to the Common Framework or its particular procedures. Nevertheless, we might have expected a smoothly functioning debt restructuring process to produce a settlement quickly once the hold was lifted and serious discussions with the IMF restarted. Experience with the other cases and substantive discussions in the GSDR and other forums in the meantime should have paved the way for dispatching Ethiopia's debt problem expeditiously.

Once serious discussions with the IMF resumed in spring 2023, it still took more than a year to negotiate and approve the IMF program, another year to negotiate and finalize the MOU with official creditors, and yet another year (on average) to finalize their bilateral agreements, during which negotiations with the bondholders and commercial creditors ran in parallel. Problems of nondisclosure like those in the cases of Zambia and Sri Lanka dogged the dispute between bondholders and the OCC, and the dispute over comparable treatment repeated itself. Thus, measured from spring 2023, more than three years were required to negotiate and finalize Ethiopia's debt restructuring. Learning that resulted from the parallel cases (which was genuine) did not translate into a speedy resolution of Ethiopia's restructuring.

A *deep* restructuring might have been worth a long wait; but Ethiopia's was *shallow* compared to those for Zambia, Ghana and Sri Lanka. Although the stock of external debt declined, this owes substantially to the generally respectable rate of economic growth in Ethiopia. Debt service was reduced substantially for the second half of the 2020s, but the country will face a repayment "wall" in the 2030s. The duration-to-relief ratio was thus extraordinarily high, an outlier among debt restructuring cases.

[80] Those ratios are 15 and 18 percent, respectively. The DSA gave Ethiopia a Composite Indicator (CI) score of 2.68, exactly 0.01 below the cutoff value between a weak and medium debt-carrying capacity, stating with confidence that it would rise before the end of the program, raising in turn the applicable threshold ratios.

Given that Ethiopia is not in any hurry to access international capital markets, some might argue that the delay is not a problem as long as the debt restructuring is completed before the end of the IMF program in 2028. Nonetheless, there are multiple (albeit hard-to-quantify) costs to such delay. Investors hesitate to invest in Ethiopia while the restructuring is pending, and domestic residents hesitate to repatriate funds sheltered abroad. Projects are frozen while creditors suspend the regular provision of operating capital, and new projects are delayed. (For countries that do wish to borrow from the capital markets, the credit-rating upgrade and return to market access are deferred accordingly.)

There is, moreover, a further reason why long delays in restructuring are costly: the *moving-target problem*. The economic fortunes of Ethiopia evolved significantly over the six years of its restructuring and even between the first half of 2024 and mid-2026. Subsequent groups of creditors thus faced a substantially changed set of forecasts compared to the first group to negotiate; changing economic circumstances supported arguments for a different debt treatment for each. Such differences conflicted with the principle of comparable treatment and made challenges to the IMF's DSA and its mandated debt treatment highly likely if not inevitable. This problem arises specifically in sequential negotiations.

The moving-target problem thus supports the case for conducting negotiations simultaneously, as advocated by Hagan and Setser (2024), rather than in sequence. Ethiopia is a case where simultaneous negotiations with the official creditors and bondholders would have been welcome. Such a procedure, Ethiopian officials retrospectively conclude, would have avoided, or at least mitigated, the "information asymmetry problem" and "blame game" among the official creditors, bondholders and the IMF.[81] (Doing so, however, would require substantial enhancement of the bureaucratic capacity of debtors to manage multiple ongoing negotiations, unless much of that burden can be outsourced.)

The conflict between the investors and the OCC over the bond restructuring holds three further lessons. First, it shows that the composition and chairmanship of the bondholder committee can affect the course of the negotiations. The fact that two aggressive funds co-chaired the committee explains the greater threat of litigation and the consequent delays compared to the cases of Zambia and Ghana, in which this threat had been taken off the table. We should contemplate legal and institutional arrangements that are robust to variation in the composition of private creditors and differences in their investment strategies.

Second, more fundamentally, the conflict with bondholders suggests that frontier economies may be particularly vulnerable when they sit near the threshold of market access. When Ethiopia issued its eurobond in late 2014, its economic prospects were good, and the civil war could not have been anticipated; accessing the eurobond markets seemed to be a natural next step in the financial development of the country. Because the government issued a single bond, however, a handful of relatively aggressive investors could accumulate a position large enough to block the activation of the CAC and thus threaten to sue for full payment. The experience is a warning for frontier economies not to go to the markets too early. As countries move along their development trajectory, they should wait

[81] Interviews with an Ethiopian official and former official, by video conference, March 5 and April 9, 2026. As noted above, though, Ethiopian authorities themselves partially contributed to the desynchronization.

until they are well within market-access territory before borrowing on bond markets and then do so, as appropriate, in quantities large enough to preempt holdout strategies.

Third, and more profoundly, the conflict over the bond restructuring demonstrates that the introduction of CACs has not rendered minority holdout strategies entirely unviable, even with the added innovation of single- and two-limb aggregated voting provisions. The threat to sue for full payment in UK courts was used effectively by holdout investors in their negotiations with the Ethiopian government. Although the investors ultimately stepped back from filing suit, the experience highlights the continuing relevance of statutory provisions that, in the context of a sovereign debt restructuring, would block payment to creditors until they accept comparable treatment – as proposed in New York State and the United Kingdom.

Ethiopia applied for relief under the Common Framework because that was the forum to which the IMF was committed in early 2021. But officials in Addis report that using the Common Framework was frustrating and costly, citing among other things the cessation of investment inflows into otherwise viable projects with the activation of cross-default clauses by Chinese creditors. This had damaging consequences for the economy and might have been avoided under an alternative, faster, more efficient institutional arrangement. Ethiopian authorities, for example, might have negotiated directly with Chinese creditors and then sought comparable treatment from the Paris Club and other official creditors. (Recall that China loomed large in the creditor profile, with 60 percent of official bilateral claims.) Such a scenario could have been facilitated by the relative shallowness of the required debt treatment, which could be delivered entirely through maturity extension, as the Chinese preferred, without any reduction of principal.

Such a counterfactual scenario would nonetheless have encountered obstacles of its own. First, decentralized decision-making within China and the tentativeness of internal coordination there with respect to debt restructuring would have taken considerable time to resolve.[82] Second, the Chinese penchant for secrecy would have hindered the Ethiopian authorities in providing assurances of comparable treatment to other official (and private) creditors. To ease the collective-action problem, Chinese authorities and creditors would have had to relax their nondisclosure restrictions. Finally, a China-first scenario would probably still have required the IMF to analyze the debt, specify an envelope for the debt treatment, and provide liquidity during negotiations.

More fundamentally, one might question whether Ethiopia needed the debt restructuring after all – whether the country could have rectified its situation simply with a liquidity bridge from the IMF and World Bank.[83] Had there been no hiatus after Ethiopia requested the restructuring in February 2021, its negotiations would probably have followed the course charted by the other cases under the Common Framework, such as Zambia's or Ghana's. The fact that Ethiopia grew considerably during the following five years (the three-year hiatus plus the more than two additional years to negotiate the treatment) gives some plausibility to the counterfactual scenario. Ethiopia saw its external debt decline relative to GDP from about 28 percent in June 2020 to 15.7 percent in June 2024, for example, before jumping

[82] Huang and Brautigam (2025), Hameiri and Jones (2024 and 2025), and Henning (2026).
[83] And as might have been provided under proposals for more generous official liquidity support, put forward by Diwan, Kessler and Songwe (2024), for example.

to 31.7 percent as a consequence of the devaluation and further borrowing from the IMF, World Bank and other IFIs in 2025.[84]

But, of course, a decision to pursue a debt restructuring must be made under the circumstances prevailing at the time, first in 2021 and then, when the IMF decided on its program, in mid-2024. Even in 2024 it would have been risky to conclude that Ethiopia did not need to restructure its external debt, for several reasons. First, the country was in default to its external creditors at the time. Second, the country's main external financial problem was never the stock of debt but rather the narrowness of its export base. Third, no credible forecaster could have predicted the remarkable growth of export receipts owing to the rise in the prices (and volumes) of coffee and gold. Finally, complacency with respect to sustainability would have dismissed the probability of negative shocks, which was high. A debt restructuring should take a country not just to the margin of debt sustainability, but well within the zone of sustainability.

Moreover, improvements in economic circumstances since the decision to restructure in the context of an IMF program should not be considered valid evidence against the need for restructuring, but rather evidence that the restructuring and the program are succeeding. Although the IMF and the authorities did not anticipate the full extent of the export boom, the reform package (including the depreciation and the transformation of the foreign exchange system) was partly responsible for it and made Ethiopia's economy considerably more resilient to the shock posed by the war in the Middle East that began at the end of February 2026. Owing to these changes, the country was able to absorb the increase in the oil price and its impact on the balance of payments and exchange rate more easily, and to address domestic fuel distribution and subsidy costs more effectively, than would otherwise have been the case.

In the debt resolution system that we have, only the IMF is effectively positioned to negotiate such a reform package with the debtor in conjunction with financial assistance. It premises such lending on a debt reduction in order to assure its own repayment and to avoid substituting its credits for those of other creditors, private and official. If other creditors had come forward on a concessional basis, so that the increment to debt could have been serviced on a realistic forecast of the export base, that would have been another matter. Such (hypothetical) creditors had had plenty of time to come forward prior to the summer of 2024. In the absence of the Fund program and the economic reforms, though, they were not in fact forthcoming.

These observations underscore a fundamental point: the difference between a liquidity and a solvency diagnosis hinges substantially on the policies of creditors and the financing available from them and the international institutions. Substantial amounts of moderately priced liquidity, combined with favorable prospects for policy reforms to restart growth and exports, can pull an otherwise unsustainable country back from the brink of crisis and default. Insolvency is not a matter of debtors' policies exclusively, in other words; it is significantly endogenous to financial rescues and reform packages. Such endogenous factors are likely to be especially important at the margin in cases of

[84] IMF (2026b), DSA paragraphs 3 and 4.

frontier-market countries such as Ethiopia. We must, however, save analysis of the global financial safety net for subsequent papers.

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