

**Ad Hoc Bondholder Committee of
the Federal Democratic Republic of Ethiopia’s 6.625% Notes due 2024**

Paper Regarding Committee Concerns with the IMF’s Staff Report for the Second Review

This paper is being put forward by the ad hoc bondholder committee (the “**Committee**”) of the Federal Democratic Republic of Ethiopia’s (“**Ethiopia**”) 6.625% Notes due 2024 (the “**2024 Notes**”). The Committee consists of international financial institutions based in the US and Europe and its members collectively hold over 40% of the 2024 Notes.

The 2024 Notes have been in default since 26 December 2023 when Ethiopia failed to make the \$33 million coupon payment that was due on 11 December 2023. All amounts under the 2024 Notes are now due and payable at their principal amount, together with accrued interest (which will continue to accrue until the date of payment). On 17 January 2025, the Committee formally demanded immediate payment of the 2024 Notes, including principal and accrued but unpaid interest and costs.

The purpose of this paper is to outline the Committee’s continued concerns with the International Monetary Fund’s (“**IMF**”) Staff Report for the Second Review (the “**Staff Report**”) and its perspective on the debt relief required by Ethiopia.

Ethiopia’s debt relief request is centered on breaches to the two export-related debt sustainability indicators according to the IMF’s analysis and balance of payments constraints resulting in a residual external financing gap anchored on reserve accumulation targets. In this regard, the Committee identifies several flaws in the IMF’s Staff Report on the following issues:

Residual external financing gap

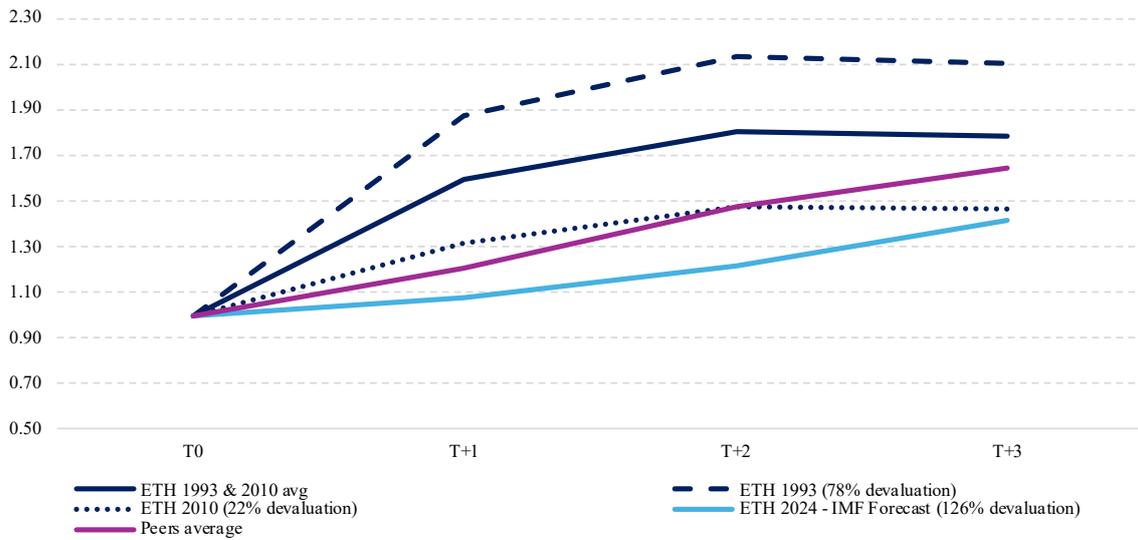
The updated analysis in the Staff Report on Ethiopia’s balance of payments and external financing requirements concludes that the residual external financing gap remains unchanged at US\$3,500 million over the program period. This is difficult for the Committee to reconcile as this conclusion is reached despite improvements to Ethiopia’s economy, including in relation to the current account balance and foreign direct investment which together improved by \$867 million, compared to previous IMF Extended Credit Facility (“**ECF**”) program reports for Ethiopia. Furthermore, this analysis incorporates export projections and reserve adequacy targets that do not align with the Committee’s assessment of Ethiopia’s economic fundamentals, further constraining debt service capacity over the program period.

Export projections

The Committee considers export projections to be significantly undervalued according to both Ethiopia’s performance to date and reasonable comparative analysis. Ethiopia entered a new macroeconomic paradigm following the shift in its monetary framework at the end of July 2024 from an overvalued, pegged currency to a more flexible exchange rate regime. This long-overdue shift has the twin benefit of enhancing the competitiveness of Ethiopia’s existing export mix and incentivizes the mobilization of additional export capacity from informal to formal channels. Recent news reports highlight significant increases in key exports of goods, including gold and coffee, which is also acknowledged in the Staff Report with reference to preliminary data for first quarter of 2024/25 “with goods exports rising 81 percent year-on-year”. The Committee believes that this would lead to exports in the current fiscal year well in excess of projections set out in the Staff Report. If Ethiopia’s reported results for key export items in the first six months of the fiscal year, US\$1.5bn of gold exports and US\$908m of coffee exports, continued at the same pace for the remainder of this year, even assuming all other goods exports remained unchanged compared to the IMF ECF July 2024 report, this would result in exports of goods over US\$2bn higher than forecast in the Staff Report.

This is also supported by analysis on the impact of exports post-currency devaluation events in comparable countries, which demonstrate a more accelerated increase in exports following a devaluation event. The chart below illustrates the comparison between exports in similar countries following significant devaluation events. If a similarly accelerated increase in exports was projected for Ethiopia, this would result in approximately US\$7bn increase over the program period. The chart below also looks at Ethiopia’s export behavior following the country’s previous devaluation events, which similarly show a more positive outcome.

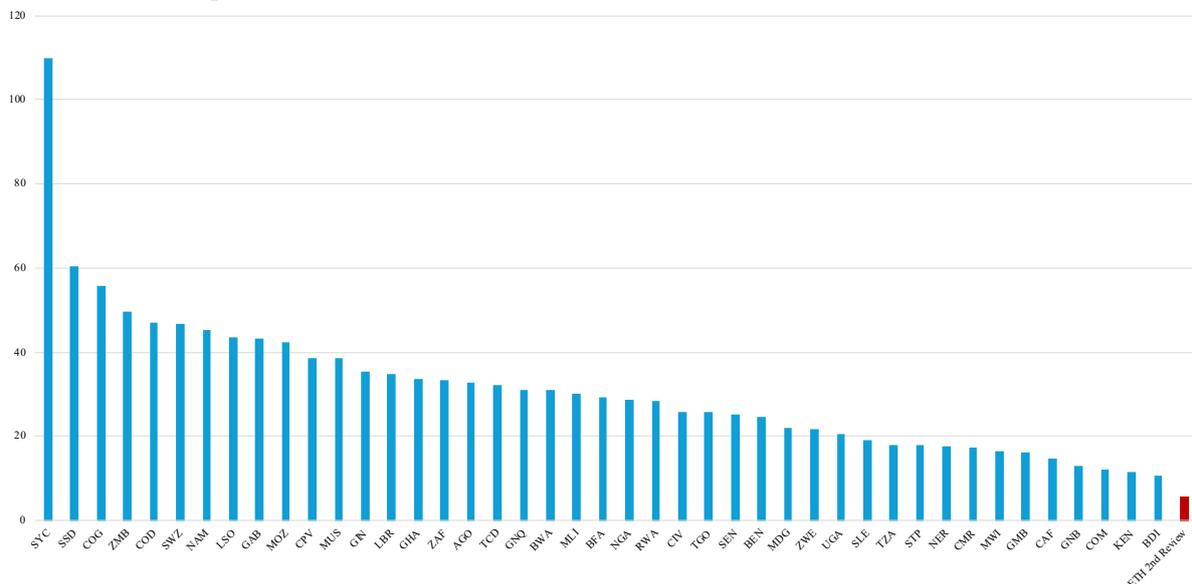
Comparison of Exports Impact Following Devaluation Events



Source: World Bank database, Ethiopia IMF Staff Report
Peers average analysis includes Turkey (1994), Mexico (1995), Argentina (2002), Egypt (2016) and Nigeria (2016).

Exports (as a percentage of gross domestic product (“GDP”)) also continue to remain below historical program forecasts. Foreign exchange liberalization should significantly boost exports of goods and services, therefore the assumption that exports will be below previous IMF forecasts from prior to this foreign exchange adjustment is incomprehensible. Also, the Committee observed that, while export projections in the Staff Report have been revised marginally upwards in the near-term, and more sizably post-program, the projections remain lower as a percentage of GDP in FY 2027/28 in particular. Ethiopia’s exports also remain significantly below every other Sub-Saharan African country, as the chart below illustrates.

Exports of Goods and Services (% of GDP) for Sub-Saharan Africa, 2024F



Source: IMF Regional Economic Outlook: Sub-Saharan Africa (data as of October 25, 2024) and Ethiopia IMF Staff Report (FY 2023/24 data referenced for Ethiopia)

Together, the Committee believes that this analysis strongly indicates a much more positive export trajectory for Ethiopia, which would result in a significantly improved debt sustainability outcome.

Reserve adequacy implications

The IMF ECF July 2024 report concluded that Ethiopia’s reserve adequacy range would be 2 to 3 months under a flexible exchange rate regime, and projected 3.5 months of import coverage by the end of fiscal year 2027/28 gradually declining to around 3 months over the projection horizon. The Staff Report now projects a nominal outflow of reserves in fiscal year 2029/30 of US\$0.9 billion, leading to a sudden drop from 3.5 months to 2.9 months of import coverage. External creditors are seemingly being required to provide significant debt relief in order for Ethiopia to meet reserve targets over the program period, only for those targets to be considered irrelevant by the IMF shortly thereafter.

Implications of significant new non-concessional financing

Debt service capacity is further limited by prospective financing, including new non-concessional borrowing for financing related to the Koysa Hydroelectric Dam project (the “**Project**”), totaling US\$950 million, following the exemption granted to Ethiopia by the IMF.

While the Committee understands the Project’s importance to Ethiopia, it notes that an exception of this magnitude to the IMF’s restriction on new non-concessional funding is rare in the context of low-income countries. With the 2024 Notes in default, it underlines the importance of full transparency around this unusual financing.

The Committee’s position is that Ethiopia cannot reasonably request that noteholders make concessions on defaulted debt where it is at the same time finalizing highly material project financings without full transparency as to the funding arrangements. As part of the continued good faith efforts, the Committee has requested that Ethiopia make the Project financing details public. This request is in addition to the Committee’s previous calls for transparency and public disclosure of terms relating to Ethiopia’s discussions with the Official Creditor Committee.

World Bank note

The Committee’s position on these important issues was recently corroborated by Brian Pinto, Senior Advisor in the Poverty Reduction and Economic Management Network of the World Bank Group, and Indermit Gill, World Bank Chief Economist and Senior Vice President for Development Economics, in their note entitled “*Ethiopia: Solvency or Liquidity?*” circulated in December 2024. Their note examined the IMF’s Debt Sustainability Analysis (“**DSA**”) included in the IMF ECF July 2024 report and the Committee’s rejection of Ethiopia’s restructuring proposals on the basis that Ethiopia is facing a liquidity and not a solvency issue. Gill and Pinto conclude in their paper that “*the bondholders have a point: Ethiopia does not have a solvency problem. Nor does it have a debt sustainability problem.*” Gill and Pinto’s view is that “*Ethiopia should be trying to find ways to lengthen debt maturity and increase exports to address its liquidity problem, not asking bondholders to take a haircut.*”

Although Gill and Pinto reference the IMF’s DSA and macroeconomic framework published in the July 2024 report, as the IMF’s DSA and macroeconomic framework remains largely unchanged in the updated Staff Report, the conclusions drawn in Gill and Pinto’s note remain valid in the Committee’s opinion.

Conclusion

The Committee’s analysis concludes that the cumulative impact of the IMF’s conclusions significantly increases the debt relief request from Ethiopia to its external creditors, and artificially creates a solvency issue. It remains the Committee’s position that Ethiopia’s debt issues are liquidity-related. This has been (and continues to be) consistent with the Committee’s evaluation of Ethiopia’s economic fundamentals.

While the Committee continues to remain willing to engage, if it is unable to negotiate a solution that is acceptable to both parties on the basis of reasonable economic forecasts, the Committee will need to evaluate this in the context of the wider bondholder community and the fiduciary duties that they owe to their investors and clients. In this situation, the Committee will have to strongly consider its remaining available options, including commencing legal proceedings in order to protect bondholders’ rights.