One Hundred and Fifth Sovereign Debt News Update: Ethiopia Agrees on Bilateral Debt-Service Suspension and Seeks Eurobond Restructuring

By:

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On Wednesday the 15th of November 2023, Ethiopia reached an agreement in principle with bilateral creditors to temporarily suspend debt payments and is set to engage in discussions to restructure its 1 billion Eurobond maturing next year. The temporary debt suspension is devised to ease the country's strained debt service burden, as Ethiopia's request for debt restructuring under the G20 Common Framework is delayed by more than two years.

According to a statement by the country's finance ministry, the redemption terms will "maximize debt-service relief during the prospective IMF program years while avoiding a bunching of maturities after the program." The interim

debt suspension comes after Ethiopia struck a deal with China for a two-year debt suspension in August 2023. On the 18th of November 2023, Ethiopia successfully finalized the two-year debt suspension agreement with China, providing a much-needed respite from its financial challenges. Essentially, the creditors committee has put forward the same proposal for all our other creditors, with largely similar terms. According to the State Minister of Fiscal Policy and Public Finance, Eyob Tekalign, some of the terms could be more favourable as "*the idea is to give us [Ethiopia] enough space until we work out the full restructuring under the G20 framework*." On the same day that this development was announced, Ethiopia's 2024 Eurobond fell more than 1.5 cent on the dollar to just over 60.5 cents.

The Pretoria Agreement, which is 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 has turned to temporary solutions to hold the fort. 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. As at the end of May 2023, Ethiopia had more than USD$28 billion of external debt, of which 70% is owed by the central government. In an interview, Eyob Tekalign explained how Ethiopia's push for debt re-profiling for the last few years could not be finalized. "*We have been waiting, but the system is not delivering as fast as it should*," he said.

Amidst all this, Ethiopia's reputation with foreign credit agencies continues to suffer as a result of the national treasury's declining foreign exchange reserves. The downgrade of Ethiopia's long-term foreign-currency issuer default rating to "CC" from "CCC-" by Fitch Ratings has brought attention to this financial vulnerability. With Ethiopia's external cash dwindling and major gaps in external funding, Fitch downgraded the country, raising the possibility that default is imminent. The Fitch assessment states that although China has offered to postpone Ethiopia's debt service obligations for a year, it anticipates that these bilateral negotiations will not be "sufficient to address the large

financial gaps and improve debt sustainability."

The G20 Common Framework, which has been presented as the ultimate solution, has pushed countries as Ethiopia to find temporary solutions due to its inherent flaws. The Ethiopian government has put in considerable efforts to get debt relief and have the country back on a sustainable debt trajectory. As shown above, after getting debt relief from China, Ethiopia is requesting similar treatment from other creditors. The African nation is also set to officially become a member of the BRICS alliance in January 2024, a move that is expected to inject economic vigour to the international bloc as it poses itself to be a contender to US-led coalitions. Over and above, the AfSDJN notes that Ethiopia's experience continues to demonstrate the need for a new comprehensive, fair, and effective sovereign debt restructuring system based in the United Nations, and that is binding on all creditors, including commercial creditors.

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