# Sovereign Debt News Update No. 150: Ethiopia Claims to Have Cut Its Foreign Debt by 80% but Faces Bondholder Stalemate

**By:**

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This update examines Ethiopia's evolving debt landscape, highlighting recent developments in debt relief, restructuring negotiations, and fiscal policy shifts. It draws attention to the country's economic reform agenda under Prime Minister Abiy Ahmed, ongoing engagements with international creditors, and warnings from global financial institutions. By tracing these dynamics, the update situates Ethiopia's debt story within broader debates on sustainable development, fiscal sovereignty, and the challenges of achieving equitable debt solutions as a country seeking relief under the G20 Common Framework.

Ethiopia's debt situation has undergone significant shifts in recent years, reflecting both domestic economic reforms and the complex dynamics of international finance. Under Prime Minister Abiy Ahmed, the country has embarked on an ambitious economic transformation agenda aimed at achieving self-reliance, enhancing domestic resource mobilization, and improving public financial management. This agenda has focused on reducing dependency on external borrowing, restructuring existing debts, and promoting economic growth through strategic investment in infrastructure and industrialization. However, years of conflict in Tigray, soaring inflation at nearly 30 percent, and a chronic dollar shortage have weakened Ethiopia's finances.

The country's foreign debt profile has seen remarkable changes, particularly following proactive negotiations with creditors. Reports indicate that Ethiopia's total foreign debt has been significantly reduced, from approximately $23 billion to around $4.5 billion. If this reduction as claimed by Ethiopia is accurate, it would represent an estimated 80% decrease, signalling successful engagement with international creditors and debt relief initiatives aimed at restoring fiscal stability. The government has emphasized that this alleged debt reduction allows Ethiopia to pursue growth without resorting to new external loans, marking a key step towards economic self-sufficiency and minimizing exposure to volatile international capital markets. The debt relief also underscores the critical role of creditor negotiations and the importance of transparent, accountable processes in achieving meaningful debt sustainability.

However, challenges persist, particularly regarding Ethiopia's dealings with bondholders and international financial institutions. Under the G20 Common Framework, some $8.4bn in bilateral debt has been reworked, but talks with private creditors on Ethiopia's $1billion Eurobond are unresolved. In October 2025, reports indicated that negotiations with holders of defaulted debt had stalled, with no agreement reached to resolve outstanding obligations.

The debt restructuring negotiations with its bondholders had failed due to differences over the key terms that have kept the country in financial limbo for almost two years. Reports pointed out that bondholders were considering all options, including legal action, particularly in the U.K. The failure to close a deal with bondholders potentially exposes Ethiopia to reputational risks in global financial markets and underscores the ongoing tensions between domestic fiscal priorities and external debt obligations. The government continues to navigate these complex negotiations while maintaining a focus on macroeconomic stability and ensuring that debt management aligns with the country's long-term development goals.

The International Monetary Fund (IMF) has also played a notable role in shaping Ethiopia's debt trajectory. Although the IMF sent a staff mission to Addis Ababa in August, no formal support program has followed. In a July 2025 report, the IMF highlighted concerns about the sustainability of public finances, emphasizing the need for prudent fiscal management and careful monitoring of domestic and external borrowing. While Ethiopia has made substantial progress in reducing its debt burden, the IMF cautioned that continued vigilance is required to avoid the accumulation of unsustainable debt in the future. These warnings illustrate the delicate balance the Ethiopian government must maintain between financing development priorities and meeting obligations to international financial institutions.

It is important to highlight that Ethiopia's debt reduction efforts have occurred in parallel with complex political and humanitarian challenges, including calls for mediation amid ongoing internal conflicts. International actors have sought to leverage their influence to promote dialogue and conflict resolution, recognizing that political stability is essential for sustainable economic development. The interplay between debt management and broader socio-political dynamics underscores the multidimensional nature of Ethiopia's economic strategy, where fiscal policy, governance, and peacebuilding are inextricably linked. Effective debt management in this context cannot be considered in isolation from the country's broader efforts to foster peace, strengthen institutions, and promote inclusive development.

In conclusion, Ethiopia demonstrates the complexity of debt management. The claimed reduction in foreign debt if true could very well indicate the potential for Global South countries to negotiate meaningful relief when combined with strong domestic policy frameworks and strategic engagement with creditors. At the same time, stalled negotiations with bondholders, IMF warnings, and the broader political context highlight the persistent challenges facing Ethiopia as it navigates debt sustainability and economic development. Continued vigilance, transparent governance, and international cooperation remain crucial to ensure that Ethiopia's fiscal and development goals are realized while safeguarding the country's economic sovereignty.

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