

INTERNATIONAL EXPERIENCE OF RESTRUCTURING SOVEREIGN DEBT

Risks and Best
Practices



▾ Analytical Review



Institute
of Analytics
and Advocacy



INTERNATIONAL
RENAISSANCE
FOUNDATION

Following the full-scale invasion, Ukraine reached an agreement with its external creditors to temporarily postpone debt payments until 2024. Later, the agreement with official bilateral creditors was extended until 2027, but the private debt should undergo restructuring in 2024. In this context, it is advisable to study the international restructuring experience to understand effective approaches to restructuring and use it to improve Ukraine's strategies in this area.

The analytics will be useful for:

- executive and legislative authorities in charge of developing and implementing the debt policy of Ukraine
- analysts and scientists whose professional interests include issues of sovereign debt management.

→ **Author:**

Anna Kornyliuk

PhD in Economics, IAA analyst

→ **Internal reviewer:**

Olena Dmytrenko

PhD, head of the IAA Analytics Department

→ **Layout and design:**

Kateryna Kysla

graphic designer at IAA

To cite this material: *Anna Kornyliuk (2024): International Experience of Restructuring Sovereign Debt: Risks and Best Practices*

The material was prepared with the support of the International Renaissance Foundation within the project "Sustainability of Debt Policy: Expanding the Possibilities of Recovery, Reforms, and Post-War Growth". The material reflects the authors' position and does not necessarily coincide with the position of the International Renaissance Foundation.

Contents



Abbreviations	4
Introduction	5
Section 1. Overview of General Approaches to Restructuring	7
1.1. Specifics of sovereign debt restructuring depending on instruments and types of creditors	9
1.2. Specifics of Domestic Debt Restructuring	19
1.3. Time of Restructuring: Preemptive and Post-Default	21
Section 2. Cases of Countries Undergoing Restructuring in 2024	24
2.1 Restructuring of Ghana’s Domestic and External Debt	24
2.2 Restructuring of Sri Lanka’s Domestic and External Debt	28
2.3 Restructuring of Zambia’s External Debt	32
2.4 Restructuring of Ethiopia’s External Debt	34
2.5 Restructuring of the External and Domestic Debt of the Republic of Suriname	36
Conclusions for Ukraine	40



Abbreviations



ADB African Development Bank

GDP Gross Domestic Product

EIB European Investment Bank

IIF Institute of International Finance

IDA International Development Association

IMF International Monetary Fund

IFIs International Financial Institutions

OECD Organisation for Economic Co-operation and Development

UN United Nations

HIPC Highly indebted poor countries

VRI Value recovery instrument



Introduction



The world's sovereign debt volume is high – [92.4% of GDP](#) as of the end of 2022 and does not show a noticeable downward trend. This situation seriously threatens economic sustainability and socio-economic development for both the most vulnerable and middle-income countries.

Debt restructuring is the main way to ease the debt burden and rehabilitate the economy. Currently, five countries are restructuring their sovereign debt: Ghana, Zambia, Ethiopia, Suriname, and Sri Lanka. Ukraine also has already started negotiations and reached a preliminary [deal](#) with investors on private debt restructuring. In this regard, it is important to study and analyse different types of restructuring to identify risks associated with each approach.

This analytical review aims to study and compare restructuring processes in different countries, identifying their specifics and consequences for the economy. Obtained results will help Ukraine strengthen the effectiveness of strategic approaches to future restructuring based on learned international experience.

The review is arranged as follows. The first part concerns the analysis of general approaches and specifics of sovereign debt restructuring in terms of various directions, as well as guidelines from international institutions. The second part focuses on analysing cases of countries undergoing restructuring. It examines the specifics of this process in detail and highlights existing risks. Lastly, the final part of the report outlines the main directions of possible restructuring for Ukraine and recommendations that will contribute to its effectiveness.

Used data sources. The analytical review is based on the analysis of existing studies on sovereign debt and restructuring, reports of the World Bank, IMF, UN, and other international organisations. In addition, the following databases were used for empirical analysis:



[1] [Paris Club database](#) of agreements concluded with borrowing countries.

[2] [BoC–BoE Sovereign Default Database](#).

[3] World Bank's database: [International Debt Statistics \(IDS\)](#).

[4] [Dataset](#) of sovereign debt restructurings by S. Horn, C. Reinhart, Ch. Trebesch.

[5] [Dataset](#) of sovereign debt restructurings in a monthly breakdown of 1970–2020 by T. Asonuma, Ch. Trebesch.

[6] [Dataset](#) of creditor losses in sovereign debt restructurings by J.Cruces, Ch. Trebesch.

In addition to the specified sources, data from the regulators of these countries, reports from news agencies, etc., have been used to analyse cases of country debt restructuring.



SECTION 1. Overview of General Approaches to Restructuring



In recent years, the volume of sovereign default has grown significantly: in 2017, this figure was USD 268.3 billion, while in 2022, it already amounted to USD 554.2 billion. Figure 1 demonstrates the dynamics of the structure of such sovereign debt by main creditors.

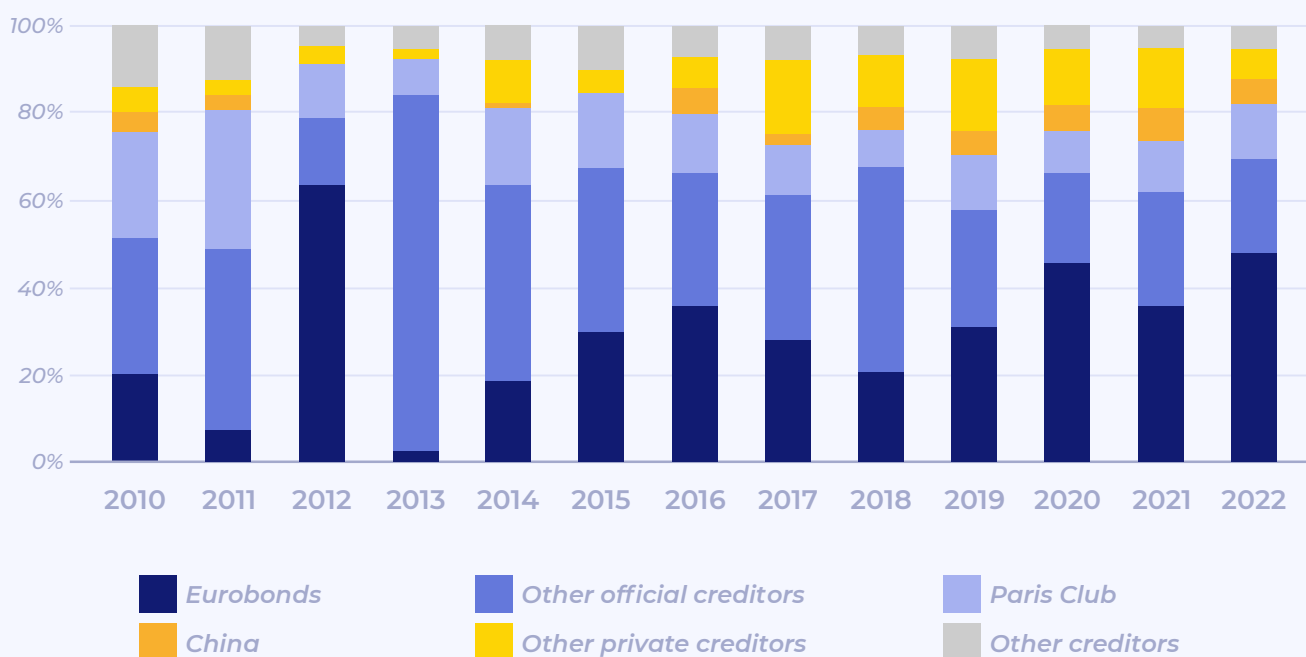


Figure 1. Dynamics of sovereign default by main creditors.

Source: author's based on [2] (see Introduction).

The evidence shows that states are most likely to default on Eurobonds (and this trend has accelerated since 2019) and before other official creditors other than the Paris Club¹, the IFOs, and China. The latter's share is significant and has fluctuated between 5.3% and 7.4% since 2018.

¹ A detailed explanation of the types of creditors is given in paragraph 1.1.

The debt crisis carries certain risks and losses, among which the following can be distinguished:

- **Economic** – reduction of GDP, export revenue, private lending, etc.;
- **Political** – governments tend not to carry out restructuring before elections to preserve ratings (see the case of Sri Lanka), thereby only delaying and deepening the consequences of the crisis;
- **Social** – [scholars](#) J. Farah-Yacoub et al. (2022) have studied the impact of default on social factors and concluded that it significantly affects poverty indicators and access to food, electricity, and healthcare.

The main way out of the debt crisis is debt restructuring.

Restructuring sovereign debt is a complex and important process, but it is usually considered the last resort when it comes to solving a country's financial problems. This process requires careful consideration of all risks and opportunities it presents.

Minimising adverse consequences is one of the main tasks of effective sovereign debt restructuring.

Certain parameters of sovereign debt may pose additional risks during restructuring. In particular, [U. Das, M. Papaioannou, and Ch. Trebesch \(2014\)](#) identify the following factors that influence the specifics of the Government's decisions to restructure debts:

- **Debt currency** – debt denominated in a foreign currency carries greater risks due to potential exchange rate shocks and, therefore, may require restructuring (for example, the current debt restructuring of [Ethiopia](#), which is primarily caused by a shortage of foreign currency liquidity);
- **Loans with a floating interest rate** raise the risk of a higher debt burden if the financial market situation worsens. For example, in 1996, [Argentina](#) issued floating rate notes (the so-called Floating Rate Accrual Notes) linked to the country's credit rating and with a maturity of 10 years. As a result of the 2001 crisis, note rates rose from 9% to 25.4%, and in 2005 they reached [101%](#);
- **Debt repayment period** – longer life of the loan reduces the risk of rollover (for example, a significant share of [Lebanon's](#) sovereign debt is short-term debt, while the unstable economic situation led to a significant increase in the cost of new borrowings, which ultimately led to the impossibility of debt refinancing and debt crisis), instead, empirical [study](#) by Koh, Wee Chian, M. Ayhan Kose, Peter S. Nagle (2020) shows that the share of short-term external debt of more than 30% increases the probability of a debt crisis by 2%;

- **An extensive structure of creditors** can complicate the restructuring negotiation process (for example, [Zambia](#) had significant difficulties in the process of restructuring private debt precisely because of the large number of creditors; other examples are the debt restructuring of [Ecuador](#) in 2000 and the Caribbean country of Dominica, where the process of negotiations with private investors lasted from 2003 to 2007).

In this section, we will look in detail at the restructuring aspects in terms of the main questions that usually come up during this process:

-
- **How should the restructuring be carried out?** We will analyse the main specifics of restructuring debt to different creditors.
 - **What debt should be restructured?** We will consider the specifics and key trends of domestic and external debt restructuring and various types of debt instruments.
 - **When to carry out restructuring?** In this context, we will analyse the consequences of preemptive and post-default restructuring.
-

1.1. Specifics of sovereign debt restructuring depending on instruments and types of creditors

Restructuring of sovereign debt has its specifics, which, in particular, are determined by the type of debt (official or private) and, accordingly, the type of creditors, which are mainly divided into:

- multilateral official creditors;
- bilateral official creditors;
- commercial (private) creditors, which include banks and bondholders.

In addition to the types of creditors, it is also advisable to distinguish the main restructuring instruments, the most common of which, according to [L. Buchheit, Ch. DeLong et al. \(2019\)](#) include:

- **changes in the debt or interest repayment periods** (for example, the restructuring of Eurobonds of Mozambique in 2019 provided for a change in the repayment period from 2023 to [2028–2031](#))

- **reduction of the nominal amount of the debt** (the so-called haircut) (for example, the reduction of the principal amount of the debt on the Eurobonds of Barbados in 2019 amounted to [26.3%](#));
- **reduction of the interest rate** (for example, in 2010, in the process of domestic debt restructuring, Jamaica offered new instruments with a rate of 12.5% compared to the previous [19%](#));
- sometimes, it is also possible to distinguish the **debt buy-back** – financing through official creditors for HIPC (for example, in 2009, Liberia bought back its commercial debt with a [97%](#) discount).

In addition, sovereign debt restructuring mechanisms using instruments such as debt-for-climate or debt-for-development² are relevant. These mechanisms provide for the funding of development programmes by the sovereign debtor in exchange for reducing part of its debt. For example, this instrument allowed Belize to reduce its external sovereign debt by [10% of GDP](#) in exchange for funding coastal protection programmes.

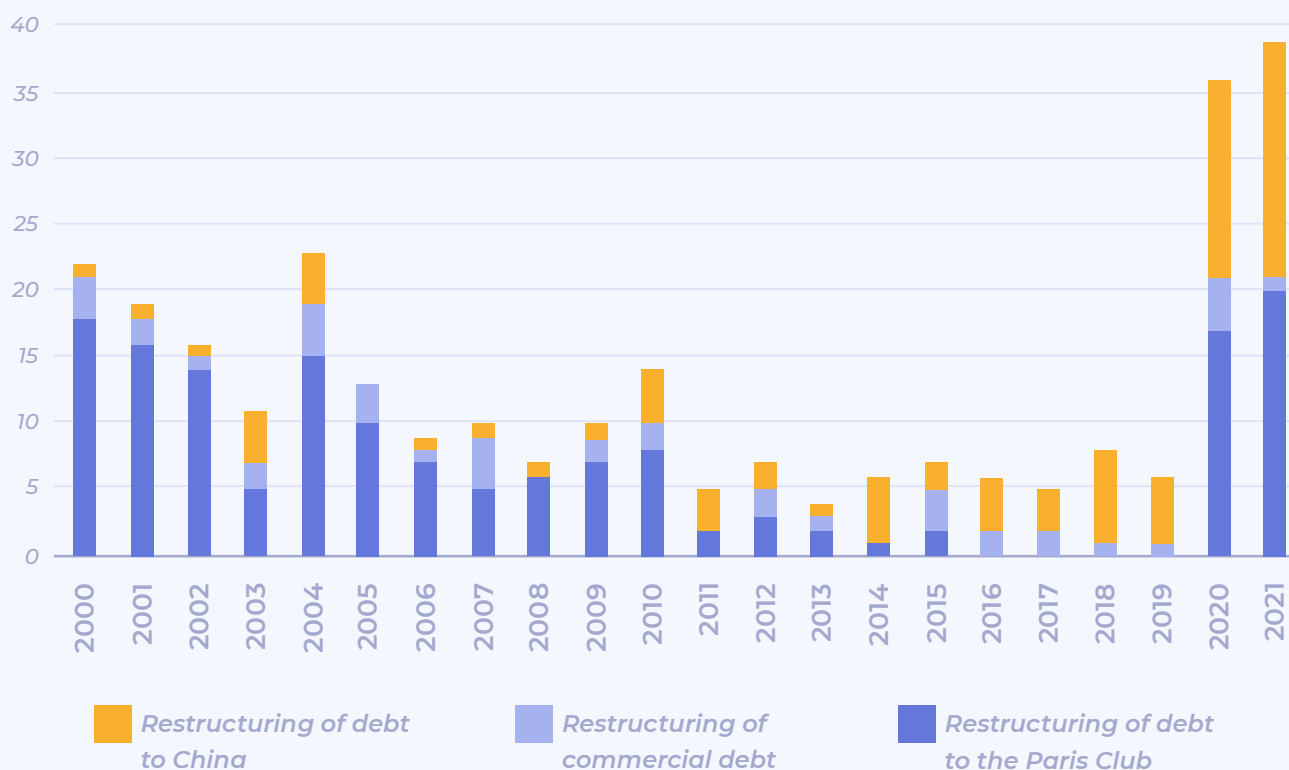


Figure 2. Restructuring episodes by type of creditor in 2000–2021.

Source: author’s calculations based on dataset [4] (see Introduction)

² [Analysis of the global experience](#) of using debt and related financial instruments for climate finance purposes. DiXi Group NGO, 2022.

The evidence shows (Figure 2) that since 2011, the number of debt restructurings to bilateral official creditors has decreased. However, it increased drastically in 2020–2021, which is explained by poor countries' high levels of indebtedness. In addition, in 2020–2021, debt restructurings to China ranked first, considering that this country is the largest bilateral official creditor in the world.

Consider the specifics of sovereign debt restructuring for each type of creditor.

Official creditors are a priority and main source of funding for developing countries. They can provide significant amounts of funding on more favourable terms compared to private creditors, particularly in the form of lower interest rates and longer funding periods.

Multilateral official creditors

Institutions such as the IMF and development banks (e.g., the World Bank Group, the African Development Bank) are important in supporting the economic development of many countries and also provide funding even after countries have defaulted on private creditors and undergo a debt restructuring process.

It should be noted that **traditionally, the debt to multilateral official creditors is not included in the restructuring.** [It is believed](#) that restructuring such debt will adversely affect the financial condition of these organisations and, therefore, make concessional funding more expensive for the borrowing countries.

However, recently, there has been a [debate](#) about changing these approaches, which is caused in particular by the significant indebtedness of low-income countries.

It is worth mentioning that the [HIPC](#) Initiative was introduced in 1995 for highly indebted poor countries that meet certain criteria regarding the level of debt service costs, per capita income, etc., and was later expanded by the [Multilateral Debt Relief Initiative](#), which provides for the relief of 100% of debts to the IMF, the International Development Association (a World Bank group), and the African Development Fund. Currently, these initiatives are spread over [37 countries](#), including 31 in Africa: Zambia, Niger, Ghana, and others.

Bilateral official creditors – countries that directly provide loans to other countries for the purposes of technical assistance, trade development, support during crises, etc.

An important institutional platform for bilateral debt restructuring is the Paris Club, an informal association of creditor countries with 22 permanent member countries and 14 ad hoc members. During the time of its existence since 1956, the amount of debt considered within the Club amounts to [USD 614 billion](#), and 428 agreements were reached with 102 countries.

As of the end of 2022, the volume of claims of the Paris Club amounts to USD [324,296](#) million, including the largest debt in Greece and India – USD 46,240 million and USD 31,224 million, respectively.

Most restructurings occur in accordance with a certain set of conditions, as described in Table 1.

Table 1. Comparative characteristics of the conditions of sovereign debt restructuring by the Paris Club.

Title	Specifics	Criteria	Number of benefiting countries	Description
Classic terms	Standard conditions	Need for the IMF programme	61 (including Suriname 2022, Grenada 2006, 2012, Ukraine 2001, etc.)	Rescheduling loans at the appropriate market rate ³ , with repayment periods determined on a case-by-case basis.
Houston terms	for highly indebted and lower-middle-income countries	Eligibility (except for the need for the IMF programme) is determined on a case-by-case basis, but at a minimum, a country must meet two of the following three criteria: 1) low level of income (GDP per capita); 2) high indebtedness; ⁴ 3) have a stock of official bilateral debt of at least 150% of private debt.	21 (e.g., Moldova, Georgia, Kenya, Ecuador, etc.)	Non-ODA ⁵ repayment periods are extended to or beyond 15 years, and ODA repayment periods are extended up to 20 years with a maximum of 10-year grace period. ODA credits are rescheduled at a concessional rate. Debt swaps can be conducted on a bilateral and voluntary basis; non-ODA credits are rescheduled at the appropriate market rate with 2–3 years grace period; ODA credits are rescheduled at an interest rate at least as favourable as the original rate applying to these loans. Rescheduling usually results in a reduction of the net present value of the claims, as the original concessional rate is smaller than the appropriate market rate. Swap operations may be carried out in respect of ODA without limit and up to 20% of the outstanding amount or 15 up to 30 million SDR for non-ODA credits.

³ The interest rate specified in bilateral agreements implementing the Paris Club Protocol is based on standard interest rates in the relevant currency plus a management fee. This rate can be fixed or variable and does not include a country risk premium.

⁴ to be defined as eligibility with 2 of 3 criteria: 1) debt to GDP above 50%, 2) debt to exports above 275%, 3) scheduled debt service above exports by 30%

⁵ “Official Development Assistance” (ODA) is defined by the OECD as low-interest loans aimed at development.

Naples terms	for highly indebted poor countries	Eligibility is determined on a case-by-case basis, which includes, inter alia, a high level of indebtedness, low GDP per capita, and being only eligible for IDA financing from the World Bank	33 countries (e.g., Togo, Afghanistan, Congo)	<p>Non-ODA credits can be cancelled to a 67% level by one of the two following options:</p> <ul style="list-style-type: none"> ▪ 67% of the claims treated are cancelled, the outstanding part being rescheduled at the appropriate market rate according to a standard table (23 years repayment period with a 6-year grace period and progressive payments); ▪ debt service reduction option – claims treated are rescheduled at a reduced interest rate according to the standard table for 33 years with a repayment period with progressive payments. <p>There are other options that are very seldom used: capitalisation of moratorium interest and the commercial option.</p> <p>Concerning ODA credits, they are rescheduled at an interest rate at least as favourable as the original concessional interest rate applying to these loans for 40 years with a 16-year grace period and progressive repayment according to the standard table with progressive payments.</p> <p>The parameters of debt swaps are identical to the Houston requirements.</p>
Cologne terms	for HIPC-eligible countries	<p>Must be eligible for Naples terms and:</p> <ol style="list-style-type: none"> 1) have a sound track record with the Paris Club 2) have been declared eligible for the enhanced HIPC Initiative by the boards of the IMF and the World Bank 	38 countries (e.g., Sudan, Somalia, Guinea)	<p>90% cancellation level</p> <p>The debt reduction option (similar to the Naples terms) is used for non-ODA credits.</p> <p>Concerning ODA credits, they are rescheduled on terms similar to Naples terms in this regard.</p> <p>The swap terms are similar to Houston terms.</p>

Source: compiled by the author based on data from the [Paris Club](#)

Statistics show (Figure 3) that most active agreements are currently carried out according to AdHoc criteria (that is, those that provide for individual sets of requirements for the country) and within the HIPC Initiative.

Figure 3.
Breakdown of active Paris Club agreements according to the restructuring terms

Source:
author's calculations based on data from the [Paris Club](#)

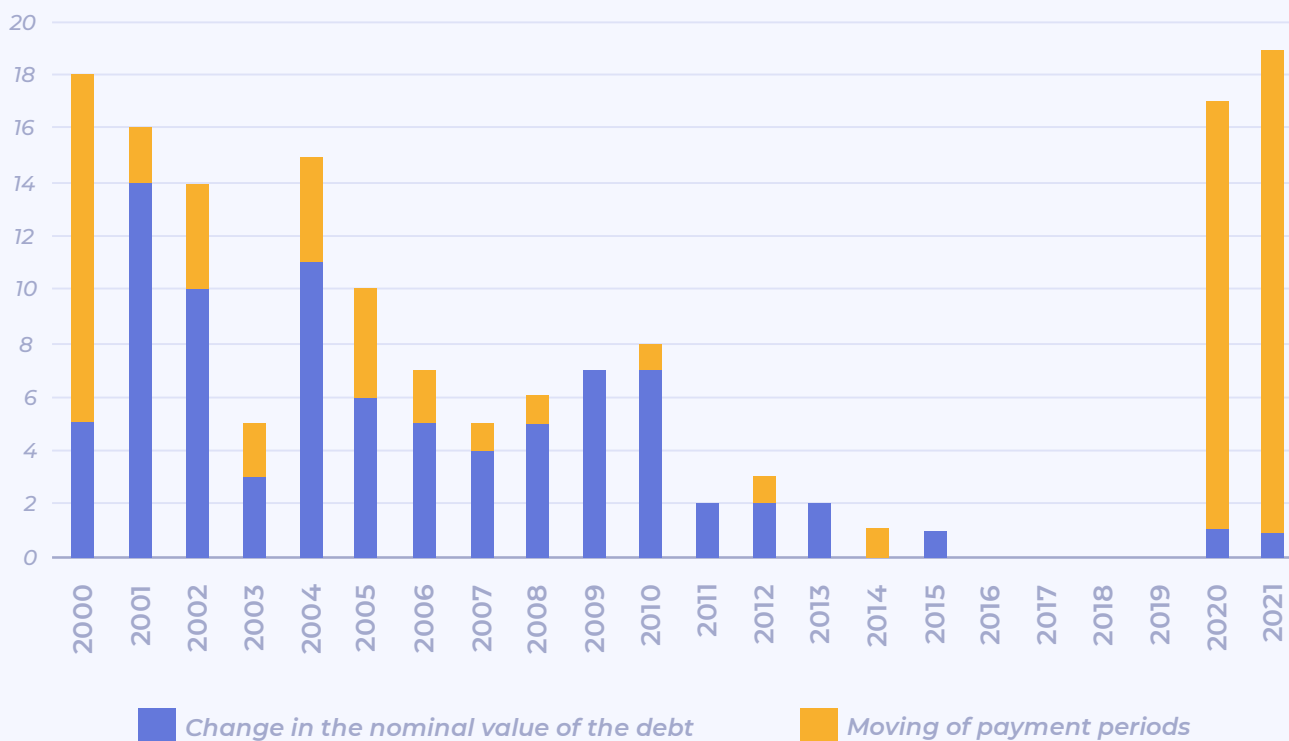
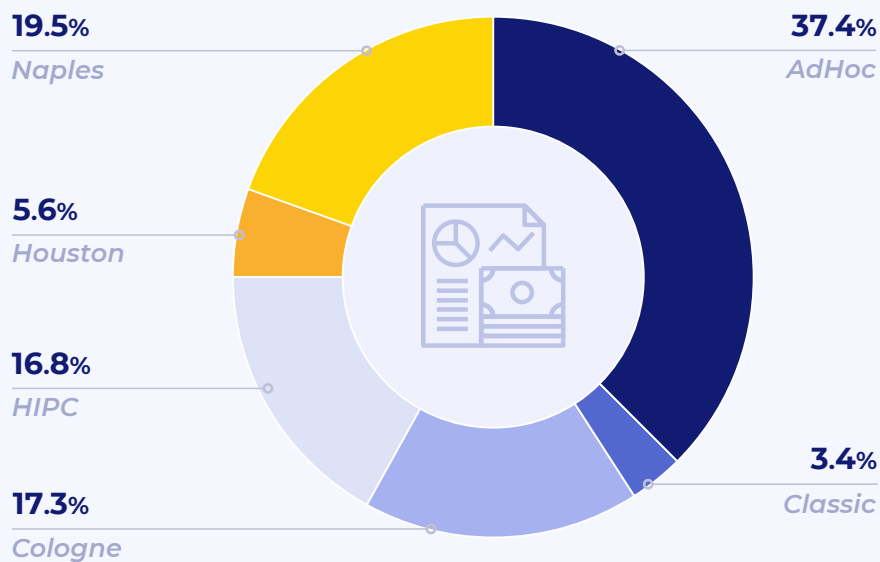


Figure 4. Breakdown of restructurings of debt to the Paris Club by instrument

Source: author's calculations based on dataset [4] (see Introduction)

The evidence indicates a change in the trend in the restructuring of the official bilateral debt (Paris Club): until 2015, priority was given to reducing the principal amount of debt, while in 2020–2021, the main part of the restructuring was carried out only with the *extension of the debt payment terms, and not its reduction*. Although less noticeable, this trend is also characteristic of private debt (see Figure 5).

Commercial (private) creditors are a rather broad and heterogeneous group that may include banks, bondholders, trade creditors, and individuals.

Most often, the sovereign debtor interacts with banks in the framework of restructuring of commercial loans and investors in government domestic loan bonds (Eurobonds).

Debt to banks is most often restructured within the framework of the London Club – an informal association of creditor banks, which, unlike the Paris Club, does not have permanent committees and a formal mandate. Therefore, the term is used to refer to specially created committees of private creditors and the sovereign debtor. At the same time, a special Banking Advisory Committee and Credit Committee may be created.

In addition, the Brady Plan, which provided for replacing such debt with issued sovereign bonds, was an important instrument for restructuring bank debt.

Brady Bonds

Brady Bonds (named after Nicholas Brady, then United States Secretary of the Treasury) were long-term securities issued mainly by Latin American developing countries in the late 1980s and early 1990s to deal with their debt crises.

With repayment periods of up to 30 years, these bonds were backed by US Treasury Bonds. The initiative aimed to give highly indebted countries access to international markets and restore their financial stability.

[Das, U. S., Papaioannou, M. G., & Trebesch, C. \(2014\)](#) distinguish the following main restructuring options within this Plan:

- ➔ discount bonds with a reduced face value, classic long-term bonds with lower rates (compared to the market ones), but without a reduction in the nominal value. Banks could also re-invest in debt instruments of the sovereign debtor on favourable terms (short terms or higher rates);
- ➔ partial capitalisation of overdue debt, which was converted into floating-rate short-term bonds;
- ➔ buy-back of bonds for cash;

- exchange at face value – early repayment of the principal amount of the debt and the remaining 9–12% interest payments.

According to the Brady Plan, 17 countries restructured their debts from 1990 to 1998.

An empirical study by [Shenai, Neil and Marijn A. Bolhuis \(2023\)](#) shows that the Brady Plan allowed countries to achieve a number of positive effects, including faster growth rates and expansion of the investor base (in addition to commercial banks, institutional investors also became investors, which made it possible to increase the liquidity of securities), and carrying out structural reforms, which were one of the conditions of the Plan. In addition, banks that participated in the deal also felt a positive impact – their capitalisation increased by an average of 35%, according to a study by [Arslanalp & Henry \(2005\)](#).

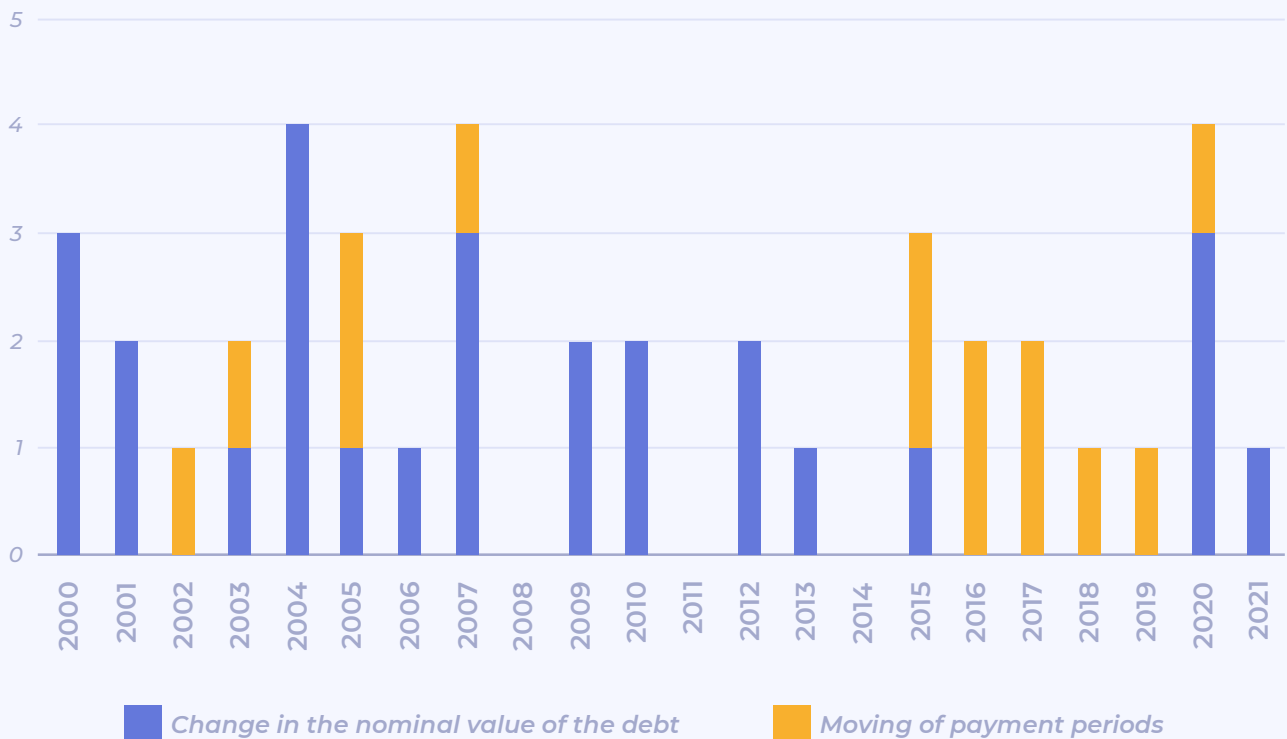


Figure 5. Breakdown of restructurings of external debt to the private creditors by instrument

Source: author's calculations based on dataset [4] (see Introduction).

[C. Graf von Luckner, J. Meyer et al.](#) (2023) have analysed more than 300 restructurings of private external debt, which included a reduction of the principal amount of the debt, and highlighted the specifics of such restructurings, including:

- 1 The extent of nominal debt reduction varies greatly.
 - 2 Serial restructurings have become more frequent, particularly in recent decades.
 - 3 The decline in the nominal amount of debt is greater after a cycle of sharp debt growth and for low-income countries.
 - 4 Restructuring of bonds issued for the first time is also characterised by a more significant reduction in the nominal amount of the debt.
 - 5 Prolonged debt crises and a significant drop in production lead to a significant reduction in the principal amount of the debt.
-

Therefore, considering the specifics of restructuring for each type of creditor and current trends can help achieve more effective results within this process. However, there is also a set of general recommendations, which, if followed, will simplify negotiations with creditors.

In particular, the Institute of International Finance, an organisation that includes 400 leading financial [players](#) (including national banks, investment funds, commercial banks, insurance companies, etc.), developed a list of principles for [fair debt restructuring](#), which are voluntary to follow with the participation of developing countries and their official and private creditors under the auspices of the IMF, these principles were also supported by the G20.

Here are the main principles of fair restructuring as of April 2022:

→ *Timely Flow of Information and Transparency.*

General Disclosure Practice: Sovereign debtors should ensure timely disclosure of relevant information so that creditors can make informed assessments of the debtors' financial situation and perspectives for its development, etc. In addition, the information should be equally available to both private and official creditors. Specific Disclosure Practice: the debtor should disclose to all potentially affected creditors in a timely manner 1) debt parameters (rates, terms, debt holders) and possible methods of restructuring; 2) key aspects, including assumptions and scenarios of economic policies. In addition, creditors should be informed about the agreements reached with international institutions participating in the restructuring process.

→ *Close Debtor-Creditor Dialogue and Cooperation to Enhance Debt Sustainability.*

Establishing and maintaining the recurrence of meetings between the debtor and the creditor. Application of best practices of investor relations, including establishing various communication channels, timely disclosure of information, monitoring and elimination of communication problems.

→ *Implementation of a rational fiscal and financial policy for macroeconomic stabilisation and maintenance of debt sustainability.*

As part of the work of the investor relations committee, the debtor must consult on alternative market approaches to solving the problem of repayment and servicing the debt before the restructuring becomes inevitable, as well as directly in its process.

→ *Fair Treatment contains the following blocks:*

- Seeking **fair treatment** for all creditors. No investor should be excluded ex-ante from participating in negotiations; the sovereign debtor should strive for a fair distribution of the burden of restructuring losses among all investors.
- **Preferred creditor status** which is usually granted to the IMF and development banks on the grounds that they continue to provide concessional funding even in times of crisis, which private lenders typically do not. However, transparency (in particular, the amount of debt not subject to restructuring and the amount of concessional funding provided) is an important component of restructuring.
- An important component of this principle is the **debt valuation methodology** (discount rate, method of calculating the net present value).
- **Fairness of voting** provides that in a situation where the debtor state has bought back and owns its debt instruments, it should not vote for a certain restructuring method and thus influence the final result.

In addition, the last decade saw the development of existing approaches and the emergence of new approaches in the field of sovereign debt restructuring; the following should be highlighted.

Collective action clauses in 2014 – an instrument that allows better coordination of creditors and is designed to solve the problem of their non-participation in negotiations. Previously, debt restructuring proposals had to be presented separately to investors in each series of bonds, with 75% of the investors' votes in each series required. This greatly complicated and lengthened the process. Instead, the improved mechanism envisages one unified proposal for all investors regardless of the number of bond series, with the condition that 75% of the votes of all investors be obtained. According to [statistics](#), of the 77 countries that issued sovereign bonds from 2014 to 2018, 58 countries (75%)

included enhanced CACs in their contracts, including Ukraine, Zambia, Colombia, and others. A study conducted by [K. Chung and M. G. Papaioannou \(2020\)](#) proved that **applying enhanced CACs reduces borrowing costs for borrowing countries**.

In response to the COVID crisis, the G20 presented a short term **Debt Service Suspension Initiative**⁶ (DSSI) for low-income countries in May 2020. The mechanism was extended to all bilateral official creditors, and private creditors were also invited to join, yet they did not. Participating countries received a deferral of both principal and interest payments, and the new repayment schedule included a one-year grace period and a four-year repayment period. The freed financial resources of the country were committed to directing efforts to combat the consequences of the crisis, a detailed [review](#) of spending areas was carried out by experts from the IMF and the World Bank. It should be noted that 48 countries out of 73 possible took part in the Initiative, and their deferred debt amounted to almost USD 13 billion.

Given the short-term nature of the DSSI mechanism, which ended in December 2020, the G20 countries have put in place a Common Framework for Debt Treatment beyond the DSSI⁷ (hereinafter – the Common Framework), the main purpose of which was to introduce a mechanism for better coordination of the debt restructuring of bilateral official and private creditors, including through the involvement of countries that are not part of the Paris Club (China, India, Saudi Arabia, etc.). Chad became the first country to benefit from this initiative within the sovereign debt restructuring. Currently, Zambia, Ethiopia, and Ghana are undergoing restructuring according to this mechanism (see country cases). However, their experience shows that the mechanism did not ensure effective coordination of creditors and a quick process of sovereign debt restructuring.

1.2. Specifics of Domestic Debt Restructuring

The restructuring decision may include only domestic or external debt or be comprehensive: negotiations with both types of creditors.

Analysis of empirical studies ([Mr. David A. Grigorian, 2023](#); [Aitor Erce et al., 2022](#)) provides for the following specifics of domestic restructuring compared to external restructuring:

- As a rule, domestic restructurings take less time, given the higher control of the debtor state over domestic debt legislation and by investors themselves, which is also confirmed by other [studies](#). In particular, the median value is seven months, primarily due to the greater popularity of preemptive restructurings (see 1.3) and the use of the Collective Action Clauses (CACs)⁸;

⁶ Debt service suspension initiative for the poorest countries ([DSSI](#)).

⁷ Common Framework for Debt Treatments beyond the DSSI.

⁸ Such a clause makes it possible to agree on the restructuring, provided that most of the debt owners agree to it, even if some owners oppose it.

- The most popular form of domestic debt restructuring is the extension of the repayment period, while the reduction of the nominal amount of the debt is relatively rare;
- Provided that the share of domestic debt is insignificant, no restructuring of such debt is usually carried out;
- Investor losses during internal restructuring are comparable to investor losses during external restructuring;
- Complex restructuring is usually carried out amid great threats to debt sustainability and a deep economic crisis, and, accordingly, a partial decision (i.e., separate domestic or external debt) is unable to provide the necessary relief of the debt burden.

Only domestic restructuring is chosen under the condition of a stable financial system because of the threat to it, potentially threatening the need for bank recapitalisation. In addition, if, for example, pension funds of the country invested in domestic government bonds, debt restructuring threatens citizens' pension savings (see the case of Sri Lanka).

For this reason, internal restructuring should be carried out after assessing its net effect (restructured debt less potential costs for stabilising the situation in the financial sector).

To design the restructuring of the domestic debt, which would mitigate the adverse consequences, the **IMF proposed the following sequence of steps:**

Step 1: Estimate the debt relief target (DRT) necessary to restore public debt sustainability.

Step 2: Identify the perimeter of claims (i.e., instrument type) and categories of creditors holding "restructurable debt."

Step 3: Determine the potential contribution to DRT for each category of creditors. In particular, the net contribution to DRT is estimated as the difference between gross debt relief and fiscal costs associated with the restructuring (e.g., recapitalisation, subsidies, etc.).

Step 4: Assess the economic costs associated with obtaining relief, such as macro-financial implications and adverse effects on market access.

Step 5: Ensure the normal operation of the payments system and assess the need for any immediate (or future) recapitalisation needs.

Step 6: Determine which claims to restructure in order to minimise overall costs while also achieving the DRT and supporting broader macroeconomic reforms.

In addition, [IMF experts](#) identify the following prerequisites for successful domestic debt restructuring: sustainable state macroeconomic and financial policy, a timely return to debt markets strategy, and financial and technical support from IFOs.

1.3. Time of Restructuring: Preemptive and Post-Default

The decision to carry out restructuring can be made before the payment is overdue, that is, at the stage when the Government only foresees difficulties in servicing and paying off the debt. Alternatively, the Government can start negotiations on changing debt parameters already after the default has occurred.

Therefore, restructuring is preemptive if the Government has started negotiations with investors before the obligations become overdue. Instead, post default restructuring means starting the process after at least one payment on the sovereign debt has become overdue.

Based on the analysis of 179 private external debt restructuring cases in 1950–2010, scholars T. Asonuma and Ch. Trebesch found that 68 cases (38%) were preemptive (including 45 cases with payment already overdue during negotiations) and 111 cases (62%) of post-default restructuring.

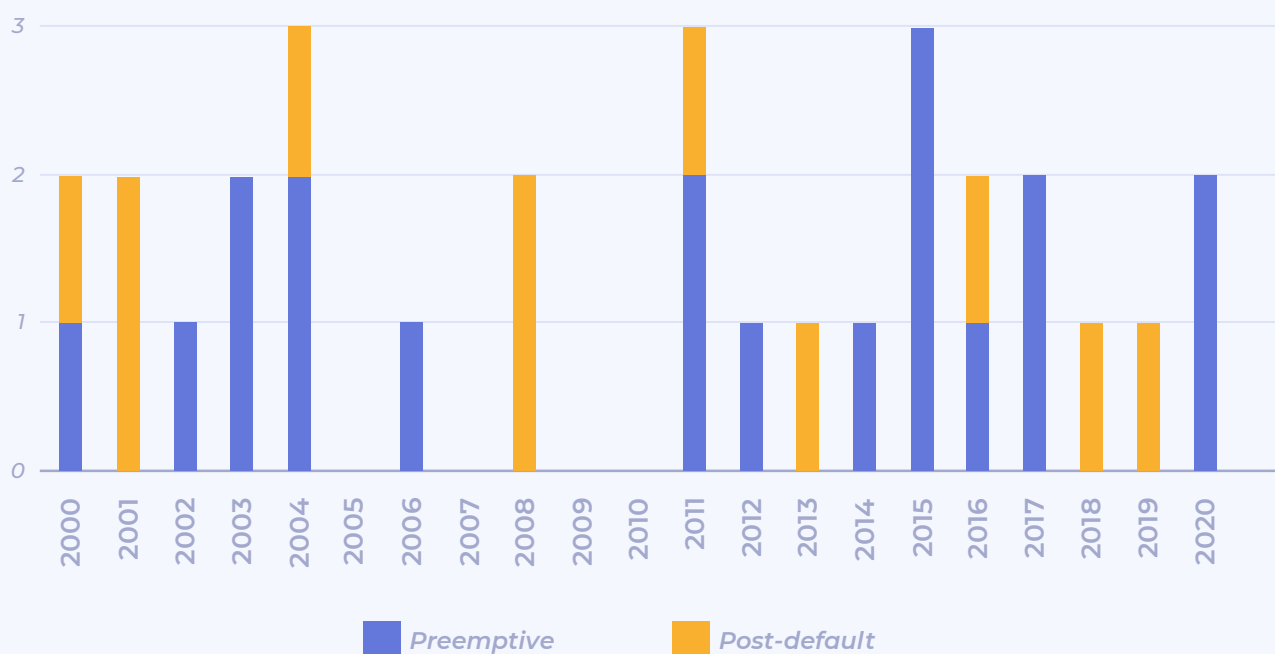


Figure 6. Breakdown of restructurings of external commercial debt in 2000–2020 (by restructuring start date)

Source: compiled by the author based on dataset [5] (see Introduction)

More recent cases show that countries mostly prefer preemptive restructuring in recent years: from 2000 to 2020, 17 restructurings of external private debt were initiated, 12 of which were preemptive (71%) and only five post-default. In particular, since 2011, the following countries have defaulted on time to external private creditors: Ivory Coast, Grenada, Mozambique, and Argentina. It should be noted that all of them have restructured their external private debt.

Does the choice of a certain approach to restructuring affect the country's economy? Empirical evidence suggests that it does.

First, preemptive restructurings have a shorter duration: the median value is ten months, compared to 35 months for post-default, which is longer than the maximum duration for preemptive restructuring (Table 2).

Table 2. Breakdown of the duration of private external debt restructuring depending on the approach

	Minimum value, months	Median value, months	Maximum value, months	Number of observations
Preemptive	1	10	34	81
Post-default	4	35	272	116

Source: author's calculations based on dataset [5] (see Introduction).

In addition, they have a milder impact on the economy, particularly the fall in GDP. Evidence [suggests](#) that post default restructuring is associated with a sharper and longer-lasting fall in GDP. In contrast, preemptive restructuring leads to faster recovery rates to pre-crisis levels. Preemptive restructuring is associated with a [1.4%](#) decrease in GDP in the short term, while post-default restructuring is associated with a 2% decrease in GDP.

In addition, preemptive restructurings according to [Asonuma et al. \(2019\)](#) contribute to:

- a smaller drop in investments in the economy;
- faster recovery of private lending – during post-default restructuring, private lending shows a sharp decline, while during preemptive restructuring, lending recovers much faster;

- lower interest rates – with preemptive restructuring, rates do not show significant fluctuations, while with post-default restructuring, rates experience significant growth; the same [applies](#) to the exchange rate (Asonuma et al, 2016);
- international trade losses: both imports and exports are significantly reduced during post-default restructuring. Thus, a sharp drop in imports three years after the post-default restructuring continues with a moderate drop during the [next five years](#). In contrast, with preemptive restructuring, there is only a gradual decline over the next four years.

It is also crucial that preemptive restructurings contribute to a faster return to the capital markets, which is crucial for countries' post-crisis recovery. In addition, they are characterised by lower creditor losses – on average, the reduction of the principal amount of the debt is 18% for preemptive restructuring and 48% for post default restructuring. [Benjamin and Wright \(2009\)](#) reached the same conclusion, showing that longer delays in restructuring negotiations generally lead to a relatively significant reduction in the principal amount of the debt.

Therefore, preemptive restructurings are less disruptive to the economy and contribute to a faster recovery in the post-crisis period.



SECTION 2. Cases of Countries Undergoing Restructuring in 2024



As noted above, five countries – Ghana, Zambia, Ethiopia, Sri Lanka, and Suriname – are currently holding negotiations to restructure their sovereign debt. Given that Ukraine is also undergoing a restructuring process, it is appropriate to analyse the main parameters and specifics of restructuring in the above-mentioned countries⁹.

Taking into account their experience and current trends will enable them to form a more effective strategy for restructuring sovereign debt.

2.1 Restructuring of Ghana's Domestic and External Debt



Ghana [declared](#) default in December 2022, saying it was suspending payments on its external debt, which included Eurobonds, commercial loans, and most of its bilateral official debt. Instead, the country continues to pay the debt to multilateral official creditors, which corresponds to the generally accepted practice (see chapter 1.1)

General information on debt burden and restructuring:

Default date	Amount of debt	Debt to GDP
December 2022	USD 51.7 billion <i>as of Q1 2023</i>	71.1 % <i>as of Q1 2023</i>
Debt to be restructured	The share of external debt	Type of restructuring
domestic and external	47%, including 20% – Eurobonds, 7% – commercial creditors	post-default
Availability of the IMF programme	→ the Extended Credit Facility (ECF) programme in the amount of USD 3 billion	

⁹ Data is shown as of the beginning of June 2024 unless otherwise specified.

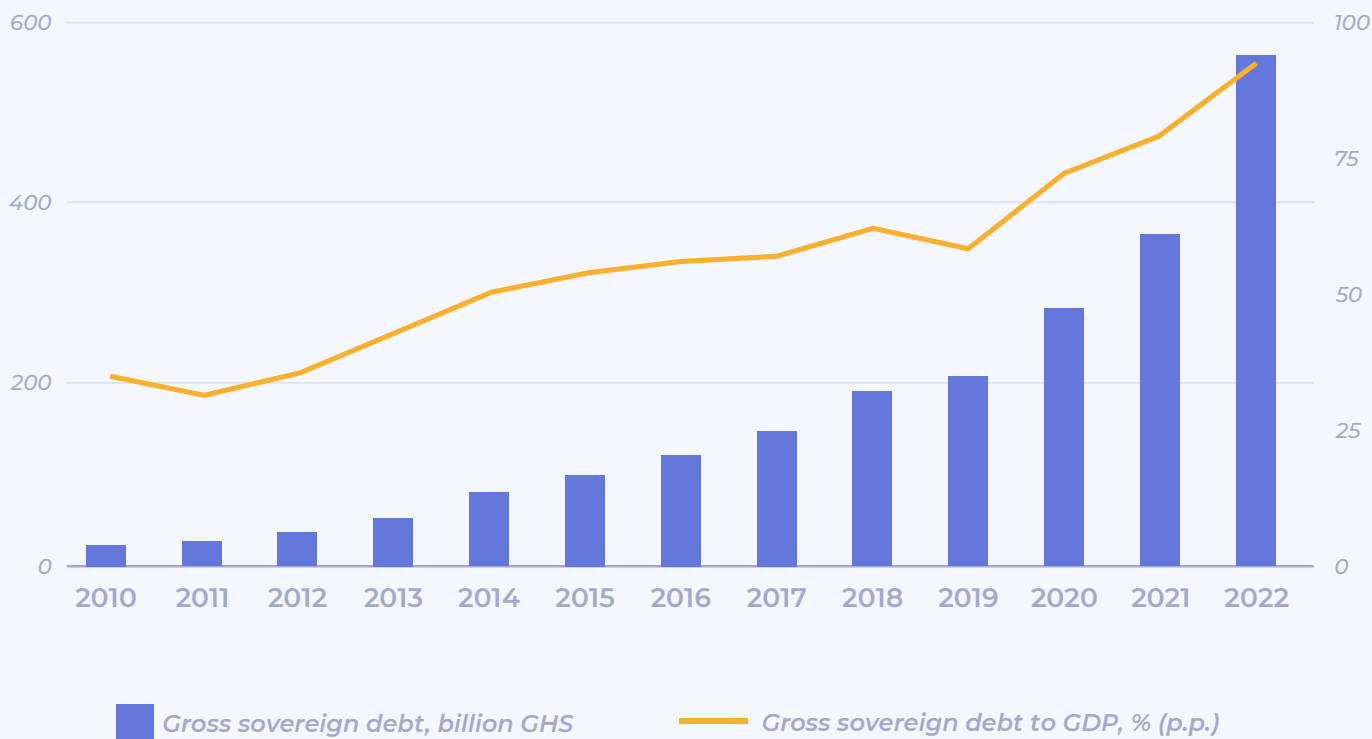


Figure 7 Dynamics of sovereign net debt of Ghana in 2010–2022

Source: Author’s calculations based on [IMF](#) data

Reasons for debt crisis

The debt crisis was caused by a set of both external and internal factors. External shocks on which the country has a limited influence include the decrease in the price of main groups of export goods (gold, oil, cocoa beans) significantly reduced the country’s income and the increase in costs due to COVID-19, while internal factors, including political ones, had their impact, too. Thus, in 2016 New Patriotic Party won parliamentary elections on populist promises of tax cuts, free secondary education (including full board), and plans to open factories in the country’s 261 regions.

Tax cuts, in particular, concerned the cancellation of 17.5% VAT and personal income tax on transactions with real estate, financial services, and import duties, the reduction of taxation of transactions with oil from 17.5% to 13%, and the reduction of taxation of gold exporters from 3% to 1%. Amid the rising costs and declining revenues (due to the tax base reduction), the government had to resort to borrowing on the domestic and foreign markets. It should be noted that signs of the debt crisis started manifesting as early as 2019, but since the elections were to be held soon, the ruling party did not take adequate measures that would help reduce the debt. This policy led to the fact that in September 2022, the debt to GDP was already 92%, almost doubling in 5 years.

Way of restructuring

Even before the default was announced, the country approached its domestic creditors with a proposal to restructure the debt, bypassing the attention of external private creditors, who actually received all the information only at the end of December and, as a result, complained about the [lack of clarity](#) in the default decision. As mentioned in the previous section, the country is restructuring through the G20 Common Framework mechanism.

Domestic debt restructuring

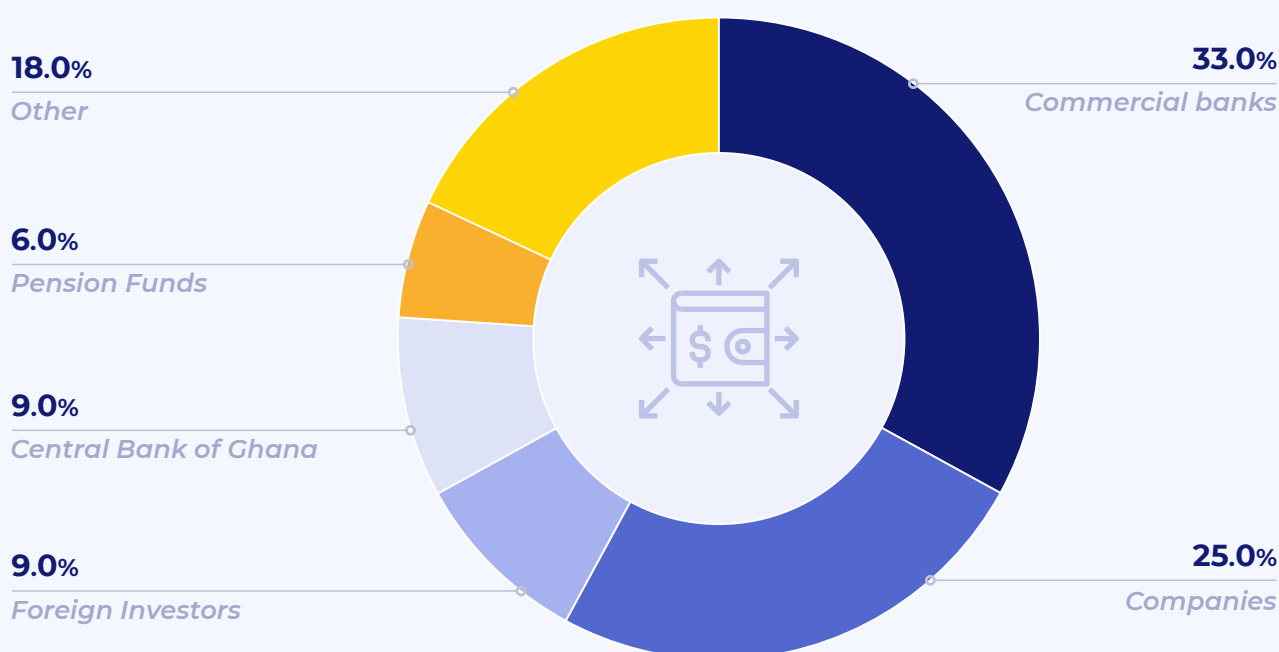


Figure 8. Breakdown of Ghana's domestic debt by type of creditor

Source: [Reuters](#)

The domestic debt restructuring is currently completed and was carried out in several stages. In particular, the restructuring of domestic government bonds denominated in the national currency lasted from December 2022 to February 2023. Under the restructuring terms, the coupon was reduced from [19.1% to 9%](#), and the terms were extended from 3.8 years to 8.3 years.

Later, in the summer and September 2023, Ghana restructured domestic bonds denominated in US dollars, liabilities to pension funds and the Central Bank, which has relieved 50% of domestic government bonds from its balance sheet.

External debt restructuring

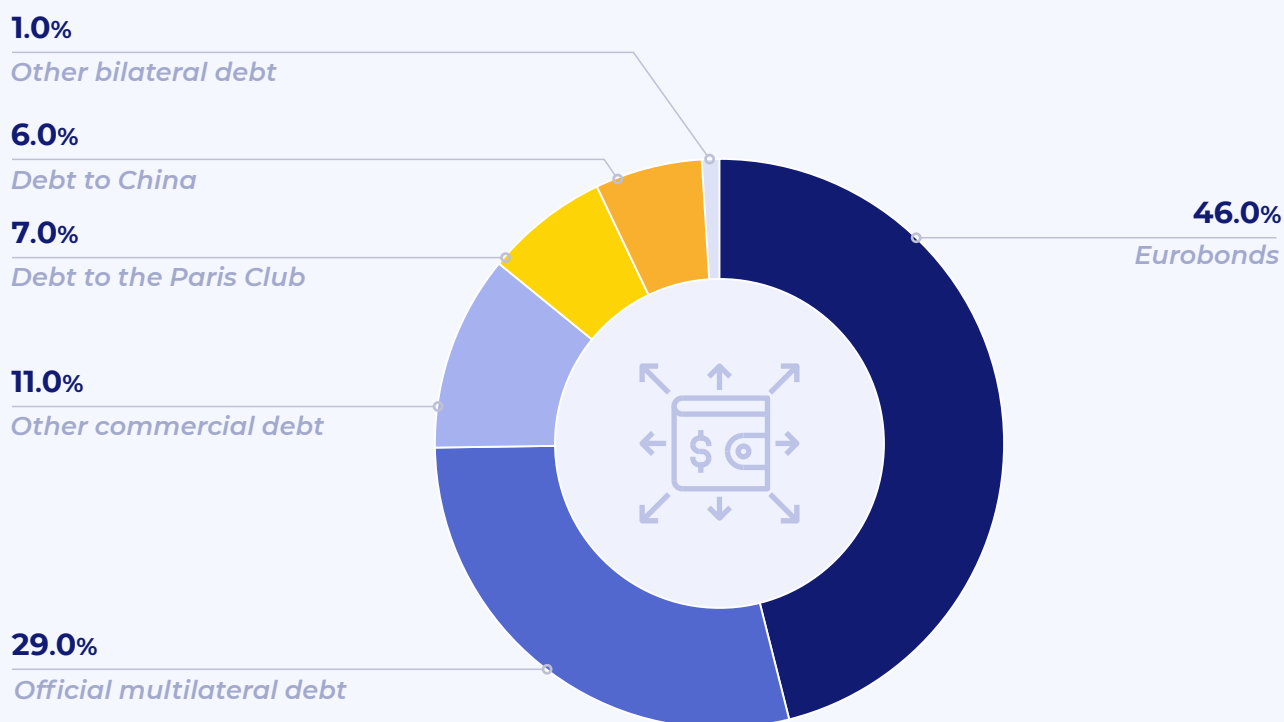


Figure 9. Breakdown of Ghana's external debt by type of creditor

Source: [Reuters](#)

Ghana intends to restructure 2/3 of its external debt (about USD 20 billion).

In January 2024, more than a year after announcing its intention to restructure, Ghana reached a tentative agreement with bilateral official creditors, including China and France. According to [Debt Justice](#), restructuring parameters did not provide for the relief of the principal amount owed. Instead, it was proposed to postpone all payments until 2028, and the principal amount of the debt should be paid in 2039–2041. The total amount of debt to be restructured within this agreement is USD 5.4 billion.

It is worth noting that as of [October 2023](#), Ghana expected to close negotiations with bilateral creditors in November 2023 and with private creditors – in early 2024. However, Ghana has reached an agreement with private external creditors on USD 13 billion in bonds only in mid-June. [The parameters](#) of the restructuring provide for the relief of [37% of the debt](#) and the reduction of the net present value of Ghana's external private debt from USD 13.1 billion to USD 9.31 billion. Therefore, private creditors will receive 15% more than bilateral official creditors.

2.2 Restructuring of Sri Lanka's Domestic and External Debt



Sri Lanka declared its first-ever default in April 2022 amid its deepest crisis since independence. At the same time, Sri Lanka announced the suspension of payments in advance and offered negotiations on restructuring before the date of default.

General information on debt burden and restructuring:

Default date	Amount of debt	Debt to GDP
April 2022	USD 83.6 billion <i>at the time of default announcement</i>	125.8 % <i>as of end of 2022</i>
Debt to be restructured	External debt	Type of restructuring
domestic and external	49.7%, including 16% – Eurobonds, 7.1% – ADB, 5.4% – China	preemptive
IMF support	→ USD 2.9 billion within the framework of the EFF (Extended Fund Facility) programme	

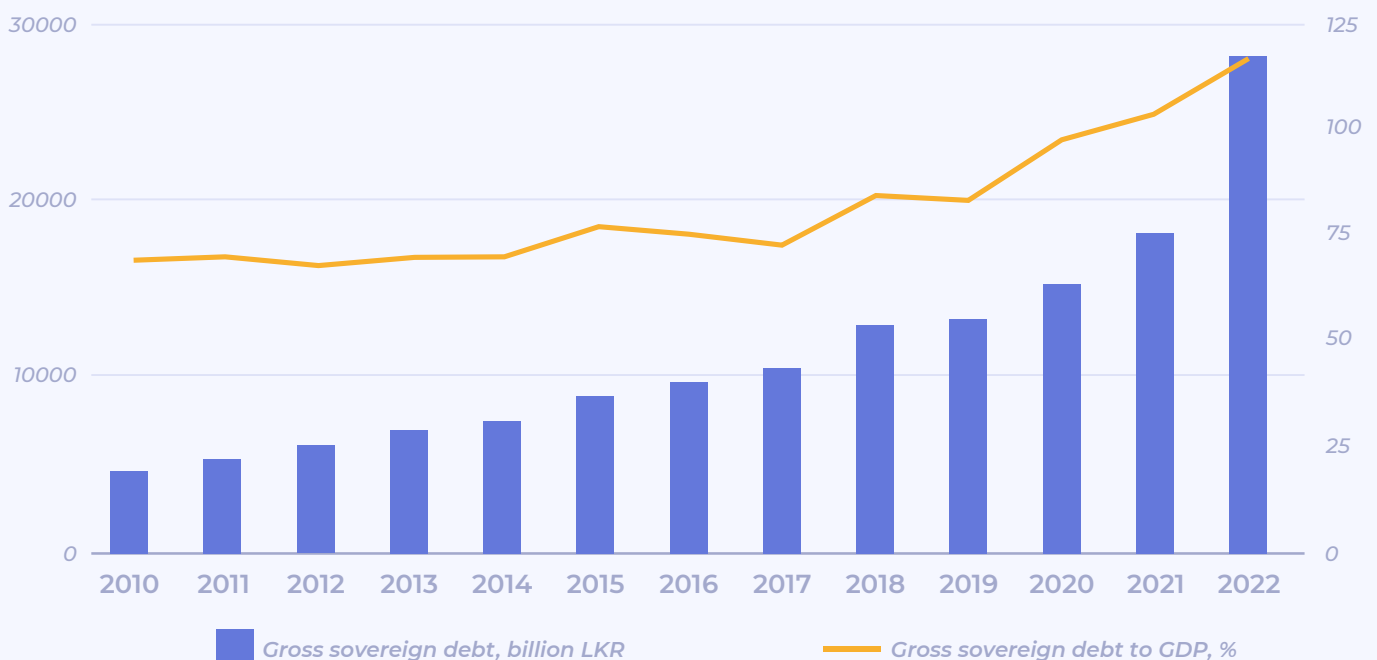


Figure 10. Dynamics of the sovereign debt of Sri Lanka in 2010–2022

Source: calculated by the author based on IMF data

Reasons for debt crisis

As in the case of Ghana, the default is caused by both domestic and external factors, but the internal ones prevail. Among the internal factors, the main one is the high fiscal deficit caused by the tax cuts, particularly VAT, corporate income tax, and employee income tax.

The main external factor is the decrease in tourist flows due to terrorist attacks in 2019 and then the COVID-19 crisis, while the tourism industry made up 10% of the country's GDP.

The Government replaced a sharp decrease in tax revenues with a large-scale money issuance, which further deteriorated the economic situation.

The introduction of organic agriculture, which led to a drastic increase in prices for agricultural products, also dealt an additional blow to the economy.

As a result, at the time of the conclusion of the agreement with the IMF in 2023, debt service costs accounted for two-thirds of budget revenues, and the total amount of sovereign debt was [USD 82 billion or 128% of GDP](#).

Thus, the reduction of tax rates, money issuance, introduction of organic agriculture, untimely adjustment of the exchange rate, and reduction of official reserves for debt service led to the country's default.

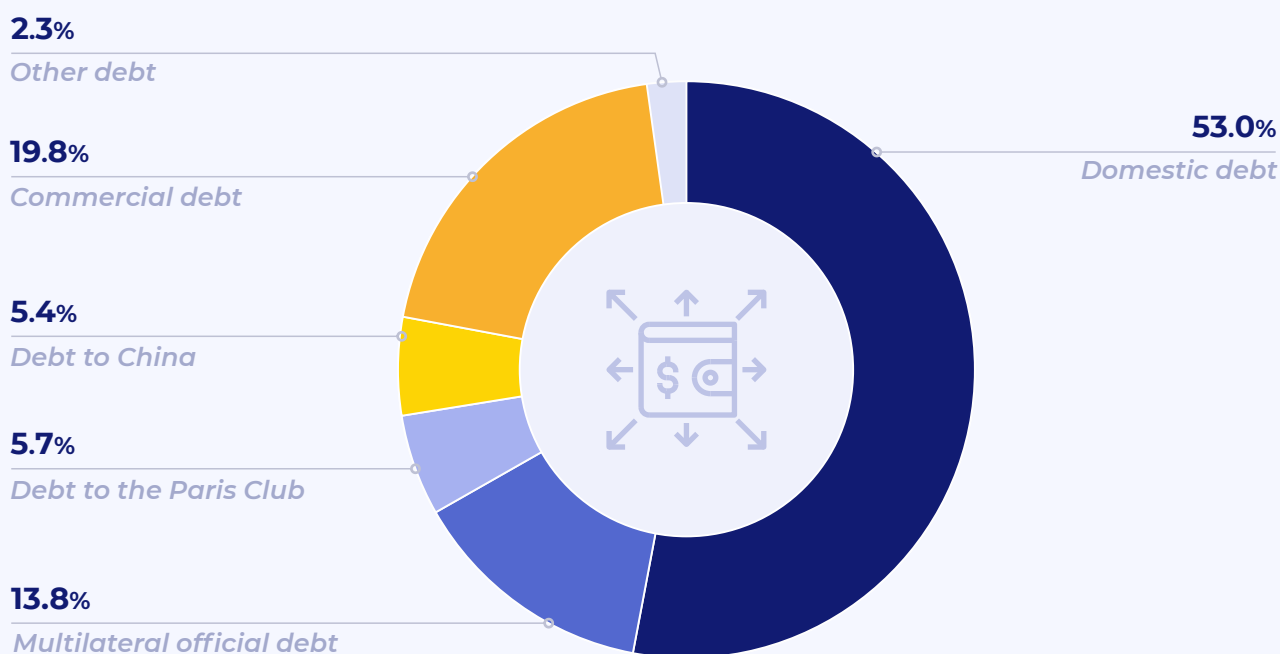


Figure 11. Breakdown of Sri Lanka's debt by type of debt as of 2022.

Source: calculated by the author based on IMF data

Way of restructuring

Like Ghana, Sri Lanka had to agree to a domestic debt restructuring to receive IMF support.

Internal restructuring

In the summer of 2023, the head of the Central Bank of Sri Lanka [stated](#) that, in his opinion, the country could avoid restructuring its domestic debt, and because of high inflation, it had undergone restructuring in a way.

However, the Government later announced the [Domestic Debt Optimisation Program](#), but banks were excluded from the restructuring process to preserve the country's stable banking system.

Instead, three groups of obligations were to be restructured: Sri Lanka Development Bonds, short-term bonds (treasury bills) held by the Central Bank of the country and long-term bonds in the portfolio of pension funds (Employee Provident Fund (EPF)), which in total is about 40% of the total domestic debt.

At the same time, the following conditions were proposed for each instrument:

For short-term bonds in the Central Bank's portfolio:

- Exchange for bonds of longer duration.

For bonds in the portfolio of pension funds:

- Without the nominal decrease in value.
- Payment of all accrued interest as of the date of the offer.
- The unified rate is 12% up to 2025 inclusive and 9% – starting from 2026.
- Tax (dis)incentives for participation in the exchange: For those funds that do not agree to participate in the exchange, the income tax rate should increase more than twice – from 14% to 30%.

Three options were offered for the development bondholders:

1) Nominal debt relief – 30%.

- Exchange 1:1
- Term – 6 years, without a grace period
- Currency – USD
- Rate 4%

2) Nominal debt relief – 0%

- Exchange 1:1
- Term – 15 years, grace period – 9 years
- Currency – USD
- Rate 1.5%

3) Nominal debt relief – 0% (an option encouraged by the government)

- Exchange 1:5
- Term – 10 years, grace period – 1 year
- Currency – USD
- Rate – floating (discount rate + 1%)

It should be noted that restructuring the debt owed to the pension funds risks putting Sri Lankans' pension savings at risk and could potentially deepen the crisis.

External restructuring

The government has already concluded agreements on restructuring the official external debt, including with the Paris Club.

In October 2023, the country [reached](#) an agreement with China, the largest creditor, on debt restructuring in the amount of USD 4.2 billion. In November 2023, the country [reached](#) an agreement with official creditors, which was a condition for receiving the second instalment of IMF support. The agreement covers about USD 5.9 billion and provides for both the increase in debt duration and the reduction of interest rates.

Reaching an agreement with private creditors is important for continued IMF funding. The previous agreement with a 20% reduction in the nominal value and the issuance of bonds tied to macro indicators (the so-called Value Recovery Instrument) was [rejected](#) by creditors in January 2024, demanding restructuring terms comparable to domestic debt. The government further [rejected](#) the next proposal from creditors in April 2024 because it was incompatible with the IMF requirements.

Sri Lanka currently [expects](#) the private debt restructuring process to be completed within the first half of 2024, which is a longer period than [previously](#) declared (Q1 2024).

2.3 Restructuring of Zambia's External Debt



Zambia became the first African country to default during the Covid crisis.

General information on debt burden and restructuring:

The start date of the restructuring	Amount of debt	Debt to GDP
November 2020	USD <u>26.29</u> billion <i>as of the end of 2021</i>	119.6% <i>end of 2022</i>
Debt to be restructured	External debt	Type of restructuring
external	55%, including 12% debt to China	preemptive
IMF support	→	USD 1.38 billion under the Extended Credit Facility

Reasons for debt crisis

After a period of growth and macro-financial stability in 2015, the country faced some unfavourable factors: first, a reduction in demand for metallurgy exports with a simultaneous drop in world prices for it. As a result, exports decreased by 26% in Q4 2015 compared to the corresponding period of 2014. Second, the severe drought reduced the production of agricultural products and adversely affected the generation of electricity, which was mostly provided by hydroelectric plants.

To support the industry, Zambia had to import significant volumes of energy. As a result of the double shock, the national currency devalued by 40%, which made it difficult to service and repay the external debt.

It should be further noted that this period of growth was also accompanied by borrowing. First, the government borrowed from China (primarily the Export-Import Bank of China and the China National Aero-Technology Import & Export Corporation). Second, in 2012, 2014, and 2015, Eurobonds were issued in the total amount of USD 3 billion. While the ratio of debt to GDP was 18% in 2014, in 2018, it amounted to 48%.

In 2017, the IMF and the World Bank determined the risk of a debt crisis as high, and debt service costs exceeded the costs of economic development, education, and

healthcare. The Covid crisis was an additional blow, increasing healthcare costs and reducing export earnings. As early as November 2020, the government defaulted on coupon payments.

Way of restructuring

Zambia has applied for a debt service suspension under the G20 Common Framework initiative. In September 2020, an application was submitted to private bondholders but unsuccessful.

In October 2020, it was announced that all loans, except multilateral and concessional loans, would be suspended.

Restructuring of bilateral official debt.

In June 2023, the country finally reached an agreement with bilateral official creditors on debt restructuring in the amount of USD 6.3 billion. According to the [Ministry of Finance of Zambia](#), the average maturity was extended by 12 years. Under the baseline scenario, the interest rate will be 1% for the next 14 years and will not exceed 2.5% thereafter. In general, the agreement provides that the volume of payments to official bilateral creditors will amount to USD 750 million over the next ten years compared to USD 6 billion, which was originally planned, and the budget deficit will be reduced by 1% of GDP.

Restructuring of private debt

Negotiations with private creditors did not go easy for Zambia.

In November 2023, the committee of official creditors, chaired by China and France, rejected the proposal of private creditors to restructure bonds due to the lack of eligibility in terms of comparability of treatment. In particular, official creditors agreed to longer payment terms compared to private creditors ([12 years versus 8 years](#)) and larger disbursement cuts over the duration of the IMF programme, even though private lenders offered more debt reductions at net present value.

Only in the spring of 2024, Zambia has finally reached an agreement on the restructuring of [Eurobonds](#) in the amount of USD 3 billion (and taking into account accrued interest, USD 3.8 billion), which provided for a reduction in the nominal value of the debt by [26%](#) and making payments faster than to official creditors. In addition, if the economic situation improves, including growth in export earnings and tax revenues and increased debt servicing capacity, Zambia will have to repay more quickly and at higher interest rates.

So far, Zambia has reached agreements with all types of creditors and has almost completed a restructuring process that has lasted more than three years.

2.4 Restructuring of Ethiopia's external debt



Ethiopia is the second-most populous country on the African continent ([126.5 million people](#) as of 2023), and its economic growth rates are among the highest in the world. Despite rapid growth, the country began debt restructuring as early as 2021, but the process slowed down due to the civil war.

Ethiopia's main difference from other restructuring countries is its relatively low debt-to-GDP ratio, which points to liquidity problems, primarily a shortage of foreign currency, rather than general insolvency.

General information on debt burden and restructuring:

Date of default	Amount of debt	Debt to GDP
December 2023 <i>the country missed payments on Eurobonds</i>	USD 60.6 billion <i>as of March 2023</i>	38.8 % <i>as of Q1 2023</i>
Debt to be restructured	External debt	Type of restructuring
external	47%, including 37% – debt to official creditors <i>primarily IDA and China</i>	post-default
IMF support	→ the country is holding negotiations with the IMF	

Reasons for debt crisis

The debt crisis was the result of several internal and external factors.

In 2010–2020, Ethiopia has significantly increased its debt level, primarily by funding infrastructure projects. Thereafter, a significant level of public expenditures was not consistent with budget revenues – according to the IMF, fiscal budget revenues decreased from 15.6% of GDP in 2016 to 8.5% in 2022.

The significant deterioration of the situation in the agricultural sector (on which the country has traditionally been very dependent) due to the invasion of locusts in 2020 has caused significant damage to the economy, including the acceleration of inflation, reduction of foreign exchange reserves due to the need to import products, and devaluation of the currency. The situation was complicated by the COVID-19 pandemic,

which required significant budget expenditures in the social and healthcare spheres. The subsequent 2-year civil war only worsened the situation.

Way of restructuring

As mentioned above, the country is restructuring only its external debt.

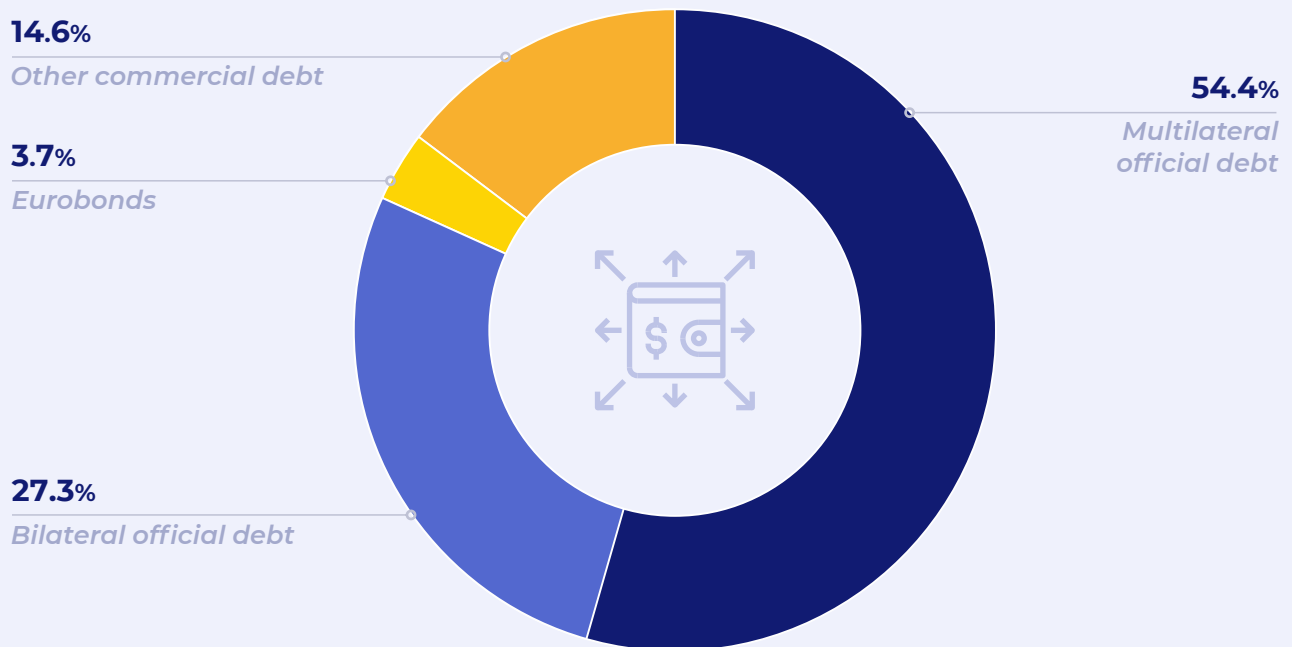


Figure 12. Structure of Ethiopia's sovereign and guaranteed external debt as of September 2023.

Source: [Ministry of Finance of Ethiopia](#).

Bilateral official debt

According to the Ministry of Finance of Ethiopia, the volume of bilateral debt amounted to USD 7,688.29 million, about 90% of which is debt owed to countries that are not part of the Paris Club (primarily China). In August 2023, the country reached a standstill agreement with China (which owns 75% of the country's bilateral official debt), and in November with other bilateral creditors (including Paris Club) on the suspension of debt service until 2025 and debt payments until 2027. However, the condition of such an agreement was to reach an agreement with the IMF by the end of March 2024 (currently, this deadline has been [extended](#) until June); otherwise, the official committee of creditors reserved the right to stop the standstill.

Ethiopia's multilateral official debt as of the end of March 2023 amounted to USD 15.2 million, the vast majority of which (75%) is owed to the International Development Association, which is part of the World Bank Group.

Restructuring of commercial debt

The volume of Ethiopia's Eurobonds is 1,000 million. The country started restructuring negotiations in March 2023, during which creditors offered the Government an extension of the bond term. However, the negotiations did not end successfully. In December 2023, the country defaulted on bonds, having failed to pay USD 33 million in coupon payments. According to government officials, this happened not because of a lack of funds but because of the principle of fair treatment of all creditors, which is one of the main principles of the Common Framework. Currently, the country is still in the stage of negotiations with investors.

2.5 Restructuring of the external and domestic debt of the Republic of Suriname



The country entered the 2020–2021 crisis, only four years after the end of the previous crisis.

General information on debt burden and restructuring:

The start date of the restructuring	Amount of debt	Debt to GDP
November 2020	USD <u>3.3</u> billion <i>as of October 2023</i>	<u>115.1</u> %
Debt to be restructured	External debt	Type of restructuring
domestic and external	75%, including 29% – Eurobonds, 24% – IDA, and 14% – China	preemptive
IMF support	→ USD 690 million within the Extended Fund Facility programme	

Reasons for restructuring

The country is a small, open economy highly dependent on price conditions in foreign markets. 45% of budget revenues were generated by exports, primarily gold and oil.

The decline in commodity prices in 2014 significantly reduced export revenues. The exit of Alcoa, a major aluminium producer and exporter, from the market and government spending related to this deal were the main causes of the economic crisis that ultimately led to the debt crisis.

Way of restructuring

As of the end of 2023, the total amount of Suriname's sovereign debt was USD 3.3 billion.

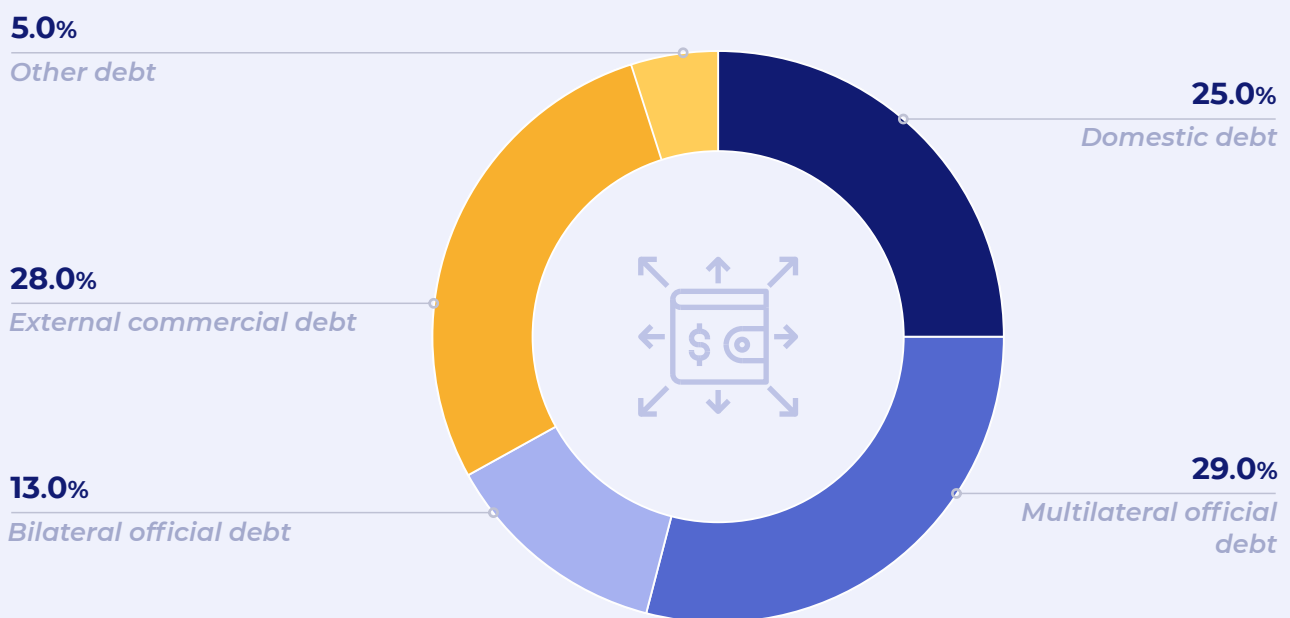


Figure 13. Structure of Suriname's sovereign debt as of the end of 2022

Source: [IMF](#)

Restructuring of commercial debt

In May 2023, the country reached an agreement on the restructuring of 2 series of Eurobonds by exchanging them for two new instruments, and in December 2023, the agreement was [finalised](#) with the following parameters:

- 1) new bonds with a face value of USD 660 million, with a 10-year maturity and a coupon of 7.95%. At the same time, during the first two years, only 4.95% will be paid in cash, with the remaining 3% capitalised, reducing the debt by 29%.
- 2) The so-called value recovery instrument (VRI), which is tied to the income from the new oil production project in the Suriname Block 58 deepwater shelf. According to the terms of restructuring of Eurobonds, once the Government receives the first

USD 100 million in revenues from the project, VRI holders will receive 30% of subsequent revenues until the amount of debt reduction is covered.

According to the [Government](#), the restructuring made it possible to reduce debt service costs by USD 972 million, and the share of investor participation is 96%.

Restructuring of bilateral official debt

Creditors of the Paris Club [reached](#) an agreement with the country in June 2022 regarding the restructuring of its external sovereign debt with the following parameters:

- ODA claims will be repaid over 20 years (including seven years of grace period). Claims for other debts will be paid after 15 years (including an 8-year deferred payment);
- and the outstanding debt as of the end of 2021 must be paid in two instalments in 2022 and 2024.

In addition, in 2023, an agreement was reached on the restructuring of the debt to the Exim Bank of India, and in March 2024, the country also reached an agreement with the Export-Import Bank of China, with USD 483 million owed to it, including USD 125 million in overdue debt.

Restructuring of domestic debt

In August 2023, the authorities finalised a plan to restructure domestic debt. The outstanding debt to the central bank was restructured into a new loan with a repayment period of [27 years](#) and a concessional grace period of 2 years at a rate of 9%.

Thus, the following features of the current restructuring can be identified:

- use of value recovery instruments. In particular, derivatives are present in some way in the restructuring of Zambia, Suriname, Sri Lanka, and, as will be noted below, Ukraine. It should be noted that in all the mentioned cases, such instruments provide only for an optimistic scenario (in which the country starts paying more); in case of a worsening situation and implementation of the pessimistic scenario, the countries do not receive better restructuring terms. The use of such instruments may carry [risks](#) for the sovereign debtor and, in fact, not alleviate the debt burden for the country;
- a long and complex negotiation process, for example, Zambia's debt restructuring is taking more than three years. In particular, the reasons for lengthy negotiations with private creditors include the lack of a clear development programme, a significant list of creditors and their lack of coordination, non-transparency and infor-

mation asymmetry. Zambia offers different terms of the agreements to different creditors, which is a violation of the principle of fair treatment.

- lack of a consistent debt restructuring policy. For example, when announcing the restructuring of the domestic debt, the Government of Ghana initially set a deadline of [12 December 2022](#) for the submission of applications for bond exchange. Subsequently, after several extensions, the final application deadline was moved to February 2023, with an additional “technical” bond exchange in September 2023. The list of bonds subject to exchange has also undergone changes. According to [analysts](#), Ghana also announced the start of restructuring without prior informal negotiations with major creditors, which is not conducive to a transparent, fast, and efficient restructuring process.
-



Conclusions for Ukraine



Following the full-scale invasion in 2022, Ukraine de facto froze debt payments on both its official bilateral and commercial external debt for two years. In 2023, an agreement was reached with official creditors to extend the moratorium on debt payments until 2027. However, according to the current IMF Programme, Ukraine must restructure its external commercial debt in the first half of 2024, and the holders of Eurobonds are the largest global investment funds Black Rock, Amundi, Amia Capital, which [chose](#) PJT Partners Inc. and Weil, Gotshal & Manges LLP as their financial and legal advisers, respectively. Notably, these companies were also involved in the previous debt restructuring in 2015.

In June 2024, it became clear that, after several weeks of negotiations, Ukraine had still not reached an agreement with private creditors, and the parties' proposals were quite distant from each other. Thus, the proposal of the Ukrainian side, agreed with the IMF and official creditors, provided for two [options](#): 1) the exchange of existing Eurobonds for new ordinary bonds with a reduction in nominal value by 60% and a repayment period of 2024–2040, with coupon payments at the level of 1% in 2024–2025, 3% in 2026–2027 and 6% starting in 2028 and warrants (VRI) that will be converted into ordinary bonds in 2027, the face value of which will depend on the difference between the average actual and projected amount of tax revenues (excluding social contributions) in 2025–2026 and the amount of GDP for these years (the target indicator is at least 85% of GDP in 2021); 2) a series of ordinary bonds with similar indicators as in option 1, but without VRI and a smaller reduction in face value (for every USD 1,000, investors will receive USD 475 of the face value of the new bonds). Investors rejected this proposal, instead offering their own, which is much less attractive to Ukraine because it does not involve any debt relief, higher coupon rates, and a more intensive repayment schedule.

In July, right before the August deadline, Ukraine reached a preliminary [deal](#) with bondholders on terms that can be seen as a compromise. The agreement includes Ukraine issuing Series A and B bonds with a contingent component linked to the GDP level. Ukraine secured a 37% haircut (25% of which is an unconditional debt write-off), which will save \$11 billion over the next three years. Additionally, the maturity dates of the new bonds have been shortened compared to the previous parameters in June: the debt is now set to be repaid by 2036 instead of 2040. The deal also includes the debt restructuring of state-owned Ukravtodor company Eurobonds. It is also important to remember that the announced agreement does not mark the end of the private debt restructuring process. Firstly, two-thirds of creditors must vote in favor, but there are unlikely to be any major problems. Secondly, the restructuring of state-owned Ukr-energo's Eurobonds and GDP warrants still needs to be negotiated.

The optimal method of debt restructuring will be determined by the Government in the process of negotiations with investors since it only has all the completeness of information that is essential for adopting a particular strategy. However, the analysis of international experience enables to highlight key universal principles that increase the chances of effective restructuring:

A balanced and consistent negotiation strategy aimed at achieving favourable restructuring terms that would minimise payments in future years and free up the necessary resources for social and defence spending. *Extending the moratorium on debt payments* until 2027, based on the example of the official bilateral debt, is currently *unrealistic*, considering the need for a full restructuring and the Government's plans to return to the capital markets. However, it is important to reach a compromise with investors in terms of reducing the principal amount of debt and reducing debt service payments, especially in the short term.

Facilitating clear coordination of creditors to ensure the participation of all investors in negotiations and obtaining a joint solution, which significantly accelerates the restructuring process. In other cases, litigation with creditors can significantly complicate the search for an optimal solution and prevent the return to the capital markets. Thus, the case of Ecuador shows that before the placement of Eurobonds in 2014, the country faced a lawsuit over previous bonds defaulted in 2008. Although the lawsuit was settled in April 2015, unresolved issues with the previous restructuring cost the country additional financial resources. In addition, the threat of lawsuits can force countries to continue servicing the debt, even at the cost of significant economic losses (Venezuela 2016). In this context, it is also important to ensure transparency and minimise information asymmetry between the Government and creditors, which will speed up and facilitate debt restructuring processes.

Realistic restructuring parameters and avoiding the “too little too late” principle. Apparently, accurate macroeconomic forecasts (GDP growth, inflation, exchange rate) for Ukraine are difficult to achieve in conditions of high uncertainty. However, significant deviations of the real values of key parameters from those included in the forecast may lead to insufficient debt relief, which will require additional restructuring in the future. In particular, [J. Bulow, C. Reinhart et al. \(2020\)](#) emphasise the importance of considering the pessimistic economic development scenario for more effective restructuring.

The availability of a clear programme of reforms is important for two reasons. First, the rapid recovery of the economy will ensure debt sustainability and overcome the consequences of the crisis. Second, for investors, understanding the country's development path after restructuring increases the attractiveness of new securities of the sovereign debtor. Carrying out complex reforms to quickly exit the crisis and avoid repeated defaults when overcoming one debt crisis does not lead to sustainable economic growth due to subsequent irrational fiscal and monetary policy. Instead, Zambia's experience shows that the lack of a clear reform agenda can hinder effective restructuring.

It is also important to concentrate efforts to **further optimise the debt structure and minimise debt payments**. Considering that Ukraine continues to service the official multilateral debt and the negative trend of replacing grants with loans, the further attraction of the most concessional financing will help preserve financial resources for vital spending on defence and social security. For example, it is worth [advocating](#) the cancellation or postponement of additional surcharges on IMF debts, which could potentially save more than USD 300 million in 2024–2028.

Therefore, transparency in communications with investors, preemptive restructuring, realistic parameters, and the implementation of structural reforms will reduce the risks of repeated defaults and contribute to Ukraine’s sustainable future development.





Institute
of Analytics
and Advocacy



INTERNATIONAL
RENAISSANCE
FOUNDATION

© Institute of Analytics and Advocacy, 2024