Sovereign Debt News Update No. 183: Ethiopia's Debt Restructuring Hits a Wall as Bondholders Reject Revised Eurobond Proposal

By:

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October 07, 2026

Ethiopia entered June 2026 confronting a convergence of political and economic pressures that are likely to shape the country's trajectory for years to come. On 1 June 2026, Ethiopians headed to parliamentary and regional elections that analysts widely expected Prime Minister Abiy Ahmed's Prosperity Party to win comfortably despite ongoing insecurity in several regions, including Oromia, Amhara, and Tigray. The elections occurred at a time when the government is attempting to project an image of economic recovery and reform, while simultaneously confronting one of the most difficult sovereign debt restructuring processes on the African continent. Ethiopia's latest negotiations with holders of its US$1 billion Eurobond have collapsed after creditors rejected a revised restructuring proposal, deepening uncertainty over the future of the country's debt treatment process and raising broader questions regarding the

effectiveness of the G20 Common Framework for Debt Treatments. The June 2026 elections resulted in another decisive victory for Prime Minister Abiy Ahmed's Prosperity Party, consolidating the government's political position even as the country continued to confront debt restructuring challenges, regional insecurity, and questions regarding the inclusiveness of the electoral process.

This update analyses the breakdown of negotiations between Ethiopia and its Eurobond holders, situates the development within the country's broader debt restructuring process, examines the positions adopted by key stakeholders, and considers the implications for debt governance and sovereign debt restructuring efforts under the current international financial architecture.

Bondholders Reject Ethiopia’s Revised Offer

The most significant recent development in Ethiopia’s debt restructuring process emerged on 28 May 2026 when the Ministry of Finance announced that formal negotiations with international bondholders had collapsed after creditors rejected the government’s revised proposal concerning its US$1 billion Eurobond. Discussions had been ongoing between 6 May and 27 May and were intended to produce a final agreement capable of resolving the default that has persisted since December 2023. According to reports, Ethiopia’s revised proposal included a haircut estimated at approximately 12% on theUS$1 billion Eurobond due in 2024. The talks involved Ethiopia’s legal and financial advisors, White & Case LLP and Lazard, while the bondholder committee was advised by Weil, Gotshal & Manges LLP and Ankura Sovereign Advisors LLP. However, members of the bondholder committee declined to support the offer, arguing that the proposed treatment remained inconsistent with their assessment of Ethiopia’s economic recovery prospects and debt sustainability trajectory. The collapse of negotiations effectively terminates the latest round of discussions between Ethiopia and its Eurobond creditors and introduces fresh uncertainty into the country's broader debt restructuring efforts, despite repeated assurances by Ethiopian authorities that progress was being made towards a comprehensive resolution.

Comparability of Treatment

The principle of comparability of treatment is designed to ensure outsized concessions are not made by an official creditor group compared to non-members and private lenders. Under the Common Framework, debtor countries are expected to seek debt relief from private creditors that is at least comparable to concessions granted by official creditors. The Ministry of Finance subsequently emphasised that Ethiopia remains committed to pursuing what it described as a "*market-based solution*" consistent with the principle of comparable treatment among all creditor classes. This principle has become central to the government's position throughout the restructuring process as Ethiopia argues that private creditors should not receive more favourable treatment than official bilateral lenders participating under the Common Framework. Bondholders, on the other hand, have questioned the assumptions underpinning official creditor agreements and have argued that the government's proposals place an excessive burden on private investor.

However, the government maintained that any agreement reached with bondholders must align with commitments already made to official creditors and with debt sustainability parameters established through negotiations with the International Monetary Fund. The disagreements intensified after reports emerged earlier in 2026 that official creditors objected to elements of a preliminary understanding reached between Ethiopia and bondholders. That development reportedly required negotiations to be reopened despite expectations that a final agreement was close. The resulting delays exposed broader tensions within the Common Framework architecture itself. Private creditors have frequently complained that insufficient information is provided regarding agreements reached with official lenders, while debtor countries have expressed frustration over prolonged negotiations and inconsistent interpretations of restructuring requirements. The rejection by bondholders therefore reflects not only disagreements regarding financial terms but also deeper disputes concerning burden sharing, economic assumptions, and the interpretation of comparability principles within sovereign debt restructurings. Ethiopia's experience has therefore become another important test case in ongoing debates regarding the effectiveness and predictability of the Common Framework as a mechanism for resolving sovereign debt distress.

Growing Creditor Frustration and Market Reactions

The latest collapse in negotiations has generated concern among investors and observers who had hoped that Ethiopia was approaching a final resolution. In early February 2026, reports indicated that some bondholders had already begun preparing legal options after previous rounds of negotiations failed to produce an agreement. The continued absence of a settlement has increased the possibility of litigation, with some members of the ad hoc bondholder committee (representing around 45% of the Eurobond) reportedly pressing forward (as of 1st of June 2026) with legal claims in the English court following the blocking of the latest restructuring agreement by official creditors on comparability of treatment grounds. This highlights growing tensions between private creditors and other stakeholders involved in Ethiopia's debt restructuring process. Meanwhile, the prospect of litigation has since attracted criticism from civil society organisations, which have argued that Ethiopia's case illustrates the structural weaknesses of the current sovereign debt architecture. Reacting to bondholder threats of legal action in February 2026, Debt Justice called on the United Kingdom to urgently adopt legislation preventing creditors from pursuing court action during debt restructuring negotiations and ensuring that private creditors cannot claim more favourable treatment than other lenders involved in debt relief processes, particularly where sovereign bonds are governed by English law.

Political Context and Debt Sustainability Concerns

The breakdown in debt talks came at a politically sensitive moment for the Ethiopian government. Prime Minister Abiy Ahmed won the June 2026 elections, securing another parliamentary majority through the Prosperity Party. The government had campaigned heavily on its economic record, emphasising growth projections, food security improvements, and reform achievements. Yet the unresolved debt restructuring remains a significant vulnerability because it affects fiscal flexibility, external financing prospects, and broader perceptions of economic stability.

The political environment also influences how creditors assess Ethiopia's risk profile. Although the 2022 peace agreement ended the devastating conflict in Tigray, tensions remain evident across multiple regions. Renewed political uncertainty could affect growth projections, fiscal performance, and implementation of economic reforms. Creditors therefore continue to evaluate

not only financial indicators but also broader governance and security developments. The interaction between political stability and debt sustainability remains particularly important because successful restructuring ultimately depends on the country’s ability to generate sustained economic growth and maintain investor confidence over the long term.

Conclusion

While Ethiopia’s restructuring difficulties are being closely monitored, the failure to secure agreement despite years of negotiations reinforces concerns that sovereign restructurings under existing frameworks remain excessively slow and unpredictable. The rejection by bondholders has implications extending beyond Ethiopia itself, particularly for ongoing discussions regarding the role of private creditors in sovereign debt restructurings and the effectiveness of the broader international debt architecture, including processes operating alongside the Common Framework. Despite years of engagement under the G20 Common Framework, extensive negotiations with official creditors, and the implementation of major IMF-supported reforms, Addis Ababa remains without a comprehensive agreement capable of restoring debt sustainability and normalising relations with private investors. While the rejection of the revised proposal therefore underscores persistent disagreements regarding debt relief requirements, economic forecasts, and burden sharing among creditor groups, it also raises broader concerns about the effectiveness of existing sovereign debt restructuring mechanisms and the challenges faced by African countries seeking timely and equitable solutions to debt distress.

As Ethiopia moves beyond the 2026 elections, policymakers will face the difficult task of rebuilding momentum in negotiations while maintaining macroeconomic stability and advancing economic reforms. The government’s commitment to a “market-based solution” and adherence to comparability of treatment principles suggests that negotiations are unlikely to disappear. However, the latest breakdown demonstrates that a final agreement remains elusive. For Ethiopia, the stakes extend far beyond a single Eurobond. The outcome will shape the country’s future access to international capital markets, its relationship with multilateral institutions, and its ability to mobilise resources needed for development, recovery, and long-term economic transformation.

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