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The EM Sovereign Debt Restructuring Landscape

Who are you calling common?

- EM sovereign debt restructurings have made progress in 2024, with a number of deals done or almost done, after the wave of debt distress in 2020-24.
- This report builds on last year's overview of the evolving sovereign restructuring landscape to assess the progress made so far, examine ongoing challenges, and give our sense of the path ahead.
- The "Common Framework" process for sovereign debt restructurings may have raised the idea of a standardised set of restructuring outcomes but the experience in practice has been anything but common, with each restructuring being 'case by case' as we had expected.
- As a vehicle to get new bilateral creditors to the restructuring table and be invested in the process, the Common Framework may still have played its part.
- In our view, the experiences of this round of restructuring deals, as well as the platform of the GSDR and some policy innovations at the level of the IMF, should pave the way for smoother sovereign restructuring processes ahead.
- Nonetheless, as we laid out in last year's report, country-specific considerations will continue to weigh heavily, keeping the value of past precedents limited.
- "You like vanilla and I like vanella": all of the recent deals have involved non-vanilla instruments in the restructuring packages, paving the way for a new era with more complex and varied instruments in the EM sovereign debt universe.
- Four of the five recent restructurings have involved State-Contingent Debt Instruments (SCDIs), a key tool to smooth over differences between debtors and creditors, but one where efficacious design is always challenging and effectiveness may only be known well into the future.
- The increased use of new non-financial clauses in the recent round of restructurings has gone a bit more under the radar, but is likely to be relevant in the future as they may cause price impacts and differentials between instruments.
- Given the number of varied stakeholders and no single governing process for sovereign debt restructurings, the process to improve the architecture can still be unwieldy, as evidenced by efforts towards statutory reform of sovereign debt law in New York State that are likely to resurface again.
- Amid higher debt burdens and growing repayment obligations, the engagement of new and old creditors could help efforts to address medium-term liquidity challenges facing sovereigns; the hope is to avoid another wave of sovereign defaults, but sovereign debtors have heavy lifting to do as well.

Emerging Market Research

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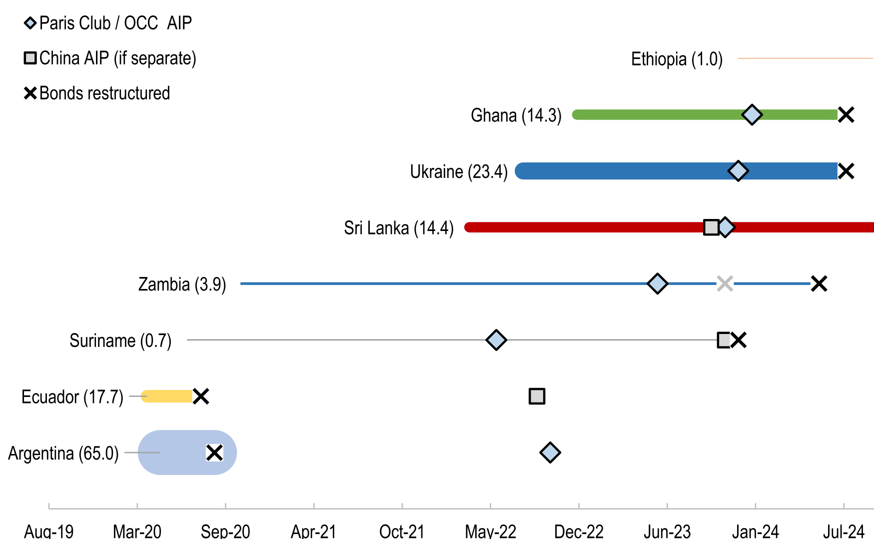
Introduction

2024 has finally seen the completion of several landmark debt restructurings (Figure 1), more than two years after the combination of pandemic fallout and Ukraine conflict pushed several vulnerable EM sovereigns into default. Among those involving Eurobonds, Zambia (which defaulted in 2020) and Ghana (a December 2022 default) are finally done. Ukraine has completed a restructuring of conventional bonds (warrants are in discussion) and Sri Lanka has rounded the final turn. Ethiopia is now moving to the front burner, though Eurobonds are a relatively small component of their debt stack. The Africa restructurings all fall under the auspices of the G20's Common Framework (CF) [1]. The other restructurings lie outside that still-emerging construct.

Figure 1: Recent bond restructuring timelines

Commercial debt/bonds restructured in $bn inside parenthesis



1) Bar size in proportion to size of bonded debt restructured
2) Zambia's first agreement in principle to restructure bonds had to be revised after November 2023 based on DSA compliance and comparability of treatment
Source: J.P. Morgan

The slow restructuring processes and the lack of standardized template from the Common Framework have led some observers to question the efficacy of the process. A main critique of the CF is that it hasn't sped up the process; indeed, the waiting game has been exceedingly long. In our June 2023 report, *The Evolving EM Sovereign Debt Restructuring Landscape: Case-by-case, just in case*, we reviewed how the international architecture to deal with sovereign debt restructurings has been constructed piecemeal over the years. A process that used to work to some degree, not withstanding distinct drawbacks (the protracted Argentina litigation was a case in point), has been shaken up by the changing composition of the creditor landscape, most importantly the rise of non-traditional (and non-Western) bilateral creditors, led by

1. CF countries are those eligible for the G20's 2020 Debt Service Suspension Initiative (DSSI) and include the WB's IDA countries and UN-defined "least developed countries; see here for more information"

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China. The old ways of doing things were met with skepticism and mistrust from new official creditors. Frictions led to delays. Delays implied frustrations and costs to debtors and creditors alike.

Overall, the inability of the system in 2021-23 to quickly resolve the round of defaults led to frustration from all stakeholders. This in turn has prompted much debate and several efforts to reform or streamline the process. The delayed and uncertain restructuring processes have also led to questions about whether sovereign external debt as asset class has a fundamental default process flaw in a world where structurally higher interest rates may lead to more distressed defaults in the years ahead.

But pessimism should not be overdone in our view: the process of finally getting deals done has not left a blueprint per se, but there are micro-precedents and increased comfort via "learning by doing". While the Common Framework experience has probably shown that any one-size-fits-all template will always be elusive, as a vehicle to get new bilateral creditors to the table and invested in the process, the Common Framework's efforts may not have been in vain. In our view, the experiences of this round of restructuring deals, as well as the platform of the GSDR and some policy innovations at the level of the IMF (including its lending into official arrears policies; see Henning), should pave the way for smoother sovereign restructuring processes ahead.

The somewhat improved engagement of new and old creditors could also help facilitate current efforts to look towards medium-term liquidity challenges facing sovereigns, in an attempt to avoid another wave of sovereign defaults. Nonetheless, as we laid out in last year's report, country-specific considerations will continue to weigh heavily, keeping the value of past precedents limited.

Figure 2: Terms of the recent wave of EM sovereign bond workouts

Countries	Ghana	Ethiopia^	Sri Lanka	Suriname	Ukraine	Zambia
Common Framework?	Yes	Yes	No	No	No	Yes
Status	Done	Under negotiation	AIP	Done	Done	Done
Original FV ($bn)	13.1	1.0	12.6	0.675	19.7	3.0
PDI ($bn)	0.7	0.1	1.9	192	3.7	0.9
Haircut	37%*	18%	27%/11%***	25%	37%/25%++	21.6%
Consent fee	1.00%	-	1.80%	-	1.25%	1.50%
Estimated NPV relief(1)	35%	~20%	~25%	14%	40-50%	45%
Year of first principal payment due	2024	2027	2024/2029+	2027	2029	2024
Year of final maturity of principal	2037	2031	2038	2050/2033+++	2036	2053/2035(2)
Initial coupon rate	5%/1.5%**	5%	4.00%	7.95%++++	0%/1.75%	0.5%/5.75%
Year of first coupon increase	2029	na	2029	2026++++	2026	2031/Trigger date
Final coupon rate	6%	na	9.75%	7.95%	7.75%	7.50%
State-contingent instrument	No	na	Yes	Yes	Yes	Yes

*Haircut only on disco bond option
**5% for disco option and 1.5% for par option
***27% on face value and 11% on the PDI
^Based on 1st October presentation. Haircut excludes PDI. JPM estimated NPV.
+2024 for PDI bond and 2029 for MLB 1
++37% initially but could reduce to 25% on contingent
+++ 2050 is the expiration date for the VRI
++++ Partially PIKed until 2026; 4.95%pts cash; 3%pts capitalized
1. at 5% discount rate

Source: J.P. Morgan

Working it out, by the book or otherwise

In this report, we assess the progress made so far in navigating the evolving restructuring landscape, examine ongoing challenges, and give some sense of the path

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ahead. We break the report down into five general sections, looking at: the **restructuring process** itself; the evolution of new **instruments** to facilitate restructurings; likewise, **contractual innovations**; the state of **statutory reform** efforts, mainly in NY State; and finally, the pivot led by the IMF and World Bank, as well as the G20-led Global Sovereign Debt Roundtable, to focus on **liquidity pressures** facing sovereigns in the medium term.

On process: Redesigning the architecture, or remodeling a new multi-family house? The questioning of the process of restructuring debt came about as the official multilateral and (new) bilateral creditors wrangled over the scope and nature of their own debt relief. Only after official creditor stances were defined could sovereign debtors consider proposals put forward by bondholders. This struggle around sequencing was part of the core of frustration, as private creditors felt their own willingness to take losses and move on was stuck. As past-due-interest piled up and financing channels remained clogged, the sovereigns themselves took the brunt of the pain. Zambia and Ghana were the first CF deals with significant Eurobond creditors at the table, and all counter-parties have been keenly aware of potential precedents, particularly on the issue of Comparability of Treatment (COT). COT concerns have been a big part of the delays as they play into the underlying concerns that each creditor feels they are providing more relief than the others, and for the private sector that they are left as the residual with little say in the matter. COT concerns get more complicated by the delays, since as time passes there is more space to question the original macro variables, and by extension the relief that the IMF had calculated would be required to restore debt sustainability.

The IMF has contended that the architecture, helped by the Global Sovereign Debt Roundtable, is now in a better place. The Fund presents as evidence the cumulative micro achievements of the Global Sovereign Debt Roundtable—a formal, regularly-meeting platform for the different public and private creditor groups, as well as representatives of debtor nations. While the GSDR has not been a silver bullet, it has created an important space to rethink and pin down elements of *process*. The GSDR has facilitated the identification and codification of best practices and has fostered an increased comfort level and mutual understanding between the key stakeholders, including on COT. There have also been advances just in the incremental "learning by doing" process of each of the current restructurings. The first section of this report reviews the progress and remaining challenges that the GSDR has identified in the sovereign restructuring process.

On new instruments: especially those of the state-contingent variety. A common feature in four of the five restructurings involving Eurobonds has been State-Contingent Debt Instruments (SCDIs). SCDIs have been a key tool to smooth over differences between debtors and creditors—despite the insistence that these should be the exception rather than the rule—allowing the amount of debt relief granted by creditors to adjust in accordance with future macroeconomic variables that should correspond to ability to pay. The increased prevalence of non-vanilla instruments seems to be paving the way for a new era with more complex and varied instruments in the EM sovereign debt universe.

On contractional innovations: the increased use of new non-financial clauses in the recent round of restructurings are flying a bit more under the radar, but could be relevant down the road. These include Most-favored creditor (MFC) clauses, transparency provisions, and loss-reinstatement provisions. As the market comes to

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better understand the potential impact of these clauses, they may cause price impacts and differentials between instruments. The second and third section of this report delve into some of the key details and assessments in regards to SCDIS and these contractual features that have been rolled out in the latest wave of restructurings.

On statutory reform: Despite progress, there are so many stakeholders at the table and the process to improve the architecture can still be unwieldy, as evidenced by efforts towards reform of sovereign debt law in New York State. NY legislators almost passed legislation that would have run counter to the extensive efforts to improve the sovereign restructuring process via the GSDR. Some observers think the version of the reform that almost passed (restoring a "champerty provision" that limits the ability of some creditors to purchase bonds for the sole purpose of litigating) was designed in way that could have been more benign. Other market participants think statutory reform is unwarranted and will lead to more uncertainty and higher costs for borrowers. In any case. these legislative efforts are likely to come back to the table in 2025. The fourth section of this report reviews the state of the NY State legislative process, which if successful may see efforts to push similar legislation on other relevant jurisdictions, like the UK.

Finally, on liquidity provision: the upcoming IMF and World Bank meetings are expected to pivot the focus from the process of debt workouts towards ways to avoid another wave of sovereign distress. The last section of this report briefly lays out the main points of this discussion, including the IMF and World Bank's framing of three pillars upon which sovereign debtors and creditors, and the international community more broadly, should focus their energy: 1) domestic resource mobilization; 2) international support; and 3) reducing the debt service burdens for multilateral, bilateral and private obligations.

Process: The Global Sovereign Debt Roundtable as the scorekeepers' committee

The Global Sovereign Debt Roundtable (GSDR) was convened in 2023 in an effort to break the lingering impasse in sovereign debt restructurings. A review of its work —as laid out in detail in the GSDR's co-chair reports—presents in our view an apt summary of the state of play, improvements, and ongoing disagreements over the restructuring process. It also highlights the limitations around a restructuring template when in the end, case-by-case considerations will always prevail.

Stakeholders generally believe the GSDR has facilitated increased progress on outstanding restructuring cases by building consensus and improving processes. The GSDR includes participants such as official bilateral creditors (both Paris Club and non-Paris Club members), private creditors, and sovereign issuers. The roundtable is directed by the chair of the G20, with India holding the position in 2023, Brazil taking over in 2024, and South Africa in 2025. Key areas of improvement include establishing timelines aimed at swifter and more predictable processes, ensuring a better understanding of COT, and establishing the principle that private and official negotiations can occur in parallel. Previously, private creditors had to wait for official bilateral deals to be finalized, but the new approach aims to streamline and expedite the restructuring process.

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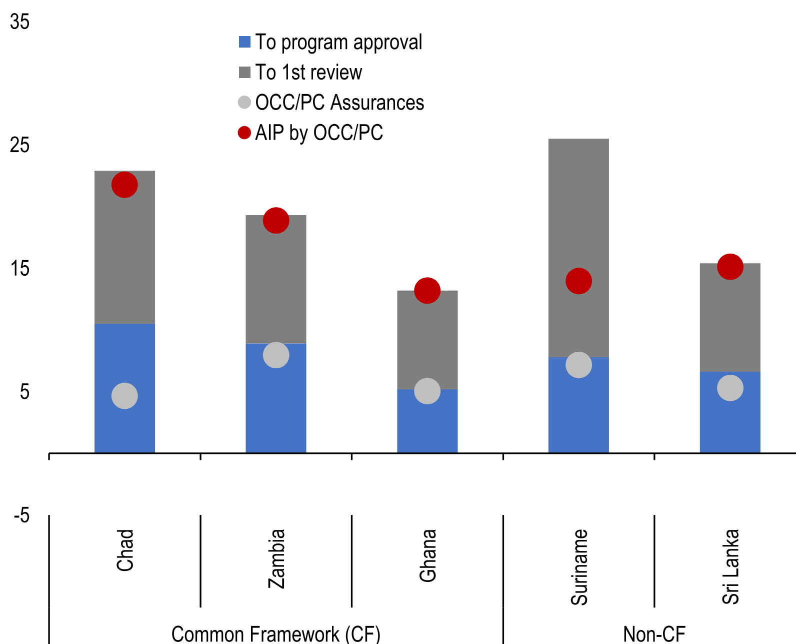
Shortening timelines has been made an explicit goal. Figure 3 illustrates the extensive lags between the time when distressed sovereigns initially strike deals with the IMF staff until they get to program board approval, generally following the confirmation of financing assurances from official creditors. Subsequently, there have been significant additional lags from board approval to an agreement in principle from the official creditors, which is generally the precondition required for conclusion of the IMF's first review. While Ghana and Sri Lanka have seen relatively shorter processes, they are still much longer than the historical time it has taken for this process to occur. The explicit goal of the GSDR is for the next restructuring case to take only 2-3 months between an SLA (Staff-Level Agreement) and program board approval.

Figure 3: Lags from IMF Staff-level Agreement (SLA) to official sector deals

Months from SLA
OCC/PC Assurances = Official Creditor Committee / Paris Club Assurances
AIP by OCC/PC = Approval in Principle by Official Creditor Committee / Paris Club.



Source: IMF
Note: Suriname 1st review combined with 2nd review due to other circumstances.

The GSDR has also been dealing with the need to clarify how Comparability of Treatment (CoT) will be assessed and enforced in practice. The traditional Western lenders in the Paris Club have had a long experience with CoT, and part of their approach has been use of "constructive ambiguity" to smooth over differences in the context of case-specific considerations. New lenders, namely China, have questioned whether they are providing a fair amount of debt relief. The main sticking points, as we outlined in our June 2023 report, hinge on disagreements over the traditional multilaterlal lenders' preferred creditor status, and reluctance of non-Paris Club creditors to write off principal. There are also disagreements over the definition of bilateral (policy based) lending and commercial lending from the side of the Chinese. The experience of the past years has shown that even once the official sector can get over these hurdles to agree amongst itself, the official creditors committee (OCC) then can remain similarly cautious and suspicious, if not more so, about deals private creditors seek to strike with sovereign debtors. The November 2023 veto of Zambia's announced

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agreement in principle (AIP) with bondholders was a case in point.

How is Comparabilty of Treatment assessed?

Comparability of Treatment (CoT) is intended to ensure that different creditors with different debt types are treated comparably in a debt restructuring. As detailed in the October 2023 GSDR Cochairs Progress Report, in the recent and ongoing restructuring cases under the Common Framework, official bilateral creditors have been using an approach according to which CoT is:

- *Assessed using the three criteria listed in the Common Framework: i. The changes in nominal debt service over the IMF program period; ii. Where applicable, the debt reduction in net present value terms (NPV), using a "New NPV / Old NPV" formula and the discount rate of the LIC DSAs (currently 5 percent); iii. The extension of the duration of the treated claims; and*
- *Enforced via mechanisms such as claw-back clauses and/or request to remain in arrears vis-à-vis private creditors until an agreement has been found that respects CoT.*

  For restructurings outside the Common Framework, similar assessment and enforcement mechanisms have been used, with NPV calculations based sometimes on two or more discount rates to ensure some sensitivity analysis. GSDR discussions have reconfirmed that official bilateral creditors seem intent to maintain this approach in future case.

The GSDR progress goes on to state, "It is key for the achievement of a successful debt restructuring that all creditors understand the CoT requirements, and that the debtor understands the way its official bilateral creditors will assess and enforce CoT... The presence of several parameters [to assess CoT] can make it hard for stakeholders to understand how the parameters interact and what type of effort is needed in one dimension to compensate for another. A lack of clarity and understanding of CoT requirements can result in delay..."

A fundamental disagreement on discount rates. Private creditors argue that the official sector's practice of using the 5% discount rate of the Low-Income Country Debt Sustainability Analysis (LIC DSA) framework, rather than a market rate, undervalues their contributions to debt relief. Official lenders contend private creditors tend to give less relief in general—making the issue divisive. Discussions within the Global Sovereign Debt Roundtable (GSDR) have reconfirmed that official bilateral creditors seem intent on maintaining this approach in future cases, so private creditors seem resigned to 'agree to disagree'.

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Figure 4: Summary of Global Sovereign Debt Roundtable activities and agreements

Category		Details
GSDR Overview		The Global Sovereign Debt Roundtable (GSDR) was convened in 2023 to address sovereign debt restructuring impasses. Participants include official bilateral creditors (Paris Club and non-Paris Club), private creditors, and sovereign issuers. Directed by the G20 chair (India in 2023, Brazil in 2024).
Meetings		Principals met twice in 2023; deputies met four times, supplemented by technical workshops.
Purpose		Forum to discuss best practices, not to negotiate individual restructurings.
Stakeholder Feedback		GSDR has facilitated progress on restructuring cases by building consensus and improving processes.
Key Improvements		- Establishing timelines for swifter, more predictable processes. - Ensuring better understanding of Comparability of Treatment (CoT). - Allowing private and official negotiations to occur in parallel.
Restructuring Timelines		Goal: 2-3 months between IMF Staff-level Agreement (SLA) and program board approval.
Information Sharing		- Enhanced sharing and coordination on CoT metrics. - Timely verification of consistency with debt targets and IMF program parameters.
Debt Restructuring Perimeter		- Short-term debt excluded by Paris Club convention. - Domestic debt inclusion determined case-by-case. - No consensus on SOE debt treatment.
Restructuring Parameters	Cutoff dates	- Set by creditor committees, generally no later than the IMF's SLA date.
	Comparability of treatment (CoT)	- Assessed using three criteria: changes in nominal debt service, debt reduction in NPV terms, and extension of claim duration. - Enforced via claw-back clauses and requests to remain in arrears vis-à-vis private creditors until an agreement is found.
	Challenges with CoT	- Disagreements over discount rates (5% LIC DSA rate vs. market rate). - Inefficient information sharing leading to delays.
Debt Service Suspension (DSS)		- No consensus on automatic suspension of debt service. - Consideration for time-limited debt suspension and waiving penalties on arrears accumulated during negotiations.
Debt Swaps and Climate Resilient Debt Instruments		- Debt-for-nature/debt-for-development swaps can be a useful tool for liability management but are generally not appropriate when debt restructuring is required. - Expanding Climate Resilient Debt Clauses (CRDCs) beyond hurricane events is challenging; efforts with ICMA to define standard clauses for other events
Engagement with Credit Rating Agencies		- Participants inquired about rating implications of debt swaps and liquidity relief operations - CRAs explained their criteria for classifying Distressed Debt Exchanges (DDEs), focusing on value reduction and default avoidance.CRAs clarified that debt-for-nature/development swaps are treated like any debt exchange.
SCDIs		- Growing recognition that state contingent debt instruments (SCDIs) can help bridge the gap in certain restructuring negotiations where uncertainty is high, but should not be the norm - When used, SCDIs should be well-defined and include precise triggers, caps and contingent scenarios, and be consistent with the IMF DSA in all scenarios.
Support Provided by MDBs		- Common understanding on the role of MDBs to support countries undertaking a debt restructuring through the provision of net positive flows of concessional finance and grants.

Source: GSDR co-chair report and J.P. Morgan

Information sharing: inefficiencies have led to misunderstandings and delays. The importance of improving information sharing has largely been focused on the IMF's macroeconomic projections that inform their debt sustainability analyses, which in turn define the amount of debt relief all creditors will be asked to deliver in the restructuring. The IMF has published a Staff Guidance Note on the best practices, including what level of information can be shared at each stage of the restructuring process. But the GSDR discussions have highlighted how information sharing in the context of CoT also must improve.

In its April Co-Chairs report, the GSDR noted that in practice, "official bilateral creditors should provide the debtor with clarity regarding the quantitative metrics that need to be respected for the CoT to be met, and the related room for maneuver that exists". It was also agreed that there needs to be a more timely verification—before any agrement is made public—that debt treatment "is consistent with debt targets and IMF program parameters".

The GSDR has identified several other best practices in sovereign debt restructuring.

First, regarding the **debt restructuring perimeter**, there are several components to consider:

- *There is straight-forward agreement that **short-term debt** should be excluded in line with the Paris Club convention.*
- *The GDSR generally agrees that the inclusion of **domestic debt** , as well as non-resident holdings, should be determined on a case-by-case basis, with no presumption ex-ante about its inclusion or exclusion.*

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- *There is no consensus on the treatment of **State-Owned Enterprise (SOE) debt,** with some advocating for the exclusion of government-guaranteed debt of financially viable SOEs, while others suggest inclusion due to their relevance as fiscal risks.*

Second, **regarding cutoff dates**, these have been set by creditor committees at a date no later than the IMF's staff-level agreement (SLA). This is an important parameter to protect new financing to the restructuring country, including emergency support. Flexibility is warranted to account for case-specific circumstances. In practice, in recent restructuring cases, cutoff dates have been decided on a case-by-case basis by creditors, generally not later than the date of the SLA.

Finally, there is no consensus on debt service suspension (DSS) and the treatment of arrears. Regarding DSS, some on the GSDR support an *automatic* suspension of debt service on official bilateral claims once a staff-level agreement (SLA) has been reached. Others prefer that creditors and creditor committees provide DSS *at the country's request* upon reaching an SLA. Additionally, there is consideration for granting debtor countries a time-limited debt suspension. The discussion also includes the possibility of waiving penalties on arrears accumulated during negotiations, as opposed to those accumulated before. This waiver is more relevant for official debt, as it is not feasible to alter the contractual rates of private arrears.

Instruments: SCDIs, an "exception to the rule" that is becoming the norm

State-contingent debt instruments that are part of many recent sovereign debt restructurings are an evolution that has combined the contingent payouts of warrants with the state-contingent bond technology of bank capital and sustainable debt. Warrants linked to the performance of a key commodity (e.g. oil) or economic (e.g. GDP) variables have previously been part of the EM (and DM) debt restructuring toolkit. These warrants typically have had a set of payouts to investors if a key variable to the country's economy performs well in future. Their role in debt restructurings has been to give some future upside in return for immediate debt relief, so that investors are not penalized for taking losses at the worst time, only to see the country recover well in future and be able to pay more. In that sense, they had conceptually filled the role that an equity component has played in a corporate debt restructuring. Oil warrants (e.g. in Nigeria or Venezuela) gave way in the last decade to GDP warrants (e.g. in Argentina and Ukraine). The legal framework for warrants was shown to need correcting by Argentina's ability to avoid paying through withholding or recalculating key economic variables that drove payouts. The structure of Ukraine's GDP warrants gave a much improved legal framework, although the government has since found the payout levels and structure needed adjustment.

Many investors prefer a bond instrument to a warrant given index constraints, and so state-contingent bonds evolved. While warrants achieved the aim of giving future upside to investors for present relief, many investors could not easily buy them given they are not a 'bond'. This also meant the GDP warrants of Argentina and Ukraine were not part of major EM bond indices which limited the investor base. So the current restructurings have looked to incorporate an instrument that has the economics and payoffs similar to a warrant but is structured as a bond. For that, a bond with contingent payouts is needed. Bank capital bonds are a form of that, but EM sovereign bond indices

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have also incorporated 'sustainable bonds' which also have highly contingent payouts depending on ESG criteria (see here). Using that bond technology and supplementing the triggers to be those to do with a country's economic health, has resulted in state-contingent debt instruments (SCDIs), of which those of Zambia and Ukraine have entered J.P. Morgan's benchmark EMBIG indices.

State contingent debt instruments (SCDIs) feature cashflows that can shift based on some economic or other variable that should theoretically have some correlation to the debtor's ability to service its debt obligations. These instruments have gained prominence in the recent wave of sovereign restructurings, and are even starting to be featured in some primary issuance (e.g. El Salvador). The more familiar version to markets are value recovery instruments (VRIs), commodity or GDP-based warrants that provide upside (additional payments) if the key variable ends up above a predetermined threshold of the relevant macro variable. But more symmetrical instruments have also come into play, whereby a reduction, deferral, or forgiveness of cashflow obligations occurs in the case that some event or outcome in theory reduces a sovereign's capacity to repay.

The GSDR has recognized SCDIs as a potentially useful tool in certain restructuring contexts characterized by high uncertainty. While the GSDR contends that they should be used sparingly, it's worth noting that SCDI's have been featured in nearly all of the private restructuring deals that have emerged recently. The main premise to justify their use is as follows: delaying negotiations until uncertainty dissipates is costly for both debtors and creditors, and in such circumstances, SCDIs can help bridge differences. At the GSDR, the stated consensus is that when utilized, SCDIs should be well-defined, including precise triggers, caps, and contingent scenarios. The IMF also insists that they are consistent with its program parameters and the DSA in all scenarios.

The increasing predominance of SCDIs has prompted a deeper look from experts and practitioners. The Bretton Woods Committee (BWC) in an in-depth report weighed pros and cons and offered recommendations for incremental improvements. The paper lays out its assessment of the advantages and disadvantages of SCDIs, both for debtors and creditors.

The advantage for creditors is to allow some claw back of relief when it proved to be more than was required. VRIs can increase and/or anticipate cashflows when the underlying assumptions for debt sustainability embedded in a restructuring prove to be overly conservative. Moreover, this "sweetener" can help close the deal in a restructuring when talks become protracted. Additionally, depending on how they are structured VRIs can be separately tradable, enabling holders to monetize them while retaining the plain vanilla instruments in the restructuring.

For debtors, including mechanisms for payment relief in restructured debt can in theory reduce the risk and costs of yet another default. That said, SCDIs must be designed carefully and can never anticipate every future state of the world that might enhance or detract from future ability to service debt. And despite some advantages, SCDIs are not seen as suitable for every sovereign restructuring. They clearly can be valuable when there is a significant chance that an event not considered in the IMF baseline case will materially affect the debtor's macroeconomic profile, or when the divergence of views between the sovereign (and/or the IMF) and creditors is so significant that it precludes a deal being consummated.

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As for disadvantages, it is no easy task to identify, define, and price the key variables and thresholds that accurately reflect a country's future capacity to pay. Putting out a price on an SCDI on t+1 after a restructuring—when triggers are far away—is one thing. Assessing properly the right price changes as these triggers come closer is another, as valuation reassessments with Ukraine's GDP warrants showed. Another clear risk are perverse incentives for debtors to guide economic variables to the downside to avoid triggering payments. (The episode of Argentina's GDP warrants is case in point.) While the advantage of SCDIs is to bridge gaps and facilitate the more rapid closing of restructuring deals, there are circumstances in which their introduction can cause significant delays, especially if raised late in the restructuring process. They are inherently complex, and disagreements on design and the impact on other stakeholders often lead to prolonged debates. The lack of market standards for documentation and analytical frameworks exacerbates these delays.

SCDIs may have unintended consequences on the other moving parts involved in sovereign restructuring. For example, introducing VRIs can necessitate a reexamination of the debtor's ability to comply with the IMF's DSA, as well as raise doubts on COT. The BWC paper on pages 6-7 notes that IMF the looks at VRIs from three related perspectives, 1) an assessment of the likelihood of departures from the base case and the impact on long term debt sustainabilty; 2) the ex-ante likelihood that a creditor or creditors to which no VRI has been offered subsequently will insist on having the same VRI offered, and whether that would impact the DSA; and 3) the possibility that a VRI could be triggered at a point when the debtor country is essentially insolvent or does not have the liquidity to meet its VRI obligation. Part of the solution to these considerations can be cumulative payment caps that can help meet the IMF's criteria for consistency with the DSA if a VRI is triggered. However, the complexity of SCDIs / VRIs can complicate the IMF's assessment of their consistency with the DSA.

The BWC paper arrives at the following broad areas of recommendation to improve the integrity, effectiveness, and marketability of these instruments :

- *improving their design to ensure that the trigger events and formulas used for adjusting payments will, in fact, capture and measure cash flows that are directly available to the sovereign to service debt at the time it becomes due;*
- *maximizing the upside potential of VRIs by embedding them into underlying fixed income bonds, so that the combined instrument is more liquid and more likely to be included in bond indices (thus supporting active trading);*
- *providing for downside as well as upside adjustments to a debtor country's payment obligations in specified cases of underperformance, which is only possible if the VRI is incorporated into the fixed income instrument that is the basis of creditor recoveries;*
- *ensuring that payout formulas and payout caps preserve positive incentives for the debtor and reduce the risk of bad behavior*

As for their marketability and liquidity three issues are at play: "**simplicity, ease of valuation, and inclusion in emerging market bond indices**." There are considerations in relation to design including the trade-off of finding the "right" variable that can trigger upside or downside adjustments to cashflows versus the market's ability to observe, model and value it. The paper rightly concludes that an ideal variable will be determined by a third party or can be independently observable to avoid any temptation of data manipulation. In that sense, commodity-linked payouts would seem natural for

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those exporters, but have not been directly used so far in SCDIs.

The SCDIs in both the recently concluded Zambia and Ukraine restructurings (in both cases, respective "bond Bs") have been deemed eligible for J.P. Morgan EMBI indices.[2] While as GDP and oil warrants issued in past restructurings have been ineligible for those indices—owing to excessive variability of cashflows and lack underlying principal (ie instruments that are more equity like than debt like)—the design of SCDIs in Zambia and Ukraine have taken care to present themselves in the form of a bond. While its amount or maturity profile can vary, there is in fact principal, and there are discrete, defined points in time whereby the cash flows will divert to another path—once and for all—or not.

So far SCDI / VRI design has varied. A quick summary of the key variable that would trigger the upside (and in some cases downside) cashflow paths are as follows:

- **Suriname:** a portion of royalty payments that could flow to the government from the successful future exploitation of a specific offshore oil block.
- **Zambia:** dual trigger linked to Zambia's debt carrying capacity (DCC) as defined by the IMF/WB Debt Sustainability Framework for Low Income Countries (see here) and/or the performance of the 3-year moving average of exports (in US$) and the US$-equivalent of fiscal revenues relative to the IMF staff projections.
- **Ukraine:** upside and downside cashflow scenarios linked to the performance of nominal GDP versus the IMF baseline projection with a further control variable relating to the performance of real GDP.
- **Sri Lanka**: upside and downside cashflow scenarios linked to the performance of nominal GDP versus the IMF baseline projection with a further control variable relating to the performance of real GDP.

Figure 5: A look at SCDI triggers and thresholds

Countries	Ghana	Sri Lanka	Suriname	Ukraine	Zambia
SCDI	No	Yes	Yes	Yes	Yes
Triggers and thresholds	NA	Based on real GDP as a control variable and level dependent on nominal GDP levels vs IMF projections. *Note: AIP is subject to changes following the election of a new government*	Linked to a specific oil block (#58). After the government collects the first 100$ mn in royalties, creditors have a claim of 30% of the yearly royalties through 2050. The government holds a call option to prepay the instrument without penalty or premium	Based on real GDP level being equal to the IMF estimates and nominal GDP >3% of the IMF estimates in 2028. Capped at 12% principal increase	Based on debt carrying capacity to move to medium from weak or 3y rolling average of exports to revenue exceeding IMF's projections; Note that the the official creditors committee, led by China, struck a similar state-contingent deal in their restructuring.

Source: J.P. Morgan

As for the goal of standardization of SCDIs, the goal has clear advantages, but achieving it may be challenging. As the BWC paper notes on pages 16-17, when comparing for example to the successful efforts to standardize collective action clauses (CACs), that: *"CACs define a process for amending bond terms, but they do not touch on the substance of any amendment. SCDIs, by contrast, are focused principally on the substantive terms themselves— such as the definition of trigger events—which to be effective must reflect the particular position of the sovereign borrower... Nonetheless, even if the formulas for each country and each restructuring should be defined on a case-by-case basis, there is room to create a list of standard criteria for determining capacity to pay and guidelines to which any new criteria must adhere".*

2. See the Index Alerts for Ukraine and Zambia.

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Other innovations related to SCDIs and more specifically VRIs would see them be used to repay restructured debt. Authors Buchheit and Makoff in an August 2024 paper argue that rather than making "wasted" (from the debtor perspective) cash payments to VRI holders, partial prepayments of the restructured debt itself would bring benefits both to creditors and debtors. Creditors can make a compelling case that they deserve some compensation for the excess relief provided if an IMF DSA ultimately turns out to have been too conservative. However, from the sovereign debtor's point of view, reattainment of market access may have only been possible with the more manageable debt burden afforded by the "excessive" sacrifice. Insofar as VRIs are tradable, the payments don't necessarily "reward" the same creditors that provided the relief "in the time of need", and for the sovereign the only benefit is reputational (willingness to pay). The authors propose a mandatory par prepayment that they contend, "will improve the market value of [mark-to-market holders'] holdings and benefit the creditors in several other ways. For the sovereign debtor, cash paid out in this manner will contribute to a wholly virtuous improvement in overall debt dynamics".

Initial market reception to the prepayment idea has been generally favorable, but with some caveats. Writing in the *Financial Times*, Heller and Virketis endorse pre-payment approaches, but note that mechanisms should also be considered to avoid excessive new issuance if and when the restructured sovereign does reacquire market access, including potentially mandating some of that new money to prepayments of restructured debt. Moreover, they note that the magnitude of permanent NPV loss engendered by large upfront haircuts means it is very hard to make up just by accelerating the cashflows (ie prepayments) of the restructured bonds, especially given the generally high discount rates that prevail for a recently restructured sovereign. The authors contend that these mechanisms can represent complements but should not necessarily replace instruments that can provide more equity like upside to creditors that took a hit in a restructuring based on overly conservative macro assumptions. An additional note is that this approach offers little in the way of addressing the issue of what are the best thresholds to use to trigger any repayment at all.

Despite the pervasiveness of SCDIs/VRIs in this current wave of restructurings, the aspirations outlined in the first section of this report for faster timelines and improved information sharing standards could lead to fewer cases ahead. In theory a faster and more efficient process should minimize some of the frictions that have led to such large disagreements between IMF DSA baseline scenarios and creditor views, especially as the divergences can grow as the macroeconomic variables evolve during the long restructuring delays. Hence, going forward SCDIs may end up featuring more prominently in cases when all stakeholders agree that there are evidently large macro uncertainties over the medium term horizon, such as in the case of Ukraine and the unknown duration and outcome of the ongoing war with Russia.

Contractual innovations: Non-financial clauses quietly evolving

While SCDIs have grabbed more spotlight given their dynamic features and potentially market-moving impacts on valuations, the increased used of new non-financial clauses in the recent round of restructurings are flying a bit more under the radar. Still, these could be relevant down the road, and eventually may have their own pricing implications. Analyst Theo Maret surveyed a number of these new features

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in the context of Zambia's restructuring, including Most-favored creditor (MFC) clauses, transparency provisions, and loss-reinstatement provisions. Some or all of these provisions have subsequently been adopted in Ghana, Ukraine and Sri Lanka restructurings/agreements in principle (AIP). In addition, in Sri Lanka's AIP, the sovereign agreed with the bondholders' request for a "a mechanism to change the governing law of the New York law governed new securities to English or Delaware law with the consent of a supermajority of bondholders if proposed by holders of 20%..." This provision, the first of its kind that can be initiated by the bondholders, is in response to the proposed legislation to change NY State law by superimposing restructuring mechanisms into sovereign debt contracts that the market has perceived to be unnecessary and heavy handed (more below).

Figure 6: Summary of non-financial terms in recent restructurings

	Most-favored Creditor	Transparency	Loss Reinstatement	Other
Zambia	x	x	x during IMF program	
Ukraine	x		x for ex-post COT with OCC	
Ghana	x	x	x until 2032	Estoppel provision: Ghana can't raise legal challenges to the new bonds. Liquidated damages: Ghana must pay if bonds ruled invalid by the Supreme Court.
Sri Lanka	x	x	x tbd	Change in governing law to Delaware or UK by supermajority vote Will feature governance-linked bonds

Source: J.P. Morgan

Most favored creditor (MFC) clauses have been championed by Buchheit and Gulati (see here their 2022 paper), as way to speed up commercial restructuring processes that are delayed by official creditor wrangling and mistrust over COT. These clauses would effectively force a sovereign debtor to reopen a bond restructuring if the debtor subsequently offered better terms to other creditors. The trick to getting MFC clauses right the authors argue would be to ensure: a) transparency (all creditors can see what the others' deals are); b) a uniform methodology for comparing NPV relief provided across creditors, undertaken by an independent calculation agent; c) enforcement (placing in legal jeopardy the cashflows to the lender getting better treatment); and d) flexibility, allowing bondholders the ability to waive the clause if they determine it is in their collective best interest.

How this new round of MFCs plays out in practice remains to be seen. Maret in his above-mentioned post notes that Zambia's MFC leaves some open questions on scope (which other creditors must deliver no better than equal treatment; other commercial creditors? Chinese state commerical banks? regional MDBs?); and methodology for determining compliance (which discount rate for NPV?). Other questions remain in terms of the exact calculations around NPV treatment comparison, and transparency as well as enforcement. Maret concludes, "*In some way, the use of MFC provisions by commercial creditors will lay ground for a two-tiered comparability system, with official creditors enforcing their requirements on commercial creditors and commercial creditors on a similar footing among themselves. It seems unlikely that official creditors would ever include themselves in the scope of MFC provisions for political reasons, to avoid creating a reverse comparability that the Paris Club has long rejected and China would arguably not approve*."

As for **loss-reinstatement provisions**, these would reinstate the amount of debt to be restructured to the initial level ahead of the present restructuring if that debt needs to be restructured again within some defined time-period. The general idea would be to dis-incentivize a sovereign who regains market access post restructuring from over borrowing, while avoiding that the holders of restructured debt get juniorized if careless debt management does lead to another restructuring down the road. (Some observers

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argue this clause is window-dressing insofar as sovereign issuers, if they fall into subsequent distress, will in any case need to conform its future obligations into a new IMF DSA. In the case of Ukraine's latest deal, this provision is described in the press release as follows: "In the event a further restructuring ... is required ... loss reinstatement provisions … shall have the commercial effect of reinstating the original (pre-2022 restructuring) claim of bondholders plus accrued and unpaid interest thereon up to the date of the further debt treatment less the aggregate amount of interest paid … up to the date of the further restructuring."

Finally, with respect to **transparency provisions**, we think any advances on this front will be welcome by market participants. Market efforts, included those of the Emerging Markets Investors Alliance (EMIA), have focused on bond clauses that aim to improve governance in the areas of best practices for investor relations and the full disclosure of debt obligations, adhering to high standards for data dissemination and encouraging the disclosure of debt subject to confidentiality provisions. The latter may be particularly challenging in our view given the rise of new bilateral creditors like China. The precise definitions of remedies to correct any non-compliance of transparency related clauses will need to be tested in practice. For Maret, "the biggest point of interest will probably be the enforcement mechanism, namely whether the failure to comply with the disclosure requirements will be considered as an event of default." In Sri Lanka's case, the restructuring would not just include transparency covenants, but would feature a state-contingent "governance linked bond" which would as proposed reduce the bonds' cashflows if a set of governance benchmarks are met. While these provisions are being proposed in the context of restructured debt, it is plausible that they could become more of the norm in future primary issuance.

Statutory Reform: Still in a 'New York State of Mind'

The above mentioned Sri Lanka change of governing law provision is a reminder that the focus on reform of NY State law as it pertains to sovereign debt restructuring remains an open possibility. Pursuing statutory reforms has been a fringe part of the EM sovereign debt restructuring discussion before, but the NY State 1H24 efforts generated substantial attention from market participants and some organized pushback by industry associations. We summarized the state of play in a panel at our conference alongside the 2024 Spring meetings of the IMF/WB, (see our takeaways report from April 23, 2024). A final version of the reform nearly passed in the last NYS legislative session, and expectations are that this reform will come back again in the 2025 session. As 2025 is a Jubilee year, activism supporting the reform could be even more robust.

Some observers think the outcome of the last legislative effort finished on a constructive note. Makoff in a September 30 paper reviewed the legislative process that has occurred up to now, noting that in the end the versions of the reform that market viewed as plainly unworkable—a recovery cap commiserate with official sector relief; or a "model law" involving a sovereign debt restructuring mechanisms at the local level—were dropped. Meanwhile, the surviving version that would revive NYS's "champerty" provision, took into consideration market feedback. Restroration of "champerty" would once again make it illegal under New York law to buy claims "with the intent and purpose to sue". While market observers were initially concerned that a

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broad definition of this provision could be a major compliance challenge that could impact market making, the final revised version introduced "a safe harbor to protect buy-and-hold investors and cooperative distressed debt investors from its operations". Makoff believes the reinstatement of champerty with the market safeguards would complement rather than contradict the existing and evolving international sovereign restructuring architecture, norms and processes. He commends the bill's proponents for seeking and incorporating market feedback to improve the commercial viability of the legislation. If the activists that have proposed different versions of sovereign debt legislation want to push their points again in 2025 (recovery cap, or model law), Makoff suggests formal engagement with the IMF, US Treasury, sovereign issuers and other stakeholders. Indeed, he proposes the GSDR as an ideal platform to facilitate this conversation.

Nevertheless, any attempts to change the governing law underlying sovereign bonds will unnerve market participants and will likely lead to workarounds. Not knowing your legal rights when lending—and knowing they could be retroactively changed—could lead to an outright reduction in global investors wanting to lend to EM countries, when they have a wide choice of where else to lend or invest. This would argue that statutory changes may have an outcome opposite to the intention, i.e. they could reduce credit to EM countries. Additionally, Sri Lanka's addition of a change to governing law provision shows how markets will likely see to avoid the risks of lending under a legal system that may change due to political pressure in the country of the legal system.

Turning to liquidity challenges

A tsunami of defaults has been avoided for now, and focus is shifting to medium-term liquidity provision to keep sovereigns from slipping into distress ahead. The IMF has conceded that the alarmism back in 2020-21 of an imminent tsunami of sovereign defaults has thus far proven to be misplaced, at least up until 2024. This despite the strong real economy shocks and the aggressive monetary tightening in DM and EMs. Now with credit spreads having normalized and global rates heading lower, market access has started to be reestablished for some lower rated sovereigns.

Nonetheless, the issuance pace for the lowest rated countries has been slow, and amortization hurdles will remain challenging, keeping a number of countries that have avoided default so far remain in the medium-term danger zone. As shown in Figure 7, sovereigns currently rated B or below have seen their share of total EM sovereign hard currency issuance wane from about 36% in 2016-19 to only 15% of the total since. Moreover, if we remove Türkiye (a large issuer in the space, which has recently moved up to BB by one major agency), other single-Bs have only issued around $6bn per year since 2022, which is less than 5% of the total hard currency bond issuance in recent years. This trend is troubling if we consider that hard currency bond maturities owed to B-rated and lower are set to step up significantly in the coming years (Figure 8).

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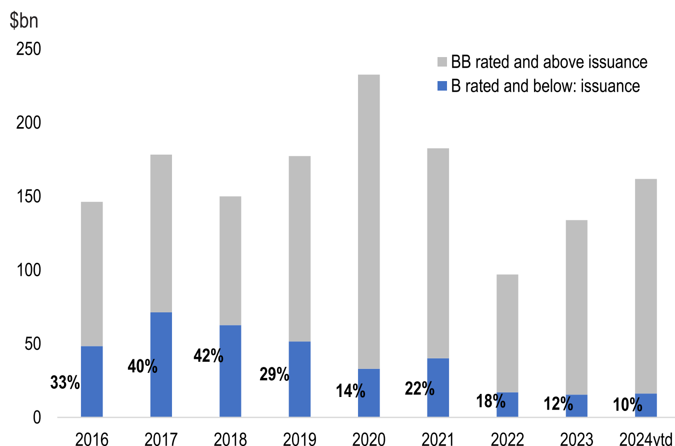
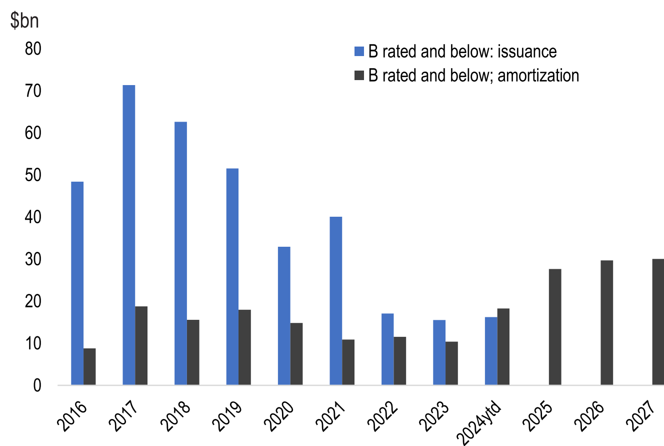
Figure 7: Low-rated sovereigns went from a large to a small share of total EM sovereign hard currency issuance



Labels represent the % of B-rated and below issuance as a share of total
Source: J.P. Morgan

Figure 8: Low-rated sovereigns face growing HC bond maturities while willingness/ability to issue wanes



Source: J.P. Morgan

In this context, the IMF, the US Treasury and GSDR are increasingly moving to focus on areas of international support and liquidity provision for sovereigns at risk. The IMF's surcharge reform recently announced moves in this direction. Our economists have previewed surcharge reform here and here, concluding that is is modestly helpful (and particularly relevant for a few countries, like Argentina, Ecuador, Pakistan and Benin). Other ideas to mobilize new private financing helped by credit enhancements still need to be fleshed out. Debt-for-nature swaps have been advancing, utilizing a combination of multilateral support, DFC guarantees and other enhancements to mobilize private financing and retire expensive debt, redirecting future savings to green or blue projects. Figure 9 catalogues these initiatives to date. These arrangements work for countries with existing bonds trading at relevant discounts in the market, and the savings/market technical impact, while useful, seems limited in scale. We addressed some of these initiatives in more detail our June 2023 report.

Figure 9: Summary of debt-for-nature bond swaps

Country	Belize	Barbados	Ecuador	Gabon	El Salvador
Date	Nov-21	Sep-22	May-23	Aug-23	Oct-24
Amount ($mn)	364	150	800	500	1,000
Market pricing*	38-47	96	39	87	93
Conservation project	Placing 30% of its ocean, including parts of the Mesoamerican Reef, under protection by 2026	Protect up to 30% of its Exclusive Economic Zone (EEZ) and Territorial Sea	Conservation efforts for the Galapagos Islands	Help finance ocean protection and support land, freshwater systems, and ocean by 2030.	Conservation of Rio Lempa River and its surroundings

*Average EMBIGD subindex cash price prior to announcement; for Barbados 6.5% 2029 bond, for Belize reference from the Nature Conservancy (see here).
Source: J.P. Morgan

Sovereigns themselves still need to do heavy lifting. At the end of the day, sovereigns will still need to advance reforms and deliver prudent fiscal policy while developing domestic resource bases in order to ensure their ability to deliver sustainablity and development goals, while protecting their status as creditworthy borrowers. The IMF and the World Bank, in their recently published proposal on Domestic Resource Mobilization, emphasize strategies to help lower income countries improve in these areas. In its recent blog post on addressing sovereign liquidity challenges, the IMF notably places domestic efforts at resource mobilzation as the first pillar of three, ahead of international support and efforts to lower debt service burdens. We would agree that

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all the efforts at improving the international architecture and at mobilizing outside resources should not distract from the heavy lifting that countries themselves need to perform.

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Appendix: Details on recent bond restructurings and proposals

Figure 10: Zambia: Bond structure

	Current Proposal		
Total claim*	$3.89bn = $3bn principal + $0.89bn PDI		
Nominal haircut	21.6%		
New outstanding	$3.05bn		
New Bonds	Bond A	Bond B	
		Base Case	Upside Case
Face Value	$1.7bn	$1.35bn	$1.35bn
Maturity	2033	2053	2035
Amortization Profile	- $75mn principal repayment paid on the date of the exchange - 11% in June-24 ($187mn) - 4.65% in Dec-24 ($79mn) - 9.24% in Jun-25 ($157mn) - 17% in Jun-26 ($289mn) - 17% in Jun-27 ($289mn) - 7.5% in Jun-28 ($128mn) - 0.5% in Jun-29 ($9mn) - 0.5% in Jun-30 ($9mn) - 0.5% in Jun-31 ($9mn) - 2 equal instalments of the remainder on Jun-32 to Jun-33 ($236mn per installment)	- 3 equal instalments in Dec-51, Dec-52, Dec-53 ($450mn per instalment)	- 4 equal instalments from Jun-32to Jun-35 ($454mn)
Coupons	- 5.75% p.a. accruing until Jun-31 - 7.50% p.a. accruing from Jun-31 until maturity	- 0.5% accruing until maturity	- 0.50% accruing until trigger date - 7.50% p.a. accruing from trigger date until Jun-31, o/w 6.00% PIK accruing over the same period - 7.50% p.a. accruing from Jun-31 until maturity

Source: J.P. Morgan, MOF

Figure 11: Ghana: Bond structure

Option	Disco			Par	
Cap	No			$1.6bn	
Consent fee	$10 per $1000 face value				
Haircut	37%			0%	
Bonds	**Short**	**Long**	**Down payment**	**Par**	**Down payment**
Bond FV as % of original FV	24.2%	34.8%	4.0%	96.0%	4.0%
Maturity	Jul-29	Jul-35	Jul-26	Jan-37	Jul-26
Amortization start date	Jan-26	Jan-30	Jul-24	Jan-36	Jul-24
Coupon	5% until July 28 and 6% afterwards		0%	1.50%	0%
	PDI bond				
Amount	Accrued until 2023				
Haircut	37%				
Maturity	Jan-30				
Amortization start date	Jul-24				
Coupon	0%				

Source: J.P. Morgan., Republic of Ghana

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Figure 12: Ukraine: Bond Structure

Consent fee	1.25%							
Haircut	25%-37%							
	Series Bond A				Series Bond B*			
Principal of current outstanding**	40%				23%***			
Maturity	Feb-29	Feb-34	Feb-35	Feb-36	Feb-30	Feb-34	Feb-35	Feb-36
Principal allocated of total	12.50%	32.50%	30%	25%	9.50%	35.50%	30%	25%
Coupon	1 Feb 25 - 1 Aug 25: 1.75% p.a. 1 Feb 2026 - 1 Feb 2027: 4.5% p.a. 1 Aug 2027 - 1 Aug 2033: 6.0% p.a. 1 Feb 2034 onwards: 7.75% p.a.				1 Feb 25 - 1 Feb 2027: 0.0% 1 Aug 2027 - 1 Aug 2033: 3.0% p.a. 1 Feb 2034 onwards: 7.75% p.a.			
Contingent trigger	No	No	No	No	No	No	Yes	Yes
Contingent event action	-	-	-	-	-	-	Principal increase	
Principal increase date	-	-	-	-	-	-	15-Nov-29	
Contingent condition****	-	-	-	-	-	-	2028A nominal GDP >= 1.03*2028P nominal GDP and 2028A real GDP >= 2028P real GDP	
Principal increase amount	-	-	-	-	-	-	0-12% of the total outstanding**	
Principal increase calculation	-	-	-	-	-	-	(2028A Nominal GDP - 2028P Nominal GDP*1.03) in UAH * 27.87% / Average 2028 UAH /USD rate	

Source: Ministry of Finance, Ukraine, J.P. Morgan; * non consenting holders won't receive contingent bonds (35s and 36s) and additional bonds would be allocated to consented holders; **includes past due interest (PDI); ***on contingent event, principal could increase by up to 12% of the total outstanding including PDI; ****projection based on the 4th review of IMF EFF dated 28 June 2024. Note: (1) Past due interest up to 1 August 2024. Coupons to start accruing from 1 August 2024; (2) coupon payment dates are inclusive of dates shown such that coupon between 1 Aug 2025 and 1 Feb 2026 is 4.5%

Figure 13: Sri Lanka: Bond structure

Instrument type	Past due interest	MLB 1	MLB 2	Plain Vanilla	MLB 3	MLB 4
Original FV ($mn)	1,885	12,550				
Haircut	11%	27%				
Consent fee	0	1.8% of original FV i.e. $225mn				
Notional after haircut ($mn	1,678	1,300	2,550	1,722	1,195	2,392
Maturity	2028	2030	2033	2035	2036	2038
Amortizations	2024-2028 (variable)	2029-2030 ($650mn)	2031-2033 ($850mn)	2034-2035 ($861mn)	2036 ($1195mn)	2037-2038 ($1196mn)
Coupon	4%	3.1% until 2027 and 3.35% after	3.35% until 2027, 3.6% between 2028 and 2032, 8.75% after	3.6% until 2027, 5.1% between 2028 and 2032, 9.25% after	3.6% until 2027, 3.85% between 2028 and 2032, 9.5% after	3.6% until 2027, 3.85% between 2028 and 2032, 9.75% after
Comments	PDI calculated as of end March 2024			Could be structured as a governance linked bond		

Source: MOF, Sri Lanka; J.P. Morgan, Note: 1. The first payment date will be adjusted based on the timing of execution. 2. Principal payments will be made on 31-Mar of the relevant year. 3. Coupon payment on 31-Mar and 30-Sep of the relevant year. 3. Accrual date is from 31 Mar 2024

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Figure 14: Ethiopia: Illustrative treatment plan

Nominal Haircut	18% of the nominal value of the bond (excluding PDIs)
Amortization	9 equal instalments beginning on 11 June 2027 and ending on 11 June 2031
Maturity	6.5 years (until June 2031)
Coupon	5.0% fully paid in cash, on 11 June and 11 December
Missed coupons payment	December 2023 and June 2024 coupons are paid at settlement
Restructured schedule	2024/25: PDI + Interest payments - $107mn 2025/26: Interest payments - $141mn 2026/27: Principal + Interest payments - $132mn 2027/28: Principal + Interest payments - $216mn (2024/25–2027/28: Program period) 2028/29: Principal + Interest payments - $207mn 2029/30: Principal + Interest payments - $198mn 2030/31: Principal + Interest payments - $189mn

Note: Details from Global Investor Call Presentation on 1st October.
Source: Ministry of Finance of the Federal Democratic Republic of Ethiopia (the "Republic").

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