Seventy First Sovereign Debt News Update: Ethiopia Turns Directly to China and France in Quest for Debt Relief

By:

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The peace agreement signed between the Government of Ethiopia and the Tigray People's Liberation Front in November 2022 was expected to open the door to renewed negotiations for Ethiopia, enabling the restructuring of the county's $26 billion under the G20 Common Framework. However, with no sign of progress in the G20-led debt-relief initiative, cash-strapped Ethiopia is turning directly to China for a way out of its loan problems. Despite welcoming the ceasefire and sharing that it would consider presenting a new program for Ethiopia, the International Monetary Fund (IMF) has not conducted any debt sustainability assessments (DSAs). The G-20 system has already received criticism for being slow and difficult to implement. While Ethiopia requested debt restructuring under the framework in early 2021, progress under the framework has been hampered due to a lack of clarity concerning procedures and timelines on the part of the G-20. Ethiopia is reported to have turned directly to China, which holds three-quarters of Ethiopia's external debt, and France for possible debt relief.

Emerging from Covid-19 and two years of civil war, the African country is reported to be turning directly to China for a way out of its loan problems as debt. Debt was one of the issues under discussion when Ethiopian Finance Minister Ahmed Shide led a high-level delegation to China late last month. In addition to meetings with Chinese Finance Minister Liu Kun and Jin Zhongxia from the People's Bank of China, the delegation held talks with key Chinese financial institutions and creditors, including the China Export-Import Bank of China, Industrial and Commercial Bank of China (ICBC) and China Development Bank (CDB). This followed a trip by Ethiopian Prime Minister Abiy Ahmed to Europe, with the objective of raising funds for the reconstruction. The trip is reported to have included talks with Emmanuel Macron, the President of France, which co-chairs with China the G20's Common Framework creditor committee for Ethiopia. The Chinese Ministry of Foreign Affairs, however, has denied an Ethiopian media report that says it is providing the second-largest recipient of Chinese loans in Africa, Ethiopia, with "alternative means" of debt relief.

The American Credit Rating Agency, S & P Global Ratings, contends that an International Monetary Fund loan for Ethiopia is "definitely back on the table". One source reports that "*the Biden administration is weighing plans to lift restrictions on aid and financial assistance to war-battered Ethiopia in a move that has drawn backlash from human rights advocates and some factions within the administration*." Meanwhile, U.S. Secretary of State Antony Blinken is set to visit Ethiopia, aiming to ease tensions between Ethiopia and the United States after the two countries' fell out over alleged war crimes in the latter's northern region of Tigray. However, according to one source, the mending of these relations have become increasingly necessary amid growing Chinese influence on the continent.

A protracted debt crisis for Ethiopia carries negative repercussions as Ethiopia's economy is on the verge of collapse. Loans from the International Monetary Fund and debt restructuring can help repair the war-torn economy. As in the case of Zambia, Washington and Beijing are fighting for influence in Ethiopia.

The World Bank and the International Monetary Fund accuse China of impeding the negotiations, but Beijing counters that since multilateral and private lenders own the majority of the debt, they should bear the brunt of the restructuring costs. In turn, the World Bank and IMF point back at China for the lack of transparency in their debt operations. However, in a statement, one campaigning group, the Debt Justice, claims that *African governments owe three times more debt to Western banks, asset managers and oil traders than to China*.

As the Ethiopian case shows yet again, the G20's Common Framework is ineffective in its current form. The AfSDJN therefore continues to call for the prompt start of discussions on a new comprehensive, equitable, and effective sovereign debt restructuring mechanism.

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