Additional material for the article
'New solutions – old habits?
A case study of post-COVID debt architecture'
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Full case studies

II. Debt restructuring under the G20 Common Framework

Second country group: Countries qualified for restructuring under the G20 Common Framework and which had to restructure their debts after the COVID-19 pandemic.

Examples: Ghana and Zambia

Zambia: short-term relief, long-term dependency

Zambia requested debt restructuring negotiations under the G20 Common Framework in February 2021. In June 2023, official creditors agreed on a debt restructuring agreement with Zambia. Just under a year later, in May 2024, an agreement was reached with private investors. At the time of publication, the debt restructuring process was still ongoing. Zambia had yet to negotiate a significant amount of claims from commercial (bank) creditors who had not yet participated.

Under pressure from official creditors and the International Monetary Fund (IMF), the **implementation of debt relief** between bilateral official creditors and private investors resulted in better debt restructuring for private investors than originally proposed. The Official Creditor Committee rejected an initial proposal between the Zambian government and investors from October 2023, deeming it inadequate. Further relief was only granted following the final agreement with investors in May 2024. The IMF considered this agreement to be compatible with the concessions made by official donors. However, calculations by experts indicate that private investors continue to receive higher repayments than official creditors – meaning that no **comparable concessions** have been made.[1]

Zambian civil society criticizes the fact that the debt relief is not genuine debt cancellation, **but merely "liquidity assistance."** Repayments owed to official creditors are mostly being postponed until the period between 2036 and 2043 and will accrue interest at a rate of 1 to 2.5% until then. Bondholders are also only granting interest rate reductions and extending repayment terms: Zambia was originally due to repay bondholders by 2027. Now, most of the money will be repaid by the end of 2033, with some payments pushed back to 2051-2053. Creditors see this as a concession, as future payments will be worth less due to expected inflation. Such a deferral of payments can be a relief for debtor countries by easing short-term payment pressure. However, there is a risk that the crisis has been merely postponed, potentially prolonging Zambia's dependency in the long term.

[1] See Debt Justice UK (October 2024): 'Analysing outcomes from debt restructurings'.

The deferral will significantly reduce debt service payments in the short term, which will also lead to higher (planned) social spending.[2] In 2022, the IMF projected that without debt restructuring, external debt service would rise to over 40% of government revenue between 2024 and 2027. At the end of 2024, taking into account the completed debt restructuring by bilateral official creditors and private investors, debt service is expected to average 18.5% by 2027 and to continue to decline in relative terms until the end of the 2020s. Although this is a significant reduction, it does not actually meet the thresholds used by the IMF in debt restructuring to assess the adequacy of debt relief. According to the IMF's Debt Sustainability Analysis of November 2024, which was current at the time of publication, several debt indicators will regularly exceed debt sustainability thresholds in the coming years.[3] This includes the ratio of external debt service to public revenue in the years 2024, 2026 and from 2031 onwards. From 2031, relative debt service payments will rise significantly again. In the scenario considered most likely by the IMF, which includes a buffer for possible economic shocks, only one indicator falls below its respective threshold.[4] **The debt relief granted has therefore not led to debt levels that are sustainable in the long run and low enough** to prevent the country from falling back into a debt crisis in the event of external shocks (see also the information in 'The new (old) debt architecture').

The scenario considered likely by the the IMF assumes significantly higher growth in overall economic output and government revenue compared with historical values. It forecasts average economic growth of 4.9% for Zambia over the next ten years and over 6% between 2025 and 2027. However, a look at the past shows that Zambia has only achieved average economic growth of 3.7%.[5] This means that the debt situation will deteriorate significantly if these **unrealistic changes – considered likely by the IMF – do not occur.** Growth forecasts for 2024 have already had to be revised downwards due to the severe drought affecting Zambia.[6] In addition, the IMF expects Zambia to implement **exceptionally rigorous fiscal adjustments** – which some experts consider scandalously high, both in historical terms and compared to rapidly growing peer countries.[7] Despite the historic drought of 2024 and the country's slump in economic activity, which made forecasts unrealistic, there was no increase in debt relief for Zambia. Moreover, austerity conditions were not adjusted. Zambian civil society has accused creditors and the IMF of setting the **wrong priorities**: instead of focusing on poverty reduction measures, economic diversification and public services, the emphasis has been placed on securing creditor repayment.

While no protection is provided for Zambia in the event of adverse developments, this does not apply to creditors. Official and private creditors have included a **compensation mechanism** in their agreements.[8] If this mechanism is triggered, debt relief will be significantly reduced, meaning that debt service payments will be significantly higher than originally agreed and repayments will have to be made more quickly. This will happen if

[2] See the 'Budget Speeches' from 2022 to 2024 by the Minister of Finance and National Planning to the National Assembly.
[3] See IMF (2024): 'Zambia – Fourth Review under the Arrangement under the Extended Credit Facility', IMF Country Report 24/350 of December 2024, here appendix 'Debt Sustainability Analysis'.
[4] Ibid., p. 14.
[5] Ibid., p. 25.
[6] See ibid. in the section entitled 'Macroeconomic assumptions'.
[7] See Doyle, P. (2022): 'On the IMF's programs – Zambia and Sri Lanka Editions'.
[8] Without such a mechanism, some of the creditors would not have concluded debt relief negotiations. Among others, China and private investors questioned the validity of the underlying debt sustainability analysis.

the IMF concludes that Zambia can bear more debt.[9] In other words, if the IMF is of the opinion that Zambia has only slightly improved its debt absorption capacity, debt service payments will increase significantly. The agreements with private investors even include a second trigger. Debt service payments will also increase if export and state revenues between 2026 and 2028 are higher than predicted by the IMF. This means that if export and government revenues are just 1 USD higher than the IMF forecast, Zambia will have to pay its investors around USD 950 million (net present value) more, according to calculations by Debt Justice UK. This would mean a payment schedule that would be significantly closer to the one in place prior to the debt restructuring.[10]

Both triggers of the compensation mechanism play with the methodological guidelines in the IMF's debt sustainability analysis. From the perspective of civil society, the IMF's central tool for debt relief negotiations is being misused to obtain significantly more favourable terms for creditors.

[9] If the IMF concludes that Zambia no longer has a weak debt carrying capacity, but rather a medium debt carrying capacity (see more on the IMF's basic classification here: 'IMF-World Bank Debt Sustainability Framework for Low-Income Countries'), then Zambia will have to repay its official bilateral creditors an estimated USD 1.3 billion more (net present value) than originally agreed. The international debt relief movement has sharply criticised this cliff-edge policy.

[10] See Debt Justice UK (2024): 'Zambia's debt relief deal with bondholders, initial analysis'. In addition to this problem of disparity, it is also argued that private investors may benefit more quickly from lower debt relief than official creditors, thus again giving rise to unequal treatment.

Ghana: quick agreement, insufficient debt relief

At the time of publication, Ghana was the last country to apply for debt restructuring under the G20 Common Framework, having submitted its request on 5 January 2023.[11]

The process was **significantly faster** than Zambia's debt restructuring or debt restructurings outside the G20 Common Framework: Ghana reached an agreement in principle with the Official Creditor Committee, i.e. official bilateral creditors of the Paris Club and the G20, as early as January 2024. After several rounds of negotiations, a final agreement was reached with private investors in October. Ghana is considered a success story of the G20 Common Framework due to the speed of the process compared to other countries.

As in Zambia, **pressure from official bilateral creditors** made it possible to negotiate a better debt restructuring offer with private investors. The private investors' initial offer in April 2024 was rejected by the official creditors because it was not compatible with the agreement reached by the Official Creditor Committee and the debt relief calculated by the IMF. On 24 June 2024, an agreement in principle was reached on an improved offer from the bondholders. This offer was confirmed by the Official Creditor Committee and the IMF in early July and finally concluded with the investors in October.

It also appears to be the first time (compared to other debt restructuring cases) that **private investors have agreed to participate to a similar extent as official creditors**.[12] In addition, Ghana was able to persuade its creditors to participate without offering any major economic incentives. According to media reports, the investors demanded that Ghana introduce a compensation instrument that would have given them a share in the country's oil production. However, Ghana successfully withstood this demand.[13]

However, there was no guarantee that private creditors would agree to comparable concessions. In addition, at the time of publication, commercial banks with claims amounting to several billion USD had not yet participated in the debt relief, including German banks as the largest creditor group.

Despite the rapid agreement on debt restructuring, Ghana too was **unable to achieve sufficient debt relief.** As recently as August 2024, the IMF recommended that debt restructuring should reduce debt to such an extent that a country would not immediately face another debt crisis in the event of an economic downturn (see also 'The new (old) debt architecture'). The IMF also made recommendations regarding the necessary debt level.[14] However, this did not play a role in the IMF's analyses underlying the debt restructuring negotiations for Ghana. No such requirement was mentioned or implied in the calculation of debt relief.[15] Following the two restructuring agreements with private

[11] For a detailed analysis of Ghana's debt restructuring, on which this text is based, see: Rehbein, K. (2024): 'Umgang mit Ghanas Schuldenkrise – Funktioniert der neue ‚Schuldenmanagement-Konsens' tatsächlich?', Friedrich-Ebert-Stiftung 'Wirtschaft und Finanzen'.

[12] See Debt Justice UK (2024): 'Analysing outcomes from debt restructurings'.

[13] That said, there is an imprecise wording in this regard in the agreement with investors, about which little is publicly known as of early 2025.

[14] See details in Rehbein, K. (2024).

[15] In fact, in a paper published later by the IMF on the role of the IMF in debt restructuring, which outlined the state of agreement with the IMF Executive Board, this rule of achieving a medium level of risk of debt distress to provide room for shocks no longer played a role.

investors and official bilateral creditors, the IMF's December 2024 debt sustainability analysis assumes that, as a result of the debt relief, two of the four debt indicators will still reach such a (desirable) level in the medium term. However, this does not apply to the other two indicators. The present value of public debt as a percentage of gross domestic product should be below 55% by 2028, and external debt service as a percentage of government revenue should fall below 18%. But both indicators will be close to this threshold or even slightly above it in 2028, which means there will be no room for shocks. This could also be shown by various stress tests carried out by the IMF:[16] according to these tests, both indicators rise significantly above the thresholds in the event of economic shocks, while the other indicators slightly exceed their respective thresholds.

In addition, Ghana is not expected to reach a "medium risk of debt distress" before 2028, meaning that it will remain at a "high risk of debt distress" until 2027. However, the IMF estimates that Ghana will need to cover a financing gap of USD 550 million from commercial sources as early as 2026.[17] Given Ghana's high risk of debt distress, there are concerns that the country will only be able to access high-interest capital market financing, which is what led the country into the crisis in the first place.

erlassjahr.de and Misereor also criticise the fact that Ghana first had to make **domestic sacrifices** in order to make the **restructuring negotiations attractive to foreign creditors**. For example, significant fiscal adjustments were made a condition, as was linking the restructuring of external debt to the restructuring of domestic claims. Both can lead to social hardship and serve to minimise losses for external creditors, among other things.

One week before applying for negotiations under the G20 Common Framework, on 5 December 2022, Ghana began restructuring its domestic debt. As the debt restructuring had already been announced before the application was submitted, it was not officially part of the restructuring process under the Common Framework and was presented to the public as "voluntary debt restructuring". However, according to media reports, Ghana was urged by IMF staff to reduce its domestic debt before submitting a loan programme to the IMF Executive Board for approval.[18] In contrast, the IMF warned in another statement that the inclusion of domestic debt in debt restructuring should be carefully considered given the risks involved.[19] Interestingly, in its July 2024 programme review, the IMF expressed concerns that Ghana's domestic debt restructuring poses significant risks to the stability of domestic banks. For this reason, Ghana received a loan from the World Bank in May 2024 to recapitalise the affected banks – meaning that foreign debt will continue to increase rather than decrease. Although the IMF is formally involved in domestic debt restructuring and its implications, it places full responsibility on the debtor government –stating that decisions on domestic debt restructuring lie solely with the state and should be guided by a cost-benefit analysis to determine whether such restructuring should be included in the overall debt strategy.[20]

[16] See IMF (2024): 'Ghana: Third Review Under the Arrangement Under the Extended Credit Facility',IMF Country Report 2024/334, therein 'Debt Sustainability Analysis', pp. 24-27.
[17] Ibid.
[18] See Wheatley, J.: 'Ghana default puts domestic debt "can of worms" in the spotlight', Financial Times, 14.04.2023.
[19] See IMF (2024): 'Supplement to 2018 Guidance Note on the BankFund Debt Sustainability Framework for Low Income Countries', IMF Policy Paper.
[20] See also Breuer, P. et al.: 'Sovereign Domestic Debt Restructuring: Handle with Care', IMF Blog, 1 December 2021.

At the start of the debt restructuring process, domestic creditors were not provided with a comprehensive debt sustainability analysis that included external claims, nor were they informed of the contribution that external creditors would be expected to make to the overall debt restructuring. However, the opposite was true for external creditors: in a presentation for its foreign bondholders in October 2023,[21] the Ghanaian Ministry of Finance outlined the measures the country had already taken domestically to reduce public debt. Domestic debt restructuring reduced public debt as a percentage of GDP by nine percentage points. Together with further fiscal adjustment measures, the public debt ratio was reduced by 28 per cent overall, from 109% to 72% of GDP. On this basis, Ghana informed foreign investors how much they would still have to contribute, after deducting the "efforts" made by the population and Ghana's (financial) economy, in order to meet the IMF's sustainability thresholds.

This was despite the fact that bondholders are among the creditors who deliberately assume default risks due to the high interest rates on the bonds and are compensated for this risk with very lucrative returns.

[21] See Ghana Ministry of Finance (2023): 'Ghana Investor Presentation'.