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DEBT / FINANCE / MACRO

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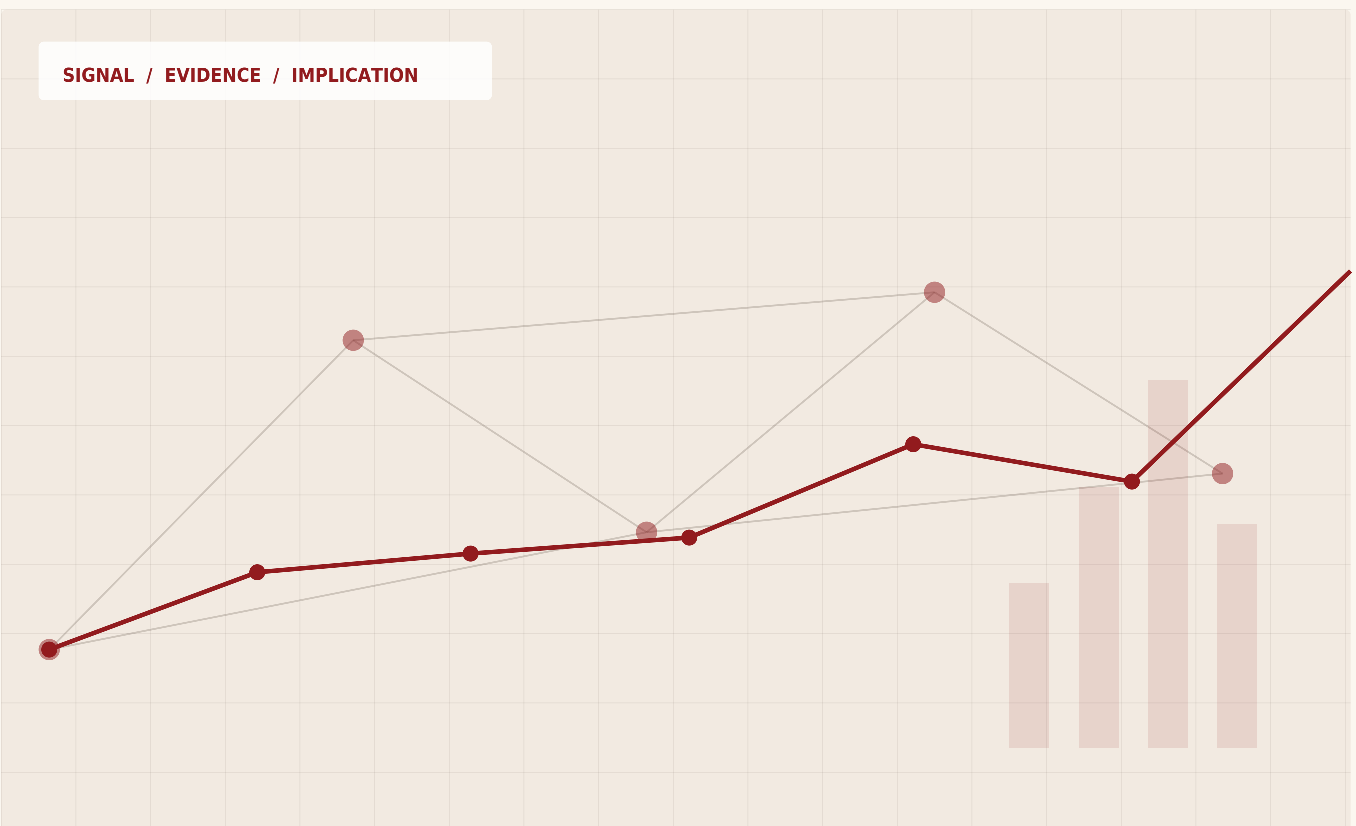
Ethiopia's Eurobond Restructuring

Africa's Longest Common Framework Resolution and the New Agreement in Principle



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KEY INDICATORS AT A GLANCE

$1B **Eurobond face value (2024)** *6.625% Notes; issued 2014; defaulted Dec 2023*	**$31B** **Total external debt (mid-2024)** *IMF Country Report 26/20; World Bank*	**$880M** **Revised proposal (May 2026)** *12% haircut; 4.25% rate; July 2029 maturity*	**5 yrs** **Default duration** *Dec 2023 to Jun 2026; longest resolution in CF*
12% **OCC-approved principal haircut** *Revised May 2026; excl. VRI; OCC confirmed CoT*	**5** **Bilateral deals done (May 2026)** *France, Italy, Israel, Korea, Japan, Turkey, Denmark, Switzerland signed*	**2nd AIP** **New deal reached (Jun 29, 2026)** *Detachable warrant; The Reporter Ethiopia, Jun 29 2026*	**RD** **Fitch rating (Oct 2025)** *Restricted Default; LTFC IDR; Fitch Ratings*

DATA INTEGRITY NOTE *The June 29, 2026 AIP is breaking news published today. Financial terms have not yet been made public; the detachable warrant structure is confirmed by The Reporter Ethiopia. All prior AIP terms (January 2026, May 2026) are sourced from Ministry of Finance official statements. Fitch RD rating is from October 2025. Bilateral agreements count as of The Reporter Ethiopia June 27, 2026 (eight signed; six pending). China bilateral status: unconfirmed as of June 29, 2026.*

01 THE DEFAULT: HOW ETHIOPIA GOT HERE AND WHY IT MATTERS

December 2023 to June 2026. Africa's Largest Sovereign Default, and What Two and a Half Years of Negotiations Have Produced.

Ethiopia defaulted on its $1 billion 6.625% Eurobond in December 2023 when it missed a $33 million coupon payment, the continent's largest sovereign default at the time. The bond, issued in 2014 and maturing in December 2024, had been a landmark transaction: Ethiopia's first and only international sovereign bond, widely seen as a signal of the country's integration into global capital markets and its ambition to diversify infrastructure financing beyond bilateral loans. The default was not a surprise to the market. Ethiopia had applied to restructure its debt under the G20 Common Framework in February 2021, following the economic shock of the COVID-19 pandemic and the destruction caused by the Tigray conflict. The OCC, co-chaired by China and France, agreed to suspend debt service from January 2023 to December 2024, pending restructuring. When no comprehensive deal was reached, the coupon payment was missed.

- **THE DEBT STRUCTURE CONTEXT:** Ethiopia's total external debt stood at $31 billion in mid-2024. Of this, $15.6 billion is owed to multilateral creditors (World Bank, IMF, African Development Bank), approximately $12 billion to official bilateral creditors (most OCC members), and $3.6 billion to private creditors including the Eurobond holders (IMF Country Report 26/20). The Eurobond represents approximately 3.2% of total external debt by face value, but its significance is disproportionate: it is the instrument that determines whether Ethiopia can access international capital markets again, and its resolution sets the precedent for how commercial creditors are treated relative to official creditors under the Common Framework.
- **THE COMMON FRAMEWORK PROBLEM:** Ethiopia has been in Common Framework restructuring negotiations for over five years. Ghana, Zambia, and Chad have largely completed their restructurings. Ethiopia's case has been uniquely complicated by three factors: the northern conflict, which disrupted the economic stability that forms the basis for debt sustainability calculations; the sequencing problem, where the CF requires bilateral agreements before private creditor negotiations can begin, meaning bondholders enter discussions after the IMF and OCC have already determined the relief parameters; and diverging analytical frameworks, where the IMF's Debt Sustainability Analysis and

bondholder models have produced materially different assessments of Ethiopia's capacity to pay. Ethiopia's Ministry of Finance Senior Adviser Astewaye Woldemichael wrote in the Paris Club 2025 Annual Report that this design flaw leaves the debtor country to "navigate between hardening positions on both sides, a role we are neither equipped nor appropriate to play."

- **THE FDI COST:** The World Bank's 2025 Country Economic Memorandum documented that FDI inflows have stagnated at less than 1% of GDP since 2022, well below pre-crisis levels, directly attributable to unresolved sovereign debt uncertainty. Investors remain wary of credit risks and potential currency volatility. The unresolved Eurobond creates a "waiting game" in which both domestic and foreign investors defer capital commitment. The resolution of the Eurobond is therefore not solely a fiscal event: it is the precondition for restoring investor confidence in Ethiopia as a destination for private capital.

02 THE NEGOTIATIONS: THREE ROUNDS, TWO COLLAPSED DEALS, ONE NEW AIP

January 2026 to June 29, 2026: A Chronology of What Actually Happened and Why Each Deal Fell Apart.

The negotiation history of Ethiopia's Eurobond restructuring is the most instructive element of the brief for investors and analysts seeking to understand the Common Framework's limitations. Three distinct deal attempts have now occurred. As of June 29, 2026, a third agreement in principle has just been announced.

- **ROUND 1: THE JANUARY 2026 AIP AND ITS REJECTION:** Between December 23, 2025, and January 2, 2026, Ethiopia and an Ad Hoc Committee of bondholders (representing more than 45% of the 2024 Notes) reached an agreement in principle on key financial terms. Under the January deal, bondholders would have taken a 15% haircut on the principal through an exchange for a new $850 million note maturing in mid-2029, plus a Value Recovery Instrument (VRI) linking additional payouts to export performance. On January 29, 2026, the OCC informed Ethiopia that this AIP did not meet the Comparability of Treatment (CoT) principle: the VRI was seen as giving bondholders access to export upside that official creditors would not share, creating divergent treatment. Ethiopia confirmed it could not proceed with the AIP on January 30, 2026 (MoF statement, January 30, 2026).
- **ROUND 2: THE REVISED PROPOSAL AND ITS REJECTION:** Ethiopia redesigned the proposal to remove the VRI and present terms the OCC confirmed satisfied CoT. The revised terms: $880 million in new bonds (a 12% haircut), 4.25% annual interest payable semi-annually, maturity July 15, 2029, with an amortisation schedule of four tranches ($180M, $180M, $260M, $260M) from July 2026 to July 2029, plus a consent fee of 0.5% and clearance of $99.375 million in past due interest on three missed coupons. Restricted discussions were held between May 6 and May 27, 2026. On May 28, 2026, the Ad Hoc Committee rejected the revised proposal, saying it "does not provide for a viable consensual restructuring solution." Certain committee members escalated: they had placed Ethiopia on formal notice in April 2026, and following the May 28 rejection, some stated publicly they were moving toward legal proceedings in UK courts (StockMarket.et; Ethiopian Monitor, June 2, 2026).
- **ROUND 3: THE JUNE 29 AIP WITH DETACHABLE WARRANTS:** Today, June 29, 2026, the Ministry of Finance announced a new agreement in principle with the Ad Hoc Committee. The new AIP features a detachable warrant instrument, granting investors subscription rights for a new international bond that can be traded independently of the existing restructured bond. This is a creative compromise: it replaces the VRI (which the OCC rejected as giving bondholders export upside) with a warrant structure that provides optionality on future Ethiopian sovereign issuance without directly linking payments to

export performance. The specific financial terms of the new AIP have not yet been made public. OCC assessment of CoT compliance is pending; the critical question is whether the detachable warrant satisfies the same comparability concern that caused the January AIP to fail. The June 29 announcement describes it as terms reached "following negotiations that lasted through most of the past month."

THE COMPARABILITY OF TREATMENT PROBLEM

The CoT principle is the structural design constraint driving the entire negotiation dynamic. Official creditors (the OCC) agreed to a 12.5% present value effort, a three-year duration extension, and a 34% debt service reduction during the IMF programme period (Astewaye, Paris Club 2025 Report). Any bondholder deal must be assessed as comparable. The January VRI failed because it offered bondholders export-linked upside the OCC would not receive. The May revised proposal was OCC-approved but bondholder-rejected because, without the VRI, bondholders said the terms did not reflect Ethiopia's improving economic fundamentals (exports have risen from $3.8B pre-reform to $8.3B in FY2024/25, projected $9.5B in FY2025/26). The bondholders' analytical point is that the IMF Debt Sustainability Analysis, which determines CoT parameters, does not fully capture Ethiopia's actual export recovery. This is the analytical divergence that Astewaye described as a "design flaw" in the Common Framework.

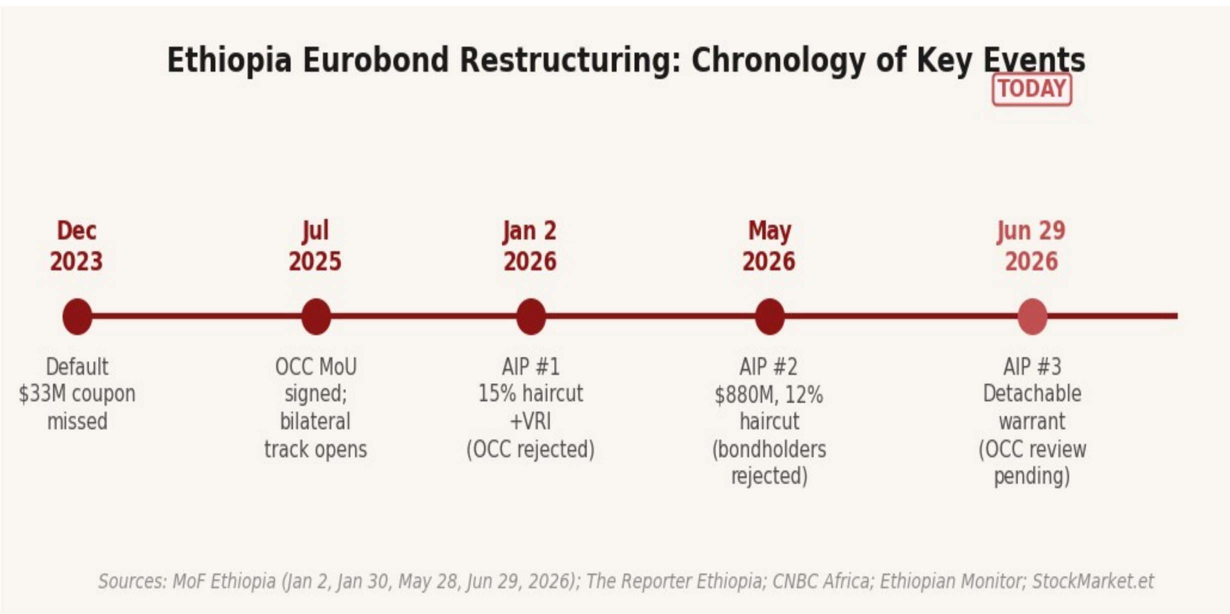

Figure 1: Ethiopia Eurobond Restructuring Chronology | Sources: MoF Ethiopia (Jan 2, Jan 30, May 28, Jun 29, 2026); The Reporter Ethiopia; CNBC Africa; Ethiopian Monitor

03 THE BILATERAL CREDITOR TRACK: WHAT IS RESOLVED AND WHAT REMAINS

Five Bilateral Agreements Signed. Six Still Pending. The Two-Fiscal-Year Bunching Risk Named by Ethiopia's Own Finance Ministry.

Separate from the Eurobond negotiations, Ethiopia has been executing bilateral restructuring agreements with individual OCC member countries. The MoU with the OCC was signed in July 2025, giving Ethiopia one year to reach bilateral agreements with creditors. As of May 2026, bilateral agreements have been concluded with France, Italy, Israel, the Republic of Korea, Japan, Turkey, Denmark, and Switzerland (The Reporter Ethiopia, June 27, 2026). Negotiations continue with Finland, India, Sweden, Saudi Arabia, China, and South Africa — the last two being among Ethiopia's largest bilateral creditors.

- **CHINA'S POSITION:** China holds nearly a quarter of Ethiopia's external debt, making it the largest bilateral creditor. A bilateral agreement with China has not yet been executed as of late June 2026. China co-chairs the OCC alongside France and has been a participant in all multilateral discussions. The pace of bilateral execution with China will be a critical determinant of the overall restructuring timeline.
- **THE BUNCHING RISK:** Senior Adviser Astewaye Woldemichael flagged a significant operational risk in her Paris Club 2025 contribution: delays in completing bilateral agreements could result in Ethiopia being required to service the equivalent of two fiscal years' restructured obligations within a single year once all agreements are executed, with a possibility of slippage into a third. "For a central government managing a constrained fiscal envelope and a persistent foreign exchange risk, this is a serious and concrete stress," she wrote. This is not a hypothetical scenario. Bilateral agreements are still being implemented as of June 2026, and the MoU year is approaching its end.
- **THE LEGAL THREAT:** Several Eurobond Ad Hoc Committee members have served formal pre-action notices to Ethiopia and stated publicly they are preparing UK court proceedings. Analysts and MoF advisers have generally assessed this threat as a negotiation tactic rather than a credible litigation path, citing the high cost, long duration, and limited enforcement mechanisms against sovereign governments of litigation in cases like Argentina, Peru, and DRC. The June 29 new AIP suggests the legal threat did not prevent a return to the table. Whether it accelerated the revised offer's terms is not confirmed in public statements.

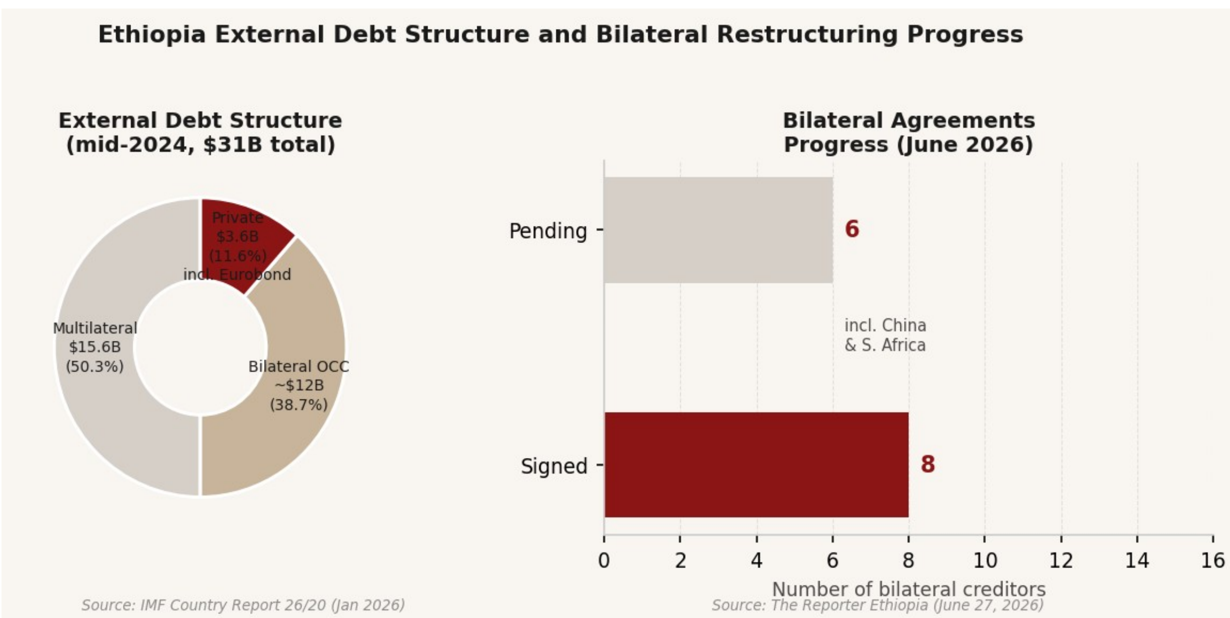

Figure 2: External Debt Structure and Bilateral Agreements Progress | Sources: IMF Country Report 26/20 (Jan 2026); The Reporter Ethiopia (Jun 27, 2026)

04 INVESTOR IMPLICATIONS: WHAT THE EUROBOND RESOLUTION MEANS FOR CAPITAL ALLOCATION

The Eurobond Is Not Just a Debt Management Event. It Is the Gate to Private Capital Markets, FDI Confidence, and Ethiopia's Sovereign Credit Rating.

The resolution of the Eurobond restructuring will not by itself transform Ethiopia's investment environment. What it does is remove the largest single named risk that has been suppressing investor confidence since December 2023. Understanding what changes and what does not is the relevant frame for capital allocation decisions.

- **WHAT RESOLUTION UNLOCKS:** A completed Eurobond restructuring removes Ethiopia's Fitch "Restricted Default" rating and sets the conditions for credit rating reassessment. Fitch assigned the RD rating in October 2025 following Ethiopia's continued default on commercial obligations. Once the restructuring is executed and new notes are issued, the RD status is removed and Fitch initiates a forward-looking rating process. Ethiopia will not immediately achieve investment grade, but it re-enters the universe of ratable sovereigns, which is a precondition for institutional investors to re-engage. It also demonstrates to the market that Ethiopia can navigate complex multilateral creditor dynamics, which is itself a signal about institutional capacity.
- **WHAT RESOLUTION DOES NOT UNLOCK:** A Eurobond deal does not resolve the bilateral agreements with China, South Africa, Saudi Arabia, Finland, India, and Sweden, which remain pending. It does not resolve the Fitch rating: the process takes time after execution. It does not immediately restore FDI flows, which depend on a combination of the sovereign rating, the FX environment (covered in Week 17), the regulatory environment, and sector-specific investment conditions. And it does not address the fundamental structural constraint identified in the Week 18 brief: Ethiopia's tax-to-GDP ratio of 7.5%, which determines whether the fiscal space created by debt relief is sustained or immediately absorbed by expenditure pressures.
- **THE MARKET ACCESS QUESTION FOR 2027:** Ethiopia's ability to access international capital markets again — to issue a new sovereign bond — is the medium-term objective of the entire restructuring process. The June 29 AIP, if it holds and is executed, includes a detachable warrant on future Ethiopian sovereign issuance. This is structurally significant: it means the bondholders themselves are pricing in the possibility of a new Ethiopian sovereign bond as having value. For investors in Ethiopian infrastructure, agribusiness, or manufacturing who are evaluating sovereign credit risk as a component of their returns, the warrant's existence is a market signal about the timeline for market re-access.

> **THE HONEST ASSESSMENT**
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> The June 29 AIP is the most consequential development in Ethiopia's Eurobond negotiations since the process began. It represents the third attempt at a deal and introduces a genuinely new instrument structure — the detachable warrant — that may resolve the comparability of treatment problem that killed the January deal without eliminating the export optionality that bondholders require. Three things remain true simultaneously. First, this is an agreement in principle, not a completed exchange: OCC CoT confirmation is required, non-financial terms must be settled, documentation drafted, and bondholder vote thresholds cleared. The January AIP also looked durable until the OCC rejected it. Second, the bilateral track still has China unresolved. The Eurobond deal and the China bilateral are independent processes, but both are required for a comprehensive resolution. Third, Ethiopia's improving economic fundamentals — $9.5B projected export revenue, 9.3% GDP growth, FX reserves at 3.5 months — are the macro foundation that makes the deal possible. Those fundamentals must be sustained for the restructuring to achieve debt sustainability, not merely a deal on paper.

05 EDITOR'S OUTLOOK

The Third Deal: Why This One Is Different and What Still Has to Hold.

> **THE BOTTOM LINE**
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> Ethiopia's Eurobond restructuring has been in negotiation for five years and produced three agreement-in-principle attempts. The third, announced June 29, 2026, introduces a detachable warrant instrument — subscription rights on a future Ethiopian sovereign bond

— that is analytically different from both the January VRI (rejected by the OCC) and the May revised proposal (rejected by bondholders). If it survives OCC comparability review and bondholder vote, it represents a genuine structural innovation in sovereign debt restructuring: a mechanism that gives bondholders upside on Ethiopia's capital market re-entry without linking repayments to export performance. For investors, the relevant frame is not whether this AIP becomes a deal in the next four to eight weeks, but what a completed restructuring means for Ethiopia's position as an investment destination over the next 24 months. Resolution removes the RD rating. It demonstrates institutional capacity to navigate complex creditor dynamics. It creates the preconditions for credit rating reassessment and eventual market re-access. None of these outcomes is automatic or fast. All of them represent a directional improvement from where Ethiopia stood 18 months ago. The risks that remain are specific and nameable: OCC CoT review of the detachable warrant structure, China bilateral agreement execution, the bunching risk on deferred bilateral debt service, and the sustainability of the macro improvements that make any deal viable in the first place. The Eurobond is the headline. The tax trajectory, the FX stability, and the fiscal framework underneath it are what determine whether resolution delivers lasting investment conditions or merely a temporary relief on the balance sheet.

Sources: Ministry of Finance Ethiopia (MoF statement January 2 and 30, 2026; May 28, 2026; June 29, 2026); Addis Standard (Common Framework analysis, December 22, 2025); The Reporter Ethiopia (negotiations chronology, June 27, 2026; June 29, 2026 AIP announcement); CNBC Africa (OCC rejection January 30, 2026; bondholder rejection May 28, 2026; Paris Club annual report June 25, 2026); The EastAfrican (bondholder rejection analysis, June 2026); Ethiopian Monitor (deadlock and legal threat, June 2, 2026); StockMarket.et (bondholder legal proceedings, June 2026); Birr Metrics (Paris Club analysis, June 24, 2026); IMF Country Report 26/20 (external debt structure, January 2026); World Bank Ethiopia CEM 2025 (FDI stagnation); Fitch Ratings (RD rating, October 2025); Paris Club 2025 Annual Report (Astewaye Woldemichael, Ministry of Finance senior adviser contribution); Capital Ethiopia (OCC rejection analysis, January 30, 2026).