ANNUAL PUBLIC SECTOR DEBT PORTFOLIO ANALYSIS

For the year
2023/24

NO. 25

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Forward

The principles of public debt management in Ethiopia are enshrined in the Financial Administration Proclamation No. 648/2009 (as amended by Proclamation No. 970/2016) and the Financial Administration Regulations. The legal framework is meant to promote prudent and sound debt management practices for both Federal Government and State-Owned Enterprises with the aim of enhancing public finance effectiveness and transparency in management of public resources. The 2023/24 Annual Debt Portfolio Analysis is part of the reporting requirement under the legal framework of the country. The Debt Management Division (DMD) within the Ministry of Finance is mandated to manage the public debt in the country.

Public debt management is the process of establishing and executing a strategy for managing the public sector's debt to raise the required amount of funding, pursue its cost/risk objectives, and meets any other public debt management goals the government may have set, such as enhancing debt monitoring and management of the country including developing and maintaining an efficient and liquid market for government and corporate securities.

The Ministry of Finance is the primary agent of Government of Ethiopia responsible for managing and conducting various cost-risk analyses of the country's public debt portfolios. It prepares, manages, and follows up the country's Medium Term Debt Management Strategy. In addition, it is responsible for compilation and dissemination of public debt statistics and Annual Public Sector Debt Portfolio Analysis. This DPA can be used as an input for country's Medium Term Debt Management Strategy and Debt Sustainability Analysis.

Hence, this 25thAnnual Public Sector Debt Portfolio Analysis (DPA) is an annual report prepared by the Debt management division aiming to provide a broader view of the public debt portfolio, dealing with the volume of the public debt and its breakdown, variations in stocks as well as detail analysis of some key debt variables. The current 25th editions, comprehensively examines the five years' total public debt composition, magnitude and trends beginning from 2019/20 to 2023/24.

Preparation of comprehensive and timely DPA allows Government and other users to monitor the evolution of the public sector's debt accumulation and its debt-service obligations over time. This DPA is considered an essential input, for forecasting, and for compiling other macroeconomic statistics and serve as an indicator of the sustainability of government and public corporations' policies.

The Government is considering this report in line with the Financial Administration Act, as a tool for evaluating and managing the risk involved with different debt compositions; facilitating coordination with fiscal and monetary management; and enhancing transparency. In addition, the Government is expecting through this action of preparing annual debt report will support efforts that aim for the government's financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk.

Similarly, the report will not only provide details of the debt dynamics in 2023/24 but will also serve as a useful repository of information for public, academicians, researchers, the media and all other relevant stakeholders. An electronic version of this report is available on the website of Ministry of Finance in PDF format and in Debt management division. All queries on the contents of the report should be addressed to the Debt Management Division in the Ministry of Finance through the address below.

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Mission Statement Of
Debt Management Division

To ensure sound external and domestic debt management by effectively and efficiently co-negotiating and renegotiating external loans, properly administering disbursements and repayments of external and domestic debts, following up of on-lent debts, and designing and updating appropriate debt management strategy of the country.

Acronyms

AfDB	African Development Bank
AfDF	African Development Fund
BADEA	Arab Bank for Economic Development in Africa
CBE	Commercial Bank of Ethiopia
CF	Common Framework
DA	Direct Advance
DBE	Development Bank of Ethiopia
DS	Debt Service
DSSI	Debt Service Suspension Initiative
EAL	Ethiopian Airlines
EEP	Ethiopian Electric Power
EEU	Ethiopian Electric Utility
EIB	European Investment Bank
ESC	Ethiopian Sugar Corporation
ETB	Ethiopian Birr
EUR	EURO
ERC	Ethiopian Railway Corporation
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
ICBC	Investment and Construction Bank of China
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JPY	Japanese Yen
MDRI	Multilateral Debt Relief Initiatives
MoF	Ministry of Finance
NBE	National Bank of Ethiopia
NDF	Nordic Development Fund
OFID	OPEC Fund for International Development
POESSA	Private Organization Employees Social Security Agency
PSSSA	Public Servants Social Security Agency
SOEs	State Owned Enterprises
SDR	Special Drawing Rights
TBs	Treasury Bills

Executive Summary

Following the completion of the HIPC and MDRI initiatives, Ethiopia was able to borrow additional funds from both domestic and external sources to support economic reform and growth. Following that, over the last two decades, a large amount of debt has accumulated. As a result, not only has the total public debt increased in size, but its composition shifted toward non-concessional SOE borrowing until 2019. However, it is currently dominated by central government concessional borrowing due to the government's non-concessional borrowing limit, particularly in the last four years of zero non-concessional borrowing.

Accordingly, Ethiopia's total public external and domestic debt stock, including publicly guaranteed and non-guaranteed debt, reached USD 68,860.24 million by the end of June 2024, representing 32.9 percent of GDP, up from USD 63,329.33 million at the end of June 2023, i.e. about 38.8 percent of GDP, and USD 54,872.26 million 51.39 percent of GDP at the end of June 2020.

Domestic debt in USD rose 12 percent to USD 39,969.86 million in 2023/24 from USD 35,080.18 million in 2022/23, while domestic debt in ETB rose 20.1 percent to ETB 2,291,791.93 million from ETB 1,915,178.00 million.

Total public sector external debt was USD 28,890.38 million as of June 30, 2024, up from USD 28,249.15 million as of June 30, 2023. The quantity of existing external debt increase was relatively minimal between the two periods. The increase in external total public sector debt is approximately USD 641.2 million, or it increases only by 2 %. A significant contributing factor to the minimal increase in the stock of external debt can be attributed to a relatively lower disbursement from external loans compared to principal payments and fluctuations in the US dollar exchange rate. (a stronger US dollar relative to other foreign currencies in June 2024 compared to June 2023)

Out of Ethiopia’s total external debt outstanding, multilateral agencies which provide highly concessional loans held about 52.0 percent while bilateral creditors have 28.31 percent share out of the total debt stock and the remaining owed by Private creditors.

Out of private creditors, commercial banks and suppliers held about 10.99 percent and about 3.18 percent, respectively while Eurobond held 3.47 percent.

As of June 2024, the stock of treasury bills, long-term government bonds, direct advances, and Five-year treasury bonds accounted for approximately 19.88 percent, 31.85 percent, 10.74 percent, and 4.17 percent, respectively, of the total domestic debt. In terms of the domestic debt stock held by SOEs, corporate bonds and long-term loans made up 37.53 percent.

The United States Dollar (USD) made up 45.84 percent of Ethiopia's external debt stock, followed by the Euro (6.58 percent), Chinese Yuan (1.52 percent), and SDR (43.75 percent), with other currencies making up 2.3 percent of the portfolio. (The percentage share of these currencies out of the external debt portfolio is much higher than the above figure if we add their share out of the SDR because the SDR is a basket of currencies made up of five currencies with different weights: USD 41.73 percent, EUR 30.93 percent, Chinese yuan 10.92 percent, Japanese 8.33 percent, and GBP 8.09 percent.)

The total public debt service payments in 2023/24 was USD 2,208.32 million with external debt service standing at USD 1,265.34 million while domestic debt service was at USD 942.98 million (ETB 54,068.69 million). As a percentage of the total public debt service, external and domestic debt service were 57.3 percent and 42.7 percent respectively.

Total public debt as a percentage of GDP was about 57.2 percent in 2019/20, and it went down to 48.5 percent in 2022. Currently, it stands at about 32.9 percent of GDP. The current external debt as a percentage of exports is 179.8 percent, while the threshold for Ethiopia is 150 percent (since Ethiopia is a weak performer in debt carrying capacity), indicating that this ratio is over the threshold for Ethiopia at the baseline.

The external debt service-to-export ratio, currently at approximately 11.3 percent—exceeding the established threshold of 10 percent—represents another export-related indicator that has been breached, thereby elevating the country's debt distress level to high risk. However, all the above figures have improved in subsequent years as a result of a reduction in non-concessional borrowing by SOEs and the improvement in the export sector, as well as continuous GDP growth.

Overall, Ethiopia's total public debt (external plus domestic debt) is comfortably within the World Bank and the International Monetary Fund's (IMF) benchmark of 35 percent in present value terms as a percentage of GDP. Ethiopia's present value of total public debt as a percentage of GDP is approximately 28.7 percent.

Even though the volume of debt contracted from commercial sources has decreased as a result of the zero non-concessional borrowing limit, Ethiopia remains at a higher risk of debt distress level. Recently, the Home-Grown Economic Reform and the Ten -Year Development Plan have been initiated to address macroeconomic, structural, and sectoral challenges, designed to ensure sustainable growth of the country. In this sense, careful public debt management and guaranteeing public debt sustainability over the medium term will remain critical tasks of the Ministry of Finance.

As a result, on December 20, 2019, IMF Executive Board approved a three-year program for Ethiopia under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) totaling SDR 2.1 billion (about US$ 2.9 billion), with the goal of helping to reduce external imbalances, contain debt vulnerabilities, lift financial repression, and increase domestic resource mobilization. These two IMF programs were not successfully implemented, With the ECF expiring in September 2021 and the EFF expiring in December 2022. Disbursement of USD 309 million was made under the two facilities.

On another front, the Government has implemented various measures aimed at improving the debt distress level and mitigating debt vulnerability. These measures among other, include:

- To boost export performance to increase foreign currency earnings,
- To limit non-concessional borrowing by SOE,
- To re-profile some loans borrowed from various creditors to extend the grace periods and maturities, thereby alleviating the country's debt burden.

On April 15, 2020, the G20 Finance Ministers and Central Bank Governors convened and issued a Communiqué emphasizing collaborative efforts to address the COVID-19 pandemic. The Communiqué highlighted support for health interventions and efforts to ensure the private sector's continued operation and job sustainability. In this context, G20 countries committed to taking broad and swift actions to assist developing nations, including Ethiopia, in strengthening their pandemic response, enhancing disease surveillance, and improving public debt management

Ethiopia, a G20 DSSI eligible country that has signed a Memorandum of Understanding with the Paris Club Secretariat on DSSI related to Paris Club Countries and Non-Paris Club Countries, was not required to make any external debt service payments to its bilateral creditors of central governments in accordance with the G20 DSSI during the period May 1, 20202 - June 30, 2021. It has suspended the central government's external debt service obligations to its bilateral creditors, which amounted to USD 216.0 million, as a DSSI-eligible country. Ethiopia is additionally qualified for grant aid from the IMF's Catastrophe Containment and Relief Trust (CCRT). The relief provided by the CCRT relates to about $12,000,000 in IMF debt service that was due by October 13, 2020.

Based on the November 2020 G20 communique on Common Framework (CF) a discussion is undergoing with different development partners. The creditor committee for Ethiopia's CF application was established.

Similarly, Ethiopia, cognizant of debt accumulation, has put in place a Public-Private Partnership (PPP) framework to fund infrastructure development as a catalyst to foster economic growth. To minimize exposure and risks associated with debt accumulation, the government has embraced new innovations in financing infrastructure development off the balance sheet without heavily impacting the debt portfolio. Towards this end, the country is working to increase private financing of public investments through the PPP initiatives.

This represents one of the Ministry of Finance's key strategies to reduce fiscal deficits, ensuring that debt accumulation occurs at prudent rates and that public debt remains within sustainable levels.

In general, the Public debt-to-GDP ratio is expected to stabilize in the medium term and come down gradually as the government implements prudent fiscal policy commitments aimed at reducing fiscal deficits and limiting contracting loans from non-concessional sources to implement strategically important projects. We expect that all the above-mentioned measures will improve the country's debt risk rating.

1. Introduction

This Debt Portfolio Analysis objectively evaluates trends and changes in the Central Government's external and domestic debt, as well as SOE's government-guaranteed and non-guaranteed external and domestic debt, as of June 2024. It also highlights the risks, concerns, and challenges associated with debt management, as well as the government's forward-looking strategy for advancing the country's economic and social growth.

Ethiopia is ready to execute a wide range of changes following the launch of its new Home-Grown Economic Reform Agenda, aimed at creating an enabling environment for sustainable economic growth and achieving middle-income status. Along with macroeconomic reforms, the government must closely monitor its public debt portfolio considering new difficulties.

Conducting a review of the country's public debt portfolio is an important element of a debt management strategy - which by itself is a crucial component of sound economic management. With debt management being a core component of Ethiopia's Public Financial Management (PFM) framework, it is important for the Debt Management Division (DMD) to regularly carry out such a review to monitor, in a continuous and consistent manner, the level of indebtedness of the economy, and ensure an optimum borrowing policy, compatible with the country's economic and financial situation. It will indicate whether the structure and composition of the country's debt is optimum in terms of maturities, interest rate, exchange rate exposure and other related items. Such a review will also help identify opportunities for improving the debt portfolio, reducing future costs of borrowing and ensuring that the right policies and strategies are taken so that future financing needs to support the country's economic growth and development always remain sustainable.

Against this backdrop, the specific objectives of this exercise include:

- to review debt status in the light of recent macroeconomic developments,

- to critically examine the debt stock and flows with respect to major creditors and creditor types, major borrower types, commitment and disbursement trends, currency composition and maturity structure of the debt and debt service and

- to propose elements of a strategy that would ensure the pattern and structure of borrowing are compatible with the country's development strategy while taking measures to avoid situations of debt and debt service stress in the future.

In view of this, the central government's external debt refers to all external loans contracted between external creditors and the Ministry of Finance while government-guaranteed external debt comprises loans and suppliers' credits contracted by public enterprises, mainly the Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), Sugar Corporation (SC), Ethiopian Railways Corporation (ERC) and Ethiopian Shipping and Logistics Services Enterprises (ESL) guaranteed by MoF.

The non-guaranteed external debt, on the other hand, includes loans contracted by public enterprises, mainly Ethiopian Airlines (EAL) and Ethio-Telecom without government or government-owned bank guarantee. Domestic debt covers the debt of the central government in the forms of government bonds, treasury bills and direct advance from the National Bank of Ethiopia. In addition, the assessment covers State Owned Enterprises (SOEs) borrowing from both domestic as well as external sources including on-lent loans transferred to SOEs

The primary governing law for debt management is the Financial Administration Proclamation No. 648/2009 (as amended by Proclamation No. 970/2016) and the Financial Administration Regulations. Accordingly, debt shall be managed in such a manner as to prevent any negative impacts on the general economy, such as creating instability in monetary policy or balance of payments.

Accordingly, this report is issued by the Ministry of Finance pursuant to section 52 of the Financial Administration law, which requires the report to include inter alia:

- Annual government borrowings and debt management operations,
- Guarantee and on lending activities of government,
- Debt management strategy and the rationale for the strategy,
- Debt accumulation trends,
- Outstanding amounts and beneficiaries of the loans and an assessment of the risks associated with the accumulation of debt.

This 2023/24 annual public sector debt report is structured as follows: part 1 introduces the report contents, part 2 looks at the Medium Term Debt Management Strategy and its implementation and initiatives designed to ensure a well-structured portfolio and public debt sustainability, part 3 presents Government borrowings in 2021/22 and debt accumulation trends in public debt, part 4 presents contingent liabilities and on-lending loans, part 5 presents cost and risk analysis of Ethiopia's public and publicly guaranteed debt, and part 6 concludes the report with an outlook and forward-looking. A glossary, part 7, is presented at the end of the report to facilitate a greater understanding of this report by the general public.

2. Medium Term Debt Management Strategy (2016-2020)

The ongoing Homegrown Economic Reform Program requires substantial financial resources, with one potential source of funding being borrowings from both external and domestic channels. These borrowing activities need to be guided by an internationally recognized framework for developing a debt management strategy while ensuring that the public debt remains within sustainable levels.

In Ethiopia, there is a clear coordinating mechanism at the political and technical levels as well as legislation and implementation procedures defining the parameters for debt contracting, guarantees and servicing. The existence of a clear legal framework is an important enabling element for formulating a debt management strategy.

The Medium-Term Debt Management Strategy (MTDS) (2016-2020), designed by the Ministry of Finance with the technical support of the IMF and World Bank, provided a framework for developing an effective public sector debt management strategy that aims to achieve a desired composition of the public sector debt portfolio based on a cost-risk analysis and the government's preferences about the cost-risk trade-off. Although the time framework of the designed strategy elapsed, the borrowing principles have been maintained during 2020/21, 2021/22 and 2022/23 fiscal years due to the absence of significant changes in debt instruments, borrowing policy, sources of borrowing and related factors.

The strategy had a two-fold objective: firstly, to raise resources through borrowing to meet central government budgetary requirements at minimum cost and prudent level of risk; and secondly) to promote the development of domestic debt markets. Potential sources of financing from abroad were identified by focusing on concessional sources, and strategies were designed to ensure that funding plans are achieved while minimizing the possible impact on the costs and risks of the debt portfolio.

Over the past several years, the MTDS guided central government's borrowing and the provision of guarantees to SOEs, while outlining a pathway to maintain a sustainable level of debt over the medium term. Accordingly, the Government's fiscal strategies were geared towards maintaining a sustainable level of debt.

Moreover, the government put in place a robust system for monitoring and closely tracking public borrowing, aimed at maintaining transparency and accountability. This mechanism ensures that the level of public debt aligns with the overall fiscal framework, thereby safeguarding macroeconomic stability over the medium term.

The implementation of this strategy in the past several years, including 2020 has led to some mixed results in the cost and risk factors associated with the debt portfolio.

Accordingly, the Average Time to Maturity (ATM) of the public debt portfolio declined, the share of the debt portfolio requiring re-fixing in one year increased, government exposure to debt denominated in foreign currency also increased and the proportion of debt maturing in a year increased.

The government has been taking appropriate measures to improve the debt situation of the country including curtailing borrowing from non-concessional sources.

3.Medium-Term Debt Management Strategy (2021-2025)

The Ministry intended to design the 2021-2025 Medium Term Debt Management Strategy (MTDS), with the technical support of the IMF and World Bank, which was scheduled for 2021. However, due to the COVID-19 pandemic and other related obstacles, the Ministry was not able to organize a workshop and formulate the strategy as planned. The Ministry has been exerting maximum effort including discussing with potential development partners (IMF and World Bank) to organize the workshop to formulate the MTDS. In the same way, it is important to underline that the Ministry has been using the previous MTDS principles in its borrowing activities to fill the budget gap.

The objective of the strategy remains similar as before i.e.: to raise resources through borrowing to meet the central government's budgetary requirements at minimum cost and prudent level of risk, and to promote the development of domestic debt markets.

There is a plan to prepare a Debt Strategy after the implementation of the possible Common Framework at the end of 2024/25.

4. Total Public Sector Debt Portfolio Development in 2023/24

For Fiscal Year 2023/24, the total amount of public and publicly guaranteed debt (including domestic and external) was USD 68,860.24 million (ETB 3.9 trillion), or around 33.9% of GDP in nominal value terms. Of this, 13.9 percent was external debt to GDP and 19 percent was domestic debt to GDP. Looking back five years, the total amount of outstanding public debt was USD 55,096.53 million (1.9 trillion ETB) in 2019/20. The overall public sector debt stock as of 2023/24 increased by 7.5 percent over 2022/23 and 23.6 percent over 2019/20.

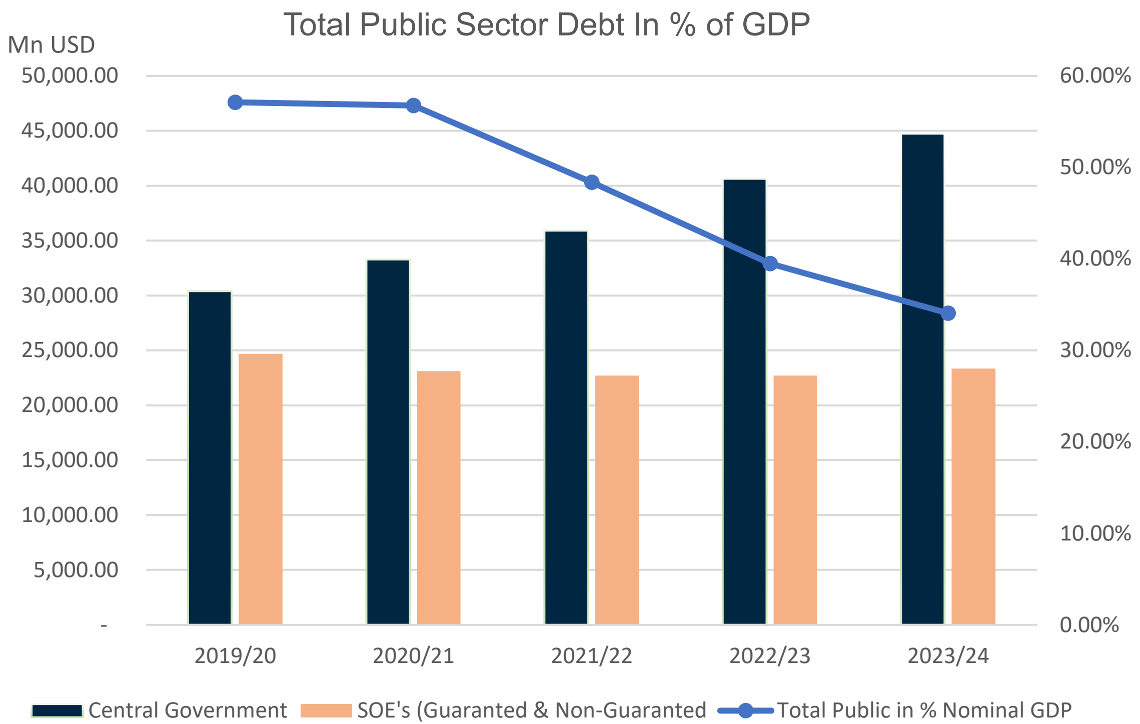
Table 1. Total Public Sector Debt Outstanding **Mn USD**

	2019/20	2020/21	2021/22	2022/23	2023/24
Total Public Sector Debt	55,096.53	56,385.74	57,381.19	63,329.33	68,860.24
External Debt	28,827.35	29,470.83	27,953.10	28,249.15	28,890.38
Domestic Debt	26,269.18	26,914.91	29,428.09	35,080.18	39,939.86

Throughout the observation period, the average annual rise in the total stock of public sector debt was 4.2 percent. The biggest increase was observed in 2022–2023, when the Central Government borrowed more money from domestic sources using a variety of instruments, including Treasury Bills, medium-term bonds, and direct advances.

An additional factor influencing the difference in the total public debt stock in USD between 2019/20 and 2023/24 is fluctuations in exchange rates. The amount of external debt in US dollars is impacted by changes in exchange rates between other currencies and the US dollar, while the amount of domestic debt in USD is impacted by changes in exchange rates between the US dollar and the ETB. For instance, there was a USD 545.87 million increase in the external debt stock between 2022/23 and 2023/24; of this amount, USD 133.84 million was attributable to exchange rate variation between the two periods as the USD declined in value in comparison to other currencies in 2021/22, or 15% of the difference.

The issuance of market-determined Treasury bills in 2019/20, the issuance of medium-term bonds (five-year bonds) in 2023/24, the conversion of old treasury bills into three-year Treasury notes that ultimately converted to long-term bonds, the conversion of Direct Advance into a 25-year government bond, the issuance of new Treasury bills, and the borrowing from the central government in the form of direct advance—which was significantly higher in 2022–2023—have all changed the composition of the domestic debt instrument and the stock. As of June 30, 2024, the shares of external and domestic debt were, respectively, 42.3 and 57.7. The share of external debt stock had been higher in the preceding period, but it had decreased in the last three years. Additionally, the percentage of the Central Government's public debt (External plus Domestic) has increased over the observation period. This can be explained by the fact that, in order to reduce the burden of external debt, SOEs except Ethiopian Airlines—have not borrowed during the last five years due to the "zero non-concessional borrowing limit."



Over time, the overall amount of outstanding public sector debt—both domestic and foreign—increases, and its composition also varies. Domestic debt as a percentage of GDP is now larger than it was four years ago. The country's debt distress level continues to be high due to the increase in volume, the change in the composition of the total public sector debt, the rise in debt service payments, and the underperformance of the export sector.

Ethiopia's economy has been straining due to both internal and external shocks, such as the COVID-19 Pandemic, internal conflicts, the Russia-Ukraine war and the resulting higher commodity prices, and the significantly limited availability of external financing from development partners. As a result, Ethiopia applied for holistic debt restructuring under the G20 common framework (CF) in February 2021 and is currently in discussions with the IMF to secure a funded program.

While preparing this Annual Debt Portfolio Analysis, the Government finalized discussions for a new IMF program that will support the implementation of the second Homegrown Economic Reform (HGER 2.0) in July 2024. The program includes the following related to public sector debt:-

- Eliminating distortive current account controls and adopting a market-determined exchange rate is undertaken.
- The debt service standstill agreement with the OCC members provides significant temporary relief. The net standstill amount will be USD 1.4 billion. The debt treatment under the Common Framework is estimated USD 3.5 billion which makes a total of USD 4.9 billion debt relief.
- The estimates that the residual financing gap of US$10.7 billion for the 2024/25–2027/28 program will be covered. US$3.4 billion from the IMF, USD 3.75 billion in budget support from the World Bank. The remaining gap of US$3.5 billion will be filled by financing associated with debt treatment under the Common Framework.
- Regarding Domestic debt: In July 2024 the Government issued ETB 845.3 billion as a 10-year government securities to write off all CBE claims on LAMC (ETB 582 birr) and EEP (ETB 263.3 billion) . In addition, the government also issued a 54.7 billion Birr long term bond to raise the capital of CBE. As a result, the stock of domestic debt owed by the central government rose by the sum of this amount. Due to the restructuring of the treasury bill of PSA amounting to birr 176.8 billion and the treasury bill of POESSA amounting to birr 89.5 billion into 10-year government bond, the stock of the t-bills will decline by the mentioned amount. The stock of direct advance with a face value of ETB 242 billion has been converted to a long term Bond.

According to the IMF and World Bank Debt Sustainability Framework, there are five indicators that can be used to determine a sovereign's level of debt distress in Low-Income Countries (LIC), of which Ethiopia is one. This involves two liquidity indicators: ratios of external debt service to government revenues and exports, and three solvency indicators: ratios of present value of external debt to GDP, present value of external debt to export, and Present Value of total public debt to GDP.

These indicators are used to determine if a country can service its debt obligations using its current revenues and exports (liquidity) as well as to determine the sustainability of the country’s debt burden relative to the size of the economy or export earnings (solvency). Based on these indicators and thresholds, countries are categorized in either of the four debt distress levels: low risk (when there are no breaches of thresholds); moderate risk (when thresholds are breached in risk scenarios); high risk (when thresholds are breached in the baseline scenario); and in debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

Due to a rise in external and domestic debt outstanding, particularly an increase in external debt and a shift in its composition toward borrowing from non-concessional sources, Ethiopia's debt distress level increased from moderate risk to high risk in 2017. This deterioration in debt distress level can also be explained in part by the poor performance of the export sector. As export-related debt ratios have been breached since 2017, the country remains at high-risk level until the end of 2022/23.

As shown in the table below, Ethiopia’s debt sustainability results at the baseline for 2021 show that the PV of External Debt to GDP ratio is around 241 percent, as Ethiopian Debt Carrying Capacity is "medium" and the threshold for this group is 180 percent, and the ratio breached the threshold in the baseline. Another figure that exceeded the threshold is the liquidity ratio, also known as the external debt service to export ratio, which is also related to while the result for Ethiopia is around 24 percent the threshold for Ethiopia’s group is 15 percent.

Except for these export-related ratios, the overall result is well below the thresholds. However, because both breaches are in the baseline, the country is classified as a "high" risk debt distress country, and there is a need to make an additional external debt restructuring based on the G20's Common Framework (CF) initiative to become a "moderate" risk country.

Table 2 Debt Ratios

	2017	2018	2019	2020	2021
Nominal External Debt -to-GDP Ratio	30.63	28.23	26.84	27.16	18.1
Nominal Domestic Debt-to-GDP Ratio	27.9	27.93	24.52	24.0	22.1
Nominal Total Public Debt-to-GDP Ratio	58.53	56.16	51.36	51.16	40.2
PV of External debt-to-GDP ratio	21.4	19.6	18.6	18.93	13.4
PV of External debt-to-Export ratio	247.9	247.9	244.9	244.7	203.9
PV of External debt-to-Revenue ratio					436.6
External debt service -to-Export ratio	24.4	24.6	24.5	22.0	11.6
External debt service -to-Revenue ratio	16.4	16.8	14.2		9.6
PV of Public Debt-to-GDP ratio	49.7	48.8	47.6	43	35.9

The PV of external debt to export ratio significantly improved in 2021 and 2020 compared to 2019. This is due to the debt restructuring of some of the SOE's external debts with Chinese creditors, particularly the Ethiopian railway debt with Chinese creditors. The other reason is that there has not been any non-concessional borrowing, except for EAL, in the last four years which significantly decreased the external debt both in Nominal and NPV terms.

4.1 Total External Debt

This section looks at the trends in the total amount of outstanding external debt, which includes debt held by SOEs and the federal government. Additionally, the overall amount of external debt is split down by key creditors, borrower types, and other variables. It also examines net flows and transfers, responsibilities and payments for repaying external debt, as well as new external commitments.

External Debt Outstanding: Ethiopia's total external debt stock was USD 29,470.83 million by June 30, 2021, and then declined to USD 27,953.10 million by the end of June 2022, USD 28,249.15 million by the end of June 2023, then it reached USD 28,890.38 million at the end of June 2024. It averagely rises by 2.2 % per year over the first two years of the observation period but then decreased by 5.4% in 2021–2022 and rises by 1.9 % in the final year of the observation period.

This decline in the external debt in the last two years of the observation period is caused mainly by exchange rate variation, which is the valuation effect of stock valuation between the two periods and stock flow adjustment of the flows between the two periods brought on by the strong USD relative to other currencies. In addition to exchange rate variation, there was also a higher principal external debt payment relative to the disbursement from external sources which result in the decline of the external debt stock in 2021/22 and 2022/23 compared to the previous two years (see figure 2 and 3 below).

The other reason for the decline in external debt stock in the final two years is the decline in government-guaranteed external debt, which can be explained in part by a recent government measure to reduce external debt vulnerability by reducing external borrowing from non-concessional sources to fund state-owned enterprise projects. Over the last five years, there have been relatively higher net external resource flows, primarily to the central government, and lower net external resource flows to state-owned enterprise projects.

4.1.1. External Debt Outstanding by Major Creditors Groups

Ethiopia has historically relied on official sources of financing, or funding from Multilateral and bilateral sources to finance development projects and programs. Currently, the total stock of public external debt as of June 30, 2024, from official creditors, multilateral and bilateral creditors collectively owed USD 23,808.54 million (82.4%) of the total amount of outstanding external debt. Of this amount, USD 15,562.58 million was owed to multilateral creditors, and USD 8,245.96 million was owed to bilateral creditors. Of the total stock of governmental external debt, private creditors, which include commercial banks and suppliers, owed USD 5,081.84 million (17.6%). SOEs usually obtain loans from private lenders (commercial banks and suppliers).

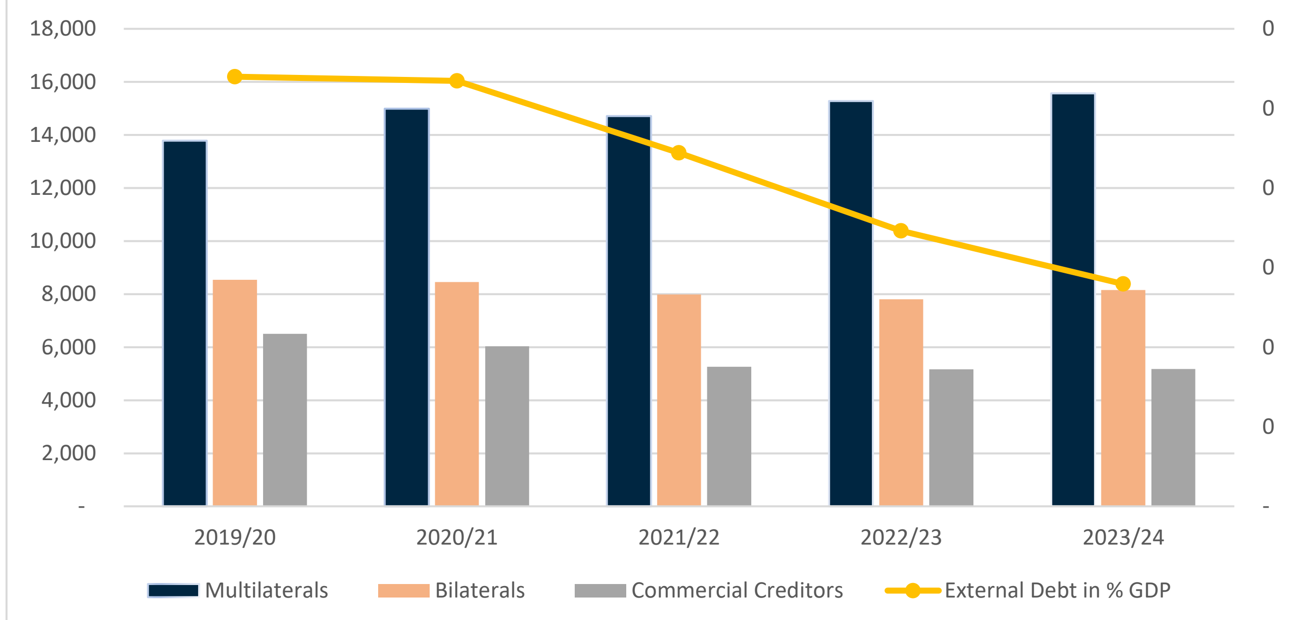


Figure 2 shows that while the relative share of bilateral and commercial creditors declined, the relative share of multilateral creditors climbed significantly between 2019/20 and 2023/24. This is due to the fact that borrowing from non-concessional sources of bilateral and private creditors has decreased in recent years as the government restricts borrowing with its guarantee from these sources, resulting in a decline in their relative share of SOE debt, which is primarily owed to non-concessional bilateral and private creditors.

Multilateral Creditors:- The stock of external debt owed to multilateral financial institutions, which stood at USD 13,782.98 million in 2019/20, has steadily increased over time, reaching USD 15,562.58 million as of June 30, 2024, a 12.9 % increase over the previous four years and a 1.84 % increase over the previous year's stock. This category of external debt now accounts for 54.04% of total external debt. In terms of volume, IDA continues to lead the multilateral creditors, accounting for over 77.68 percent of the group and 42 percent of the whole External debt stock, followed by AfDF/B.

Bilateral creditors: Over the last five years, the stock of bilateral external debt has decreased from USD 8,458.83 million in 2020/21 to USD 8,245.96 million in 2023/24. Chinese policy banks (CDB, Exim-Bank of China, ICBC, and the Chinese government) hold 76 percent of total bilateral debt and 22 percent of total public sector external debt, ranking them second only to IDA in terms of external debt portfolio. If we include the stock of Chinese suppliers such as China Electric Power, Huwae and ZTE we get more than 25% of total external public sector debt.

The stock of bilateral debt is decreasing compared to previous years, owing to no borrowing by SOEs from this group on non-concessional terms as a result of the zero non-concessional borrowing limit, and a decrease in disbursement from non-Paris club creditors, particularly policy banks from China, which can be explained by the fact that some ongoing projects are nearing completion, and thus their disbursement is becoming smaller.

Creditors of the Paris Club: The debt owed to Paris Club creditors stood at USD 970.59 million as of June 30, 2024. This group's percentage of outstanding debt is relatively small, and it has changed very little during the observation period. Only Italy, France, South Korea, and Japan have provided concessional loans from the group in recent years.

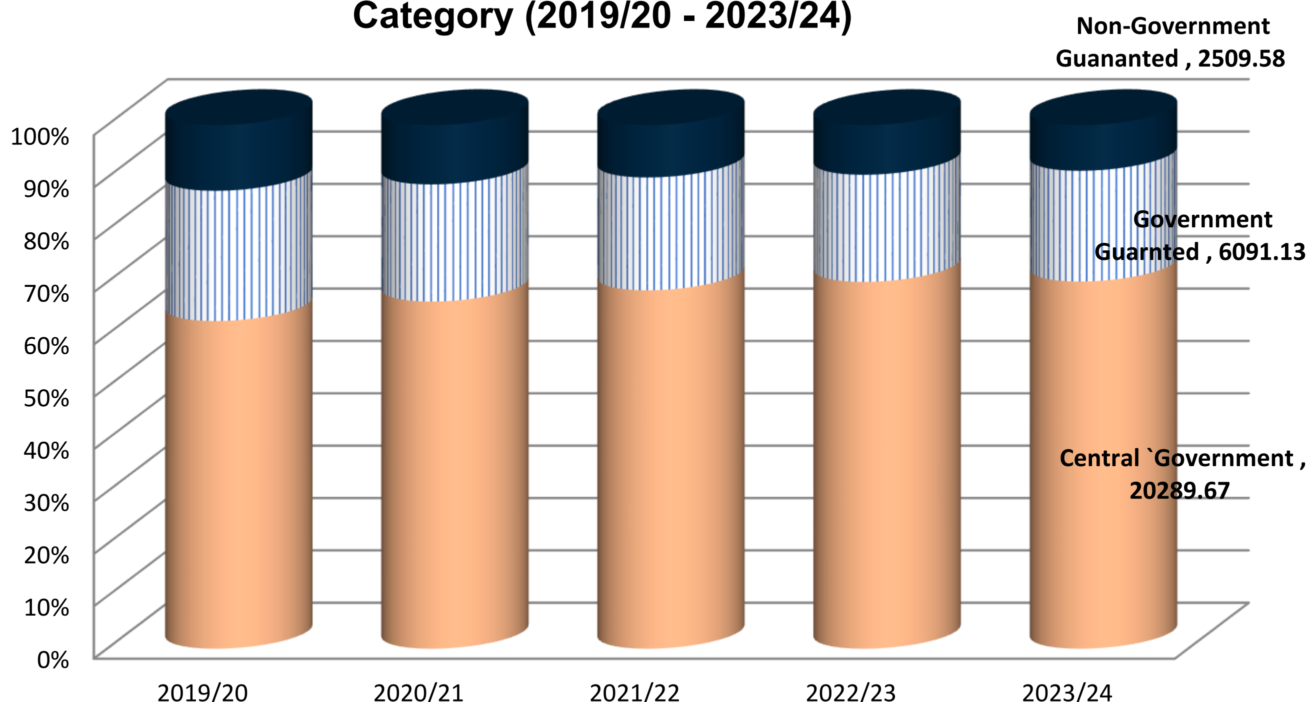
Private Creditors: As of June 30, 2024, the stock of external debt owed to private creditors (commercial banks and suppliers) was USD 5,081.84 million, down from USD 6,499.55 million as of June 30, 2020. As previously stated, only Ethiopian Airlines has borrowed and disbursed from this group of creditors in the last four years, while the others, such as Ethio-Telecom, ERC, ESC, and EEP, have only repaid their debt service to their respective creditors, resulting in a negative net resource flow from these creditors in recent years.

4.1.2. External Debt Outstanding by Borrowers' Category

Ethiopia's external debt is classified into three types of borrowers. The Central Government borrows primarily from its official creditors, namely Multilateral and Bilateral Creditors. Borrowing by SOEs from commercial sources that is government-guaranteed; specifically, borrowing by ERC, EEP, ESC, and others that is guaranteed by the government, and borrowing by EAL and Ethio-Telecom which are not guaranteed by the government.

In 2020/21 the relative share of central government external debt stock was around 62.58 percent, and by 2023/24, it had risen to 70.13 percent. As seen in the graphs below, there has been a consistent increase over the period.

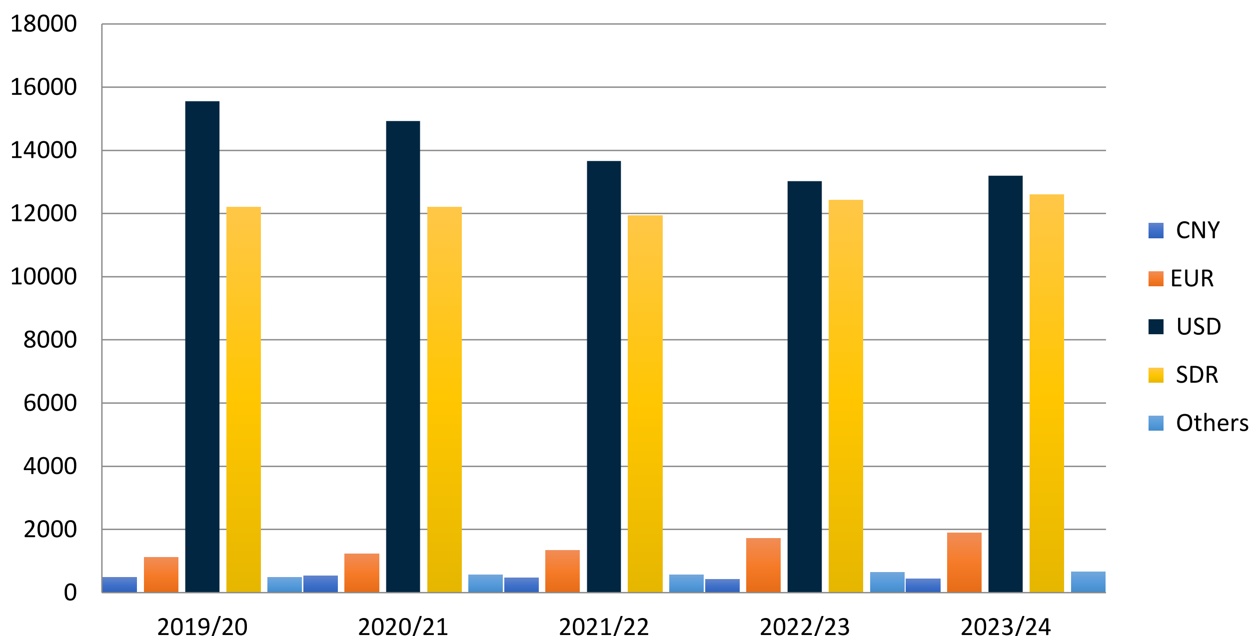
The state-owned enterprises EEP, ERC, and ESC borrow money from outside sources with the federal government guaranteeing the loan. As previously stated, the relative share of government guaranteed and non-guaranteed debt has decreased over time due to fewer new external borrowings and less disbursement from existing loans, as well as increased repayment of some of their existing loans.



4.1.3. Public Sector External Debt Outstanding by Contracting Currency

External loans are obtained in a variety of currencies and from a variety of creditors. Because the currency composition of any debt portfolio can have a significant impact on a country's debt obligations, borrowing in the right mix of currencies is considered acceptable, reducing exchange rate risks. Countries frequently prefer to match the currency composition of their external debt to that of their foreign earnings and/or reserves in order to mitigate the negative impact of exchange rate volatility.

As a result, in 2023/24, 45.84 percent, 43.75 percent, and 6.58 percent of the total debt outstanding were denominated in USD, SDR, and EURO, respectively, with the remaining 3.8 percent denominated in various currencies such as:-



Chinese Yuan (CNY), Korean won, Great Britain Pound, and so on. Between 2019/20 and 2023/24, the relative share of SDR denominated loans increased, owing to large disbursements from IDA and the IMF, both of which utilize SDR as a loan currency, while the USD share fell. The share of debt denominated in US dollars fell from 53.95 percent in 2019/20 to around 45.84 percent this year, because fresh borrowing and disbursement for the EEP, ERC, SC, and Ethio-Telecom from non-concessional bilateral and commercial creditors has decreased in recent years, most of their loan currency is denominated in USD.

[1] The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies—the U.S. dollar (43.38%), the euro (29.31%), the Chinese renminbi(12.28%), the Japanese yen (7.59 %), and the British pound sterling(7.44 %).

4.1.4. Terms of Borrowing

Borrowing terms are the maturity period, grace period, and interest rate of a loan. When they are combined, they determine the concession of a loan. In this context, assessing a country's average borrowing terms and costs necessitates an examination of average borrowing terms' evolution.

4.1.4.1. External Debt Outstanding by Interest Rate Composition

It is critical to determine the interest rate structure of the debt portfolio to assess the impact of any interest rate changes. This is especially true for a debt portfolio with a high proportion of variable-rate debt. Variable interest rates tied to market rates, such as LIBOR (currently Replaced by SOFR), may be appealing when base rates are low or expected to fall, but they can also unexpectedly rise in response to changes in economic fundamentals, increasing the debt servicing burden.

As of June 30th, 2024, 76.87 percent of the outstanding loan had a fixed interest rate, 2.12 percent had an interest-free loan, and the remaining 21 percent had variable interest rates. It's worth noting that more than 75% of SOEs' foreign financing is based on a variable interest rate, particularly LIBOR (SOFR) six months and LIBOR (SOFR) three months with a margin. Similarly, around 97.5 percent of the central government's external debt stock is on fixed interest rate, while only 0.68 percent is on LIBOR (SOFR) 6 months with margin. The majority of EAL's foreign debt is at a three-month LIBOR (SOFR) plus margin, while other SOEs borrow at a six-month LIBOR(SOFR) plus margin. As the LIBOR has increased significantly in recent months, SOEs' external debt service payments to their respective creditors have been much higher than they were a year ago and it continues to grow in the following months. It was about 0.25 percent in November 2021 but currently it has increased significantly to more than 5.2.

Table 3. External Debt Outstanding by Interest rate Composition in Mn USD

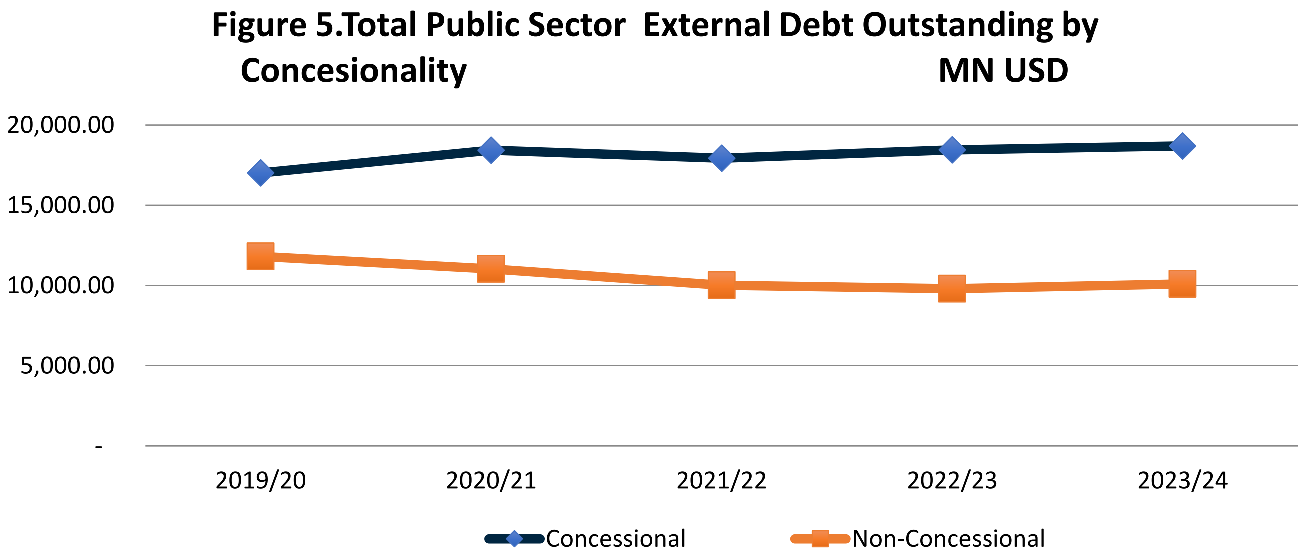
	2019/20		2020/21		2021/22		2022/23R		2023/24P	
	USD	%	USD	%	USD	%	USD	%	USD	%
TOTAL	28,827.35	100.00	29,470.83	100.00	27,953.09	100.00	28,249.16	100.00	28,890.38	100.00
FIXED INTEREST RATE	19,819.53	68.75	21,447.85	72.78	20,892.38	74.74	21,405.17	75.77	22,231.37	76.95
VARIABLE INTEREST RATE	8,526.03	29.58	7,524.17	25.53	6,563.64	23.48	6,240.07	22.09	6,047.43	20.93
INTEREST FREE	481.80	1.67	498.81	1.69	497.08	1.78	603.93	2.14	611.58	2.12
CENTRAL GOV'T	18,040.94	62.58	19,540.64	66.31	19,130.40	68.44	19,791.57	70.06	20,289.67	70.23
FIXED INTEREST RATE	17,668.71	61.29	19,137.16	64.94	18,700.43	66.90	19,238.63	68.10	19,715.66	68.24
VARIABLE INTEREST RATE	74.63	0.26	95.59	0.32	111.48	0.40	127.60	0.45	137.13	0.47
INTEREST FREE	297.60	1.03	307.89	1.04	318.50	1.14	425.34	1.51	436.88	1.51
OTHER PUBLIC SECTOR	10,786.42	37.42	9,930.19	33.69	8,822.69	31.56	8,457.59	29.94	8,600.71	29.77
FIXED INTEREST RATE	2,150.82	7.46	2,310.69	7.84	2,191.95	7.84	2,166.54	7.67	2,515.72	8.71
VARIABLE INTEREST RATE	8,451.40	29.32	7,428.58	25.21	6,452.16	23.08	6,112.47	21.64	5,910.30	20.46
INTEREST FREE	184.20	0.64	190.92	0.65	178.58	0.64	178.58	0.63	174.70	0.60

The proportion of external debt with fixed interest rate was 68.75 percent in 2019/20 and has increased to 76.95 percent in 2023/24 as a result of a relatively huge disbursement towards Central government from its multilateral and bilateral creditors, who mostly lend on fixed interest terms as a result the outstanding debt with fixed interest rate has increased, while the share of external debt with floating interest rate declined in the observation period continuously from 29.58 percent in 2019/20 to 20.93 percent, and this can be explained by the reduction in borrowing by SOE's from their creditors with the guarantee of the government, the maturity and repayment of existing loans and lesser and lesser disbursement from existing loans. Out of the total debt outstanding in 2023/24, most loans carry interest rates below 2.0%.

4.1.4.2 External Debt Outstanding by Concessionality

The grant element is a traditional measure of loan concessionality that is determined primarily by three factors: the loan's maturity period, grace period, and interest rate. A high grant element is common in loans with longer grace periods and maturities, as well as lower interest rates. According to the IMF, loans with a grant element of 35 percent or more are considered concessional, but the OECD's definition of grant element differs from the IMF's 35 percent.

As of 2019/20, concessional debt accounted for 59 % of total external debt outstanding, while non-concessional debt accounted for roughly 41 %. Following that, the relative share of concessional debt increased while non-concessional debt continued to fall. Concessional loans currently account for approximately 65 percent of total external public debt stock, with non-concessional loans accounting for the remaining 35 percent. This could be explained in part by the government's recent decision to reduce borrowing from non-concessional sources for SOE projects guaranteed by the government. (See below Figure.)



4.1.5. New Commitments from External Sources

Over the last five years, the total external debt committed from multilateral, bilateral, and private creditors was USD 8,250.32 million of which 47.5 percent is the share of central government and the remaining 52.5 percent is for SOEs and NBE (the Commitment from IMF to NBE for ECF & EFF USD 2,903.71 out of which only USD 309 million was disbursed the rest canceled), was to finalize the implementation of various ongoing projects.

Most multilateral commitments came from IDA on highly concessional terms, while Private creditors' external debt commitments, on the other hand, are primarily from suppliers and commercial creditors of EAL.

External new loan commitments in 2019/20 were higher preceding four years this is because of IMF commitment for the ECF and EFF, but the disbursement from this commitment was only USD 309 million. In general, new commitments have declined from a high of USD 1,983.50 million in 2020/21 and USD 4,705.82 million in 2019/20 to a low of USD 290.75 million in 2021/22 and USD 340.09 million in 2022/23 and USD 930.29 million in 2023/24, owing in part to government measures to limit SOE non-concessional borrowing through government guarantees. Throughout the observation period, there was a significant drop in new commitments by SOEs from their non-concessional bilateral, commercial, and supplier's creditors.

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Table 4 New External Debt Commitments by Creditors

MN USD

CREDITOR NAME	2019/20	2020/21	2021/22	2022/23	2023/24
CENTRAL GOVERNMENT	1,439.16	1,620.10	11.23	204.13	647.92
MULTILATERAL	931.60	1,458.73	-	197.23	548.45
EIB					52.00
IDA	426.70	1,458.73		197.23	496.45
IFAD	94.78				
BADEA					
OFID					
IMF (for Central Government -RFI)	410.12				
BILATERAL	507.56	161.37	11.23	6.90	99.470
NON-PARIS CLUB	240.00	-	-	-	-
SA UDI FUND	140.00				
KA LIFA FUND	100.00				
PARIS CLUB	267.56	161.37	11.23	6.90	**0**
GOV. OF FRA NCE (A FD)					
GOV. OF ITALY		18.02	11.23	6.90	99.470
GOVERNMENT OF JAPAN	88.56				
EXIM-BA NK OF KOREA	179.00				
DANSK S.K B		143.35			
STATE OWEND ENTERPRISE	3,266.53	363.40	279.52	135.96	**282.37**
MULTILATERAL	2,903.71	-	-	-	-
IMF (for NBE-ECF&EFF)	2,903.71				
PRIVATE CREDITORS	362.82	363.40	279.52	135.96	**282.37**
ING CAPITAL LLG (USA)			279.52		
EXPO RT INVESTEC BANK					
MUFG BANK LTD					
NA T WEST BANK					
Eastern and Southern Africa Trade and Development Bank	38.00				
JP MORGAN		275.48			
Air Bus Financial Service		13.21			
BNP BARIBAS FRANCE	269.25				
Export Dev. Of Canada	55.57	74.71			
CITY BANK, NATIONAL ASSOCIATION				135.96	282.37
GRAND TOTAL	**4,705.69**	**1,983.50**	**290.75**	**340.09**	**930.29**

According to the table below, which shows the average loan terms for new commitments of external debt over the past five years, the average grant element of the total external debt contracted during that time was roughly 38.34%, which is more to the IMF's 35 percent benchmark. However, the grant element for the central government, which accounts for 47.5% of the total new borrowing from external sources, was approximately 54. 8%, which is significantly higher than the IMF's concessionality benchmark.

Average Loan Terms

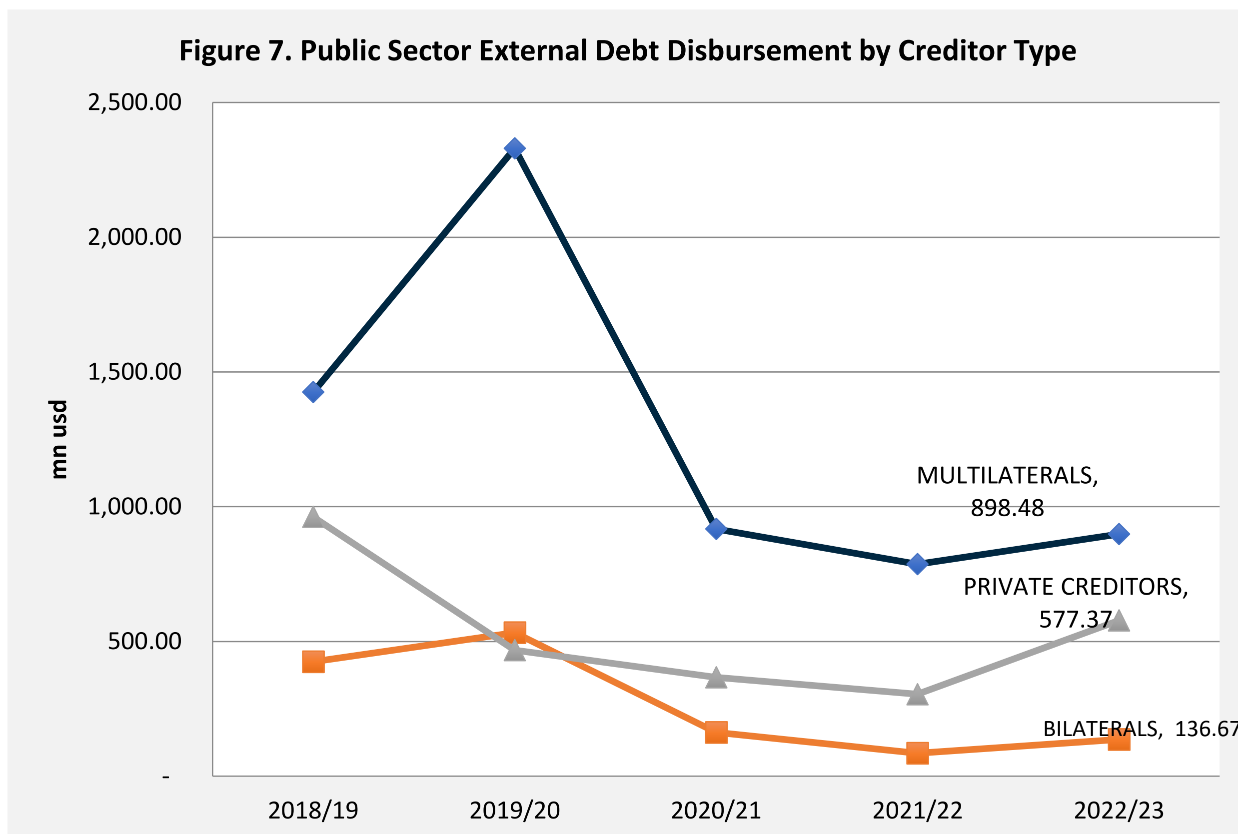
Total External Debt		Central Government		Other Public	
Interest Rate (avg. %)	0.95	Interest Rate (avg. %)	0.68	Interest Rate (avg. %)	1.61
Maturity (avg. yrs)	24.39	Maturity (avg. yrs)	33.81	Maturity (avg. yrs)	11.61
Grace Period (avg.yrs)	4.49	Grace Period (avg.yrs)	8.34	Grace Period (avg.yrs)	1.11
Grant Element (avg %)	38.34	Grant Element (avg %)	54.79	Grant Element (avg %)	20.05

4.1.6. Public Sector External Debt Disbursements in the Period

Reviewing the disbursement profile is crucial for debt management because it shows the actual inflow of resources as well as how quickly they were expended. Net-flows, which are defined as disbursements less principal repayments in a given period, and net-transfers are defined as disbursements less principal repayment less interest payments plus other charges. These are the two main measures used to track the movement of investment resources. If both variables are positive, the country is said to be a net beneficiary of external resources, and vice versa. Due to high-interest costs, nations with high levels of commercial debt typically have low or negative net resource transfers.

4.1.6.1. Public Sector External Debt Disbursement by Major Creditors

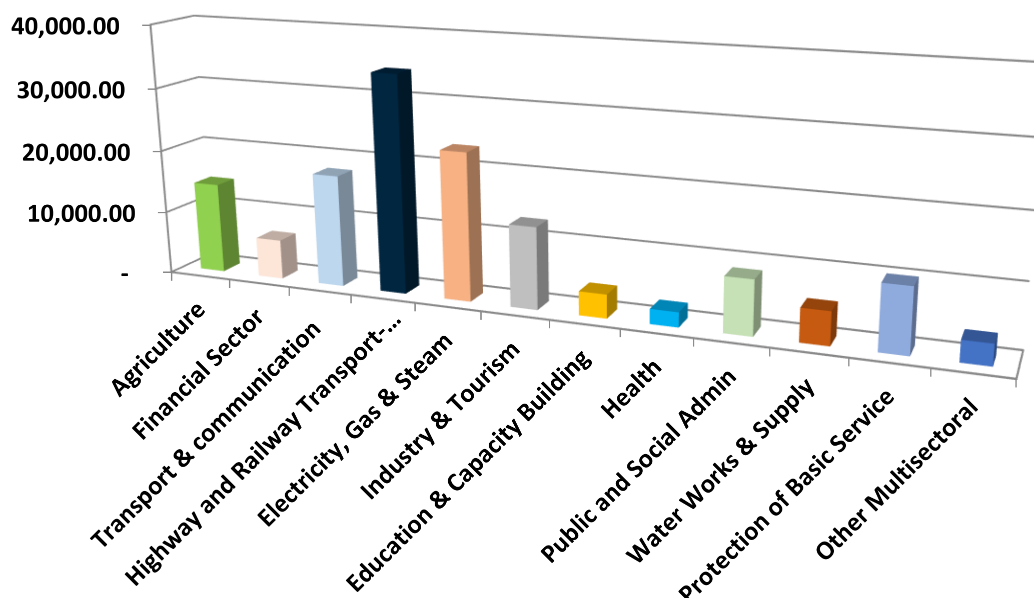
The total disbursement in 2023/24, USD 1,482.02 million out of which USD 1,075.72 million (72.59) percent came from multilateral sources, followed by USD 266.95 million (18.01 percent) from private creditors and USD 139.34 million (9.40 percent) from bilateral creditors. IDA made the largest disbursement in 2023/24, accounting for 67.34 percent of the total, followed by commercial banks with 19.25 percent to EAL.



4.1.6.2. Disbursement by Economic Sector

It is important to analyze the composition of disbursement and debt by economic sector in order to ascertain which economic sectors have received loans and whether they are in line with the nation's development strategy and priorities.

Over the past five years, a significant portion of the resources disbursed have been spent on Highway and Railway Transport infrastructure and Electricity for the . This demonstrates that the inflow of external resources is primarily used for infrastructure development, which is important in order to increase and improve the nation's infrastructure capital.



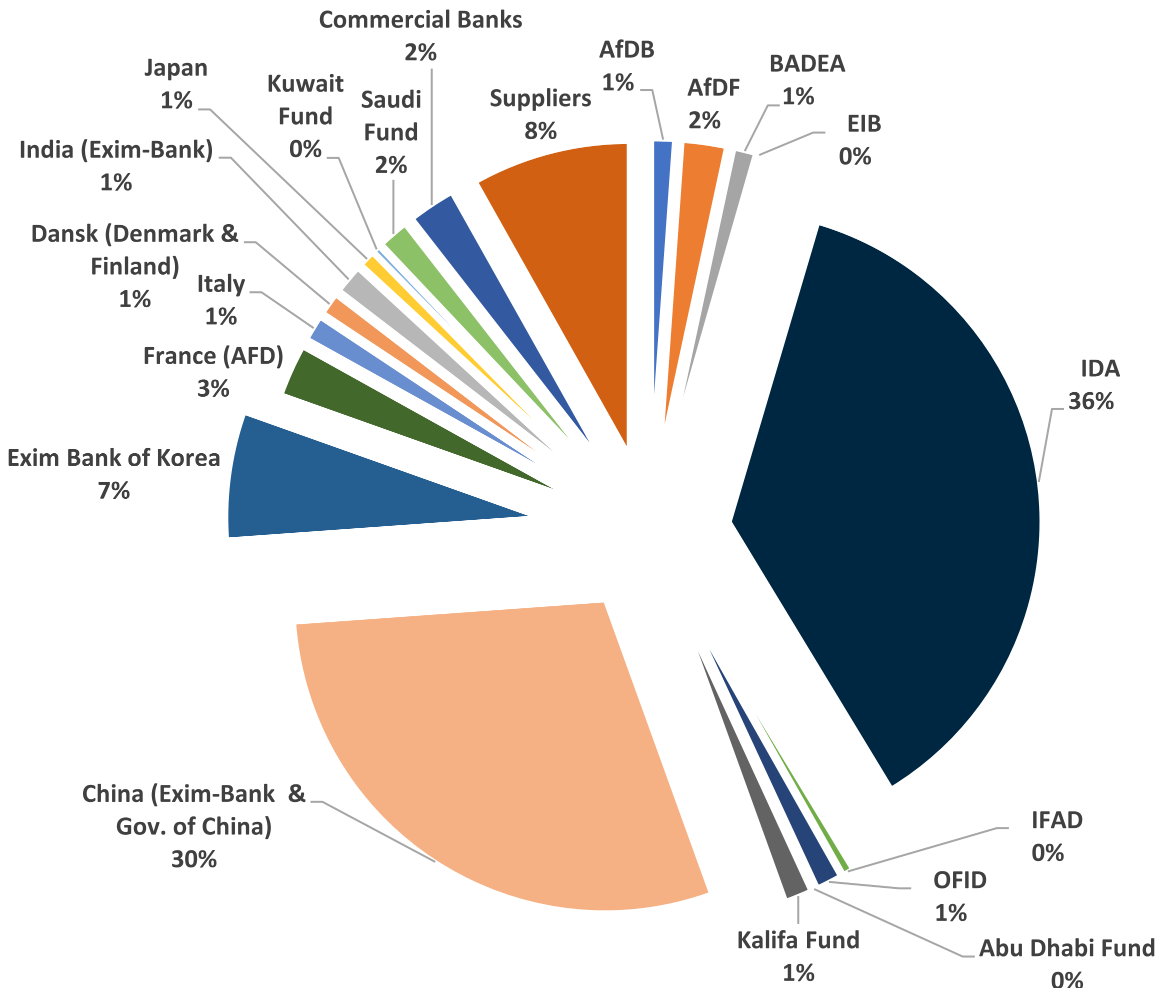
4.1.7. Public Sector External Debt Undisbursed Balances

The disbursement rate is influenced by numerous institutional and non-institutional factors (or loan utilization rate). This rate varies according to the use of the borrowed money and the nature of the creditors.

In terms of time spent using money, commodity and program loans frequently disburse quickly. Contrarily, project loans typically have a longer disbursement period.

Delays in loan disbursement can be expensive as they result in the payment of commitment fees on the undisbursed balance and delay the realization of the economic benefits associated with the projects being implemented. Therefore, it is crucial for the debt manager to examine loan utilization to ascertain whether the low rate of utilization is caused by actual disbursement issues that call for a solution.

As of the end of June 2024, the undisbursed balance from external loan commitments was USD 7,382.23 million, of which 77.65 percent is from the central government committed amount and the remaining 21.8 percent is from Other Public Sector, IDA has very large undisbursed balances from multilateral creditors, totaling USD 2,636.47 million (35.71 percent). The undisbursed amount from various Chinese banks (including Exim-Bank China, CDB, ICBC, and the Government of China) is the second highest among bilateral creditors, totaling approximately USD 2,227.07 million (30.17 percent). Undisbursed balances from creditors such as AfDB, Exim-Bank of China, Exim-Bank of India, Exim-Bank of Korea, and AFD must be closely monitored because project delays financed by these creditors may necessitate additional commitment fee payments.



As previously stated, one consequence of a low overall disbursement rate is delayed project completion and thus delayed economic benefits to the country. Given the relatively low disbursement rate for most creditors, executing agencies will be consulted to investigate the reason for the slow rate at which borrowed resources have been utilized.

4.1.8. External Debt Service

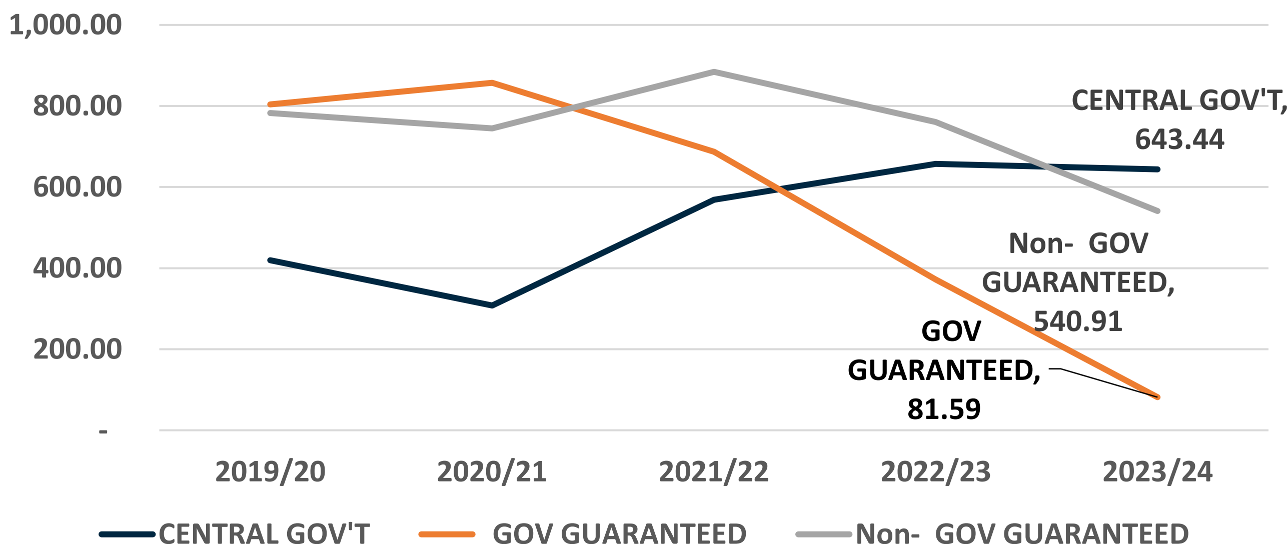
This analysis has so far concentrated on the evolution of Ethiopia's existing external debt portfolio, as well as inflows and new obligations. This section examines the country's medium-term debt service requirements in relation to existing debt, focusing on recent changes in the country's external debt service profile (and commitments) and the new Debt Service Suspension Initiative (DSSI).

As a result, the total amount of external debt serviced in the last five years was USD 9,110.7 million. The central government pays about USD 2,668.08 million (29.3 percent) of the total external debt service payment to its multilateral and bilateral creditors, as well as interest payments to Eurobond holders, with SOEs paying the remaining 70.6 percent to their respective creditors.

Over the last four years, the total annual payment for servicing the public sector's external debt has not changed significantly but SOE external debt service payments growing much faster than central government external debt service payments.

The total external debt service payment in 2021/22 was lower than it was in the previous two years 2020/21 and 2019/20 as a result of the Debt Service Suspension Initiative (DSSI), which is discussed below and the 2023/24 was significantly lower than the previous four years this is due to the debt service standstill between January 2023 to December 2024.

Figure 10. Total Public Sector External Debt Service Payments by Borrower Category Mn USD



Debt Service Suspension Initiative (DSSI)

DSSI is a G20 initiative to assist countries in concentrating their resources to combat the COVID-19 pandemic while also protecting the lives and livelihoods of vulnerable people. In total, 73 countries qualify for a temporary suspension of debt service payments to their official bilateral creditors. The suspension period, which was from May 1,2020 to end on December 2020, (DSSI1) has been extended until June 20, 2021, (DSSI2). The suspended amount will be paid after a one-year grace period and a maturity period of three years for DSSI1 and five years for DSSI2.

Ethiopia, as an eligible country for the DSSI initiative, suspended external debt service payments only for the central government's bilateral creditors during the period (May 1, 2020 – June 30, 2021), totaling USD 216.0 million. (See Table 5 below)

Table 5. Debt Service Suspension Initiative

			In MN USD
Creditor	DSSI 1	DSSI 2	Total
GRAND TOTAL	112,337.80	104,336.04	216,673.84
AFD-AGN. FRANCE DEV.	4,257.49	3,573.21	7,830.70
ARTIGIAN CASSA (CASSA DEPOSIT) ITALY	18,461.70	9,164.61	27,626.31
EXIM-BANK OF CHINA	52,389.79	63,546.71	115,936.50
EXIM-BANK OF INDIA *	29,488.22	25,041.89	54,530.11
EXIM-BANK OF KOREA	16.56	8.23	24.79
GOVERNMENT OF JAPAN	2.48	2.89	5.37
KUWAIT FUND	6,233.91		6,233.91
SAUDI FUND	1,487.65	2,998.50	4,486.15
* Are scheduled amount the bilateral agreement not finalized			

Common Framework (CF)

The Common Framework (CF) for Debt Treatment is beyond the Debt Service Suspension Initiative (DSSI). The framework aims to address the problem of unsustainable debts faced by many countries in the aftermath of the Covid-19 pandemic. The agreement includes all members of the G20 and the Paris Club, Non-Paris club and commercial creditors.

Since announcing its intention to formally request to join the "Common Framework for debt treatment beyond the DSSI in February, Ethiopia has officially submitted its application and informed Paris-Club and official bilateral creditors of its intention to benefit from the Common Framework. The plan is to reduce Ethiopia's debt distress burden and reduce it to moderate risk level. To this end, Ethiopia has been fully cooperating with each and every request made by the Paris-Club Secretariat and submitted a detailed debt data deemed important to the process. Moreover, Ethiopia has been engaging with its bilateral creditors to stir up support for its application to benefit from the CF. In September 2021, the Creditor Committee for Ethiopia was established in accordance with the Common Framework for Debt Treatment Beyond the DSSI.

A discussion with various development partners is underway in response to the November 2020 G20 communique on the Common Framework (CF).

The Ethiopia Official Creditor Committee has agreed to suspend all debt service payments from bilateral and private creditors maturing between January 1, 2023 to December 31, 2024 for further debt restructuring (DSS) thus there was no payment for eligible debt service payments during the period.

While preparing this report, the Government finalized discussions for a new IMF program that will support the implementation of the second Homegrown Economic Reform (HGER 2.0) in July, 2024.The program includes the following related to debt.

Eliminating distortive current account controls and adopting a market-determined exchange rate is undertaken. The debt service standstill agreement with the OCC members provides significant temporary relief. The forecasts incorporate re-profiling of debt payments of USD 2.5 billion due to all the official bilateral creditors in 2023 and 2024. However, because of more debt service in 2026/27 and 2027/28 the net standstill amount will be USD 1.4 billion. The debt treatment under the Common Framework is estimated at USD 3.5 billion which makes a total of USD 4.9 billion debt relief.

The government estimates that the residual financing gap of US$10.7 billion for the 2024/25–2027/28 program will be covered. US$3.4 billion from the IMF, we currently expect USD 3.75 billion in budget support from the World Bank. The remaining gap of US$3.5 billion will be filled by financing associated with debt treatment under the Common Framework.

4.1.8.1. Projected External Debt Service Based on Outstanding Debt Only

Ethiopia's external debt service obligations are expected to rise steadily over the next two years, before the interim debt standstill, from around USD 2.6 billion in 2023/24 to around USD 3.4 billion in 2024/25. This is mainly due to maturing sovereign bonds. Moreover, the contribution of SOE external debt service payments to total external debt service is much higher than that of the central government, but it will decline after about six years, which can be explained by the short-term maturity structure of most SOE borrowing and the absence of non-concessional borrowing by SOE in recent years, except for EAL. In contrast, the central government's external debt service payments will increase gradually at the start of the projection before increasing sharply in 2024/2025 when the EUROBOND matures, and then it will remain flat for the duration of the projection period.

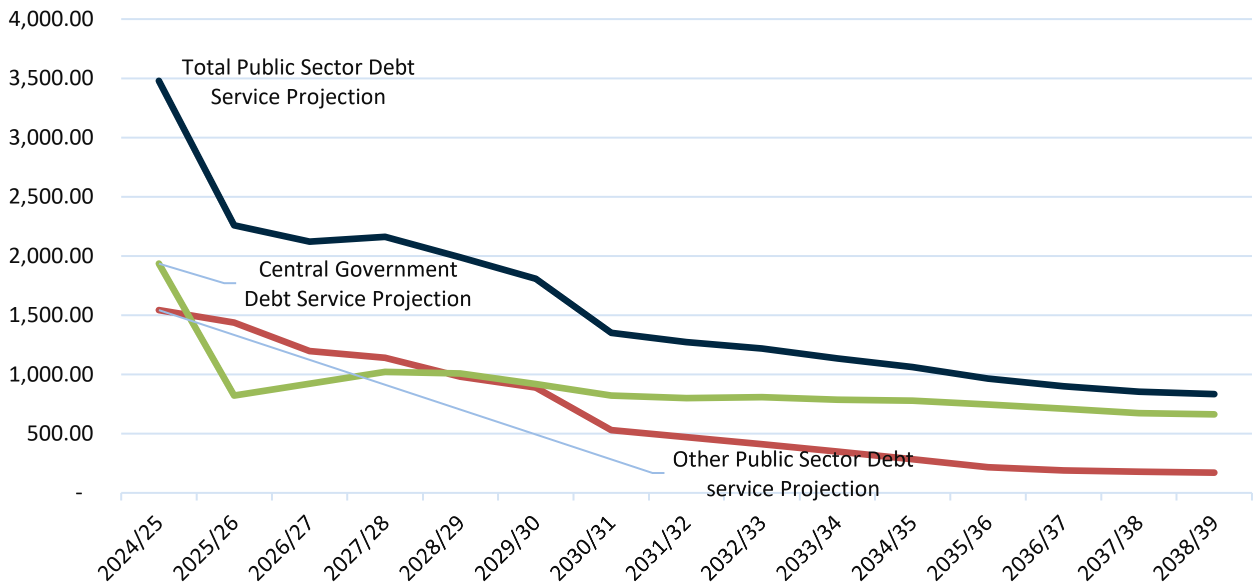


Chart. 11 Projected External debt servic Payment based only the Exisitng DoD as at 30/06/2024
4,000.00
3,500.00
3,000.00
2,500.00
2,000.00
1,500.00
1,000.00
500.00
-
Total Public Sector Debt Service Projection
Central Government Debt Service Projection
Other Public Sector Debt service Projection
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
2034/35
2035/36
2036/37
2037/38
2038/39

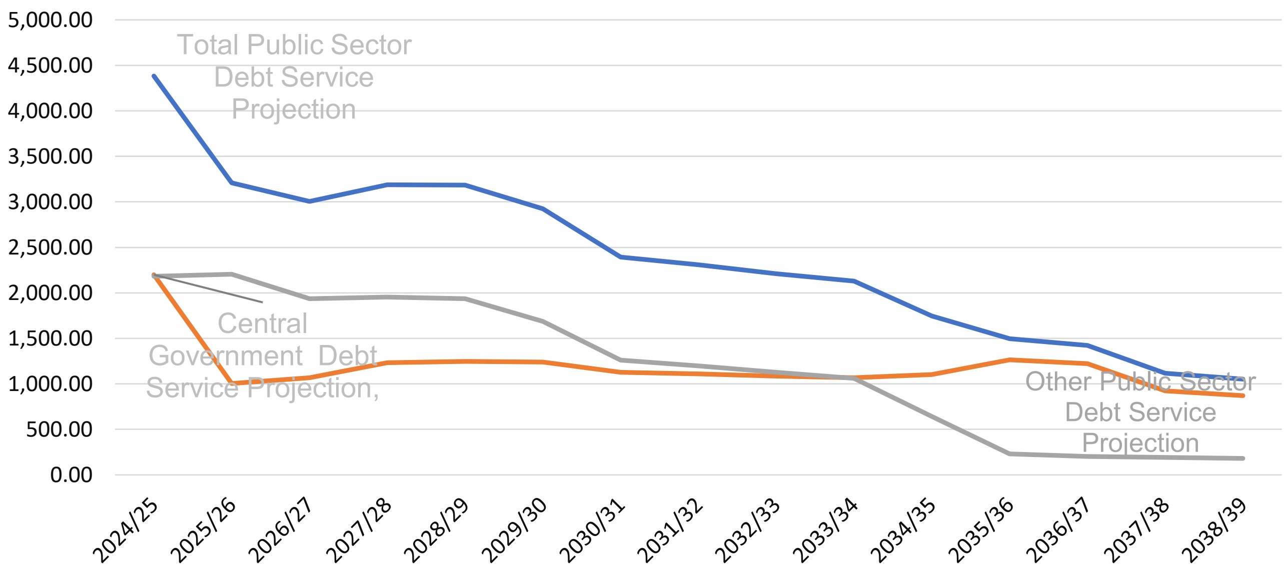


Figure 12. Total Debt Service Projection on Commitment (Assuming the New Disbursement)
5,000.00
4,500.00
4,000.00
3,500.00
3,000.00
2,500.00
2,000.00
1,500.00
1,000.00
500.00
0.00
Total Public Sector Debt Service Projection
Central Government Debt Service Projection,
Other Public Sector Debt Service Projection
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
2034/35
2035/36
2036/37
2037/38
2038/39

4.1.9. Net Resource Flows & Net Transfers

Net Resource Flows (Disbursement minus Principal Payments)

Net resource flow, or gross disbursement less amortization (disbursement minus principal payments), has decreased over the past five years, but it was positive in four except 2021/22, external creditor disbursements to projects are significantly higher than matured principal payments to creditors in prior years. The federal government's net resource flows are positive over the period and significantly larger than those of the other public sectors. Net resource flows on behalf of SOEs are decreasing as most current projects near completion, and several SOEs have started to repay their principal payments.

Table. 6 Net Resource flow on public sector External Debt

	2019/20	2020/21	2021/22	2022/23	2023/24
Central Government	2,167.27	936.26	544.72	639.84	720.69
Gov.Guaranteed	-44.38	-611.55	-499.95	-259.71	-57.56
Non-Gov. Guaranteed	-193.64	-291.55	-512.23	-128.45	-161.60
Grand TOTAL	1, 931.26	33.29	-467.47	251.68	501.53

Net Resource Transfers (Disbursement minus Principal Payments minus Interest Payments)

Transfers of Net Resources (Disbursement minus Principal Payments minus Interest Payments). Net transfer is the difference between net flows and interest and commission payments (Disbursement minus Principal Payments minus Interest Payments). Like net resource flows, net resource transfer has been dropping over the past five years. The negative amount in both the net flows and net transfers in Tables 6 and 7 indicates that the outflows are bigger than the inflows for certain creditors.

Table. 7. Net Resource flow on public sector External Debt

	2019/20	2020/21	2021/22	2022/23	2023/24
Central Government	1,957.64	752.86	316.73	411.81	571.49
Gov.Guaranteed	-302.40	-815.74	-687.27	-372.13	-81.59
Non-Gov. Guaranteed	-331.43	-400.95	-593.74	-217.23	-279.32
Grand TOTAL	1,323.82	-463.82	-964.23	-177.61	210.58

4.2. Domestic Debt

The total domestic debt is comprised of direct advances, Treasury bills, government bonds, Treasury Notes for central government and corporate bonds, as well as long-term loans for SOEs. To fill the budget gap, direct advances, Treasury bills and 5-year Government Bond are being used. Because the domestic loan market is underdeveloped, the government uses Direct Advance (DA), the National Bank of Ethiopia's overdraft facility, as a residual to bridge the budget gap. When the government cannot sell enough Treasury bills to cover the budget financing shortfall due to low demand, direct advances are currently a viable option.

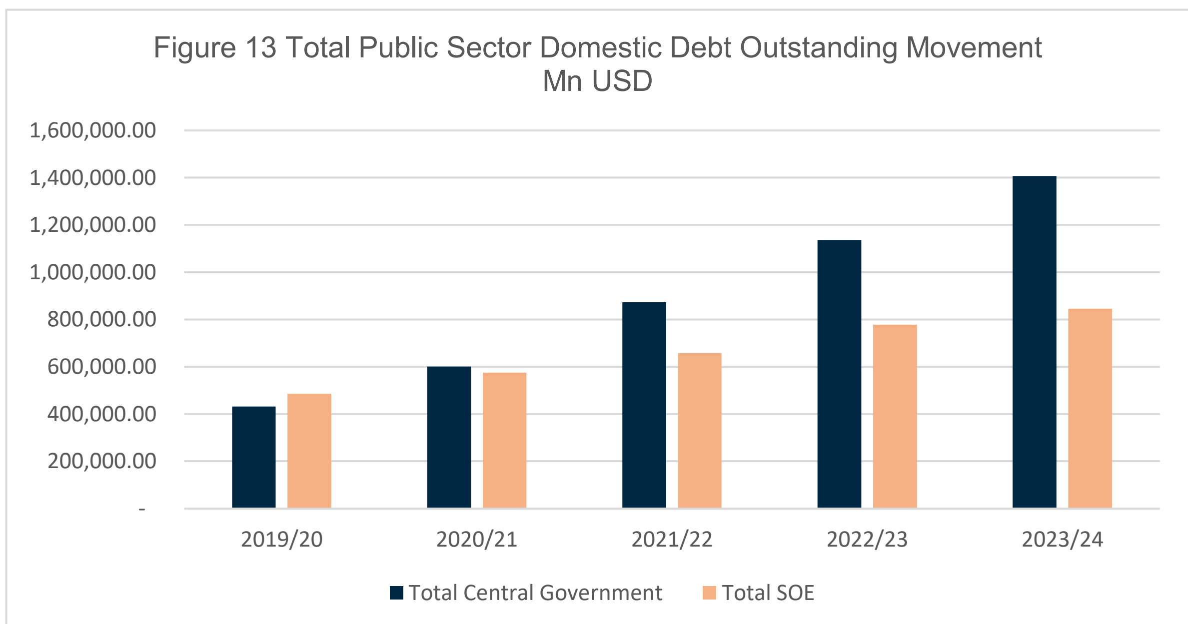
A new market-determined Treasury bill was introduced in December 2019, and the stock of existing Treasury bills that had not yet matured but were issued before December 4, 2019, was converted into three-year Treasury notes. Treasury Bills are auctioned off every two weeks and are available in four maturities: 28 days, 91 days, 182 days, and 364 days.

A new domestic debt instrument has been launched in accordance with Directive No. MFDA/TRBO/001/2022, which compels all commercial banks to purchase a five-year treasury bond at 20% of their new loan disbursement. And the stock of this new instrument was around ETB 93,826.73 million as of June 30 2024.

Government Bonds are issued on rare occasions when the government intends to convert short-term central government borrowings, such as Treasury bills and Direct Advances, into long-term bonds, as well as bad debts owed by privatized public enterprises. The government has recently issued bonds to assist government-owned banks such as CBE and DBE in raising capital. The majority of government bonds do not pay interest. SOEs typically borrow long-term loans from CBE and DBE to fund projects and issue corporate bonds to CBE.

4.2.1. Total Domestic Debt Outstanding

Total domestic debt has increased by an average of 20 percent per year, from ETB 918,953.77 million in 2019/20 to ETB 2,291,791.93 million in 2023/24. This debt includes the four instruments of the central government mentioned above as well as bonds and loans issued by SOEs. The average increase in the central government's domestic debt, which increased by 30 percent in 2022/23, was significantly higher than that of SOEs. Currently A total of 62.5 percent of domestic debt is held by the central government, with SOEs holding the remaining 37.5 percent. The total stock of domestic debt increased by more than 245 percent during the observation period.



4.2.2. Total Domestic Debt Outstanding by Instruments

Domestic debt composition and structure changed over the course of the observation period, the stock of SOE borrowings used to account for the majority of total domestic debt in the earlier two years then after 2020/21 the Central Government stock become the dominant one.

Table 8 Total Domestic Debt Outstanding by Instruments

	2019/20[R]	2020/21	2021/22	2022/23[R]	2023/24P
	ETB	ETB	ETB	ETB	ETB
Grand Total	918,953.77	1,175,939.31	1,530,078.25	1,915,178.00	2,291,791.93
TOTAL Central Gov.	432,393.66	600,575.43	872,847.64	1,137,335.58	1,407,231.46
Government Bonds*****	228,337.10	248,457.92	248,020.49	665,466.05	717,428.60
Medium Term Government Bond (5 yers Bond)				38,263.20	93,826.73
Treasury Notes**	*149,332.56*	147,657.56	147,657.56	-	-
Non-Banks and DBE	*149,332.56*	*147,657.56*	*147,657.56*	-	
Treasury Bills**	23,724.00	120,959.95	317,669.59	341,869.53	447,802.86
Direct Advance*** (NBE)	31,000.00	83,500.00	159,500.00	130,000.00	242,000.00
Total SOE****	486,560.11	575,363.88	657,230.62	777,842.42	884,560.47
SOE CORPORATE BONDS	363,600.45	146,582.43	200,555.12	237,659.39	263,337.33
SOE Loans	122,959.65	30,086.58	35,975.50		-
Transferred to LAMAC (Principal plus interest Arrears)		398,694.87	420,700.00	540,183.03	581,979.24
DBE Three Years Bonds	-	-	-		39,243.90

4.2.3. Central Government Domestic Debt Portfolio

Treasury Bills, Direct Advance, Government Bonds, and the newly introduced Treasury Notes are four instruments that the government uses to finance the fiscal deficit and restructure the domestic debt. Typically, a government bond is issued for a specific purpose, such as converting short-term central government instruments into long-term instruments or acquiring bad debt from SOEs during privatization. The first two are short-term instruments used to finance deficits, Treasury bills and Direct Advance. The Treasury Note was introduced to ease the transition from Treasury Bills to Market Determined Treasury Bills by converting the stock of existing Treasury Bills into three-year Treasury Notes.

Direct Advance

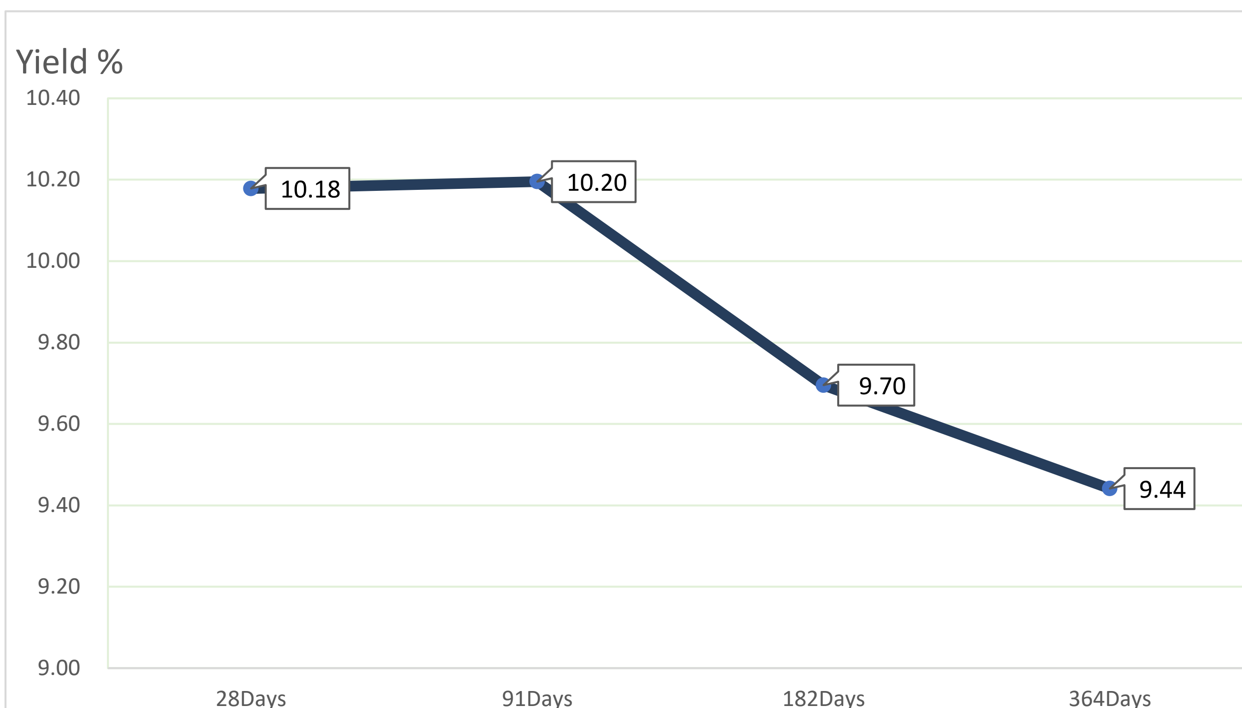
When the amount of expenditure in the central government's treasury account exceeds the amount of cash in the central government's treasury account, the National Bank of Ethiopia's Direct Advance facility is used to cover temporary liquidity concerns or financial shortages that occur. In nominal terms, Direct Advance has increased over the observation period. It increased from ETB 187,246.95 million, and the stock of DA amounted to ETB 192,264.95 million was converted into a 25-year Government Bond in 2019/20. The new DA stock for 2019-20 is ETB 31,000 million, rising to ETB 159,500 million in 2021/22, and in October 2022, the DA amounted to ETB 236,000 MN and was converted into a long-term bond and finally in June 2024, the new stock of DA rose again to ETB 242,000 MN.

Treasury Bills

Treasury bills are short-term securities that the government auctions off bimonthly to raise funds from the general public. Treasury bills with maturities of 28, 91, 182, and 364 days are currently available for purchase. The most frequent holders of the bills are government banks i.e. CBE, the two Social Security Securities Agencies and Private commercial banks. The introduction of market-determined Treasury bills in December 2019 increased the yield on new Treasury bills significantly, and private commercial banks began participating in the auction.

The outstanding balance for Treasury Bills increased from ETB 23,724.00 million in 2019/20, and after the conversion of existing T-Bills in 2019, the stock of   Treasury Bills tobe around ETB 120,959.95 million as of June 30, 2021, and it is now significantly increasing to ETB 447,802.86 million. In 2023/24, 364-day treasury bills accounted for 54 percent of all treasury bills, with 182-day bills accounting for 25 percent, 91-day bills accounting for 14 percent, and 28-day bills accounting for 7 percent. As a result, at the end of fiscal year 2023/24, Treasury Bills accounted for 31.8 percent of total government domestic debt.

As the weighted average yield of market-determined Treasury Bills improved over time, commercial banks' participation in the Treasury Bills increased. Currently, commercial banks held about 45 percent of the total Treasury Bills stock, the largest of which is the Commercial Bank of Ethiopia that held about 30 percent of total Treasury Bills stock at the end of June 2024, with POSSA and PESSA holding the remaining 55 percent.



Government Bonds

Government bonds are long-term debt instruments with maturities of ten years or more that are issued for purposes as opposed to investing or covering a budget deficit. Among the holders of long-term bonds are the Commercial Bank of Ethiopia (CBE), the Development Bank of Ethiopia (DBE), and the National Bank of Ethiopia (NBE).

In 2019/20, there were Birr 228,337.10 million in outstanding government bonds. Over the next four years, this amount rose, reaching ETB 717,428.60 million in 2023/24. The reason for the rise of the Government bond is the conversion of short-term instruments into long term bond.

Treasury Notes

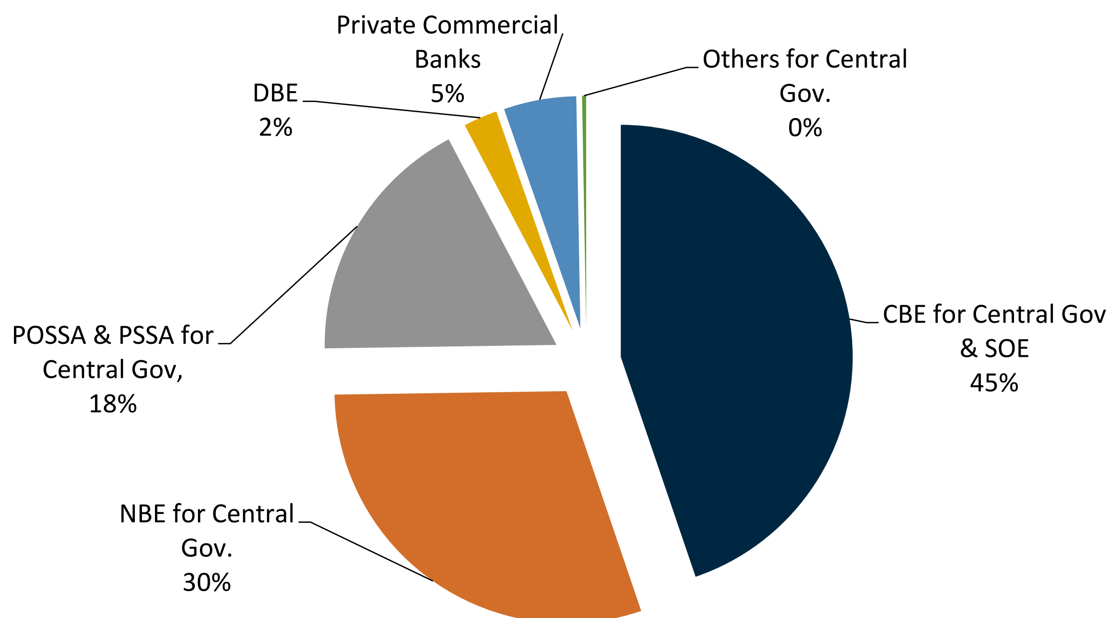
Treasury notes are a new medium-term instrument. As of December 4th, 2019, the existing Treasury Bills, ETB 149,332.56 million were converted into a three-year Treasury Note as part of the transition to the new market-determined Treasury Bills. Most of these note holders are POSSA and PESSA. The Stock of treasury notes at the end of June 30, 2022 was approximately ETB 147,657.56 million which is currently transferred to long term bond.

4.2.4. State Owned Enterprises Domestic Debt Portfolio

SOEs borrow from the domestic sources by issuing corporate bonds as well as loans from CBE and/or DBE. Most of these borrowings are made with government guarantee. They issue corporate bonds and loans mostly to CBE to implement mega projects. The domestic debt outstanding balance of SOEs is ETB 486,560.11 million in 2019/20 and has continuously increased since then to reach ETB 845,316.57 million in 2023/24. The Stock of SOE includes the domestic debt transferred to the Liability Asset Management Corporation (LAMC) which was established by regulation of the Minister of Council in February 2021.In 2020/21 about ETB 398,694.87 million of the SOE domestic debt was transferred to LAMC, and as of June 30, 2024, the share of LAMC is about ETB 581,979.24 million. The Corporation's primary focus will be on absorbing and managing the debts of State-Owned Enterprises, as well as managing assets and liabilities and the investment operations of the companies in its portfolio.

While preparing this report, The Government issued 845.3 billion Birr of 10-year government securities to write off all CBE claims on LAMC (582 billion birr) and EEP debt (263.3 billion birr).

Figure 16. Public Sector Domestic Debt Outstanding by Holders as at 30/06/2024



Domestic Debt by Holders

The National Bank of Ethiopia, Social Security Agencies, Development Bank of Ethiopia, Commercial Bank of Ethiopia, and other commercial banks, as well as other non-financial public companies, are the holders of government domestic securities and lenders to SOEs in Ethiopia.

Central Government's Domestic Debt Holders:

The largest holder of domestic government debt over the previous five years has been the National Bank of Ethiopia. It represented about 53 % of the domestic debt of the central government in 2019–20 and 25% of all domestic debt;. However, over the next two years, its relative share has decreased to 41 percent of domestic debt held by the central government and 23 percent of all domestic debt in 2021/22 and increased to 50 percent of domestic debt held by the central government and 29 percent of all domestic debt in 2022/23 finally in 2023/24 its relative share is 48 % of the total government domestic debt and 30 percent of the total public sector domestic debt. In 2019, as stated in the previous pages the Direct Advance stock from the NBE was converted into a 25-year government bond.

The Public Servants Social Security Agency (PSSSA) and Private Organizations Social Security Agency (POSSA): are the second-largest holders of government securities, with short-term treasury bills and the recently issued treasury notes serving as their main claims that finally transferred to long term bond. From ETB 133,930.56 million in 2019/20 to ETB 395,017.56 million in 2023/24, PSSSA & POSSA's claim has increased by 199 percent over the past five years. Although it only accounts for about 17.5 percent of all domestic debt, it now makes up 28 % of the total government domestic debt portfolio.

During the reporting period, restructuring made on treasury bill of PSSSA amounting birr 176.8 billion and treasury bill of POESSA amounting birr 89.5 billion into 10 year government bond.

The Commercial Bank of Ethiopia (CBE): CBE held ETB 26,522.21 million in government securities until 2019/20, when the government issued a special bond to boost capital for the bank. However, due to the introduction of new market-determined Treasury Bills in the last three years , the share of CBE has increased significantly due to its active participation in the Treasury bills auction, currently, CBE holds about 30 percent of the ETB 447,802.86 million of total Treasury Bills stock, CBE's holding of central government securities has increased.

The Development Bank of Ethiopia (DBE): Its claims are primarily long-term government bonds and treasury bills, but it has stopped trading in treasury bills in recent years. The amount DBE claimed was less than ETB 32,000.00 793.15 million until 2019/20. This is primarily due to their claim on the 364-day Treasury Bills held, which were subsequently converted into Treasury Notes. Currently, the stock of total domestic central government holdings of DBE increased to ETB 53,292.08 million in 2023/24.

Others: Government insurance firms, other non-financial state entities, and private commercial banks are among the other holders of government securities. Insurance companies and other public enterprises' holdings have decreased over time and are now minimal. The participation of private commercial banks has improved from quarter to quarter with the introduction of market-determined treasury bills , and currently, it constitutes about 5 % of government domestic borrowing.

State Owned Enterprises Domestic Debt Holders:

Commercial Bank of Ethiopia for (State Owned Enterprises Bonds and Loans)

Corporate bonds issued by SOE's, and loans made to state-owned businesses are primarily held by the Commercial Bank of Ethiopia with the federal government guarantee. The claim by CBE from SOEs has increased considerably over the past five years, going from ETB 484,868.31 million in 2019/20 to ETB 845,316.57 million in 2023/24. If we add up lending to SOEs and the Central government by the bank, it currently holds about 37.53 % of total domestic debt.

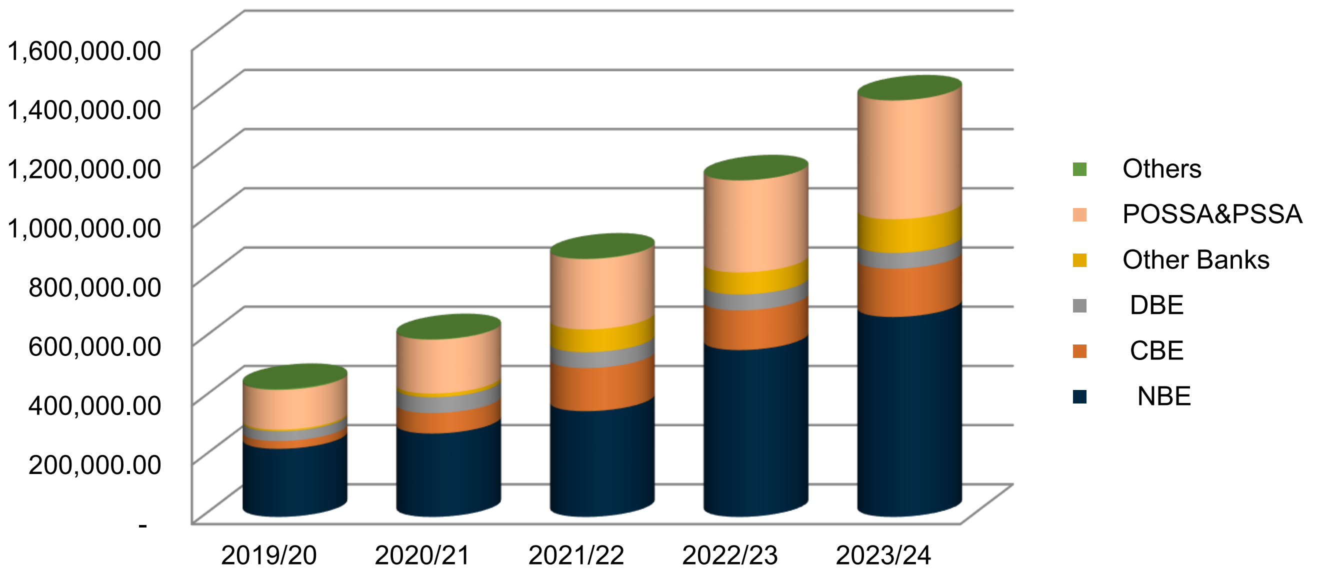
The Liability and Asset Management Corporation (LAMC)

The Liability and Asset Management Corporation (LAMC) was founded by the Minister of Council regulation No. 483/2021. The corporation is a state-owned enterprise, with the Ministry of Finance acting as a supervisory authority. The corporation's objectives include, but are not limited to: -

- Takeover the liabilities of public enterprises as per the list it receives from the Ministry of Finance and service such debt using capital to be allocated from the Industrial Development Fund, revenue generated from its business activities and other resources that may become available to it.

- Invest the capital injected by the Government for debt service payment of public enterprises and other resources until it is used for repayment of such loan.

LAMC will assume the Majority of SOE's outstanding domestic debt from Commercial Bank of Ethiopia, stock of domestic debt as of June 30, 2024, was about ETB 581,979.24 Million.



4.2.6. Government Domestic Debt Service

The total domestic debt service in 2023/24 was ETB 54,068.69 million, with ETB 50,467.71 million (93.3%) going toward interest repayment and ETB 3,600.98 million (6.7%) going toward principal. ETB 54,068.69 million (100 percent) went toward servicing federal government securities total domestic debt, During this period, there will be no servicing of SOE domestic debt.

While interest payments were made for direct advances, treasury bills, government and SOE bonds, very minimal principal repayments were made for central government and SOE bond holders. Treasury bills and direct advance interest payments have increased yearly.

Table 10 Total Domestic Debt Service Payment

	2019/20		2020/21		2021/22R		2022/23		2023/24P	
	ETB	%	ETB	%	ETB	%	ETB	%	ETB	%
TOTAL DEBT SERVICE	51,170.83	100.00	20,645.52	100.00	56,221.53	100.00	48,839.25	100.00	54,068.69	100.00
TOTAL PRINCIPAL	13,826.52	27.02	3,033.39	14.69	34,554.63	61.46	4,986.28	10.21	3,600.98	6.66
TOTAL INTEREST	37,344.31	72.98	17,612.13	85.31	21,666.90	38.54	43,852.97	89.79	50,467.71	93.34
CENTRAL GOV. TOTAL	7,720.10	15.09	17,869.88	86.56	21,635.30	38.48	48,359.15	99.02	54,068.69	100.00
PRINCIPAL	516.88	1.01	2,574.18	12.47	437.43	0.78	4,975.21	10.19	3,600.98	6.66
Bonds and Notes	516.88	1.01	2,574.18	12.47	437.43	0.78	4,975.21	10.19	3,600.98	6.66
Treasury Bills	-	-	-	-	-	-	-	-		-
Direct Advance	-	-	-	-	-	-	-		-	-
INTEREST	7,203.22	14.08	15,295.70	74.09	21,197.87	37.70	43,383.94	88.83	50,467.71	93.34
Bonds and Notes	2,283.90	4.46	10,891.33	52.75	5,589.67	9.94	14,685.74	30.07	24,262.72	44.87
Treasury Bills (Discount plus ServiceCharge)	1,700.30	3.32	3,026.13	14.66	11,919.97	21.20	26,172.72	53.59	24,122.52	44.61
Direct Advance	3,219.02	6.29	1,378.23	6.68	3,688.23	6.56	2,525.48	5.17	2,082.47	3.85
SOE TOTAL*	43,450.73	84.91	2,775.64	13.44	34,586.23	61.52	480.10	0.98	-	-
PRINCIPAL	13,309.64	26.01	459.21	2.22	34,117.20	60.68	11.07	0.02		-
INTEREST	30,141.09	58.90	2,316.43	11.22	469.03	0.83	469.03	0.96		-

5. On-Lending Loans, Guarantees and Contingent Liabilities

Contingent liabilities are potential costs that could be incurred by the government because of future events beyond the government's control. Loan guarantees, warranties, indemnities, uncalled capital, and letters of comfort, as well as those contingencies regarded remote, fall into this category.

The government has also supported SOEs by offering explicit guarantees to make obtaining finance on a much more favorable terms easier. To assist the country's economic development, the government's policy on on-lending and guarantees aims to recover loans provided to SOEs for commercially viable mega projects.

On Lending Loans

Government processes aimed at operationalizing all subsidiary on-lending agreements entered between MoF and SOEs to improve project cash flows toward debt service payment and reduce the debt burden on taxpayers were sometimes initiated in accordance with the Financial Administration Proclamation's implementation. The Ministry of Finance has been contracting loans from both external and local sources for many years, and then lending the proceeds to state-owned firms.

Only the following circumstances apply to on-lending to an SOE:

• The corporation is performing a social project that would be more efficiently executed on behalf of the government.

• It is implementing infrastructure mega projects focusing on the country's potential.

• It has no access to multilateral credits and cannot attract competitive funding; and

As a result, the government has obtained loans from both concessional and semi-concessional sources in recent years and transferred them to certain SOEs to carry out infrastructure projects. As a result, in recent years, the outstanding debt stock for all on-lent loans to SOEs has grown.

Providing Guarantees to SOEs

Some SOEs have been implementing various mega projects that enhance foreign currency earnings as well as supporting the country's economic development endeavor. In support of these objectives, the government has continued to support the SOEs to implement these projects among others by providing guarantees to secure finance from domestic as well as external sources. Nowadays, the volume of SOEs guaranteed debt outstanding has substantially increased thereby putting more risk on the government in the form of contingent liability.

Measures taken to avoid any unforeseen contingent liability occurrences

Recently, to minimize exposure and risks associated with accumulation of SOEs debt, the Government has embraced innovations in financing infrastructure development off balance sheet without impacting heavily on the debt portfolio. Towards this end, Ethiopia has introduced the framework for raising private financing for public investments through the Public Private Partnership (PPP) initiatives.

Accordingly, the initiative will focus on two priority areas namely: the energy and Road sectors. All guarantees and other security instruments provided under the PPP, together with all other contingent liabilities are integrated into the debt management process. To mitigate the contingent liabilities risks, a close follow up mechanism has been established under the PPP Act to provide a good governance framework to manage direct liabilities and contingent liabilities in all phases of the project cycle.

To achieve better outcomes in fiscal risk management, the Ministry of Finance is also placing a lot of emphasis on project financial models, with the view to ensuring manageable project debt repayment mechanisms and to avoid any unforeseen contingent liabilities.

Similarly, the government has issued Public Debt Management and Guarantee Directive to enhance the monitoring system and put in place an organized coordination mechanism to avoid any risks associated with borrowings by SOEs. In addition, various SOEs reforms that aimed at increasing the efficiency and effectiveness of the enterprises and improving their finance and corporate governance are underway. All these concerted efforts by all stakeholders will reduce the occurrence of contingent liabilities.

6. Ethiopia's Public and Publicly Guaranteed Debt ,Cost and Risk Analysis.

Risk refers to the possibility that the cost of debt will differ from the expected outcome. Unexpected changes in economic variables may arise from changes in interest rates and exchange rates. Market risk, operational risk, and liquidity risk are all risks connected with a public debt portfolio. In this sense, assessing the debt portfolio's risks is crucial because it helps decision-makers to develop forward-looking strategies for the optimum debt structure in terms of maturity, interest rate, and currency rate. In this analysis, the following risk indicators are employed to reflect the exposure of the debt portfolio risk: interest rate risk, refinancing risk, and exchange rate risk.

6.1. Refinancing Risk

The risk of refinancing is the likelihood that the loan will be renewed at a higher interest rate (rollover risk). In order to assess Ethiopia's public debt's exposure to refinancing risk, three factors are taken into consideration: the redemption (maturity) profile of the debt, the average time to maturity (ATM), and the debt stock maturing in one year.

Risk Analysis for Refinancing Using the Redemption Profile and debt maturing in one year.

The principal debt service obligation or outstanding debt stock is the amount of the redemption profile. High Principal payments on the debt repayment schedule serve as a sign of a country's vulnerability at a given time, as shown by this indicator. When choosing a repayment schedule for new loans, you can avoid choosing one that coincides with the peaks of the redemption schedule. The redemption profile is helpful in identifying the precise areas of a country's vulnerability, which are indicated by large principal payments in the debt repayment schedule.

In 2024/25, about USD 8,238.58 million in principal payments (13 percent of total public debt) will be due. This sum excludes direct advances, SOE Bond and includes treasury bills that will be rolled over during the year. If we exclude the treasury bills which have the possibility to roll over, the total amount of principal payment of total public debt is USD 1,982.74 million (3 % of total public debt outstanding).

External debt principal payments in 2024/25 account for USD 1,921.48 million (24 %) of total public debt principal payments due this year, with the central government external debt principal payment accounting for only 10.8 percent and SOEs external principal payment for 12.6 percent.

The redemption profile (Figure 18) shows that substantial principal payments occur in the years 2024/25. This includes the rollover of Treasury bills, as well as the sovereign bond bullet payment due in 2024/25 (but there is a high possibility of restructuring the sovereign Bond), and the majority of SOEs foreign borrowing maturing between these dates and the pick in 2028/29 can be partially attributed to the Five-year bond's principal payments.

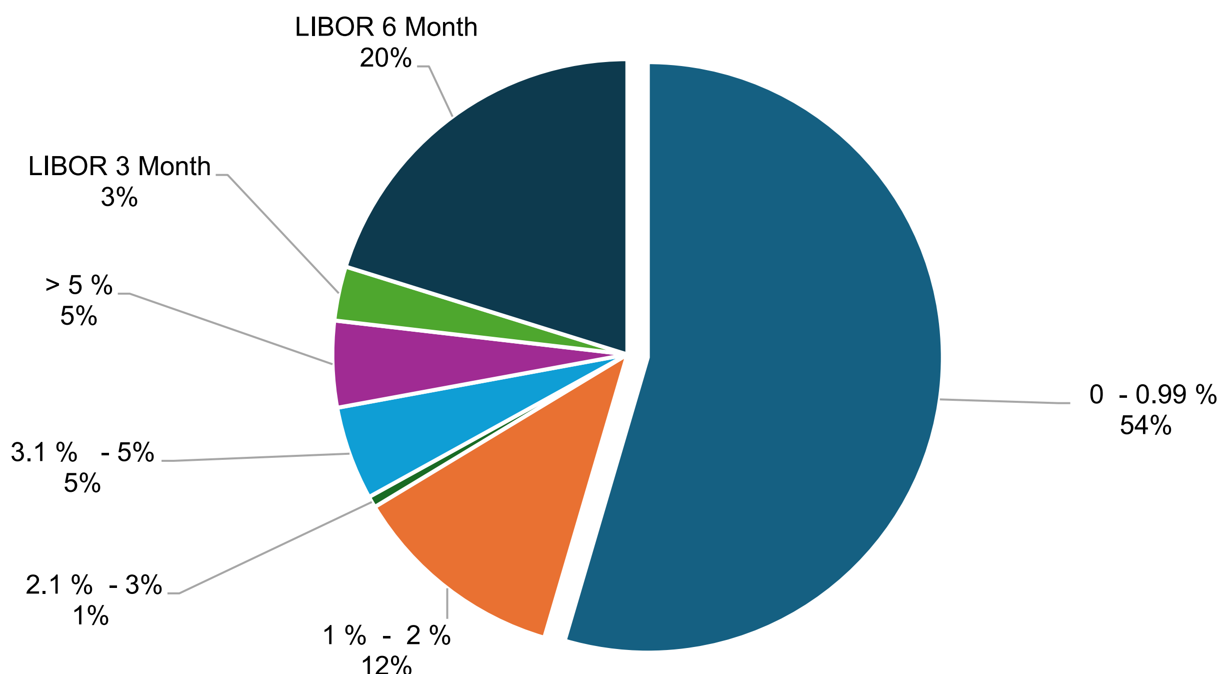
Ethiopia is likely to contract concessional loans for the central government, as shown in the graph above, given the country's debt strategy. As a result, external debt obligations will be repaid over a long period of time.

The difference between the loan's face value and the total of discounted future debt service payments represented as a percentage of the loan's face value is used to determine the loan's concessionality. The loan will be more concessional, and the cost will be cheaper if the grant element is bigger. Official creditors account for most of the central government's external debt, hence concessionality is high.

Costs of Public Debt as measured on weighted average interest rate.

The current weighted average interest rate for the stock of total public sector debt is shown in fi g ure 19, where the weighted average interest rate for total external debt stock with fixed rate is about 1.5 percent and the weighted average interest rate for total external debt stock with floating rate is 4.15 percent, with the weighted average interest rate for central government external debt stock with fixed rate being about 1.3 percent and the floating rate being 3.17 percent. However, borrowing from external sources by SOEs is relatively more expensive, as they have borrowed at a rate of 2.8 percent for fixed interest borrowing and 4.2 percent for stock with floating rate. Because IDA, AfDB, and official bilateral account for a sizable portion of the central government's external borrowing, its weighted average interest rate is lower than that of others.

Figure 19 . Total Public Sector External debt Weighted Average Interest Rate



The weighted interest rate for SOEs' external debt is higher, particularly for variable-interest-rate borrowing. Because the global financial situation is volatile, the current situation may not last long. In particular, borrowing on variable interest rates based on LIBOR and EURIBOR (Currently SOFR) is expected to rise further, raising the cost of borrowing by SOEs.

As a result, in order to avoid refinancing risks and any unanticipated negative impacts on the country's debt portfolio, the cost and additional conditions of borrowing by SOEs must be closely monitored. The weighted average interest rate on total domestic debt stock is 8.3 percent, 6.6 percent for central government domestic debt, and 9.9 percent for SOE domestic debt.

Refinancing Risk Analysis Using Average Time to Maturity

The debt portfolio's Average Time to Maturity (ATM), also known as Average Residual Life, indicates how long it takes, on average, to rollover or refinance the debt portfolio. The presence of a long ATM in the external debt portfolio suggests that concessional loans are more prevalent and have lower refinancing risk than domestic debt.

A low ATM value indicates that a considerable amount of the debt is due for payment or roll-over in the near future, indicating a significant refinancing risk if resources are insufficient to fulfill or rollover the maturing debt. A higher ATM number indicates that just a tiny portion of the loan will mature soon, indicating a low likelihood of refinancing. In this circumstance, Ethiopia's public external debt portfolio is only slightly vulnerable to refinancing risk, particularly central government external debt, which is largely sourced from multilateral sources and has relatively higher ATM.

As a result, the total public External debt portfolio's average time to maturity is around 13.50 years, and Central Government domestic debt portfolios show 7.4 years, respectively. Because most of the central government external borrowing is secured from official multilateral and bilateral institutions, where the country receives debts with a long-term maturity and on extremely concessional terms, the central government external debt ATM is the highest, at 14.05 years.

Table 11. Cost and Risk Indicators as at June 30,2024

		External Debt Total	Central Government External Debt	SOE External Debt	Domestic debt Total	Central Government Domestic Debt	SOE Domestic Debt	Total Public Sector Debt
Amount Mn USD		28,795.02	20,194.31	8,600.71	39,285.43	24,542.74	14,742.69	68,080.45
Nominal Debt in % GDP		13.91	9.76	4.16	18.98	11.86	7.12	32.89
PV of Debt in % GDP		10.1	6.1	4.0	18.98	11.86	7.12	29
Cost Of Debt	Weighted Average Interest Rate(fixed)	1.54	1.37	2.88		2.37		
	Weighted Average Interest Rate(floating)	7.09	6.05	7.11		9.66		
Refinancing Risk	ATM(Years)	11.47	13.68	5.97		7.44		
	Debt Maturing in one Year	10.30	8.8	14				
Interest Rate Risk	ATR (Years)	9.30	12.85	1.55		7.44		
	Debt refixing in one year					39		
	Floating rate debt in % of Total	21	0.5	20.53		38		
Fx Risk		42				0		

The ATM for Treasury bills, Treasury notes, and SOE borrowing from domestic and external sources has a slightly shorter maturity period, which could cause issues when refinancing the debt portfolio. According to the analysis above, repaying the external debt will take a long time. When compared to total public debt, the external debt portfolio has less refinancing risk. The average maturity period for central government external debt is 13.68 years, compared to 5.97 years for State-Owned Enterprises (SOEs).

Interest Rate Risk

i. The portfolio's exposure to variations in market interest rates is referred to as interest rate risk. The following three measures are used to analyze the debt portfolio's interest rate risk exposure:

ii. The ratio of debt that has fixed or floating interest rates in the total portfolio.

iii. Debt that is exposed to interest rate re-fixing within a specific time period. In other words, this refers to maturing debt or variable debt whose interest rate is subject to change within a given period. Maturing debt may be exposed to interest risk if resources are not available to redeem it and thus it has to be rolled over.

iv. Average Time to Re-fixing (ATR), which indicates the average time required to reset the interest rate for the debt portfolio.

The Average Time to Re-fixing (ATR) indicates the exposure of the debt portfolio to changes in interest rates. High ATR will indicate low risk, because this will imply that a relatively low share of the debt will have its interest rates re-set in a short period of time. Conversely, a low value of ATR indicates that a high share of the debt will be re-fixed in the near future, i.e. exposure to risk.

• Assessment of Interest Rate Risk of Ethiopia's Public Debt

i. Analysis of Interest Rate Risk of Public Debt Based on Fixed and Floating Rates Mix

The central government's external and domestic debt portfolio is made up of instruments that were contracted on fixed and a relatively low interest rate term. This means that the central government debt is less susceptible to interest rate risk except treasury bills. Adverse interest rate movements on the world market also would not significantly affect the interest payment obligations of the central government's external and domestic debt.

On the other hand, most of the borrowing by SOEs' from external sources is on variable interest rate of 75 percent and this implies that there will be an interest rate risk associated with the external borrowing by SOEs. Overall, a significant proportion of Ethiopia's external loans are highly concessional, with contractual interest rates for these loans set at significantly below the market rates.

ii. Analysis of Interest Rate Risk of Public Debt Based on Exposure to Re-fixing.

Interest rate risk in the public debt is well captured by the proportion of debt subject to interest rate re-fixing within a specified period. Changes in interest rates have an impact on debt servicing costs for both external and domestic debt. As a result, determining the proportion of debt to be re-fixed reveals the extent to which the portfolio is vulnerable to higher funding costs because of higher market interest rates.

Analysis of Ethiopia's external public debt shows that the portfolio is subject to interest rate risk because a relatively larger portion of the total external public debt (20 percent of the total external debt) is contracted in floating interest rate. On the other hand, analysis of domestic debt, particularly treasury bills, shows that the portfolio is subject to high interest rate risk. This is because of the short-duration nature of the Treasury bill. This is because of the short-duration nature of the Treasury bill. By the end of June 2024 Treasury bill amounting to ETB 341,869 million (USD 6,240.07 million) is expected to be rolled over (the stock treasury bills in the last two years is relatively higher compared to the previous three years stock).

This implies that 30.4 percent of the central government's domestic debt and more than 18 percent of the total domestic debt portfolio is subject to changes in domestic interest rates. A higher proportion of debt that is subjected to re-fixing within one year indicates a high risk of adverse interest rate movements. Excluding domestic debt, interest risk associated with Ethiopia's external debt is relatively lower since 76 percent of the existing debt is not subject to interest rate changes due to fixed interest rates.

iii. Analysis of Interest Rate Risk of Public Debt Based on Average Time to Re-fixing.

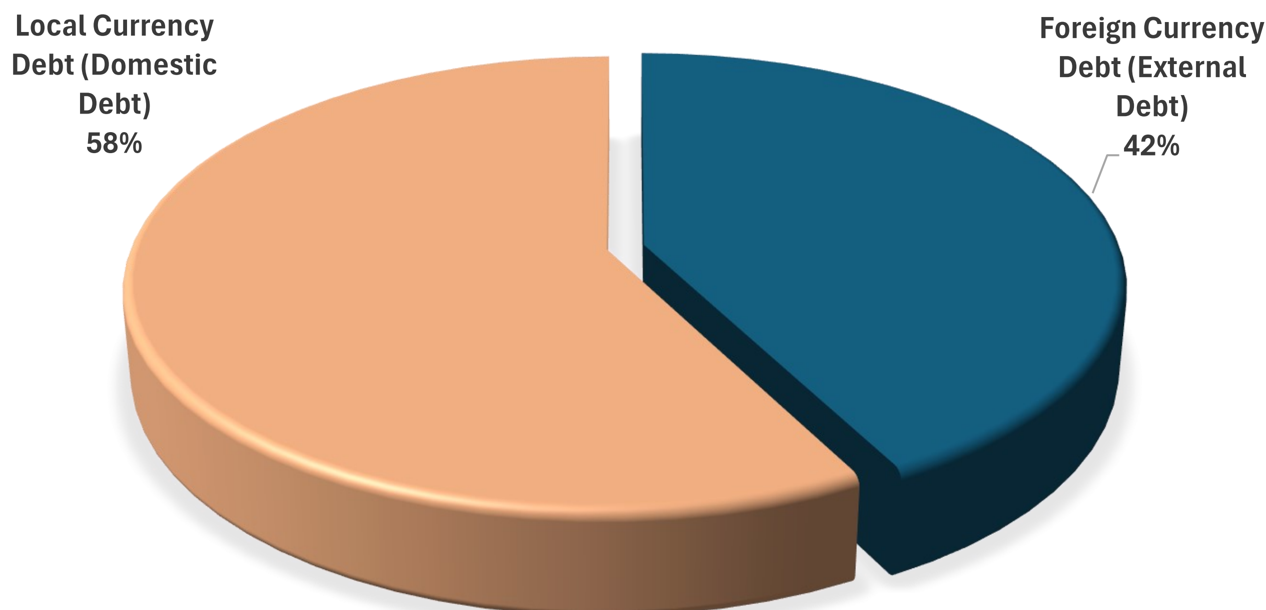
As of June 2024, the ATR for central government external debt is 12.9 years while that of SOEs external debt ATR is 1.5 years. This high value of central government external debt ATR indicates lower interest risk associated with the central government external debt portfolio whereas SOEs external debt has high exposure to interest risk as its ATR is the lowest.

The Central Government's domestic debt is also highly exposed to interest risk. This is confirmed by the lower value of ATR which stands at 7.4 years. This ATR implies that it will take only 7.4 years to re-fix the interest on domestic debt hence domestic debt has a relatively high exposure to interest rate risk. The reason for this lowest ATR for domestic debt is the treasury bills which constitute more than one third of the total domestic debt.

6.2. Exchange Rate Risks

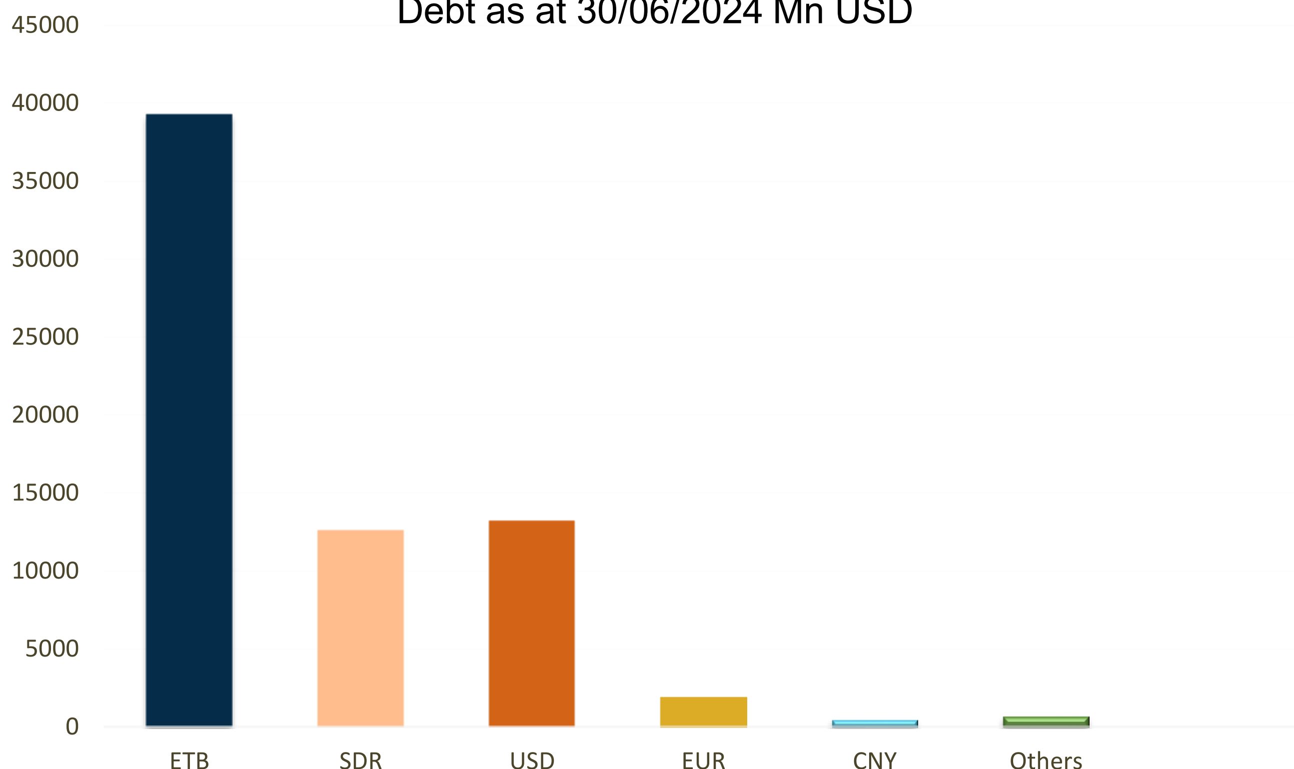
The vulnerability of the debt portfolio to exchange rate movements or the mismatch between the repayment obligations and the sources of foreign exchange rate, is referred to as exchange rate risk. The percentage of external debt in total debt, the currency composition of the debt portfolio, and the degree of currency mismatch between debt service obligations and the composition of foreign exchange for a given country are the three methods for quantifying exchange rate risk in a debt portfolio.

PERCENTAGE SHARE OF TOTAL PUBLIC SECTOR DEBT AS AT 30/06/2024



The share of external and domestic debt on total public debt is 45 percent and 55 percent, respectively. This ratio measures the dependency on external borrowings for development. The external debt portfolio is exposed to exchange rate risks owing to the adoption of a free-floating exchange rate. Hence, any significant depreciation of the Ethiopian Birr against the foreign currencies can substantially contribute to higher debt service payments in local currency terms. As a result, there could be higher debt service payments in the budget than forecasted.

The currency composition of total public debt exhibits minimal exchange rate risk emanating from currency mismatch since most of the external debt service obligations are in United States Dollars, whereas, all domestic debt service obligations are in Ethiopian Birr. The currency composition of Ethiopia's external debt does not constitute a significant source of external vulnerability since the currency structure closely matches with foreign reserves/ earnings.



7. Conclusion

According to the current debt portfolio analysis, the stock of total public sector debt on average grows at a rate of 5 percent per year; public sector external debt increases compared to the previous three years and increases by 7.5 percent in 2023/24. Over the analysis time, both public sector external debt and domestic debt stock increased, though total external debt fell in 2021/22 compared to the previous two years, which can be explained in part by lower disbursements from external loans. The other reason for changes in total public sector debt is the relative changes in exchange rate, i.e., the exchange rate variation between USD and other currencies has an impact on external debt stock, particularly in 2021/22, as the USD strengthens against other currencies and SDRs, total external debt in terms of USD declines.

The beneficiaries and the composition of the public debt have changed significantly, in addition to the public sector debt's overall size. The relative share of domestic and external debt held by the central government is rising during the observation period while that held by SOEs is falling. Since the government decided to stop guaranteeing SOE's borrowing from non-concessional sources, most of the debt portfolio has continued to be made up of concessional debt as opposed to non-concessional debt over the past few years.

Currently, both external and domestic debt are dominated by central government borrowing. It is also evident that the share of concessional loans as a total of external debt has increased from 59 percent at the end June 2019/20 to 65 percent as of the end of June 2023/24, this could be explained partly by the recent measure taken by the government towards ceasing government-guaranteed non-concessional loans for projects undertaken by SOEs and due to higher borrowing by central government to implements its projects and the reduction of SOEs borrowing in the last three years as the government commitment to improve the debt distress level of the country and as per the non-concessional borrowing limit of the World Bank.

The main areas where the resources were used are energy, sugar, transport, roads, and other projects that support the endeavor of economic development of the country. The accumulation of non-concessional debt might have a negative impact on the debt sustainability of the country.

As most of the SOEs ' borrowings are government-guaranteed, they are a contingent liability for the government. If any of the SOEs are unable to repay their debt service, the guarantee might be called, which would negatively impact the government's budget.

Following the global financial crisis of 2008, variable interest rates like LIBOR and EURIBOR (Currently SOFR) reference rates were low in the past before 2022/23, and SOEs' interest payments to their respective creditors were also relatively low. However, because the LIBOR rate is currently increasing more quickly, their future interest payments could significantly change due to the LIBOR (SOFR) rate's upward movement.

The government's borrowings from domestic sources are mainly in the form of direct advance and treasury bills, which have high rollover risk; that is, the government needs to roll over the existing treasury bills whenever they mature. The borrowing of the SOEs(which was transferred to LAMC) from CBE with the government's guarantee has also significantly increased.

Debt is sustainable when a borrower is expected to be able to continue servicing its debts without an unrealistically large correction to its income and expenditure balance. Debt sustainability, thus, reflects a country's solvency, liquidity, and adjustment capacity.

The public debt dynamics over the last few years appear to have worsened, due to the external sector's poor performance indicating some risk on debt sustainability. As the current debt volume is increasing, it is appropriate to evaluate and manage the risk involved in different debt compositions, facilitating coordination with fiscal and monetary management and enhancing transparency. Accordingly, to improve the existing situation, the government has taken subsequent measures including:

- Maintaining in a sustainable manner the decision of the Government the SOEs not to borrow from non-concessional sources so that it is possible to improve the debt risk situation of the country including adhering to the decision of the World Bank and IMF,

- Focused central government borrowing exclusively from concessional sources,

- Diversified sources of concessional borrowing including focusing on non-traditional sources,

- Taken the necessary measures that enhance foreign currency earnings by investing in the development of industrial zones, attract FDI inflow and boost government revenue etc.,

- Use the new Public Private Partnership framework to implement strategically important mega infrastructure projects,

- Enhancing domestic debt market and secondary market, with the objective to introducing bonds with various maturities to replace part of the treasury bills so that the rollover risk of the domestic debt will be minimized,

- Change the short-term debt instruments including direct advances and treasury bills to longer term debt instruments and use other modern financing instruments that helps to minimize additional costs and unforeseen risks,

- Exert the maximum efforts to finalize the Common Framework discussion and negotiations and other related initiatives by approaching the concerned bodies including Bilateral commercial creditors, Paris Clubs secretariat, IMF, World Bank and others to achieve the ongoing objective of improving the current debt distress risk from high to moderate risk,

- Maintain sustainably the current external debt services payments on time practices to first build the confidence of multilateral and bilateral creditors to provide additional financial and technical support useful for the country's development endeavors and second use the current debt payment practices for robust image building which has positive impact in various dimensions for the country,

- Undertake debt management capacity building activities in a sustainable manner so that it is possible to enhance analytical capacity to undertake useful analysis, assessments, and studies for policy makers decisions.

Finally, it is the expectation of the Ministry of Finance that this report will enhance transparency and accountability of public debt management in Ethiopia.

DEFINITIONS

It is hoped that the following definitions could help the reader to understand the concepts and correctly interpret the figures provided in the various tables. The definitions are taken from:

- 'External Debt Management: An Introduction', by Thomas M. Klein, World Bank Technical Paper No. 245
- 'External Debt Statistics: Guide for Compilers and Users, BIS, ComSec, Eurostat, IMF, OECD, Paris Club Secretariat, UNCTAD, World Bank, 2003'.
- Debt and DMFAS Glossary, UNCTAD, 2008

A

Allocation of a Tranche: All or part of a loan/grant tranche assigned to finance projects or programmes.

Amortization: The repayment of principal of a loan spread out over a period.

Amortization Schedule: The schedule for the repayment of principal and payment of interest on an ongoing basis.

Arrears: The total of scheduled debt service payments that have fallen due but remain unpaid.

Average time to maturity (ATM): An indicator that measures the weighted average time to maturity of all the principal payments in the debt portfolio.

Average time to Re-fixing (ATR): An indicator that measures the weighted average time until all principal payments in the debt portfolio becomes subject to a new interest rate.

B

Bilateral Creditor: In DMFAS, it refers to a type of creditor in the context of external debt. Official bilateral creditors include governments and their agencies (including Central Bank), autonomous public bodies or official export credit agencies.

Bilateral Debt: Loans extended by a bilateral creditor.

Borrower (debtor): The organization or the entity defined as such in the loan contract which usually is responsible for servicing the debt.

C

Cancellation: An agreed reduction in the undisbursed balance of a loan commitment.

Commercial Credit: In the context of the Paris Club, loans originally extended on terms that do not qualify as official development assistance (ODA) credits.

Commercial Interest Reference Rates (CIRR): A set of currency-specific interest rates for major OECD countries.

Commitment: An obligation to furnish resource of a given amount under specified financial terms and conditions

Commitment Charge (fee): Charge or fee made for holding available the undisbursed balance of a loan commitment.

Commitment Date: The date on which the commitment occurs.

"Common Framework (CF) for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI)". The framework aims to address the problem of unsustainable debts faced by many countries in the aftermath of the Covid-19 pandemic. The agreement includes all members of the G20 and the Paris Club.

Concessional Loans: Loans that are extended on terms substantially more generous than market loans.

Concessionality Level: See *grant element.*

Credit: An amount for which there is a specific obligation of repayment.

Creditor: The organization or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement.

Creditor Country: The country in which the creditor resides.

Currency of denomination or Currency of a Loan: The unit of account in which amounts of indebtedness are expressed in the general/loan agreement.

Currency of Repayment: The unit of account in which a loan is to be repaid.

Currency of Reporting: The unit of account in which amounts are reported to the compiling agency and/or to an international agency compiling debt statistics.

Currency of Transaction: The medium of exchange in which an individual transfer occurs.

Current Maturities: Maturities falling due during the consolidation period of a rescheduling.

D

Debt Relief: Any form of debt reorganization that relieves the overall burden of debt.

Debt Reorganization/Restructuring: Debt reorganization arises from bilateral arrangements involving both the creditor and the debtor that alters the terms established for the servicing of a debt.

Debt Rescheduling: Debt rescheduling refers to the formal deferment of debt service payments and the application of new and extended maturities to the deferred amount.

Debt Service: Refers to payments in respect of both principal and interest.

Debt-Service to Export Ratio: The ratio of debt service (interest and principal payments due) during a year, expressed as a percentage of exports (typically of goods and services) for that year.

Debt Sustainability Analysis: A study of a country's medium- to long-term debt situation.

Debtor Country: The country in which the debtor resides.

Direct Advance: Government overdraft from the Central Bank.

Disbursed Loans: The amount that has been disbursed from a loan but has not yet been repaid or forgiven.

Disbursed and Outstanding Debt (DOD): The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.

Disbursement: The transactions of providing financial resources.

Domestic Currency: It is a legal tender in the economy and issued by the monetary authority for that economy, or for the common currency area to which the economy belongs.

Domestic Debt: Gross domestic debt, at any given time, is the outstanding contractual, and not contingent, liabilities that residents of a country owe to other residents of the country that require payment(s) of *interest* and/or *principal* by the debtor at some point(s) in the future.

Debt Service Suspension Initiative (DSSI): IMF, World Bank and G20 initiative to help countries to concentrate their resource to fight the COVID-19 pandemic and safeguard the lives and the lively hood of vulnerable People. In all,73 countries are eligible for the temporary suspension of debt service payments owed to their official bilateral creditors. The G20 has also called on private creditors to participate in the initiative on comparable terms. The suspension period, originally set to end on December 31, 2020, has been extended through June 2021.

E

External Debt: Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of *interest* and/or *principal* by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy.

Euro Inter Bank Offered Rate (EURIBOR): is the rate at which euro interbank term deposits are being offered by one prime bank to another within the European Monitory Union (EMU) zone. Such as Euribor 6 months

F

Face Value: The amount of principal to be repaid (for example, the redemption amount of a bond).

Fixed Interest Rate: A rate of interest that is defined in absolute terms at the time of the loan agreement.

Foreign Currency: A currency other than the domestic currency.

G

Government Bonds: Negotiable securities issued by the government. They are long-term obligations issued with a maturity of more than 5 years.

Grace Period: The period between the commitment date of the loan and the date of the first principal repayment.

Grant Element: The measure of concessionality of a loan, calculated as the difference between the face value of the loan and the sum of the discounted future *debt service* payments to be made by the borrower expressed as a percentage of the face value of the loan.

Guarantee of a loan: An undertaking usually by a bank or a government agency to pay part or all of the amount due on a debt instrument extended by a *lender* in the event of nonpayment by the borrower.

H

Heavily Indebted Poor Countries (HIPCs): A Group of 41 developing countries classified as being heavily indebted poor countries.

HIPC Initiative: Framework for action to resolve the external debt problems of the heavily indebted poor countries that was developed jointly by the IMF and the World Bank and was adopted in 1996.

I

Interest Payments: Payments made in accordance with the contractual terms of a *loan* that specify the rate of interest that is to be applied, and the way in which the interest is to be computed. The *loan* may have *fixed* or *variable interest rates.*

International Development Association (IDA): IDA, established in 1960, is the concessional lending arm of the World Bank Group.

International Monetary Fund (IMF): Following the Bretton Woods Accords and established in 1945, the IMF is a cooperative intergovernmental monetary and financial institution with 184 member countries.

L

Late Interest Charges: This is the additional interest that may be levied on obligations overdue beyond a specified time.

Line of Credit: An agreement that creates a facility under which one unit can borrow credit from another up to a specified ceiling, usually over a specified period.

Loan: An agreement in which a lender undertakes to make specified resources available to a borrower. The amount of funds disbursed is to be repaid (with or without interest and late fees) in accordance with the terms of a promissory note or repayment schedule.

Loan Agreement: The legal evidence and terms of a loan.

Loan Guarantee: A legally binding agreement under which the guarantor agrees to pay any or all the amount due on a loan instrument in the event of nonpayment by the borrower.

London Interbank Offered Rate (LIBOR): The London Interbank Offered Rate for deposits, such as the six-month dollar LIBOR. LIBOR is a reference rate for the international banking markets and is commonly the basis on which lending margins are fixed.

Long-term External Debt: External debt that has a maturity of more than one year.

M

Maturity: The debt service amounts to be paid on a particular date.

Maturity Date (Final): The date on which a debt obligation is contracted to be extinguished.

Maturity Structure: A time profile of the maturities of claims or liabilities.

Medium-Term Debt Management Strategy (MTDS): is a plan that the Government intends to implement over the medium term in order to achieve a desired composition of the Government debt portfolio, which captures the Government's preferences with regard to the cost-risk trade-off.

Multilateral Creditors: These creditors are multilateral institutions such as the IMF and the World Bank, as well as other multilateral development banks.

Multilateral Development Banks (MDBs): Another term for international financial institutions, such as the World Bank Group and the regional development banks.

N

Net Flows: From the viewpoint of a loan, the net flow is gross disbursements less principal repayments.

Net Present Value (NPV) of Debt: The nominal amount outstanding minus the sum of all future debt service obligations (interest and principal) on existing debt discounted at an interest rate different from the contracted rate.

Net Resource Transfers: Loan disbursements minus repayments of principal minus service payments during some period.

Nominal Value: The nominal value of a loan instrument is the amount that at any moment in time the debtor owes to the creditor at that moment.

O

Official Creditors: Official creditors are international organizations, governments, and government agencies, including official monetary institutions.

Official Development Assistance (ODA): Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount).

Official Development Assistance Loans: Loans with a maturity of over one-year meeting criteria set out in the definition of ODA, provided by governments or official agencies and for which repayment is required in convertible currencies or in kind.

P

Paris Club: An informal group of creditor governments that has met regularly in Paris since 1956 to reschedule bilateral debts; the French treasury provides the secretariat.

Present Value: The discounted sum of all future debt service at a given rate of interest.

Present Value of Debt-to-Exports Ratio (PV/X): Present value (PV) of debt as a percentage of exports (usually of goods and services) (X).

Principal: The provision of economic value by the creditor, or the creation of debt liabilities through other means, establishes a principal liability for the debtor, which, until extinguished, may change in value over time.

Principal Outstanding: The amount of principal disbursed and not repaid.

Principal Repayment Schedule: The repayment schedule of the principal by due date and installment amount.

Principal Repayments: The payments which are made against the *drawn* and outstanding amount of the loan.

Private Creditors: Creditors that are neither government nor public sector agencies. These include private bondholders, private banks, other private financial institutions, and manufacturers exporters, and other suppliers of goods that have a financial claim.

Programme Allocation: A type of direct allocation for which there is a programme to account for it.

Project: A specific set of activities aimed at the development of an economic sector.

Project Allocation: Allocation of a certain amount of a loan that is going to a specific project.

Public Debt: The debt obligation of the public sector.

Public External Debt: The external debt obligation of the public sector.

Publicly Guaranteed Debt: The external obligation of a private debtor that is guaranteed for repayment by a public entity.

Public Sector: The public sector includes the general government, monetary authorities, and those entities in the banking and other sectors that are public corporations.

R

Repayment Period: The period during which the debt obligation is to be repaid.

Rescheduling: See *Debt Rescheduling*

Rescheduling Agreement: An agreement between a creditor, or a group of creditors, and a debtor to reschedule debt.

S

Service Charges: All charges that must be paid as a price for the loan, such as: interest, commitment fees, management fees.

Service Payments: Amounts remitted by the borrower to repay a debt.

Short-term Debt: Debt that has a maturity of one year or less.

Spread (Margin): A percentage to be added to some defined base interest rate, such as LIBOR, to determine the rate of interest to be used for a loan.

Stock of Debt: The amount outstanding as of a moment of time.

Supplier Credit: A loan extended by an exporter to finance the purchase of that exporter's goods or contractual services.

T

Tranche: A particular portion of a financial claim or liability with its own specific terms as opposed to the general terms governing the whole claim or liability.

Treasury Bills: Negotiable securities issued by the government. In general, these are short-term obligations issued with a maturity of one year or less. They are traded on a discount basis.

U

Undisbursed Balance: Funds committed by the creditor but not yet utilized by the borrower.

W

Write-off: A financial claim that a creditor regards as unrecoverable and so no longer carries on its books.