POLICY BRIEF

The 2020-2025 Sovereign Debt Crisis

What have we learnt and what lies ahead?

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LAZARD

Executive summary

- **This policy paper takes stock at the way the latest wave of sovereign debt restructurings has been handled (2020-2024).** It is based on Lazard's intimate knowledge of such debt renegotiations, having advised debtor governments on most of the debt restructurings since 2020.
- Our policy brief starts with an assessment of the prospects for "Frontier economies": **while a consensus seems to emerge that there are no major risks of sovereign default in the near-term, we rather argue that shock absorption capacity has diminished across the board** and debt tolerance has often reached its limits. This makes the question of the effectiveness of the collective debt resolution framework (notably the G20 Common Framework) highly relevant.
- Looking at the past five years, **we argue that the collective process has in fact worked as well as the circumstances permitted — but in a slow and tortuous way.** The domination of investors largely impervious to regulatory pressure (bondholders and Chinese commercial lenders) and of bilateral creditors having a lower degree of agency in the multilateralism born in 1944 in Bretton Woods has made it impossible for the IMF to be the powerful dealmaker it was once in the 1980's.
- Consequently, **the international infrastructure for debt relief has had to cope with a world where the financial effort required by creditors** — as set by the IMF — **is systematically challenged**, and where **inter-creditor issues are obsessively scrutinized by official and private creditors** lacking trust in each other.
- This has led to **endless debates about what comparability means**, to **the multiplication of state contingent instruments** — creditors asking for compensation in case the IMF projections prove pessimistic — and to **the proliferation of claw back clauses** to ensure that no creditor may end up being better treated in the future. In the same vein, **comparability concerns amongst external creditors have led to lifting the taboo of domestic debt restructuring** to share the burden of pain with a greater pool of creditors.
- **Still, the overwhelming benefit of the current approach, however imperfect, has been to bring China, a major bilateral creditor, in the multilateral discussion**, with adequate voice.
- Looking ahead, **we see many clouds on the horizon for "Frontier finance",** with some silver lining here and there, notably the possibility to transform abundant carbon absorptive natural assets into a green currency to repay debt.
- In particular, we see a number of complex issues interacting in a way that will complicate the adequate funding of these countries' sustainable development needs. For instance, **the issue of the hierarchy of claims is likely to be an important theme looking forward.** As many concessional creditors step in to finance governments in an affordable way, subordination risk increases for non-protected creditors. But, as super-senior claims proliferate, the Preferred Creditor Status claimed by several public institutions may itself well appear as relative rather than absolute. Creditors' hierarchy is going to become an important though fluid issue.
- **This issue will cloud the horizon just as the risk of crystallization of contingent financial liabilities increases**, in a way that remains in our view imperfectly analyzed.
- As a result, **Frontier finance will be probably marked in the future by multiple equilibria, which, if the issue is not addressed, will raise the cost of capital in these countries.**

Introduction

2025 may be the year when developing nations finally emerge from a series of three major global shocks: the Covid-19 pandemic, the Ukraine/Russia war and the global monetary tightening. The shocks propelled many fragile economies – notably "frontier market countries[1]" – into debt distress.

This year may also mark the end of the most recent wave of sovereign debt restructurings, initiated with Argentina and Ecuador in 2020. Indeed, the international financial community does not seem to expect major sovereign debt defaults in 2025. Nor do financial markets: credit spreads for CCC and B rated sovereign have dramatically tightened in 2024.

Such positive view may be supported by the idea that the international financial system has become more equipped to deal efficiently with excessive debt problems, following five years of a difficult journey. Therefore, the question is whether this apparent pause in terms of sovereign debt distress is the beginning of the end or the end of the beginning. But, either way, the current lull offers an opportunity to reflect on the last five years, explain what we have learnt and offer some thoughts about what lies ahead.

At Lazard, we have been deeply involved in this latest wave of sovereign debt restructurings. Over the past five years, Lazard has acted as the sole financial advisor for most countries facing debt distress – Argentina, Ecuador, Lebanon, Suriname, Zambia, Ethiopia, Ghana and Sri Lanka – contributing to the restructuring of US$ c. 200bn of claims from domestic, foreign private and official creditors.

This policy brief is structured as follows. Part I analyses whether one can safely say that the page of debt distress and restructuring is to be turned. We offer a more cautious analysis. Part II focuses on the evolution of the international architecture for debt relief, and whether it has worked effectively or not. We think the system has possibly worked as well as it could in the current circumstances but has been slow and tortuous. We also believe it has evolved in many ways with important remaining shortcomings. Part III looks at what lies ahead for "frontier finance" and shows that key issues such as the emerging of a new hierarchy of claims, the comparability among creditors, the crystallization of hidden debts and the bail-in versus bail-out debate will continue to reshape the sovereign debt landscape.

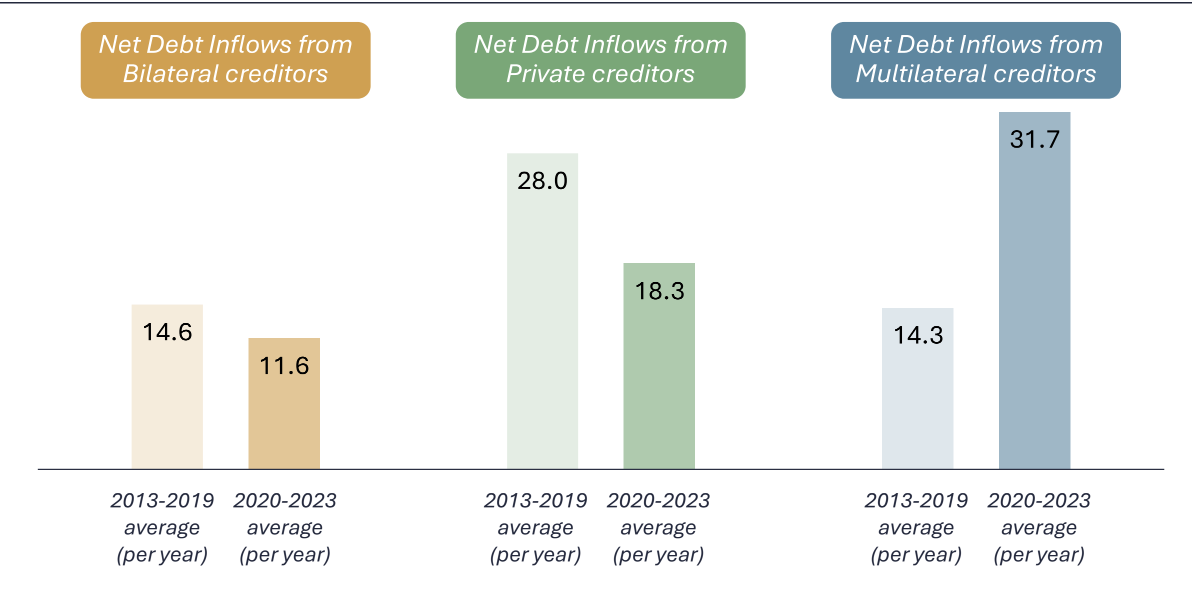
[1] A "frontier country" refers here to a developing/emerging economy that remains at an early stage of market development, characterized by limited infrastructure, underdeveloped financial systems, high growth potential but also significant economic and political risks with smaller market sizes and liquidity compared to established emerging markets.

Part I. 2020-2025: A sovereign debt crisis for “frontier” economies

Economic and financial history is plagued by sovereign debt crises, with the 2020-2025 debt crisis affecting fragile frontier economies. It is not a surprise that the combination of the Covid-19 pandemic, the war in Ukraine, and the global monetary tightening has exposed vulnerable economies to unsurmountable debt challenges. Private capital inflows stopped, and sovereign defaults ensued for already vulnerable frontier economies. Larger, more resilient and better-established emerging economies escaped debt distress after they had built macro-financial buffers in the aftermath of the 2008 Global Financial Crisis

After a decade of financial integration where many countries gained access to international capital markets, **the Covid-19 Pandemic marked a dramatic shift in international financial flows for Low Income countries (LIC).** The latest World Bank International Debt Report[2] shows a large reduction in net private debt flows to IDA-eligible countries from US$28bn annually on average over 2013-2019 to US$18bn over 2020-2023. Net financing from international bond markets turned negative after 2022. Bilateral creditors also reduced net debt flows to IDA-eligible countries, albeit at a slower pace than for private creditors. Multilateral assistance had to step in, with loans from Multilateral Development Banks (MDBs) increasing from an average of US$14bn annually on average over 2013-2019 to US$32bn annually since 2020 (*Graph 1*). The IMF became an anchor for macro-stability in most LIC and frontier economies.

Graph 1: Net Debt Inflows to IDA-eligible countries



Source: International Debt Statistics, World Bank

2025 is generally expected to be a year of respite for sovereign defaults. The international financial community does not expect any major debt default in 2025. Credit spreads for CCC

[2] International Debt Report 2024. The World Bank

and B rated sovereign have rallied and debt redemptions – notably bonded debt – remains limited for frontier economies.

Yet, credit metrics for frontier economies, notably in Sub-Saharan Africa (SSA), point to a structural weakening of both debt affordability and sustainability. The ecosystem of frontier economies has been shaken and the weakest parts have short-circuited. But many other countries have been affected by the recent global shocks. Distance to default has diminished for many countries.

In graph 2 and appendix 1, we compare key credit metrics for a set of frontier economies at three different points in times: in 2010 at the end of the HIPC initiative, in 2019 prior to the pandemic and today. Public debt indicators (debt to GDP or interest to revenues) for frontier economies have reached historically high levels with a median debt to GDP ratio of 67% and a median interest to revenue ratio of 14%, almost doubled their 2010 levels. External leverage and external debt service indicators have improved slightly since COVID-19 thanks to large multilateral support but remain elevated: the median external debt to current account receipts exceeds 120%, while debt service on external debt consumes 16% of current account receipts compared to less than 10% in 2010.

Graph 2: Frontier Economies: Selected Debt Burden & Affordability Indicators

Source: Moody's Investor Services. Data points correspond to frontier economies (Dashboard in appendix 1)

The post US election context raises additional concerns for frontier economies. Inflationary pressures are likely to return, combined with additional trade disruptions. Frontier economies are likely to witness bouts of currency depreciation and higher for longer dollar interest rates, exerting further strains on their external and fiscal accounts. This happens at a time when they face structural capital needs to finance climate adaption and transition policies.

Consequently, the distance to financial distress will likely shorten for many countries beyond 2025, being one shock away from default. The international financial system therefore

needs to be equipped to face a potential new wave of debt distress. The work starts with drawing the lessons from the G20 Common Framework and the debt resolution cases of 2020-2024, and fixing what needs to be fixed.

Part II. Has the debt restructuring process been up to the task?

II-1. What is an effective sovereign debt restructuring process?

To gauge the effectiveness of the current infrastructure for sovereign debt restructuring, it is useful to define what 'effective' means. It goes without saying that the current approach is one that lies on persuasion rather than compulsion: there is no court to decide by how much debt needs to be cut and who should take the hit.

As highlighted in our previous briefs[3], an effective sovereign debt restructuring framework/process can be defined as one that meets three objectives: (1) bringing a country back on a sustainable debt track, (2) in a way that is perceived as reasonable (quantum of effort) and fair by its creditors and (3) in a timeframe that does not leave the country in a costly economic and financial paralysis.

Each of these features contain uncertainties and trade-offs:

- it is a matter of judgement whether a debt restructuring will have, without any possible doubt, brought enough relief. Bringing the debt to zero would do it, but there are no chance creditors will accept, and the country may have to face a very painful financing drought.
- What a fair treatment means generally lies in the eye of the beholder.
- While a protracted process is economically and financially debilitating for a country, a too easy and expeditious one may induce moral hazard.

Looking at the past, even the canonical sovereign debt restructurings of the 1980s took several years. In the end, it was considerably accelerated when US banks, prompted by the Federal Reserve, ended up having accumulated enough provisions to absorb balance sheet losses, and after the Treasury Secretary Brady delivered a large-scale credit enhancement scheme.

During the 1980s sovereign debt crisis, the driver of the process was the role that the IMF Managing Director created for himself — at a time the IMF was looking for a *raison d'être* following President Nixon's decision to float the US Dollar — and the unwavering support he received from the Chairman of the Federal Reserve, which as a bank supervisor, had the capacity to directly influence the main creditors[4].

The current situation could not be more different than in the 1980s: commercial creditors (fund managers in particular) are largely impervious to external regulatory pressure; "new" large bilateral creditors (China, India…) have less agency in the multilateralism born in 1944 in Bretton Woods, and, as a result, the minimization of losses sometimes takes precedence over the

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[3] Getting Sovereign Debt Restructurings out of the Rut in 2023. Lazard Policy Brief. February 2023.
[4] The Debt Crisis of the 1980s: Law and Political Economy. Jérôme Sgard. November 2023

“general interests of the system”; the IMF, while clearly remaining a central anchor, has less authority than before in framing the contours of debts negotiations (debt relief envelope). Moreover, with a more complex and diversified lending environment, the hierarchy of claims has become blurrier, with the traditional tryptic formed by commercial, bilateral and multilateral creditors now intertwined in many ways (plurilateral institutions, state-owned commercial lenders, ECA-backed creditors, credit-enhanced or collateralized claims, trade finance…).

Overall, even though many Finance Ministers advised by Lazard resented the time spent in tortuous negotiations, it is fair to say that the current international infrastructure for debt relief has probably worked as well as possible in the world we inherited in 2020; one where the financial effort required by creditors – as set by the IMF – is systematically challenged and where inter-creditor equity issues are obsessively scrutinized by official and private creditors lacking trust at each other.

II-2. How has the international architecture for debt relief been reshaped?

The latest wave of sovereign debt restructuring, and the emergence of the G20 Common Framework have reshaped the international financial architecture for debt relief in ten key dimensions, with many shortcomings yet to be addressed:

1. **The long but successful integration of China to an international debt relief initiative.** China, one of the largest official bilateral creditors in most of recent sovereign debt restructuring cases, has accepted to play, at least in part and with circumspection, the game of multilateralism. China challenged some of the pre-existing Paris Club rules but forged a new common language with the Paris Club. While the process was slow at start in the case of Zambia, Chinese lenders gained experience. In some cases, China Eximbank reached official debt treatments before other traditional bilateral creditors (Sri Lanka, Ethiopia).

2. **The emergence of a new class of “hybrid” Chinese Commercial creditors.** The decision by China to exclude Sinosure-backed lending from official creditor committees (OCC) remains a puzzle. Contrary to ECA-backed facilities in Paris Club countries, Chinese commercial claims (from CDB, ICBC, BoC…) insured by Sinosure were not classified as official debt. Debtor countries therefore had to conduct lengthy and complex negotiations individually with each of these Chinese state-owned commercial lenders and Sinosure, all of them challenging the application of the Comparability of Treatment principle (even where applied by reference to China Eximbank), to finally converge on very similar debt treatments (essentially no haircut, long term extension and concessional rates). Greater coordination among Chinese lenders, who all report to the same authority, would be welcome in that regard to speed up negotiations.

3. **The death of the London Club.** Coordination among non-bonded commercial creditors has been found missing in action, forcing debtor countries to adopt a piecemeal approach to restructure their non-bonded debts. This constitutes a very burdensome and inefficient process that delays the point at which a debtor country can effectively turn the page of a restructuring exercise. Ghana, alone, has more than 60 non-bonded credit facilities included into the restructuring perimeter.

4. **The difficulty to advance parallel discussions with bondholders and official creditors.** Private creditors have often complained about the "sequential" nature of the restructuring process, derived from the application of IMF lending policies. Yet, nothing in the current architecture prevents negotiations to be run in parallel. In practice, private creditors lost precious time before engaging with debtor countries on concrete debt treatment options, preferring to dispute the IMF frameworks and assumptions. While some specific mechanism – as proposed by Sean Hagan and Brad Sester[5] – could help synchronize negotiations, it is essential to restore mutual trust between private and official creditors. To that effect, information sharing remains key and shall start with more transparency on debt treatment parameters being discussed with official creditors.

5. **The emergence of a new class of contingent instruments to resolve divergent views on macro-economic projections.** In the past, contingent debt instruments issued during restructuring cases in the form of GDP warrants had an equity-like structure with all future payments conditional on the realization of an economic variable (usually GDP). The structural shift in the composition of creditor committees, now dominated by real money investors and no longer by hedge funds, has spurred the need for index-eligible contingent instruments following an option-like structure. The contingent instruments issued in Zambia and Sri Lanka have been designed in such a way that cashflows become fully deterministic after a certain date in the future when an economic test is performed (analog to the expiry date of an option). Our view at Lazard is that contingent debt treatments are necessary in debt restructuring either (i) when there is a known unknown likely to significantly affect the debtor country's debt affordability but not accounted for in the IMF baseline (such as future oil production as was the case in Suriname, or the potential upgrade of a country's debt carrying capacity by the IMF as was the case in Zambia) or (ii) when there is a material divergence in views between the debtor/IMF and creditors on the distribution of upside and downside scenarios. When creditors have a much more optimistic view on the economic future of a country, a symmetric contingent instrument can be designed in a way that does not affect debt sustainability while creating value for creditors (the case of Sri Lanka[6]). However, to the extent this can be avoided, a vanilla debt treatment remains preferable (the case of Ghana).

6. **No more taboo on domestic debt restructuring.** The cases of Ghana and Sri Lanka have brought back the issue of explicit domestic debt restructuring (DDR) to the policy debates. DDR should not be automatic and only implemented (i) when a country cannot restore fiscal sustainability by a combination of fiscal adjustment and a renegotiation of its external debt, (ii) when the domestic debt problem cannot be reasonably addressed by financial repression with a socially acceptable level inflation, and (iii) when financial stability risks are deemed under control[7]. Last, external creditors should think twice before arguing in favor of DDR on the back of burden sharing arguments. There is no robust economic theory that implies that a DDR is beneficial to external creditors: a DDR will likely negatively alter an economy's ability to generate domestic savings, hereby

[5] Restructuring Sovereign Debt: the need for a coordinated framework. Policy Brief. Peterson Institute. May 2024.
[6] Important innovation in Sovereign Finance: the arrival of Macro Linked and Governance Bonds. Rothschild. 2024
[7] Domestic Debt Restructuring: an exercise in laser surgery. Lazard Policy Brief. September 2023.

reducing its capacity to generate foreign currency proceeds in the future to repay external debt**.**

7. **The obsession with comparability leading official creditors to request the benefit of contingent clauses**, when, in the past, bilateral creditors were inclined to leave the benefit of a better fortune to the debtor. While bilateral creditors have some legitimacy to ensure *ex-ante* compliance with the principle of comparability, they have endeavored to impose it *ex-post*, asking for the benefit of the potential upside even though they did not consent to any of the downside risks. This can distort the balance of risks in a restructuring and slow restructuring progress.

8. **An application of the principle of comparability of treatment that remains problematic.** Zambia was one of the very first time in the history of sovereign debt restructuring where official creditors openly rejected a debt treatment agreed upon by a debtor with its bondholders, prompting a fierce debate about the application of the Comparability of Treatment ("CoT") principle. A lot has been written and said about the CoT; the Paris Club laid out more concrete guidelines on the matter[8] acknowledging room for discretion following the work done under the Global Sovereign Debt Roundtable. Our experience suggests that a more rules-based approach based on a more standard formula to compute debt relief contributions from creditors would make the system more efficient in the future. For instance, the Paris Club calculation of present value debt concessions materially disadvantages commercial creditors whose claims are fully in arrears vs. those with longer dated original maturities. Indeed, the existing present value of a claim of US$100m carrying a 12% interest rate with 5 year of remaining maturity is equal to US$130m. Conversely, the existing present value of a claim of US$100m carrying the same 12% interest rate but fully in arrears at the time of the cut-off date is worth US$100m according to the Paris Club methodology. Why would the first creditor be entitled to a 30% greater recovery than the second creditor? The inconsistencies produced by such definition of present value concession are detrimental to the debt negotiation process. We, at Lazard, have long argued for a simpler definition using the nominal value of claims as the denominator to compute the present value debt relief effort of each creditor[9]. This would also avoid distortions between intra OCC uniformity of treatment – all OCC members receiving the same post restructuring terms[10], regardless of their pre-restructuring present value – and comparability of treatment applied to non-OCC creditors, which depends on pre-restructuring present value. That should also help incentivizing Chinese state-owned lenders to join OCCs (as discussed in #2), instead of having them staying outside with expectations of a better treatment. Finally, it should be noted that, in case of Eurobonds restructuring, all holders usually receive the same consideration regardless of the original parameters of their instruments, reflecting a comparability approach by reference to a nominal, rather than present value, exposure.

9. **The proliferation of new legal clauses, making negotiations on documentation harder for both bilateral and private creditors.** Recent sovereign debt restructurings have produced a multiplication of new legal clauses for both commercial and official creditors. Private creditors have demanded and obtained loss reinstatement clauses

[8] What are the main principles underlying Paris Club work? Paris Club Website. 2024.
[9] How to make sovereign debt restructuring more effective. Lazard Policy Brief May 2022
[10] This has been the case in all recent OCC/Paris Club agreements except in the case of Ghana.

ensuring that their consent for nominal haircuts would not reduce their weight in the debt stack in the case of a future credit event compared to official creditors which have preserved the nominal value of their claims. They have also obtained their own version of comparability with the inclusion of Most Favored Creditor clauses, ensuring that other commercial creditors cannot obtain better terms (at a market discount rate). Despite many attempts, creditors have yet not obtained any concrete limits on a debtor's future borrowing (an analog of a debt covenant for a company), a hard line drawn by all sovereigns. Also, the drafting of these clauses has been piecemeal and has varied in terms of scope, remedy, and time of application between various cases: for instance, foregone interest payments by bondholders would be reinstated in case of a new Ukraine default but not in the case of Ghana or Sri Lanka (*see Appendix 2*). This calls for a collective effort to create market standards for these clauses. In addition, bilateral creditors have also become more exigent on legal clauses in the drafting of their bilateral agreements that are supposed to translate the terms agreed in the MoU signed by all official creditors. In Zambia, negotiations on the bilateral agreements lasted more than a year with the OCC's co-chairs, France and China. On a more positive note, the widespread fears from the international community concerning collateralized lending by some official creditors appears to have been largely exaggerated. So far, existing security arrangements in official debt contracts have not proven to be a particular blocking point in the negotiation process.

10. **The challenge of the Preferred Creditor Status (PCS) for Multilateral Development Banks (MDBs).** The first year of the Common Framework was marked by China's insistence for MDBs to contribute alongside to debt relief efforts, as what was expected from China policy banks. While this "demand" was publicly toned down following the resistance from other official creditors, it led to a structural shift in the appreciation of the PCS by official creditors. In all recent restructuring cases where debtor countries signed MoU with official creditors, debtor countries are bound to seek comparable debt treatment from all their external creditors except from *multilateral development institutions that provide concessional lending and provide net positive financial contribution during the IMF program period*. In theory, this definition would leave the World Bank or the African Development Bank out of the woods in most if not all cases, but not many other plurilateral institutions, notably in Africa, that have now been caught in a grey zone. So far, the restructuring of the claims owed to plurilateral institutions has stalled as no-one wants to take responsibility of imposing major losses on their balance sheet. But the time of reckoning will come, and a solution will have to be found – one that would provide the necessary debt relief for debtor countries while preserving plurilaterals' balance sheet. This may involve the partial recapitalization of those institutions by official creditors when relevant.

Making the current infrastructure more robust to address future debt crises will require more work to address the shortcomings listed above and address the challenges that lie ahead for international finance. That work shall start now.

Part III. What lies ahead for sovereign finance in frontier economies?

Part I explained that most frontier countries remained vulnerable to future shocks with increased risks for financial distress in the next 5 to 10 years. Part II argued that current financial architecture for debt relief, however perfectible, had delivered probably as well as one could have expected in current circumstances.

Part III now envisages what lies ahead for frontier finance, and analyses in particular what implications the recent evolution of the sovereign debt restructuring process may have. In many respects, sovereign finance in frontier economies will be very influenced in the coming years by what has happened in the early twenties.

- **The huge public debt stock of advanced economies will inevitably make the resolution of developing nations' debt problems more complicated**: in other words, there is less grease in the wheels – and possibly less willingness depending on geostrategic affinities.
- **Few countries have a sustainable debt when unfunded liabilities (aging, climate adaptation and security) are taken into account**. In this regard, accounting for monetizable assets (natural and others) is long overdue. And for developing countries, being able to repay their financial obligations with natural assets (such as carbon credits) would offer a rare light of hope.
- **The considerable capital needs in developing countries squarely clash with their outstanding debt stock**: equity investment, deconsolidated asset-based financing and affordable financing via MDBs are the solutions.
- **MDBs are an effective way to catalyze private capital to finance development, in the proportion of 4 to 1 (25% capital ratios).** Their usefulness (affordable lending) is a function of their own cost of funding, itself dependent on their credit rating. As a result, protecting their preferred creditor status is paramount. Yet, as MDBs continue to expand their footprint and become important lenders, this will invariably mean a more junior status for the other creditors, and higher expected losses in case of stress. Therefore, more MDB involvement is desirable, but this means bigger risks for their unprotected co-creditors[11] — and therefore a higher cost of capital from commercial sources. **Hence, the question of subordination and the hierarchy of claims is bound to become a central issue.**
- **A corollary is that the multiplication of "sanctuarised creditors" weakens the concept of PCS in itself and vindicates in extremis the view that the PCS is a relative rather than an absolute concept.** Indeed, there is only a given debt repayment capacity by governments and a limit to how much of the burden can fall on the residual creditors.

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[11] An example is the Ghana 2030 World Bank's Partially Guaranteed Bond: the unbundling of the World Bank US$400m guarantee as part of the restructuring led to the creation of a US$400m super senior liability for Ghana (indemnity agreement between Ghana and the World Bank), which reduced the cash flows envelope that could be attributed to unsecured Ghana bondholders.

What government debts are considered "bail-inable debt" that can be restructured will become a central question.

- **Contingent financial liabilities for governments proliferate without an adequate analytical way to capture them.** There are many variants of contingent liabilities, some innocuous and other dangerous. An innocuous case is for instance are equity-like instruments, such as Suriname's value recovery instrument where any future payments would be matched by additional available resources. At the other end of the spectrum are opaque and pro-cyclical liabilities such as overcollateralized obligations taken by counties in or close to distress. Just as the size of "bail-inable" debt is expected to shrink, the risk of crystallization of contingent liabilities increases.
- **The dynamics of claw back clauses introduced in the debt restructuring negotiations is likely to make ulterior processes messier** if one creditor believes it has been discriminated. This may leave some countries in unchartered territories.
- **Multilateral approach to debt resolution cases should prevail, even if 'transactional' bilateral deals will look appealing.** Even though countries' debt resolution problems can be addressed in a bilateral way (thanks to 'sponsors' with deep pockets), it is clear, in our view, that multilateral approaches are more effective and fairer. Still, the risk of a lower degree of commitment by the largest economies to the Bretton Woods institutions is very plausible and will require agility. If that materializes, the issue of the comparability of treatment will further intensify.
- **More audacious approaches will have to be considered from MDBs to provide liquidity relief to countries that do not, in the eyes of the IMF, face solvency issues.** A key question is whether MDBs should encourage frontier countries to undertake liability management operations and replace high yielding commercial debt with credit-enhanced financing. This pragmatic approach would improve debt affordability, possibly materially. But it may clash with a deeply rooted doctrine among the official sector to prevent the "bailout" of the private sector with taxpayers' money. This approach will therefore only work with the private sector also takes its fair share in the financing of these economies large financing needs to build more inclusive and greener growth models. [i]

Contact Information

Lazard's Sovereign Advisory Group is committed to serving its clients: governments and public institutions looking for solutions to their complex financial problems. The sheer scope and importance of these matters also compels us to share our decades of experience for the broad public interest.

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Appendix 1. Dashboard of Frontier Economies. Selected Economic Indicators

	General Government Debt/GDP (%)			External Debt/Current Account Receipts (%)			Interest Payments/Revenues (%)			External Debt Service/Current Account Receipt (%)			External Vulnerability Indicator[1] (%)			Total Debt Service on Eurobonds (US$ billion)	
Country[2]	2010	2019	2024	2010	2019	2024	2010	2019	2024	2010	2019	2024	2010	2019	2024	2025	2026-2027
Latin America																	
Argentina (CCC/Ca/CCC)	43.2	89.6	76.9	167.6	313.5	286.5	6.3	18.4	20.0	18.4	61.3	19.1	112.8	187.5	345.3	1.5	2.7
Barbados (B/B3/B+)	68.4	88.2	87.0	--	90.5	70.4	22.2	8.4	18.9	--	6.6	4.3	103.9	72.0	24.3	--	--
Belize (B-/Caa1/NR)	86.9	78.5	67.2	132.3	113.2	93.1	13.2	10.7	9.2	10.5	8.1	10.1	31.3	19.6	28.0	0.0	--
Dominican Republic (BB/Ba3/BB-)	28.0	41.7	45.8	165.1	130.6	--	14.0	19.1	21.5	15.1	19.3	--	77.7	53.4	41.7	2.9	7.2
Ecuador (B-/Caa3/CCC+)	17.8	53.3	51.7	70.7	176.3	140.2	3.8	13.2	13.8	42.3	44.5	17.3	311.7	607.0	255.6	0.8	3.1
El Salvador (B-/B3/B-)	60.0	73.7	59.5	130.6	122.2	116.3	12.8	16.2	15.9	--	39.6	14.6	58.1	210.3	172.9	0.8	1.5
Guatemala (BB/Ba1/BB)	24.6	26.4	26.7	69.0	72.5	50.5	13.2	14.6	10.5	4.7	5.2	3.2	37.7	37.2	17.7	0.4	2.0
Honduras (BB-/B1/NR)	24.3	43.5	45.0	37.2	61.0	67.3	3.1	8.4	8.4	4.8	5.5	6.4	35.9	27.2	25.4	0.0	0.8
Jamaica (BB-/B1/BB-)	135.1	94.7	70.1	--	145.8	120.9	40.8	20.2	17.1	--	13.5	8.0	63.3	119.9	62.6	0.6	1.4
Nicaragua (B+/B2/B)	33.3	41.7	41.2	136.4	168.9	113.3	5.1	4.9	4.7	12.0	23.9	15.7	76.3	132.1	38.3	--	--
Europe Middle East & Africa																	
Angola (B-/B3/B-)	35.2	93.8	63.3	--	138.2	141.5	2.7	26.4	30.1	--	24.2	23.9	41.6	70.0	55.7	1.7	1.4
Bahrain (B+/B2/B+)	29.7	97.1	127.8	--	285.8	203.2	4.1	18.7	26.9	--	25.9	30.3	1,003.9	2,596.8	1,470.8	--	--
Botswana (BBB+/A3/NR)	20.6	16.3	23.7	25.9	19.8	26.2	1.6	2.2	3.4	1.1	2.5	4.6	3.7	6.9	17.5	--	--
Egypt (B-/Caa1/B)	69.6	79.8	88.4	58.5	137.5	176.3	20.5	46.9	46.9	4.5	17.1	33.2	13.9	58.9	182.5	4.2	9.8
Gabon (NR/Caa2/CCC+)	21.3	59.8	72.2	67.0	106.8	94.6	5.3	11.6	15.2	17.6	41.0	62.4	9.3	41.7	45.3	0.1	0.3
Georgia (BB/Ba2/BB)	35.0	41.4	38.0	177.4	152.5	101.0	3.5	4.7	5.1	19.7	26.3	17.9	63.3	124.4	138.6	0.0	0.5
Ghana (SD/Caa2/RD)	34.6	58.3	80.9	87.6	108.0	97.5	16.3	37.0	28.7	4.9	34.5	8.8	130.1	209.1	167.4	1.5	2.8
Jordan (BB-/Ba3/BB-)	64.8	72.9	88.1	94.9	139.3	136.0	8.5	7.8	10.8	8.8	19.6	13.1	74.3	120.4	124.5	2.0	5.7
Kenya (B-/Caa1/B-)	49.9	59.6	68.4	76.1	205.4	320.8	9.6	21.9	30.9	4.5	34.2	33.7	35.1	68.4	--	0.7	1.3
Lebanon (SD/C/WD)	136.9	172.1	148.9	122.3	219.4	545.9	46.9	48.4	11.8	14.0	26.7	50.1	84.4	120.9	220.4	3.2	6.8
Morocco (BB+/Ba1/BB+)	49.0	52.8	66.1	70.5	103.8	82.7	8.1	10.0	9.4	10.8	10.5	12.9	40.7	68.2	64.2	1.6	2.2
Nigeria (B-/Caa1/B-)	9.4	26.9	50.9	--	78.2	125.5	8.5	22.8	31.0	--	9.2	23.8	15.7	63.8	104.7	2.3	4.5
Tunisia (NR/Caa2/CCC+)	40.7	67.8	84.0	89.2	157.6	133.6	7.8	10.0	14.0	9.9	10.8	14.0	83.7	199.5	224.6	1.1	1.3
Ukraine (SD/Ca/RD)	40.6	50.6	95.6	157.8	143.7	219.8	3.9	7.7	11.1	56.7	42.8	39.9	158.0	156.7	65.5	2.8	7.3
Zambia (SD/Caa2/RD)	18.9	94.4	108.7	50.7	342.5	257.2	9.0	33.9	27.7	1.8	31.8	19.0	87.3	185.5	93.3	0.5	0.9
Asia																	
Mongolia (B+/B2/B+)	24.5	63.2	40.9	190.9	334.3	195.8	1.4	7.9	4.6	6.2	127.7	54.2	31.8	524.7	231.6	0.1	0.7
Sri Lanka (SD/Caa1/CCC+)	71.6	81.9	95.3	138.0	207.9	137.7	--	47.5	61.1	13.3	30.5	21.7	95.1	228.4	162.7	0.7	1.4
Vietnam (BB+/Ba2/BB+)	32.2	37.6	32.9	51.0	41.1	35.3	4.3	6.9	5.2	2.1	5.8	6.5	36.4	60.3	67.7	0.0	0.1
Median	**35.1**	**61.5**	**67.8**	**89.2**	**138.8**	**125.5**	**8.1**	**13.9**	**14.6**	**10.2**	**24.1**	**17.3**	**63.3**	**120.2**	**93.3**	**Total = 29.5**	**65.7**

Sources: Moody's Investor Services, International Debt Statistics

Notes: (1) Short-term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year/Official Foreign Exchange Reserves; (2) Ratings displayed : S&P / Moody's / Fitch

Appendix 2. High level overview of new legal clauses in bonds' documentation

	Most Favored Creditor Clause		Loss Reinstatement Clause		
	Perimeter	Formula	Trigger	Time of application	Loss Reinstatement Amount
Ghana	– External Indebtedness owed or guaranteed by the Government of Ghana except for debt due to Bilateral Creditors as treated by the OCC and debt due to Multilateral Creditors. – **Multilateral Creditors** defined as a financial institution with more than one country as a shareholder **but excludes** any international financial institution that lends exclusively as non-concessional terms and has not provided net positive financing to the country between the start of the IMF program and the date of the Eurobonds Exchange – De minimis threshold: US$50m	– Compares the financial recovery of bondholders under the most valuable "Disco Option" (valued at a 12% discount rate) to the ratio of (i) the PV of commercial restructured claims valued at a 12% discount rate **as of the date of the Eurobond Exchange** and (ii) the total value of restructured claims (nominal + PDIs) **as of the future restructuring date of commercial claims**	– Event of default (broadly defined)	– Until December 31st, 2032	– Reinstatement of an amount corresponding to the nominal haircut imposed on total claims (nominal + PDIs) as of the PDI cut-off date (December 31st, 2023)
Sri Lanka	– External Indebtedness owed or guaranteed by the Government of Sri Lanka except for debt due to Bilateral Creditors and debt due to Multilateral Creditors. – Multilateral Creditors mean any international financial institution to which the IMF	– Compares the financial recovery of bondholders (set at 51.7%) to the ratio of (i) the PV of commercial restructured claims valued at a 12% discount rate **as of the future restructuring date of commercial claims** and (ii) the total value of restructured claims (nominal +	– Payment default or future moratorium on debt	– Until December 2028 or 2029 (depending on new bonds)	– Reinstatement of an amount corresponding to the nominal haircut imposed on total claims (nominal + PDIs) as of as of the PDI cut-off date

	applies its "Non-Toleration Policy" with regards to Sri Lanka – De minimis threshold: US$75m	PDIs) **<u>as of the future restructuring date of commercial claims</u>**			(March 31st, 2024) in proportion of the remaining outstanding amount
Ukraine	– Non-Concessional External Indebtedness, excluding any such obligations that benefit from a guarantee of an international or development financial institution or from insurance provided by an export credit agency or other public sector institution – De minimis threshold: N.A.	– Compares the financial recovery of bondholders the ratio of (i) the PV of commercial restructured claims valued at a constant 13% to 14% discount rate **<u>as of the future restructuring date of commercial claims</u>** and (ii) the total value of restructured claims (nominal + PDIs) **<u>as of the future restructuring date of commercial claims</u>**	– A Comparability of Treatment Assessment from Official Creditors requiring a new restructuring of Eurobond debt	– Until the Comparability of Treatment assessment is performed	– Reinstatement of an amount corresponding to the nominal haircut imposed on total claims (nominal + PDIs) **plus the sum of the differential between the pre and post restructuring interest payments until the Loss Reinstatement Event**
Zambia	– External Indebtedness owed or guaranteed by the Government of Ghana except for debt due to Bilateral Creditors and debt due to Multilateral Creditors. – Multilateral Creditors defined as a financial institution with more than one country as a shareholder. – De minimis threshold: US$100m	– Compares the financial recovery of bondholders in the most favorable Upside Scenario to the ratio of (i) the PV of commercial restructured claims valued at a 12% discount rate **<u>as of the date of the Eurobond Exchange</u>** and (ii) the total value of restructured claims (nominal + PDIs) rate **<u>as of the date of the Eurobond Exchange</u>**	– Payment default or future moratorium on debt	– Expiry of the IMF program (October 2025)	– Reinstatement of an amount corresponding to the nominal haircut imposed on total claims (nominal + PDIs) as of the Eurobonds Exchange Date

Appendix 3. Frontier Economies' debt burden & affordability indicators compared to Investment Grade countries' average

Average Interest / Revenues of Investment Grade economies (5.7%)

Average Revenues / GDP of Investment Grade economies (33.5%)

Government Revenues / GDP (%)

70
60
50
40
30
20
10
-

- 5 10 15 20 25 30 35 40 45 50

Interest / Revenues (%)

Source: Moody's Investor Services. Data points correspond to frontier economies as presented in the Dashboard in appendix 1