ANNUAL PUBLIC SECTOR

DEBT PORTFOLIO ANALYSIS FOR THE YEAR 2020/21

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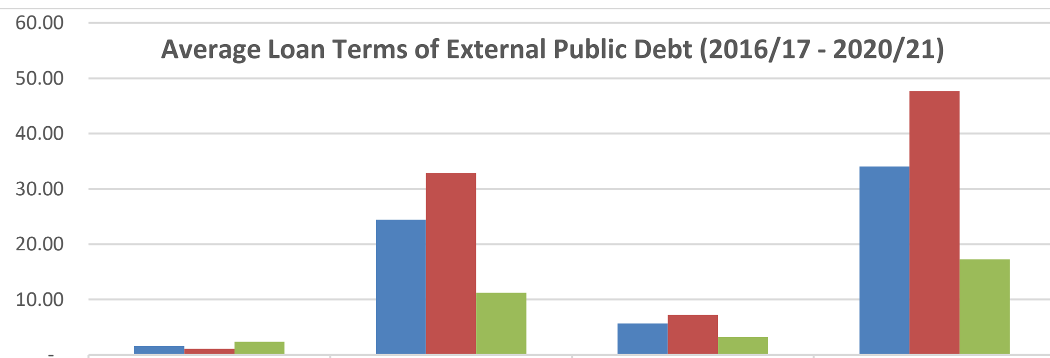

	Interest Rate (avg. %)	Maturity (avg. yrs)	Grace Period (avg.yrs)	Grant Element (avg %) *
Total External Debt	1.60	24.46	5.67	34.08
Central Government External Debt	1.09	32.87	7.21	47.65
SoE's External Debt	2.41	11.26	3.25	17.28

DEBT MANAGEMENT DIRECTORATE
MINISTRY OF FINANCE
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

TABLE OF CONTENTS

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 2020 Annual Debt Portfolio Analysis is part of the reporting requirement under the legal framework of the country. The Debt Management Directorate (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. It also prepares the country's Debt Sustainability Analysis every fiscal year and disseminates to the policy makers for decision.

Hence, this Twenty-second Annual Public Sector Debt Portfolio Analysis (DPA) is an annual report prepared by the Debt Management Directorate 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 Twenty-second editions, comprehensively examines the five years' total public debt composition, magnitude and trends beginning from 2016/17 to 2020/21.

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 2020/21 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 Directorate. All queries on the contents of the report should be addressed to the Debt Management Directorate in the Ministry of Finance through the address below.

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Mission Statement

Of

Debt Management Directorate

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, follow up of on-lent debts, 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 Frame work
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

The completion of both the HIPC and MDRI initiatives resulted in significant debt reduction, allowing Ethiopia to borrow additional funds from both local and external sources to support economic reform and growth. Following that, a large amount of debt has accumulated over the last two decades. As a result, not only does the total public debt increase in size, but its composition shifts toward non-concessional SOE borrowing until 2019, but it is currently dominated by central government concessional borrowing because of the government's non-concessional borrowing limit, particularly the zero non-concessional borrowing in the last three years.

Accordingly, Ethiopia's total public external and domestic debt stock, including publicly guaranteed and non-guaranteed debt, reached USD 55,640.29 million by the end of June 2021, representing 51.1 percent of GDP, up from USD 55,293.87 million at the end of June 2020 (51.3 percent of GDP) and USD 49,323.23 million (58.53 percent of GDP) at the end of June 2018, an increase of 0.63 percent over the same period last year and an increase of more than 12 percent increase over the 2017/18 , but in total public debt in percent of GDP is declining over the last five year.

Domestic debt in 2020/21 declined by 1.1 percent to USD 26,102.86 million compared to 2019/20 from USD 26,399.26 million, even though domestic debt in terms ETB increases by 24 percent to ETB 1,140,460.16 million from ETB 918,953.78 million, compared to previous years it declines in USD terms because of relatively higher ETB depreciation against USD. External debt increased by 2 percent to USD 29,537.43 million at end June 2021 from June 2020.

Ethiopia's external debt stock, which stood at USD 23,349.77 million on June 30, 2017, and rise steadily to USD 29,537.43 million by the end of June 2021, representing a 26 percent increase over the previous five years.

Out of Ethiopia's total external debt outstanding, multilateral agencies which provide highly concessional loan held about 50.73 percent while bilateral creditors have 29 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 12 percent and about 5 percent respectively while Eurobond held 3.4 percent. Central government domestic debt

As of June 2021, the stock of treasury bills, government bonds, direct advances and treasury notes accounted for about 11 percent, 22 percent ,7 percent of total domestic debt and 13 percent, respectively. As far as the SOEs stock of domestic debt is concerned, corporate bond and long-term loans accounted 34 percent and 13 percent respectively.

The currency composition of the Ethiopia's external debt stock comprised of the United States Dollar (USD) at 51 percent, Euro at 4 percent and Chinese Yuan at 2, SDR at 41 percent while other currencies accounted for 2 percent of the portfolio. As SDR is a basket of currency composed of five currencies with different weights; USD 41.73 percent 30.93 percent, Chinese yuan 10.92, Japanese 8.33 and GBP 8.09 as a result the percentage share of these currency out of the external debt portfolio is much higher than the above figure if we add there share out of the SDR.

The total public debt service payments in 2019/20 was USD 3,254 million with external debt service standing at USD 2,001 million while domestic debt service was at USD 1,253 million. As a percentage of the total public debt service, external and domestic debt service were 62 percent and 38 percent respectively.

Total public debt in percent of GDP was about 58 percent in 2017/18 and 56.16 percent in 2018/19, and it went down in the 2020 and 2021 to 51 percent of GDP. The current external debt as a percentage of export was at 242 percent, while the criterion for Ethiopia is 180 percent, indicating that this ratio is over the threshold for Ethiopia. The external debt service to export ratio, which is around 22 percent, but the threshold is 15 percent, is another export related ratio that has breached, putting the country's debt distress level at 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.

All in all, Ethiopia's total public debt (External plus Domestic debt) remain sustainable over the medium term, and it is well within the threshold of 55 percent in Present value terms as percent of GDP in line with the threshold set by the World Bank and IMF. Similarly, Ethiopia's Present Value of total Public Debt in percent of GDP is about 43 percent.

However, as the volume of debt particularly contracted from commercial sources increased, risk exposure to shortage of foreign currency has been increased and become one of the challenges of the country to services debt payment on time. Recently, the new economic reform namely Home-Grown Economic Reform has been launched to address the pertinent challenges in the sphere of macroeconomic, structural, and sectoral those help to achieve the required transformation in the economy over the next three years. In this regard prudent public debt management and ensuring sustainability of public debt over the medium term will continue to be one of key functions of the Ministry of Finance. To this effect the Government of Ethiopia call upon the major development partners to support the economic reform endeavor.
Accordingly, the International Monetary Fund (IMF) Executive Board on December 20, 2019, approved a three-year programme under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Ethiopia that amount to SDR 2.1 Billion (about US$ 2.9 billion) aiming among others to help reduce external imbalances, contain debt vulnerabilities, lift financial repression, and increase domestic resource mobilization.

On the other front, the Government, to improve the debt distress level and to contain debt vulnerability, takes various measures which include among others: -

- To boost export performance to increase foreign currency earnings,
- To limit non-concessional borrowing by SOE,

- To re-profile some loans borrowed from different creditors to help the country by extending the grace period and maturity of some loans.

Recently, G20 Finance Ministers and Central Bank Governors convening meeting and provided Communiqué on 15 April 2020 to work collaborate to address the COVID 19 pandemics. Accordingly, G20 countries have agreed and decided to take broad, fast action to help developing countries including Ethiopia strengthen their pandemic response, increase disease surveillance, improve public health interventions, and help the private sector continue to operate and sustain jobs. They agreed to deploy substantial billions of dollars in financial support over the next 15 months to help countries protect the poor and vulnerable, support businesses, and bolster economic recovery.

In addition, G20 countries approving a short-term liquidity line for countries with very strong economic fundamentals and exploring additional tools to help meet countries' financing needs; and, revamping their Catastrophe Containment and Relief Trust to help poorest and most vulnerable members through rapid debt service relief. Ethiopia is ready to take two major policy actions including limiting the human and economic impact of the COVID-19 pandemic and fulfilling all conditions related to Debt Service payment suspension Initiative for Poorest Countries. In this regard, discussion and negotiations with creditors have been completed and agreements have been signed to benefit from the debt suspension initiatives and the agreements have already been materialized.

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 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 is one of the MoF key strategies to maintain reduction of the fiscal deficits to ensure that debt accumulation remains at prudent rates and that public debt remains within sustainable levels.

In general, 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 the fiscal deficits as well as limiting contracting loans from non-Concessional sources to implement strategically important projects. We expect that all the above-mentioned measures will improve the debt risk rating of the country.

1. Introduction

Debt Portfolio Analysis objectively evaluates trends and changes in Central Government external and domestic debt, as well as SOE government-guaranteed and non-guaranteed external and domestic debt, as of June 2021. 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 launching of its new Home-Grown Economic Reform Agenda, in order to provide the enabling environment for the economy to grow at a healthy pace and achieve middle-income status. Along with macroeconomic reforms, the government needs to keep an eye on 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 is itself a crucial component of sound economic management. With debt management a core component of Ethiopia’s Public Financial Management (PFM) framework, it is important for the Debt Management Directorate (DMD) to regularly carry out such a review to monitor on 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. In particular, it will show 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 ensure that the right policies and strategies are taken so that future financing needs to support the Home-Grown Economic Reform Agenda always remain sustainable.

Against this backdrop, the specific objectives of this exercise have been:

- to review the debt situation 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 all along taking measures to avoid situations of debt and debt service stress in the future.

In view of that, the central government external debt refers to all external loans contracted between external creditors and Ministry of Finance while government-guaranteed external debt comprises of 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 the Ethiopian Airlines (EAL) and Ethio-Telecom without government or government-owned bank guarantee. Domestic debt covers the debt of the central government in forms of government bonds, treasury bills and direct advance from National Bank of Ethiopia. In addition, the assessment covers State Owned Enterprises (SOEs) borrowing from both domestics 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 in 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 2020/21 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 2020/21 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 Debt Management Strategy (2016-2020)

The ongoing Home-grown Economic Reform Program needs huge resources. Accordingly, one of the sources to finance from both, external and domestic sources. These borrowing activities need to be guided by 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 circulars defining the parameters for debt contraction, guarantees and servicing. The existence of a clear legal framework is an important enabling element for formulating a debt management strategy.

To this effect, this (2016-2020) Medium Term Debt Management Strategy (MTDS), designed by the Ministry of Finance with the technical support of the International Monetary Fund (IMF) and a World Bank team provides a framework for developing an effective public sector debt management strategy that aims to achieve a desired composition of the public sector debt portfolio that reflects a cost-risk analysis and captures the government's preferences about the cost-risk trade-off.

The objective of the strategy remains two-fold: to raise resources through borrowing to meet central government budgetary requirements at minimum cost and prudent level of risk; and to promote the development of domestic debt markets. Potential sources of financing from abroad were identified by focusing from 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.

This MTDS guided the past several years central government borrowing and providing guarantee to state owned enterprises in the medium term while providing a path for sustainable level of debt over the medium term. Accordingly, the Governments' fiscal strategies were geared towards maintaining a sustainable level of debt.

Moreover, the governments have put in place a robust system for monitoring and closely following up mechanism to maintain the transparency and accountability of public borrowing so that it is possible to ensure the level of public debt is consistent with the overall fiscal framework aimed at safeguarding macro-economic 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 costs and risks factors associated with the debt portfolio. Accordingly, the Average Time to Maturity (ATM) of the public debt portfolio declined, the share of 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)

To design the (2021-2025) Medium Term Debt Management Strategy (MTDS), by the Ministry of Finance with the technical support of the International Monetary Fund (IMF) and a World Bank team was scheduled in 2021. However, because of Covid 19 -pandemic it was not possible to undertake a workshop and formulate the strategy. As soon as the risk of Covid 19 endemic reduced the strategy will be formulated.

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

4. Total Public Sector Debt Portfolio Development in 2020/21

As shown in Table 1, total public and publicly guaranteed debt for FY 2020/21 was USD 55,640.29 million, or around 51.10 percent of GDP (in Nominal Value terms), with 27.13 percent external and 23.97 percent domestic debt. Total public debt outstanding (external and domestic) was USD 45,977.96 million (1.6 trillion ETB) in 2016/17 when we looked at trends over the last five years, and it has climbed to USD 55,640.29 million (2.4 trillion ETB) in 2020/21, representing a 0.6 percent growth over the previous year, and a total increase of 21.0 percent for the five-year period.

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

	2016/17	2017/18	2018/19	2019/20	2020/21
Total Public Sector Debt	**45,977.96**	**49,323.23**	**53,865.92**	**55,293.87**	**55,640.29**
External Debt	**23,349.77**	**25,812.10**	**27,076.20**	**28,894.61**	**29,537.43**
Domestic Debt	**22,628.19**	**23,511.13**	**26,789.72**	**26,399.26**	**26,102.86**

During the observation period, the average annual increase in total public sector debt stock was 4.9 percent. The largest increase was seen in 2018/19, when there was a bigger disbursement from external sources to Central government and non-government guaranteed, particularly to EAL and the stock of domestic debt also increase as a result of a new issuance of domestic bond to raise the capital of CBE and higher borrowing by SOEs from CBE.

The difference in total public debt stock between 2016/17 and 2020/21 is also influenced by exchange rate variations. The stock of external debt in US dollars is affected by exchange rate changes of other currencies against the US dollar, whereas the stock of domestic debt in ETB is affected by exchange rate variations of the US dollar against the

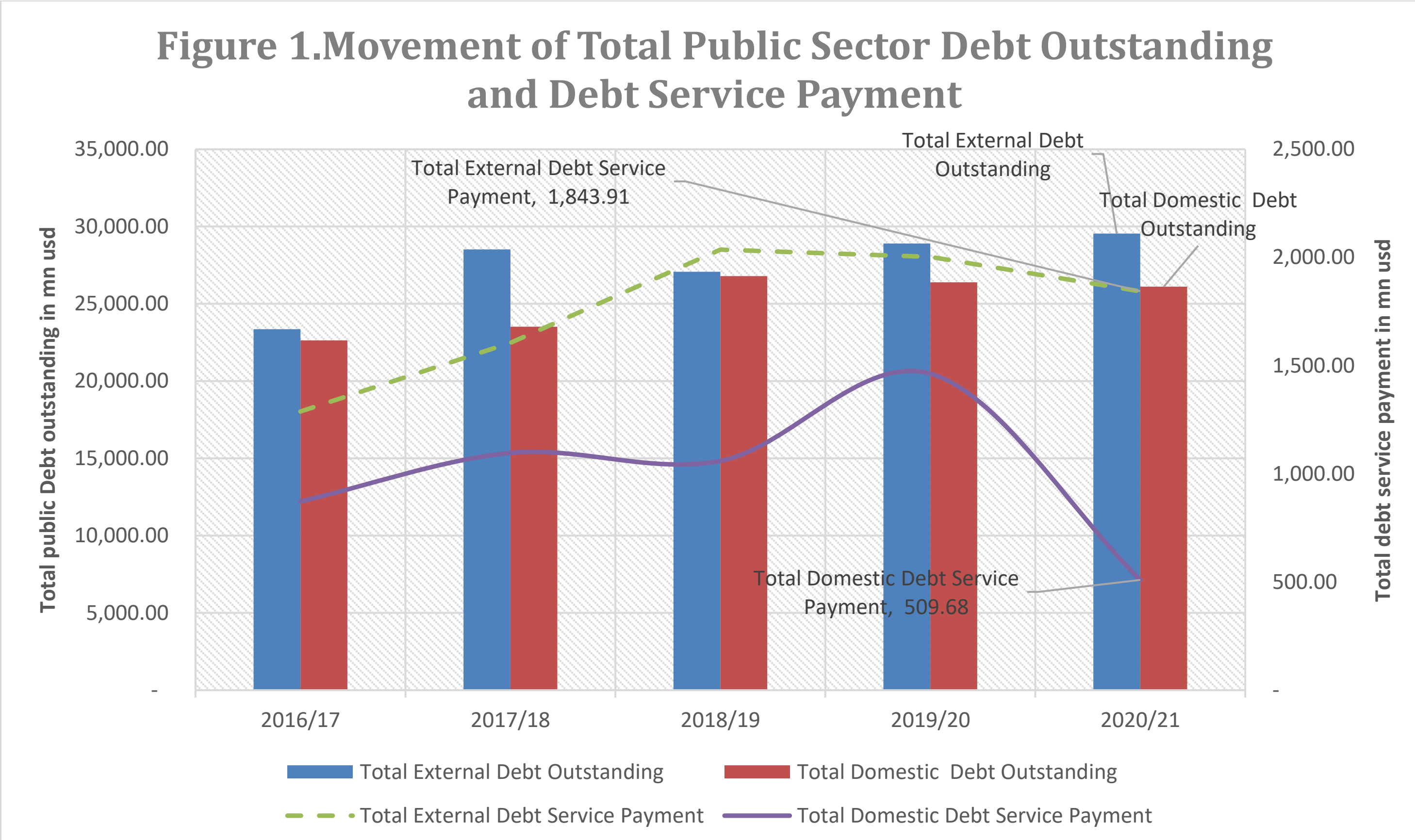
ETB. For example, the difference in external debt stock between 2019/20 and 2020/21 is approximately USD 642 million, of which USD 601 million is due to exchange rate variation between the periods, i.e., exchange rate variation accounts for 93 percent of the difference. *(See Public Sector Debt Statistical Bulletin No.38 table 5&6)*

The domestic debt instrument stock composition has altered because of the issuing of market-determined treasury bills in 2019/20, as well as the conversion of old treasury bills into three-year treasury notes and the conversion of Direct Advance into a 25-year government bond.

The relative share of external debt out of total public sector debt was 51 percent in 2016/17 and has steadily increased to 53 percent at the end of 2020/21, while the share of domestic debt is 47 percent.

As the total public sector debt outstanding magnitude, both external and domestic, increases over time, and its composition changes . The total public sector debt service payment also shows a significant increase, as shown in the graph below, with the exception of 2020/21, when the debt service payment for external creditors decreases compared to the previous year due to Debt Service Susspenssion Initiative (DSSI) by which we susspended all debt srvice payment of central government to its bilateral creditors. On the domestic front, as a result of various reform programs and the introduction of Liability Asset Managemnt Corrporation (LAMC), SOE debt service payments to CBE have decreased.

The country's debt distress level was downgraded to high risk from moderate risk as a result of this increase in magnitude, the shift in the composition of the overall public sector debt, and the rise in debt service payments, combined with poor external sector performance.



According to the IMF and World Bank Financial Sustainability Framework, currently there are five indicators, that can be used to assess a sovereign's debt distress level: the two liquidity indicators are external debt service to exports and external debt service to government revenues, as well as two solvency indicators: present value of external debt to GDP and present value of external debt to export, and a total public sector debt burden indicator, total public sector debt to GDP, are used to measure the debt distress level.

The rise in external and domestic debt outstanding, particularly the rise in external debt and change in its composition, downgraded Ethiopia's debt distress level from moderate risk debt distress level to high risk, this downgrading of the debt distress level also partly can be explained by the poor performance of the export sector, those export-related debt ratios have breached the threshold both in the base line and on the sensitivity analysis over the last years.

As shown in the table below, Ethiopian 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 as assed by Low Income Countries –Debt Sustainabiliy Frame work(LIC-DSF) is "medium" and the tresholds for this group is 180 percent, and the ratio breached the threshold in the baseline. The other number that went beyond the treshold is the liquidity ratio, or the external debt service to export ratio, which is likewise related to

while the result for Ethiopia is about 24 percent.Except these export related ratios the result for other ratio is well below the thresholds.But since both the breachs are in the basline the country assesed as a"high" risk debt distress country and there is a need to

Table 2 Debt Ratios

	2017	**2018**	**2019**	**2020**	2021
Nominal External Debt -to-GDP Ratio	28.56	**30.63**	**28.23**	**26.84**	**27.16**
Nominal Domestic Debt-to-GDP Ratio	27.67	**27.9**	**27.93**	**24.52**	24
Nominal Total Public Debt-to-GDP Ratio	56.23	**58.53**	**56.16**	**51.36**	51.16
PV of External debt-to-GDP ratio	21.9	21.4	19.6	18.6	18.93
PV of External debt-to-Export ratio	280.9	247.9	247.6	244.9	241.7
PV of External debt-to-Revenue ratio	143.9				
External debt service -to-Export ratio	22.2	24.4	24.6	24.5	22
External debt service -to-Revenue ratio	9.1	16.4	16.8	14.2	
PV of Public Debt-to-GDP ratio	46.3	49.7	48.8	47.6	43

Various Article IV mission report

make an additional external debt reprofiling based on the Common Framwork (CF) intiative of the G20 to become a "moderate" risk country.

The ratio of PV of external debt to export in 2021,2020 and 2019 was improved compared to the 2017 this is as result of the debt reprofilning of some of the SOE's external debt reprofiling with the chinese creditors, specially the Ethiopian rail ways coppropations debt with that of Chinese Creditors and the other reson is there was no non-concessional borrowing in the last three years , except that of EAL.

4.1 External Debt

This section examines trends in outstanding external debt, as well as a breakdown of external debt by major creditor, borrower category, and other factors. It also looks at new external commitments, disbursements, as well as external debt service payments and net flows and transfers.

External Debt Outstanding: - Ethiopia's external debt stock, which stood at USD 23,349.77 million on June 30, 2017, and rise steadily to USD 29,537.43 million by the end of June 2021, representing a 26 percent increase over the previous five years.

When we compare the Total External Debt Stock as of June 30, 2021 to the same period the previous year, the difference was only about 2%. The increase in external debt stock over the last five years is partly due to higher net resource flows, primarily to the central government, and lower net resource flows to state-owned enterprise development projects , the decline in government guaranteed and non-government guaranteed external debt over the last five years 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.

The nominal external debt in percent of GDP is between 27 .16 percent and 30.63 percent over the observation period, while currently the PV of External debt in percent of GDP is about 19 percent which is much lower than the 40 percent threshold of the country.

4.1.1. External Debt Outstanding by Major Creditors Groups

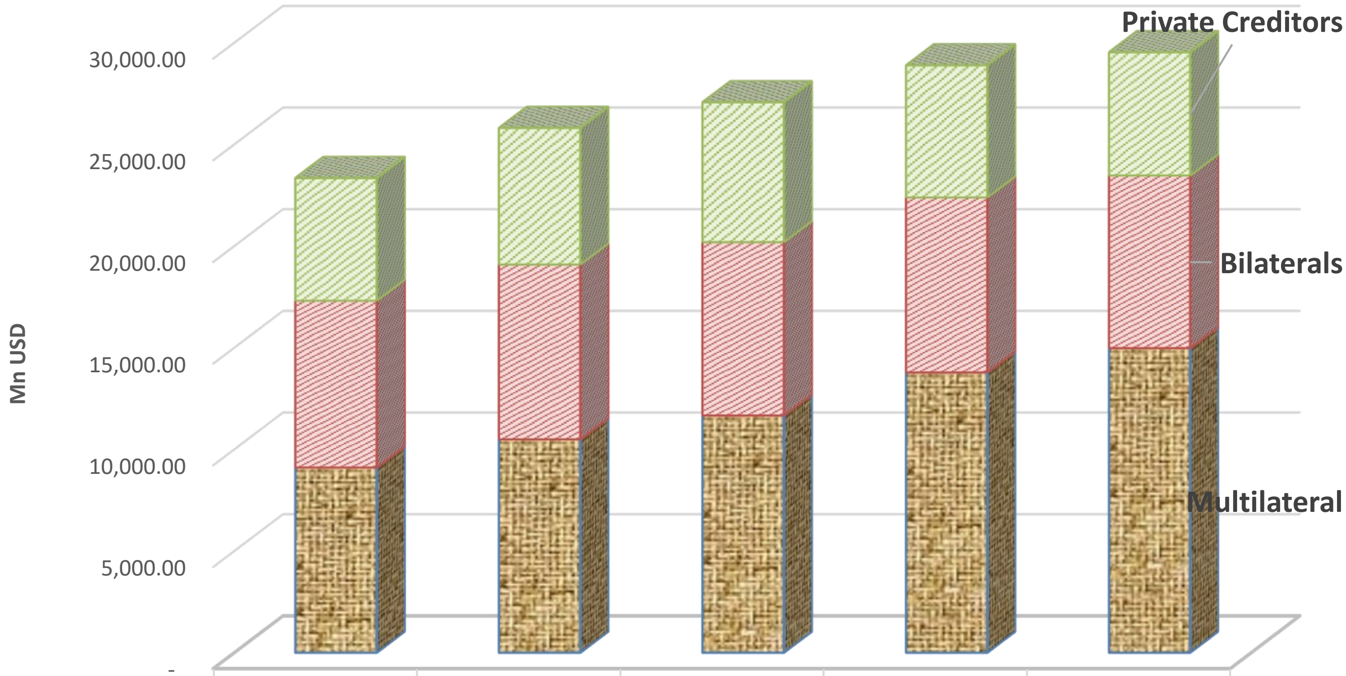
Ethiopia has long relied on official resources, i.e., from multilateral and bilateral sources, to fund development projects and programs. Currently as of June 30,2021 out of the total public external debt stock Official creditors owed USD 23,474.76 million (79.47 percent) of the total external debt outstanding as of June 30, 2021, with USD 14,984.50 million is that of multilateral creditors and the remaining USD 8,490.26 million to bilateral creditors. Private creditors, which include commercial banks and suppliers, owed USD 6,062.67 million (20.57 percent) out of the total public external debt stock. SOEs borrow from private creditors (commercial banks and suppliers). Borrowing from this source is currently on the decline; today, only EAL borrows from this source.

Between 2016/17 and 2020/21, as shown on in the figure 5 below, the relative share of multilateral creditors has increased significantly while the relative share of bilateral and private creditors declined, as most of the SOEs owed debt are sourced from Bilateral with non-concessional windows and Private creditors ,in recent years borrowing from non-concessional sources of Bilateral and private creditors is declining as the government limits borrowing with its guarantee from these sources to contain debt vulnerabilities.

Multilateral Creditors: - - The external debt stock owed to multilateral financial institutions, which was USD 9,110.52 million in 2016/17, has steadily climbed over time, reaching USD 14,984.50 million as of June 30, 2021, a 64 percent increase over the previous five years and a 9% increase over the previous year's stock. The group's stock has grown at an average of 9% every year during the observation period. This category of external debt now accounts for 50.73 percent of total external debt, with its relative proportion of total public sector external debt steadily increasing over the last five years.

In terms of volume, IDA continues to lead the multilateral creditors, accounting for over 74.82 percent of the group and 37.96 percent of the whole External debt stock, followed by AfDF and AfDB, which account for 15 percent of the group and 7.72 percent of the total debt stock, respectively. In the last five years, the stock of IDA external debt has increased by more than 70.81 percent, and by more than 10.36 percent in the last year.

FIGURE 2. TOTAL EXTERNAL DEBT OUTSTANDING BY CREDITOR TYPE



	2016/17	2017/18	2018/19	2019/20	2020/21
Private Creditors	6,033.62	6,717.23	6,879.45	6,499.55	6,062.67
Bilaterals	8,205.63	8,598.42	8,527.07	8,607.40	8,490.26
Multilateral	9,110.52	10,496.46	11,669.68	13,787.65	14,984.50

Bilateral creditors: - During the observation period, the external debt stock owed to bilateral creditors rose by an average of 1% per year. It grew from USD 8,205.63 million in 2016-17 to USD 8,490.26 million in 2020-21. The stock of Chinese policy banks (CDB, Exim-Bank of China, ICBC, and the Chinese government) accounts for 75% of total bilateral debt and 22% of total public sector external debt, making them the second external debt portfolio after IDA. If we add the stock of Chinese suppliers like China Electric Power and ZTE to the above figure, we get that 30.15 percent of total external public sector debt.

The stock of bilateral debt is decreasing compared to the 2019/20 stock, owing to a decrease in disbursement from non-Paris club creditors, particularly Exim-Bank of China and Exim-Bank of India, which can be explained by the fact that some of the ongoing projects are nearing completion and thus their disbursement is becoming smaller, as the maturity of some other loans result in the repayment of their principal payments and the limit of non-concessional borrowing.

Creditors of the Paris Club: - As of June 30, 2021, the debt owed to Paris Club creditors totaled USD 921.28 million. 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 in recent years from the group's official creditors**.**

Non-Paris Club Creditors: Non-Paris Club creditors owing USD 7,568.98 million in 2020/21, up from USD 7,578.19 million in 2016/17. The stock has been dropping for the previous three years, owing to a minor number of fresh disbursements and more repayment for the non-Paris club creditors for EEP, ERC, and ESC, among other things.

Private Creditors: - The stock of external debt owed to private creditors (commercial banks and suppliers) amounted to USD 6,062.67 million as of June 30, 2021, from USD 6,033.62 million as of June 30, 2017. As previously stated, only Ethiopian Airlines borrows and disburses from these group of creditors, while the others, such as Ethio-Telecom, ERC, ESC, and EEP, only repay their debt service to their respective creditors, resulting in a negative net resource flow from these creditors in recent years.

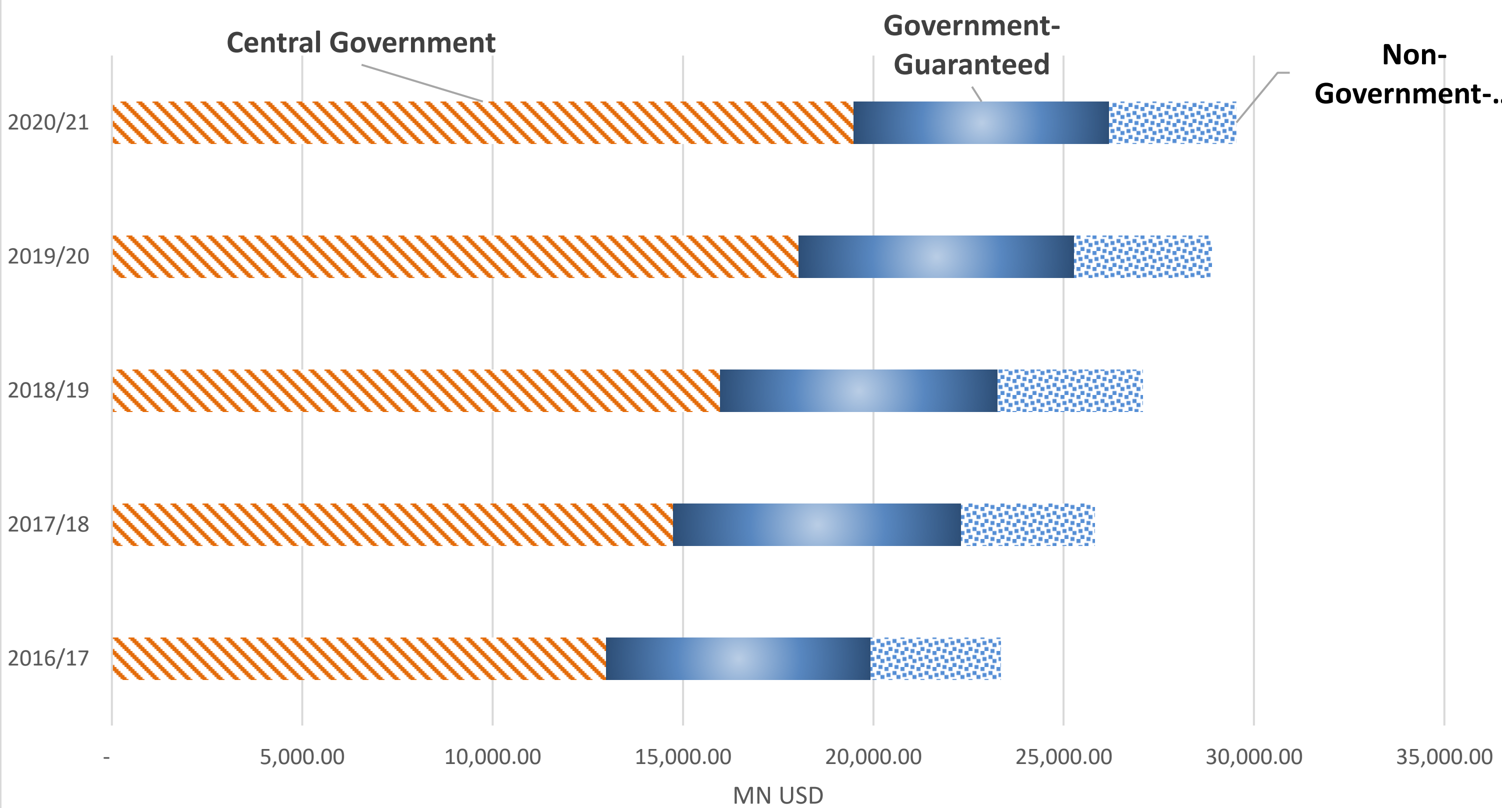
4.1.2. External Debt Outstanding by Borrowers' Category

Ethiopia's external debt can be divided into three categories. Borrowing by the Central Government mostly from its official creditors, Government-Guaranteed borrowing by SOEs from commercial sources; specifically, borrowing by ERC, EEP, ESC, and others, and Non-Government Guaranteed borrowing by EAl and EthioTelecom.

In 2016/17, the relative share of central government external debt stock was around 56 percent, and by 2020/21, it had risen to 66 percent. As seen in the graphs below, there has been a consistent increase over the time, with an average annual increase of 10.7%, compared to an increase of roughly 8% on the stock of central government external debt last year.

The state-owned firms EEP, ERC, and ESC borrow money from external sources with the federal government's backing. Because of fewer new borrowings from external sources and less disbursement from existing loans, as previously mentioned, and increased repayment of some of their existing loans, the relative share of government guaranteed debt has declined over time, falling from 30 percent in June 30, 2016/17, percent to 23 percent in June 30, 2021.

Figure 3. Public Sector Debt Outstanding by Borrower Category

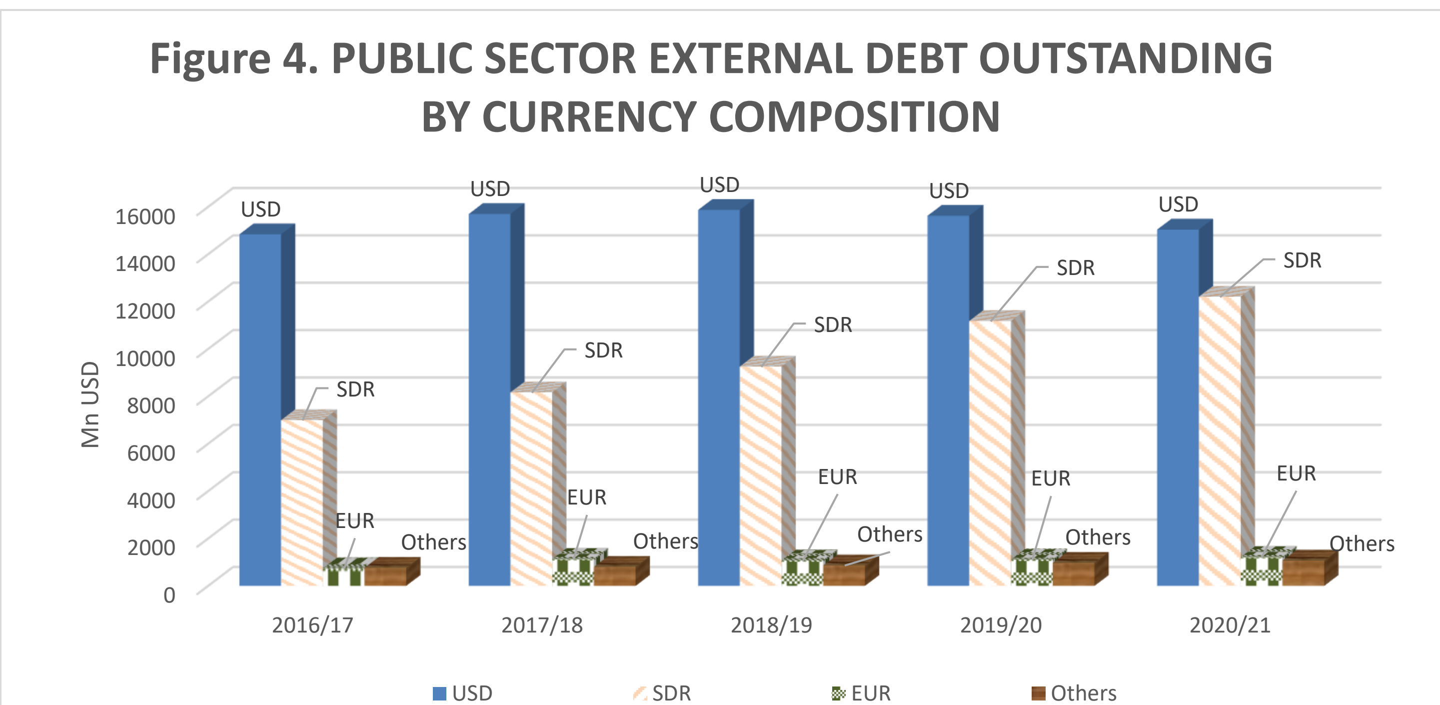


Without the government's Government, EAL and EthioTelecom borrow money from external sources. Due to fewer new borrowings and disbursements by Ethio-telecom, the stock of non-government guaranteed external debt has steadily declined over the last five years, from a high of about 15% in 2016/17 to a low of 11% in 2020/21; in recent years, only EAL has borrowed from external sources without the government's guarantee.

4.1.3. Public Sector External Debt Outstanding by Contracting Currency

External loans are obtained from a variety of creditors and in a variety of currencies. Because the currency composition of any debt portfolio can have a significant impact on a country's debt obligations, it is regarded acceptable to borrow in a right mix of currencies, thus reducing exchange rate risks. To reduce the negative impact of exchange rate volatility, countries often prefer to match the currency composition of their external debt to that of them with that of their foreign earnings and/or reserves.

As a result, 50.92 percent, 41.33 percent, and 4.13 percent of the total debt outstanding in 2020/21 were denominated in USD, SDR, and EURO, respectively, while the remaining 3.62 percent was denominated in various currencies such as



Chinese Yuan (CNY), Korean won, Great Britain Pound, and so on. Between 2016/17 and 2020/21, 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 63.56 percent in 2016/17 to around 50.92 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, the majority of their loan currency is denominated in USD.

4.1.4. Terms of Borrowing

The maturity period, grace period, and interest rate of a loan are collectively referred to as borrowing terms. They determine the concessionality of a loan when they are taken together. In this context, evaluating a country's average borrowing terms and cost requires an examination of the evolution of average borrowing terms.

4.1.4.1. External Debt Outstanding by Interest Rate Composition

It's crucial to determine the debt portfolio's interest rate structure in order to analyze the impact of any interest rate changes. This is especially true for a debt portfolio with a high percentage of debt with variable interest rates. Variable interest rates, such as LIBOR, that are tied to market rates, might be appealing when base rates are low or predicted to fall, but they can also climb unexpectedly in response to changes in economic fundamentals, increasing the debt servicing burden.

As of June 30th, 2021, 72.53 percent of the outstanding loan had a fixed interest rate, 1.68 percent had an interest-free loan, and the remaining 25.79 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 six months and LIBOR three months with a margin. Similarly, around 99.51 percent of the central government's external debt stock is on fixed interest rate, while only 0.3 percent is on LIBOR 6 months with margin. The majority of EAL's foreign debt is at a three-month Libor plus margin, while other SOEs borrow at a six-month Libor plus margin. As the LIBOR has fallen in recent months, SOEs' external debt service payments to their respective creditors have been lower than they were a year ago.

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

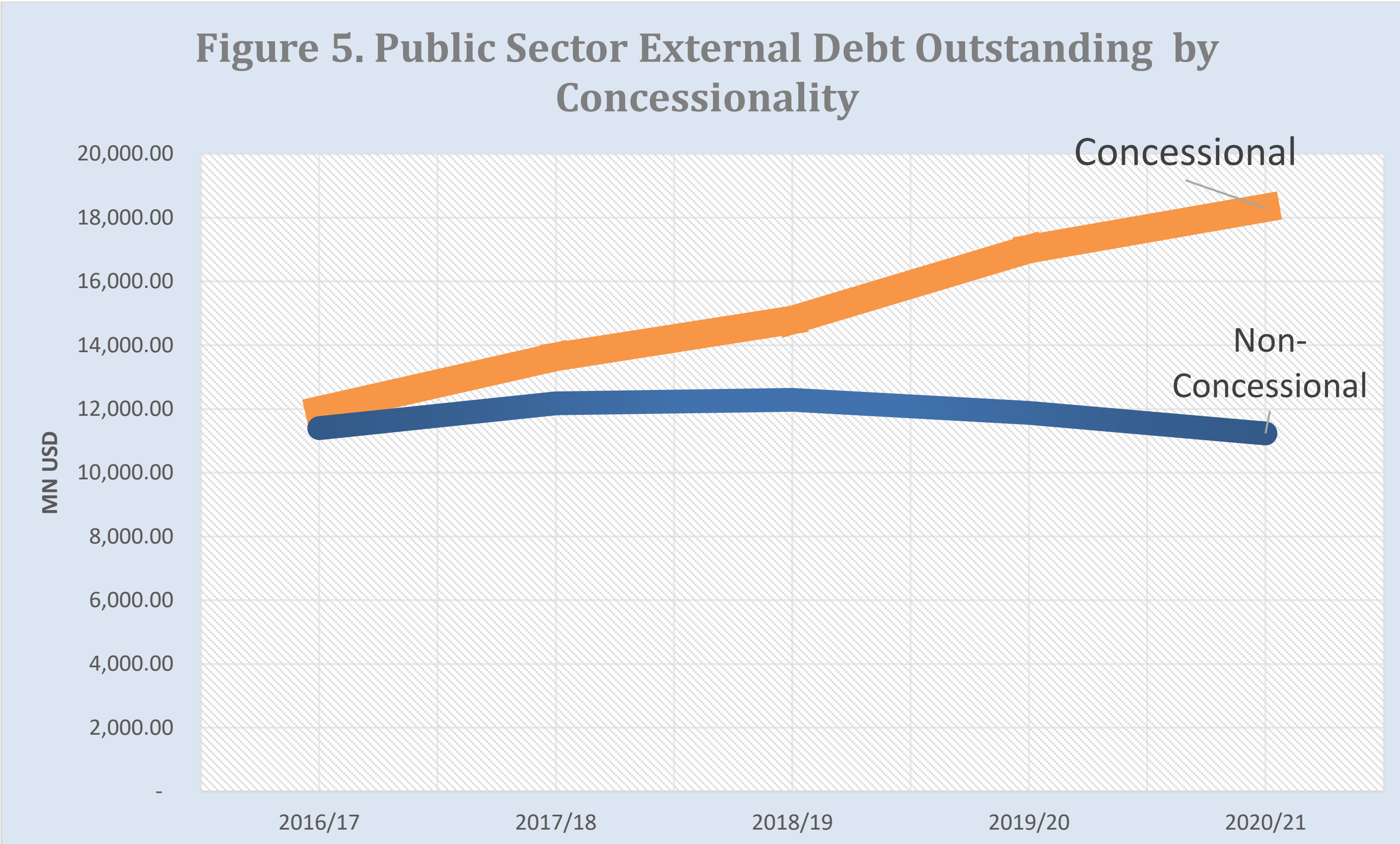
	2016/17		2017/18		2018/19		2019/20R		2020/21P	
	USD	%	USD	%	USD	%	USD	%	USD	%
TOTAL	23,349.77	100.00	25,812.10	100.00	27,076.20	100.00	28,894.61	100.00	29,537.42	100.00
FIXED INTEREST RATE	13,970.17	59.83	15,906.15	61.62	17,527.53	64.73	19,821.68	68.60	21,422.28	72.53
VARIABLE INTEREST RATE	9,124.14	39.08	9,629.49	37.31	9,267.76	34.23	8,596.77	29.75	7,617.89	25.79
INTEREST FREE	255.46	1.09	276.46	1.07	280.92	1.04	476.16	1.65	497.25	1.68
CENTRAL GOV'T	12,989.57	55.63	14,751.24	57.15	15,973.94	59.00	18,037.51	62.43	19,488.16	65.98
FIXED INTEREST RATE	12,733.55	54.53	14,441.88	55.95	15,648.70	57.80	17,670.93	61.16	19,086.23	64.62
VARIABLE INTEREST RATE	0.56	0.00	32.90	0.13	44.32	0.16	74.63	0.26	95.59	0.32
INTEREST FREE	255.46	1.09	276.46	1.07	280.92	1.04	291.96	1.01	306.34	1.04
OTHER PUBLIC SECTOR	10,360.20	44.37	11,060.86	42.85	11,102.27	41.00	10,857.10	37.57	10,049.27	34.02
FIXED INTEREST RATE	1,236.62	5.30	1,464.28	5.67	1,878.83	6.94	2,150.75	7.44	2,336.04	7.91
INTEREST FREE		-		-		-	184.20	0.64	190.92	0.65
VARIABLE INTEREST RATE	9,123.58	39.07	9,596.58	37.18	9,223.44	34.06	8,522.15	29.49	7,522.30	25.47

The proportion of external debt with fixed interest rate was 59.83 percent in 2016/17 and has increased to 72.52 percent in 2020/21 as a result of a relatively huge disbursement towards Central government from its multilateral and bilateral creditors, who mostly lends 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 39.07 percent in 2016/17 to 25.79 percent, and this can be explained by the reduction in borrowing by SOE's from their creditors with 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 2020/21, most loans carry interest rates below 2.0%.

4.1.4.2. External Debt Outstanding by Concessionality.

The grant element is a traditional measure for a loan's concessionality, and it is determined primarily by three factors: the loan's maturity period, grace period, and interest rate. High grant element is common in loans with longer grace periods and maturities, as well as lower interest rates. Loans with a grant elemnt of 35% or more are considered concessional, according to the IMF.

During the observation period, not only did the size of the external debt outstanding vary, but its composition also changed significantly. As of 2016/17, concessional debt accounted for only 51% of total external debt outstanding, while non-concessional debt accounted for roughly 49%. Following that, the relative share of concessional debt climbed, while the non-concessional debt continued to drop. Currently, concessional loans account for around 62 percent of total external public debt, with non-concessional loans accounting for the remaining 38 percent. This could be explained in part by the government's recent decision to reduce borrowing from non-concessional sources for SOE projects that are guaranteed by the government, as well as the maturity of current loans for principal payments and less disbursements from existing loans*. (See Figure 8 below)*



4.1.5. New Commitments from External Sources

Over the last five years, the central government has received USD 16,428.86 million in external loans from multilateral, bilateral, and private creditors, with 61 percent going to the central government and the remaining 39 percent going to SOEs to complete various projects.

Most multilateral commitments (about 37 percent) came from IDA and ADF, with extremely concessional terms, whereas the majority of bilateral commitments came from Exim-Bank of China's concessional and non-concessional windows. External debt commitments from private creditors, on the other hand, are largely from Chinese suppliers and commercial creditors of EAL.

External new loan commitment in 2019/20 was the highest than the previous three years, at USD 4,705 million, an increase of 79 percent over the previous year. In general, new commitments have decreased from a peak of USD 3,805.72 million in 2016/17 and USD 4,705 million in 2019/20 to a low of USD 1,983.50 million in 2020/21, owing to government measures to curb non-concessional borrowing by SOE through government guarantee, The drop in new commitment by SOEs from their non-concessional bilateral, commercial, and supplier's creditors was notably visible in 2020/21. The reason for the relatively large commitment in 2019/20 can be explained in part by the IMF's increased commitment of USD 3.1 billion for the Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Rapid Financial Instrument (RFI) programs.

According to Table 4, around 61 percent, 20 percent, and 19 percent of the committed amount in the last five years came from multilaterals, bilateral creditors, and private creditors, respectively. IDA has been the country's most important development partner for the previous five years, with a total new commitment of almost USD 6 billion, accounting for roughly 36.4 percent of total external new commitment during that time. Of course, the AfDF contribution is roughly 1 percent, and the Paris club creditor contributes about 7 percent under ODA terms. This means that in the last five years, nearly 44 percent of new borrowings have come from highly concessional sources with a grant component of more than 50 percent.

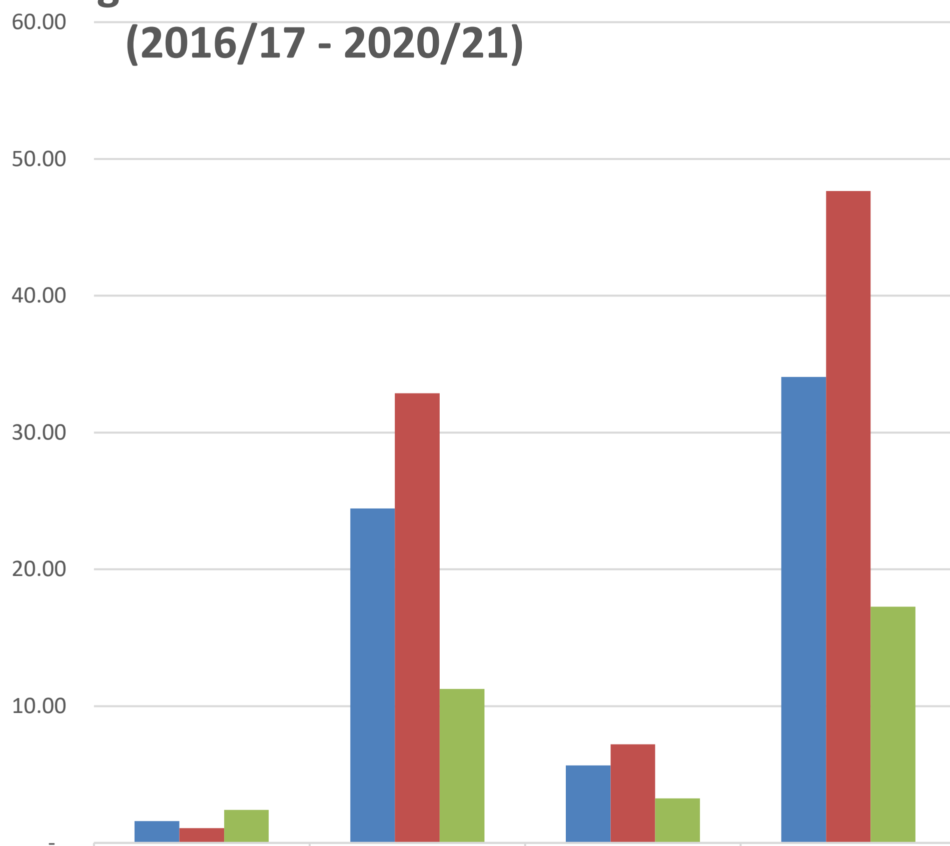
Table 4 New External Debt Commitments by Creditors

MN USD

CREDITOR NAME	2016/17	2017/18	2018/19	2019/20	2020/21
CENTRAL GOVERNMENT	**3,044.89**	**2,165.87**	**1,832.51**	**1,439.17**	**1,620.10**
MULTILATERAL	**1,410.24**	**1,831.02**	**1,419.21**	**931.61**	**1,458.73**
ADF	37.91	86.77			
ADB	104.61				
EIB	77.79		34.01		
IDA	1,006.17	1,744.25	1,343.20	426.70	1,458.73
IFAD	98.76			94.78	
BADEA	35.00		20		
OFID	50.00		22		
IMF (for Central Government -RFI)				410.124	
BILATERAL	**1634.65**	**334.85**	**413.30**	**507.56**	**161.37**
NON-PARIS CLUB	**1,470.97**	**251.28**	**0.00**	**240.00**	**0.00**
GOVERNMENT OF CHINA	0	84.28	0		
SAUDI FUND	0	0	0	140	
EXIM-BANK OF CHINA	1,470.97	167			
GOV. OF POLAND					
KALIFA FUND				100	
PARIS CLUB	**163.68**	**83.57**	**413.3**	**267.56**	**161.37**
GOV. OF FRANCE (AFD)	93.13	83.57	95.7		
GOV. OF ITALY	21.95		53.6		18.02
GOVERNMENT OF JAPAN	48.6			88.56	
EXIM-BANK OF KOREA			264	179	
DANSK S.K B					143.35
STATE OWEND ENTERPRISE	**760.83**	**1,134.95**	**800.61**	**3,266.53**	**363.40**
MULTILATERAL	158.82	0	0	2,903.71	
ADB	158.82	**0**			
IMF (for NBE-ECF&EFF)				2,903.71	
BILATERAL	**38.26**	**171.22**	**0**	**0**	**0**
NON-PARIS CLUB	**38.26**	**171.22**	**0**	**0**	**0**
CHINA DEVELOPMENT .BANK	0	0			
EXIM-BANK OF CHINA NON-CONCESSIONAL	38.26	171.22			
IDUSTRIAL AND CONSTRUCTION BANK OF CHINA	0	0			
PARIS CLUB	**0**	**0**	**0**	**0**	**0**
GOV. OF FRANCE (AFD)	0	0	0	0	0
PRIVATE CREDITORS	**563.75**	**963.73**	**800.61**	**362.82**	**363.40**
BANK OF CHINA LIMITE	18.29				
CREDIT SUISSE AG	466.45				
CHINA ELECTRIC POWER					
UNICREDIT		402.76			
TD SECURITIES (USA)					
BANK HAPOALIN B.M. (ISRAEL)					
STANDARD BANK OF SOUTH AFRIC	97.3				
STANDARD CHART BANK(GB & AIRLAND)		120			
THE EXPORT PK		125			
CREDIT AGRICOL TOKYO(JAPAN)		144.54			
EXPORT NOVUS AVATION(UAE)		15			
ING CAPITAL LLG(USA)		121.43	248.37		
EXPORT INVESTEC BANK		35	10		
MUFG BANK LTD			272		
NAT WEST BANK		0	270.24		
Eastern and Southern Africa Trade and Development Bank				38	
JP MORGAN					275.48
Air Bus Financial Service					13.21
BNP BARIBAS FRANCE				269.25	
Export Dev. Of Canada				55.57	74.71
GRAND TOTAL	**3,805.72**	**3,300.82**	**2,633.12**	**4,705.70**	**1,983.50**

The chart below shows average loan terms and the average grant element of total external debt contracted in the past five years shows about 34 percent grant element which is lower than the IMF 35 percent benchmark. But the grant element for the central government which constitutes 61 percent of the total new borrowing from external source in the was about 48 percent which is well above the IMFs concessionality benchmark.

Figure 6 Average Loan Terms of External Public Debt (2016/17 - 2020/21)



	Interest Rate (avg. %)	Maturity (avg. yrs)	Grace Period (avg.yrs)	Grant Element (avg %) *
Total External Debt	1.60	24.46	5.67	34.08
Central Government External Debt	1.09	32.87	7.21	47.65
SoE's External Debt	2.41	11.26	3.25	17.28

4.1.6. Public Sector External Debt Disbursements in the Period

In debt management, a review of the disbursement profile is significant because it shows the size of actual resource intake to a country and the rate at which those resources have been spent. Net-Flows, i.e. disbursements less principal repayments in a particular period; and Net-Transfers, i.e. disbursements less principal repayment less interest payments, which includes other charges, are two major metrics used to measure the movement of investment resources. If both factors are positive, the country is a net beneficiary of foreign resources at the given time, and vice versa. As a result of large interest payments, countries with a high percentage of commercial debt typically have low or negative net resource transfers.

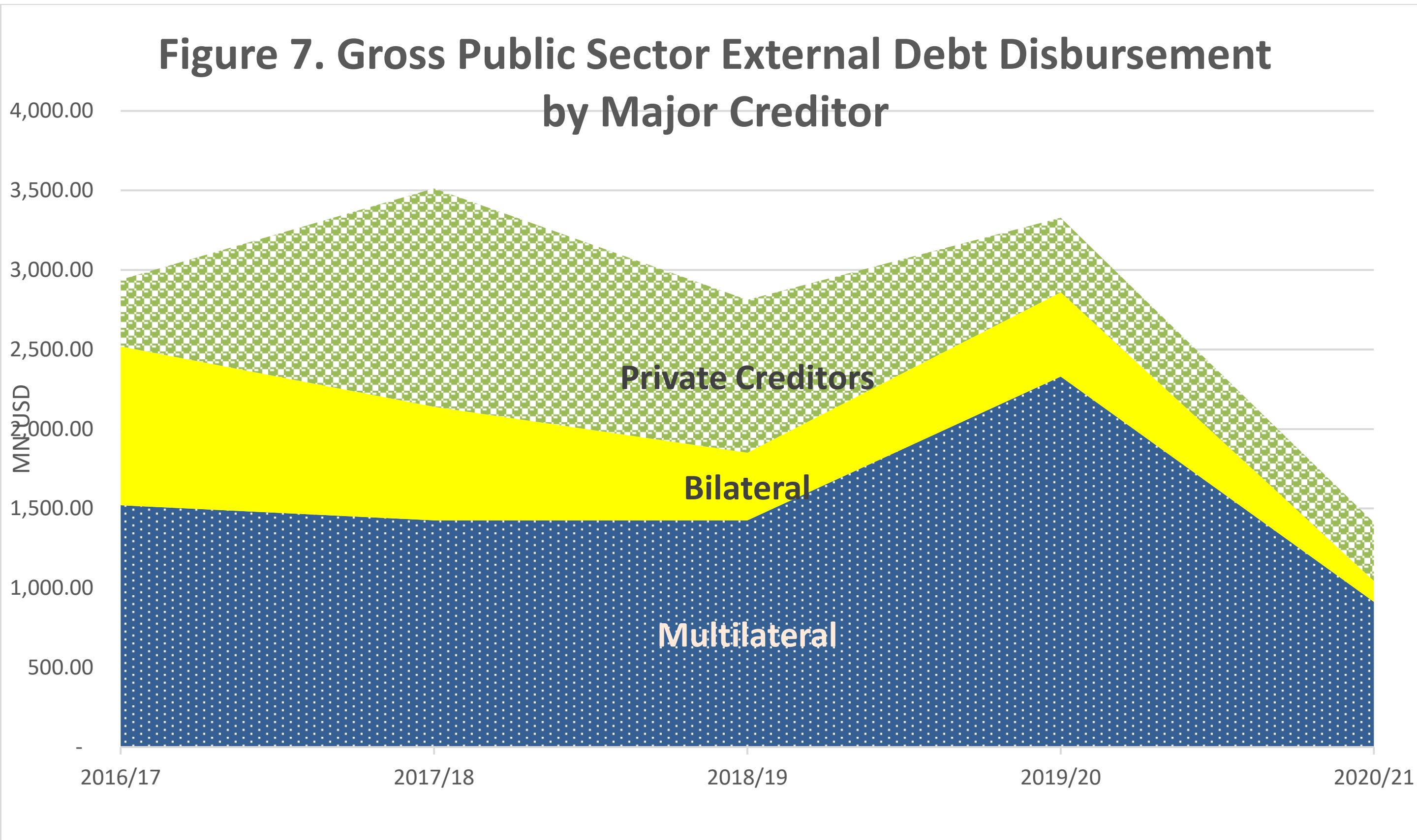
When we look at the patterns, we can see that the central government's external loan disbursement to various projects and state-owned firms totaled USD 14,003.04 million during the last five years. External resource inflow from multilateral creditors to the respective projects has not increased until 2019/20 and then decreased much in 2020/21, while that of bilateral and private creditors has decreased throughout the observation period, with 2020/21 being the year with the lowest disbursement compared to the previous four years.

4.1.6.1. Public Sector External Debt Disbursement by Major Creditors

The entire foreign debt disbursement for fiscal year 2020/21 was around USD 1,411.13 million, which was 57.60 percent less than the previous year's (2019/20) disbursement from external sources in the form of debt.

USD 913.33 million (64.72 percent) of the overall disbursement in 2020/21 obtained from multilateral sources, while USD 131.61 million (9.33 percent) came from bilateral creditors, and the remaining USD 366.19 million (25.95 percent) came from commercial banks and suppliers. The greatest disbursement came from IDA in 2020/21, accounting for 54.34 percent, followed by commercial banks' disbursement to EAL, accounting for 25.11 percent.

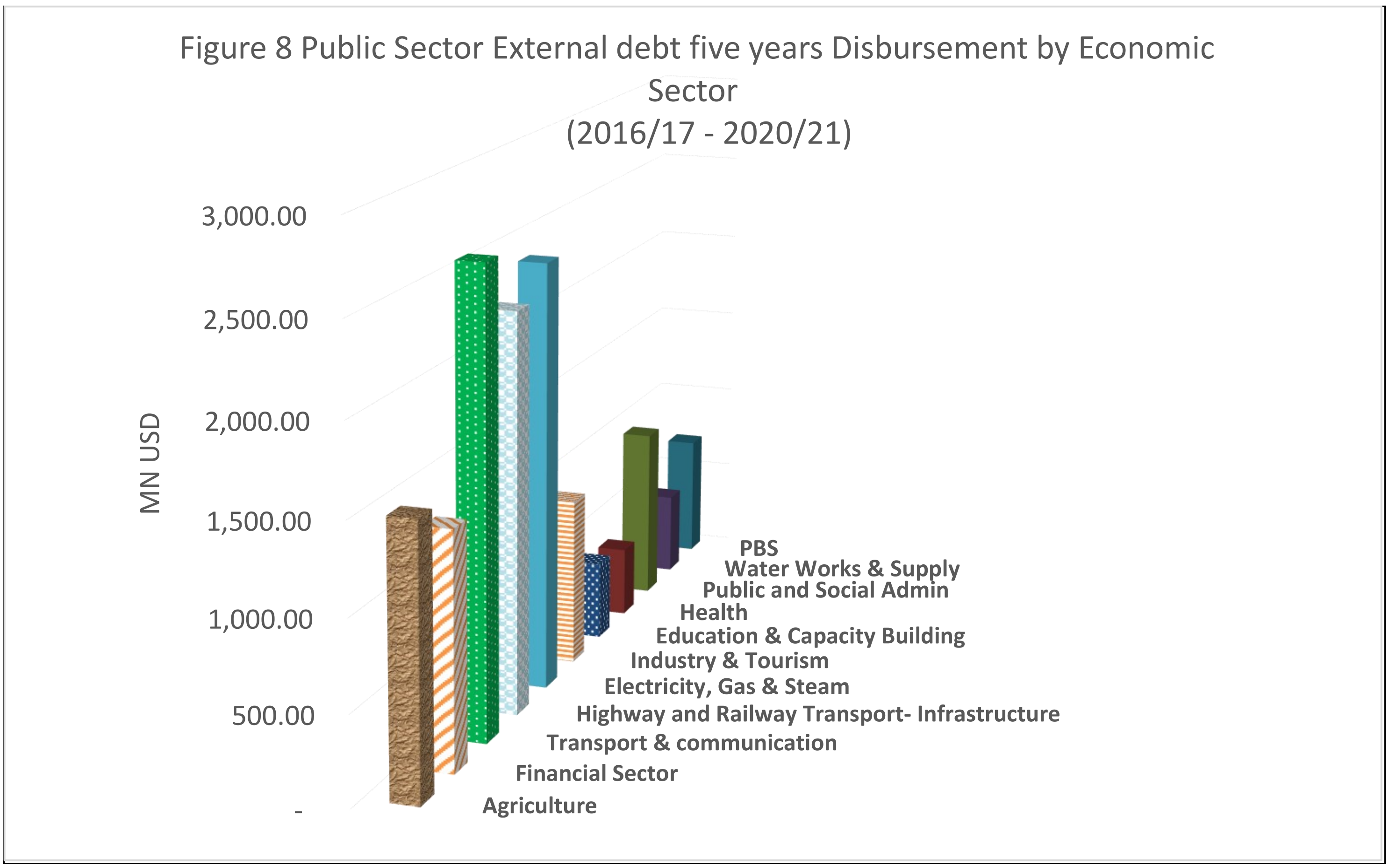
In 2019/20 the IMF disbursed about USD 720.12 million is through Extended Credit Facility (ECF) - Extended Fund Facility (EFF) programs which is a three-year arrangement to help the implementation of Homegrown Economic Reform Plan (HERP), to maintain macroeconomic stability and improve living standard. In addition to the above arrangements IMF provided support for the Rapid Financial Instrument (RFI) to address the urgent balance of payments need to cope with the immediate impact of the COVID 19.



4.1.6.2. Disbursement by Economic Sector

The primary goal of examining the composition of disbursement and debt by economic sector is to determine whether sectors have received contracted loans and whether they are compatible with the country's development strategy.

Accordingly, transportation and communication received the greatest share of disbursed resources in the last five years, i.e. disbursements to EAL and EthioTelecom accounting for about 18 percent, followed by electricity, gas, and steam (17 percent), highway and railway transport and infrastructure 16 percent, agriculture 11%, and the financial sector 9 percent, Industrial sector the major being sugar 7 percent, and Protection of basic services(PBS) 5 percent .This demonstrates that the external resources inflow is mostly used for the development of infrastructure in order to expand and improve the country's infrastructural capital.

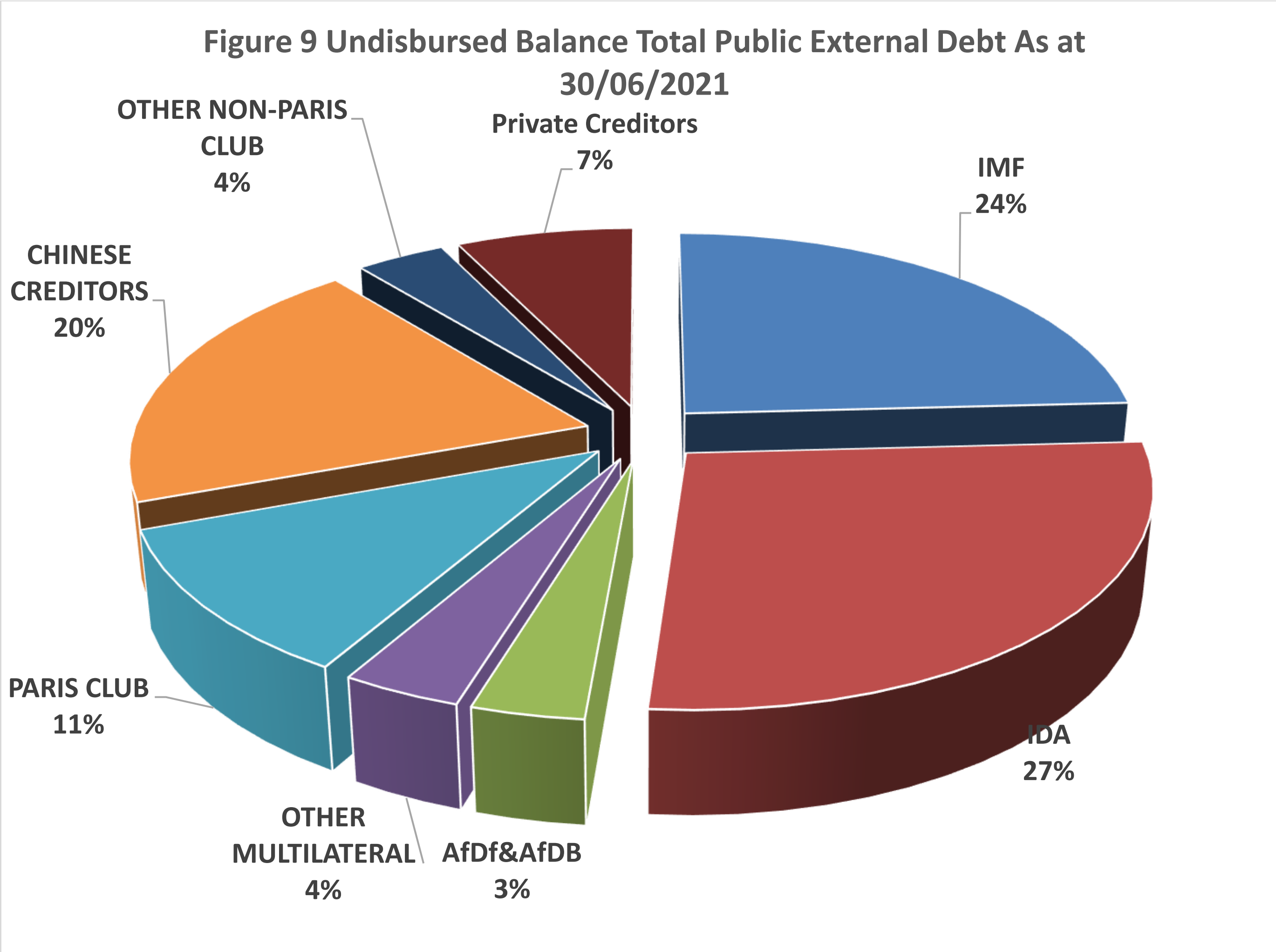


4.1.7. Public Sector External Debt Undisbursed Balances

Several institutional and non-institutional factors influence the disbursement rate (or loan utilization rate). This rate varies depending on how the borrowed funds are used and who the creditors are. Commodity and cash loans frequently take a short time to disburse in terms of money usage. Project loans, on the other hand, typically have a longer disbursement period.

Delays in loan utilization can be costly in terms of both the payment of commitment charges on the undisbursed balance and the delayed economic benefits from the projects being implemented. As a result, it is critical for a debt manager to review loan utilisation to determine whether the low rate of utilisation is due to genuine disbursement issues that require action.

As of the end of June 2021, the undisbursed balance from external loan commitments was USD 11,118.10 million, of which 61.77 percent is from the central government committed amount and the remaining 38.23 percent is from SOE and NBE (IMF loans for ECF and EFF Programs). From multilateral creditors, IDA and IMF have very large undisbursed balances, amounting to USD 3,021.54 million (27.18 percent) and USD 2,687.27 million (24.17 percent), respectively. The undisbursed amount from various Chinese banks (including Exim-Bank China, CDB, ICBC, and the Government of China) is the third highest among bilateral creditors, totaling approximately USD 2,183.22 million (19.64 percent). The accumulation of undisbursed balances from creditors such as AfDB, Exim-Bank of China, Exim-Bank of India, Exim-Bank of Korea, and AFD requires close monitoring because project delays financed by these creditors may necessitate additional commitment fee payments.



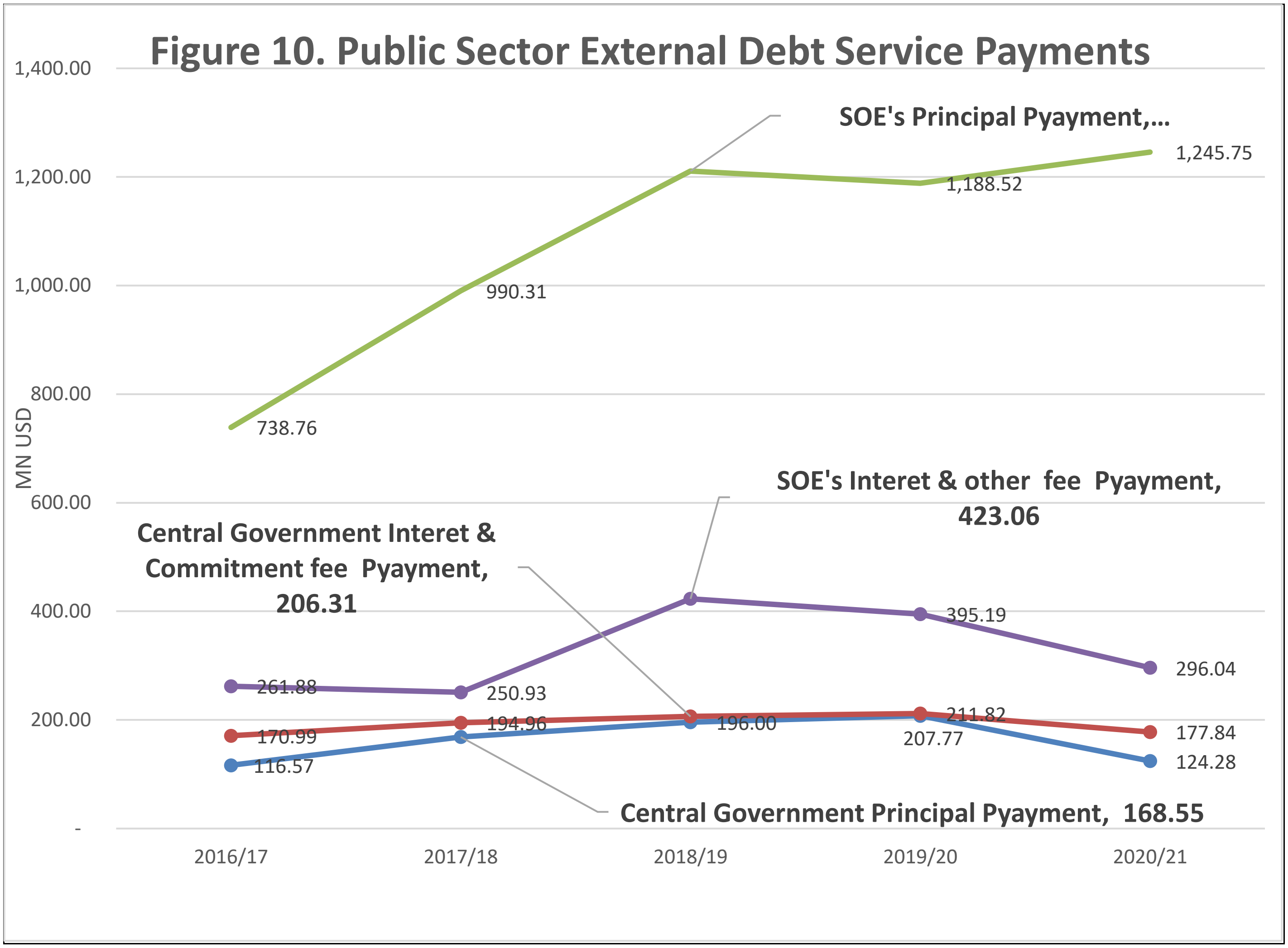
As previously stated, one consequence of a low overall disbursement rate is delayed project completion and thus delayed economic benefits to the country. Given the relatively low disbursement rate for most creditors, executing agencies will be consulted to investigate the reason for the slow rate at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

4.1.8. External Debt Service

So far, this analysis has focused on the evolution of Ethiopia's existing external debt portfolio, inflows, and new obligations. This section examines the country's medium-term debt service requirements in relation to its existing debt, highlighting recent movements in the country's external debt service profile (and commitments) and the new Debt Service Suspension initiative (DSSI).

Accordingly, the total external debt services effected in the last five years was USD 8,776.21 million. Only USD 1,775.10 million (20.23 percent) of the total external debt service payment is paid by the central government to its multilateral and bilateral creditors, as well as interest payments to Eurobond holders, with the remaining 79.77 percent paid by SOEs to their respective creditors.

Over the last five years, the overall public sector external debt service has expanded at an annual rate of 10% on average, with SOE external debt service payments expanding at a much faster rate than central government external debt service payments. Due to the Debt Service Suspension Initiative (DSSI), which is mentioned below, the overall external debt service payment in 2020/21 was lower than the previous four years. The SOE's external debt service payment has climbed in recent years as most of its external loans have matured. Interest, commitment fees, and other payments account for 29.50 percent of total external Debt Service payments made in the last five years, with the principal accounting for 60.50 percent.



In 2020/21, total external debt service payments were USD 1,843.91 million, with USD 1,370.03 million (74.30 percent) going to principal and USD 473.88 million going to interest and commission (25.70 percent). The external debt service in terms of ETB has increased significantly due to a relatively higher ETB devaluation versus the USD in 2020/21.

The overall trend in debt service payment, as shown in Figure 13, has been increasing significantly over time. The principal payment increase has been noticeable, especially since 2016/17, which may be explained in part by the maturity of most SOE's commercial creditors' borrowing.

The external debt service payment in 2020/21 is lower than the previous four years, especially the central government's external debt service payment, which is lower than the previous two years, thanks in part to the Debt Service Suspension Initiative (DSSI).

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 220.0 million. *(See Table 5 below)*

Debt Service Suspension Initiative (DSSI).			
	Anount in thousand USD		
CREDITOR	**DSSI1**	**DSSI2**	**TOTAL**
TOTAL	**113,024.50**	**107,129.09**	**220,153.59**
AFD -AGN FRANCE DEV	4,257.49	3,573.21	7,830.70
ARTIGIAN (Cassa Depo)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*	29,488.22
EXIM-BANK OF KOREA	16.56	8.23	24.79
GOV OF JAPAN	2.48	2.89	5.37
GOV OF POLAND	686.7*	1,002.46*	-
KUWAIT FUND	6,233.91	3,057*	6,233.91
SAUDI FUND DEV	1,487.65	1,732.09*	1,487.65
*are scheduled amount the bilateral agreements has not been finalized			

Common Framework (CF)

"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, 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 application and informed Paris-Club and official bilateral creditors of its intention to benefit from the Common Framework to reduce its debt distress burden and reduce it to moderate risk and has been fully cooperating with every and each request made by the Paris-Club Secretariat submitted a detailed debt data deemed important to the process. Ethiopia has been engaging with its bilateral creditors to stir up support to its application to benefit from the CF.

4.1.8.1. Projected External Debt Service Based on Outstanding Debt Only

External debt service, based on debt outstanding as of June 30, 2021 (without considering future disbursements), is expected to rise steadily over the next three years, from around USD 1.9 billion in 2021/22 to USD 2.3 billion in 2023/24, and then to around USD 3.2 billion in 2024/25 due to maturing sovereign bonds. The contribution of SOE external debt service payments to total external debt service is much higher than that of the central government, but it has been declining in recent years, which can be explained by the short-term maturity structure of most SOE borrowing and the absence of non-concessional borrowing except for EAL. The central government's external debt service payments, on the other hand, climb steadily at the beginning of the projection and then remain flat throughout the projection period.

Figure.11 Projected External Debt Service(Based on Outstanding Debt Only)

Assuming that the committed and undisbursed amounts are disbursed over the next few years, total estimated external debt service (Principal plus Interest) will rise from USD 2.1 billion in 2021/22 to USD 4.1 billion in 2024/25 due to maturing sovereign bonds, and subsequently fall as shown in Figure 16 below.

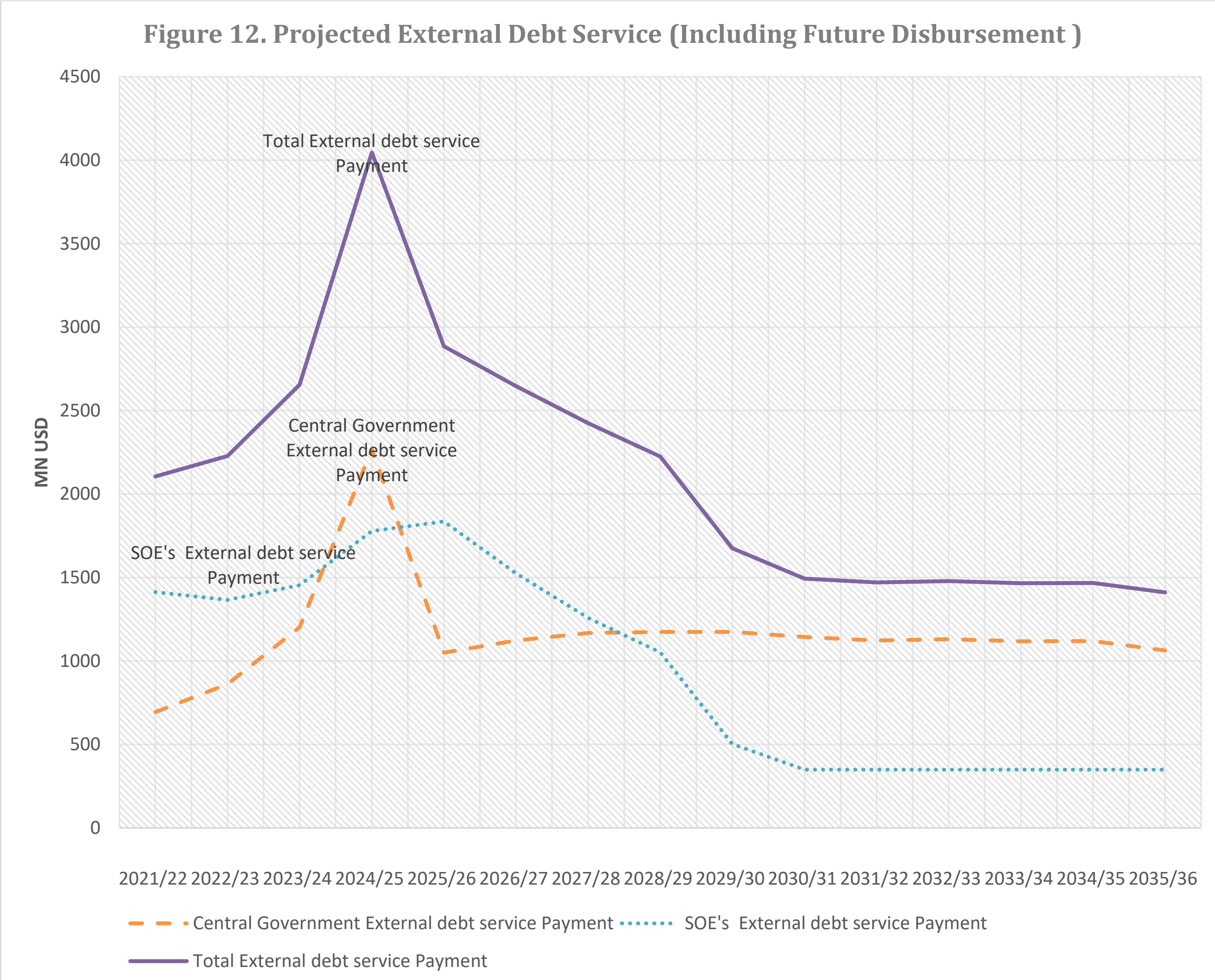


Figure 12. Projected External Debt Service (Including Future Disbursement)
MN USD
4500
4000
3500
3000
2500
2000
1500
1000
500
0
Total External debt service Payment
Central Government External debt service Payment
SOE's External debt service Payment
2021/22 2022/23 2023/24 2024/25 2025/26 2026/27 2027/28 2028/29 2029/30 2030/31 2031/32 2032/33 2033/34 2034/35 2035/36
Central Government External debt service Payment
SOE's External debt service Payment
Total External debt service Payment

4.1.9. Net Resource Flows & Net Transfers

Net Resource Flows

During the last five years, gross disbursement less amortization (Disbursement minus Principal Payments) has decreased, but it was positive in prior years with a larger magnitude. It means that external creditor disbursements to projects are significantly higher than matured principal payments to creditors in previous years, particularly between 2016/17 and 2017/18. The net resource flows of the federal government are substantially larger than those of the other public sectors. As most current projects are nearing completion, net resource flows on behalf of SOEs are decreasing, and several SOEs have begun to repay their principal payments. On the other hand, during the observation period, net resource flows into government, particularly from multilateral sources, have increased.*(see table 5 below)*

Table 5. Net Resource Flows on Public Sector External Debt Mn USD

	2016/17	2017/18	2018/19	2019/20	2020/21
Central Government	1,428.35	1,655.87	1,348.84	2,167.68	895.51
Government Guaranted	832.23	629.61	(263.80)	(42.08)	(568.20)
Non-Government Guaranted	(177.54)	68.93	320.29	(193.63)	(286.21)
Grand Total	2,083.04	2,354.40	1,405.33	1,931.97	41.10

Net Resource Transfers

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, with the exception of the most recent year. The negative amount in both the net flows and net transfers in Tables 5 and 6 indicates that the outflows are bigger than the inflows for certain creditors.

Table 6. Net Resource Transfer on Public Sector External Debt — Mn USD

	2016/17	2017/18	2018/19	2019/20	2020/21
Central Government	1,257.36	1,460.91	1,142.54	1,955.87	717.67
Government Guaranted	640.73	479.95	(548.71)	(299.47)	(756.29)
Non-Government Guaranted	(247.92)	(32.35)	182.14	(331.43)	(394.15)
Grand Total	1,650.17	1,908.51	775.97	1,324.97	(432.78)

4.2. Domestic Debt

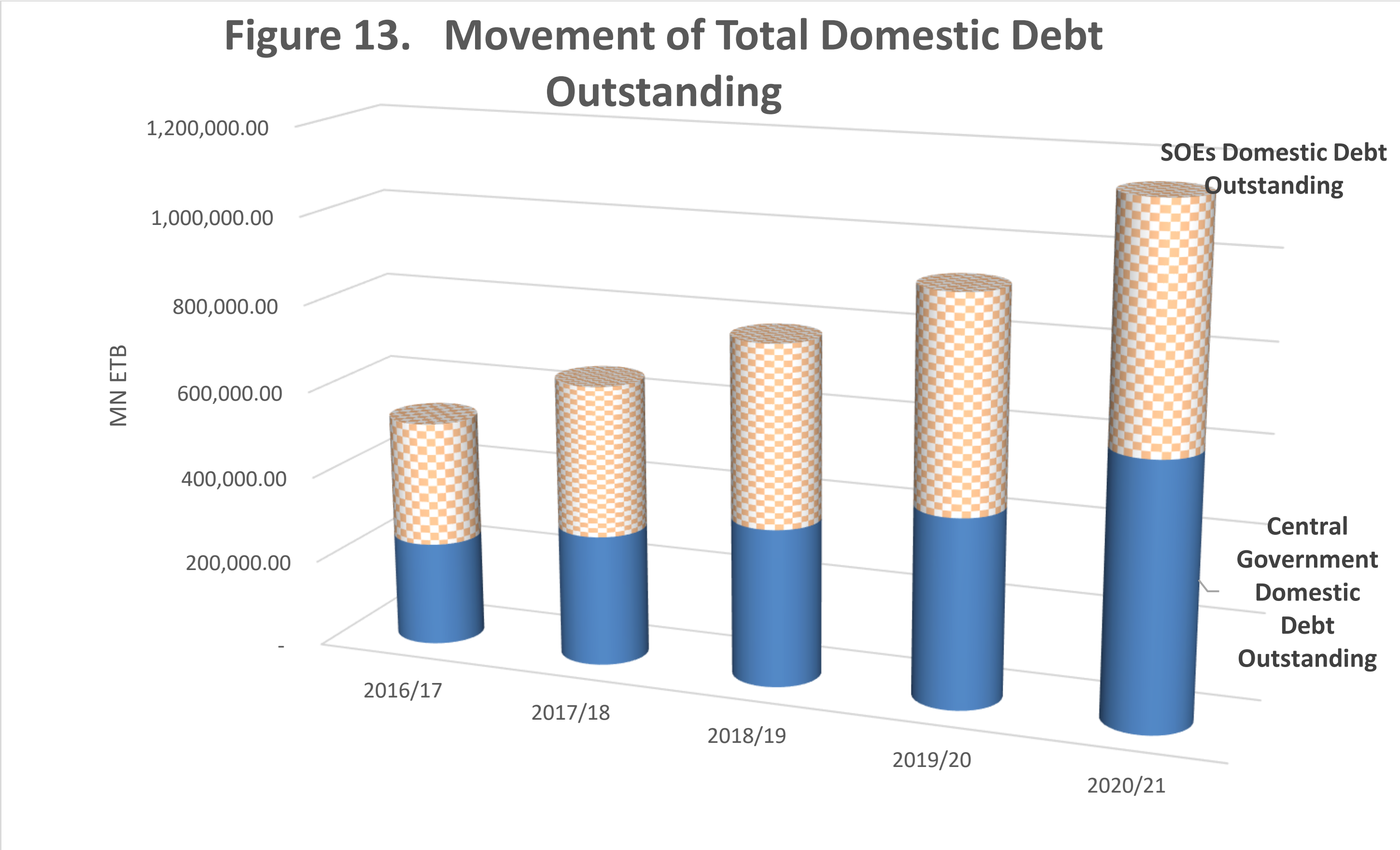
Direct advances, Treasury bills, government bonds, Treasury Notes for central government and corporate bonds, as well as long-term loans for SOEs, make up the total domestic debt. Direct advances and Treasury Bills are being used to fill up the budget gap. The government uses Direct Advance (DA), the National Bank of Ethiopia's overdraft facility, as a residual to bridge the budget gap because the domestic loan market is undeveloped, When the government can't sell enough Treasury bills to cover the budget financing shortfall due to poor demand, currently the direct advances are a viable option.

In December 2019, a new market-determined Treasury bill was introduced, 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 sold at auction every two weeks and come in four maturities: 28 days, 91 days, 182 days, and 364 days.

Government Bonds are issued occasionally 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 public enterprises when they are privatized. The government has lately issued bonds to assist government-owned banks like CBE and DBE in capital raising. Most government bonds do not pay interest. SOEs generally borrow long-term loans from CBE and DBE to fund projects, as well as issue corporate bonds to CBE.

4.2.1. Total Domestic Debt Outstanding

Total domestic debt, which includes the four instruments mentioned above as well as bonds and loans issued by SOEs, has increased by an average of 21.5 percent per year, rising from ETB 522,894.86 million in 2016/17 to ETB 1,140,460.16 million in 2020/21. The average increase in the domestic debt of the central government is substantially higher than that of SOEs, rising by 39 percent in 2020/21. Domestic debt held by the central government accounts for 53%, while debt held by SOEs accounts for the remaining 47%. Over the observation period, the entire stock of domestic debt climbed by more than 118 percent.



4.2.2. Total Domestic Debt Outstanding by Instruments

There were some changes in the composition and structure of domestic debt over the observation period. Except for the previous year, when the stock of Central Government was approximately 53% of the total domestic debt, SOE borrowings used to dominate the total domestic debt.

Due to a surge in the issuance of Treasury Bills in the first three years till 2018/19, their relative share of the overall stock of domestic debt climbed to 17.8%, and as new market-determined Treasury Bills were issued, the old ones were converted to three-year Treasury Notes, which is a new debt instrument. As a result, the share of Treasury bills falls in 2019/20 before increasing dramatically in 2020/21.Even though direct advance was suspended for a few years in the past to combat inflation, the percentage share of direct advance steadily increases until 2018/19, when the stock of DA was converted into government bonds similar to Treasury Bills the percentage share of direct advance rose again in 2020/21.

Table 8. Domestic Debt Outstanding by Instrument Type

Million ETB

	2016/17	2017/18	2018/19	2019/20	2020/21
Grand Total	**522,894.86**	**646,013.46**	**776,678.39**	**918,953.77**	**1,140,460.16**
Total Central government	**238,473.04**	**300,918.85**	**361,888.33**	**432,393.66**	**600,575.43**
Treasury Bills	73,271.76	111,513.56	138,034.36	23,724.00	120,959.95
Government Bonds	37,436.53	37,140.35	36,589.03	228,337.10	248,457.92
Direct Advance	127,764.95	152,264.95	187,264.95	31,000.00	83,500.00
Treasury notes				149,332.56	147,657.56
Total SOEs	**284,421.82**	**345,094.61**	**414,790.06**	**486,560.11**	**539,884.73**
SOEs Corporate Bond	194,973.21	241,123.91	302,654.46	363,600.45	392,274.88
SOEs Loans	89,448.61	103,970.71	112,135.60	122,959.65	147,609.85

4.2.3. Central Government Domestic Debt Portfolio

The Government to close the fiscal deficit and restructure the domestic debt uses Treasury Bills, Direct Advance, Government Bonds, and the newly introduced Treasury Notes are four instruments used by the government. The first two are short-term instruments used to finance deficits, whereas the government bond is typically 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. And the Treasury Note was introduced to facilitate 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

The National Bank of Ethiopia's Direct Advance facility is used to cover transitory liquidity concerns or financial shortages that arise daily when government expenditures exceed cash in the central government's treasury account.

In nominal terms, Direct Advance has grown over the observation period. It increased from ETB 127,764.95 million in 2016/17 to ETB 187,264.95 million in 2018/19, and the DA stock from previous years was converted into a 25-year Government Bond in 2019/20, the new stock of DA for 2019/20 is ETB 31,000 million and finally it increases to ETB 83,500 million in 2020/21.

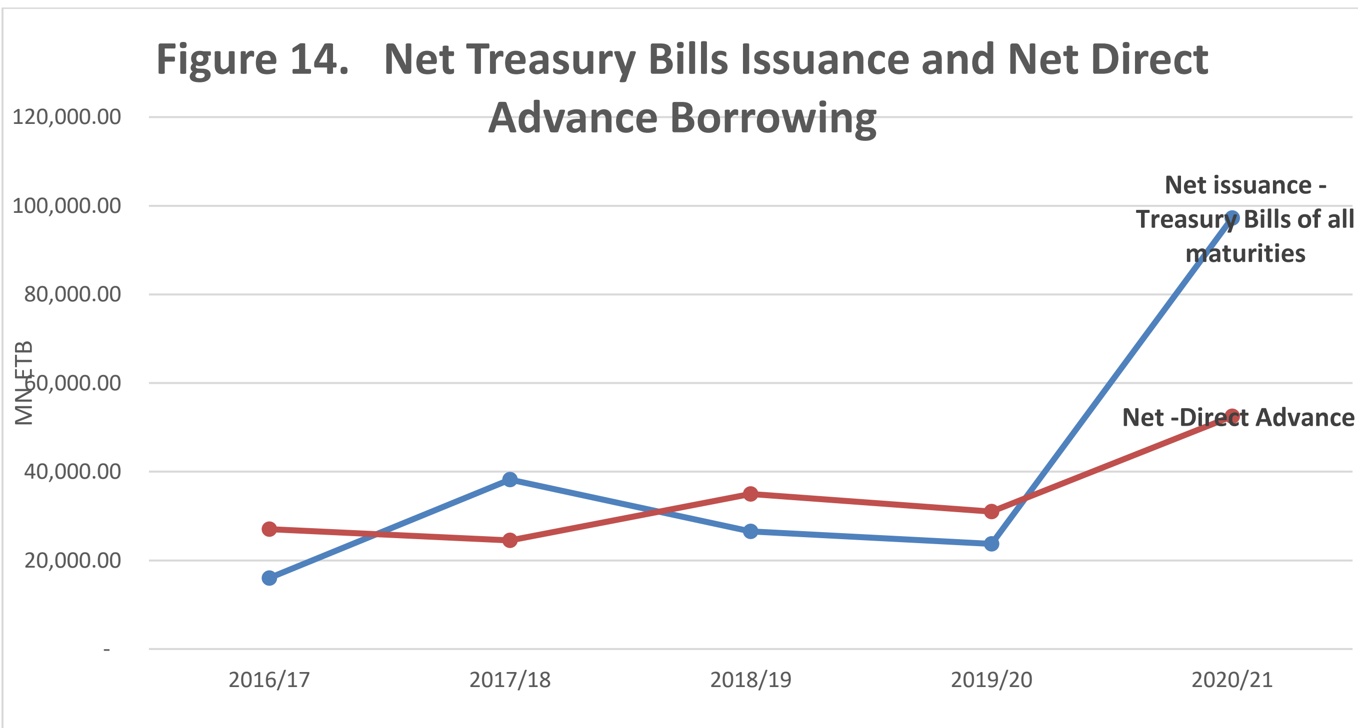
Treasury Bills

Treasury bills are a short-term instrument for the government to raise money from the public, and they're sold during weekly auctions, which currently occurs twice a month. Right now, you can buy Treasury bills with maturities of 28, 91, 182, and 364 days. The most common buyers of the bills are government banks, insurance corporations, social security securities agency, and other non-financial public institutions. Because the yield on new Treasury bills is much higher than it was in December of last year with the introduction of market-determined Treasury bills, some private commercial banks began to participate in the auction.

The outstanding balance for Treasury Bills increased from ETB 73,271.76 million in 2016/17 to ETB 138,034.36 million in 2018/19, and after the conversion of existing T-Bills, the stock market determined Treasury Bills to be around ETB 23,724 million as of June 30, 2020, and it is currently growing significantly to ETB 120,959.95 million. In 2020/21, 91-day treasury bills accounted for 39.6 percent of all treasury bills, followed by 364-day bills at 27 percent, 182-day bills at 25.3 percent, and 28-day bills at 8%. As a result, Treasury Bills accounted for 10.6% of total government domestic debt as of the end of 2020/21.

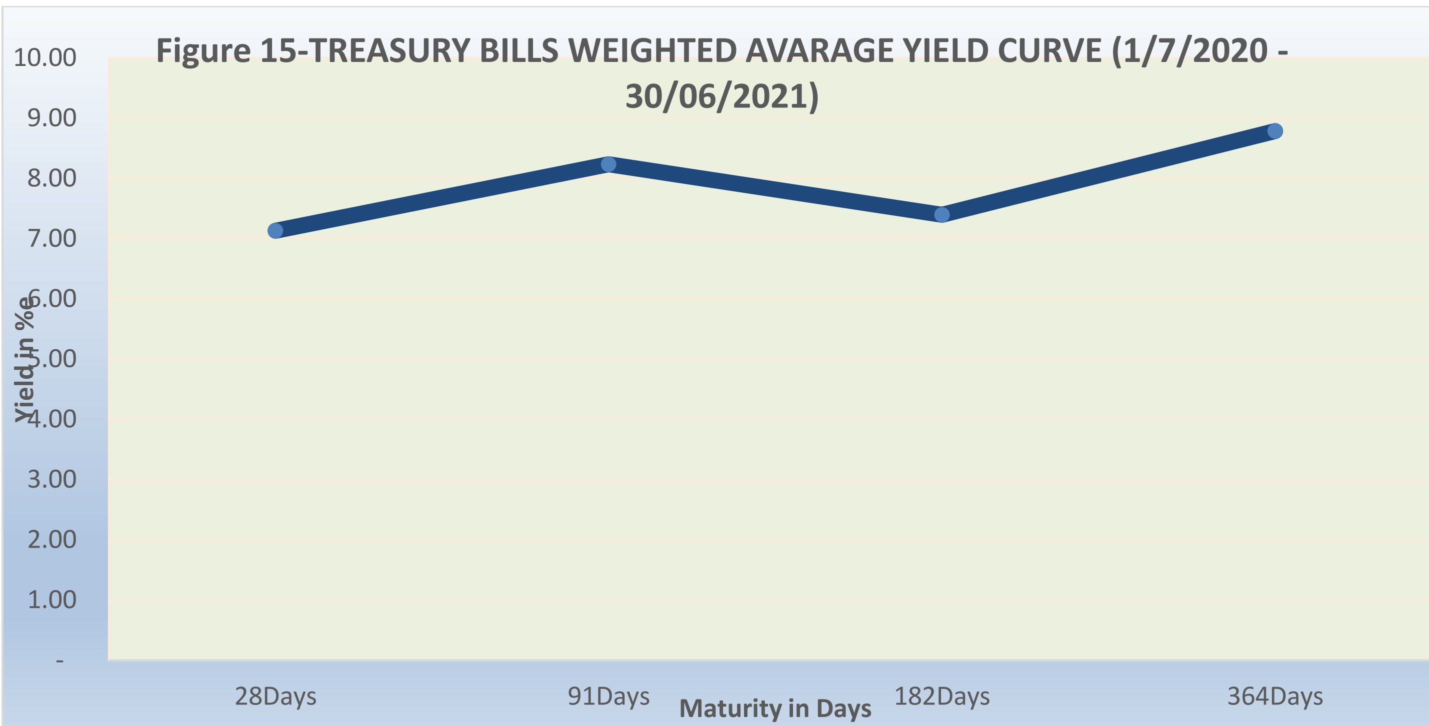
The net issuance of treasury bills, as depicted in Figure 18, was ETB 16,019 in 2016/17, then increased sharply in 2017/18 to ETB 38,242.00, owing to a higher net treasury bill issuance of 90 days and 364 days, to finance the budget gap during the period, then declined in 2018/19, and there was a sharp reduction in the stock Treasury Bills in 2019/20, due to the transition of treasury bills to the newly introduced market determined bills , as of December 4,2019 the stock of the existing T-bills was converted to a three year treasury notes. The stock of Treasury Bills rises significantly again in 2020/21.

In the last five years, the net borrowing from the Central Bank of Ethiopia in the form of direct advance has moved in the opposite direction to that of Treasury Bills. This indicates that the rinse in the Direct Advance will compensate for the decline in the Treasury Bills market sells.



The introduction of new market-determined treasury bills raises the weighted average yield of Treasury Bills, which was less than three percent prior to December 2019. As a result of the introduction of the new T-Bills in the last four quarters of the current fiscal year, as shown in Figure 19, Below, the average weighted yield for the stock of 364 days T-Bills was approximately 8.79 percent, while the average weighted yield for the stock of 91 days T-Bills was approximately 8.3, 182 days 7.39, and 28 days was approximately 7.13 percent.

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 35 percent of total Treasury Bills stock at the end of June 2021, held about 45 percent of the total Treasury Bills stock, with POSSA and PESSA holding the remaining 55 percent.



Since December 4, 2019 New Treasury bills with market determined discount rate is introduced

Government Bonds

Government bonds are long-term debt instruments with maturities of ten years or more that are issued for specific purposes rather than to cover a budget deficit or to invest. The National Bank of Ethiopia (NBE), the Commercial Bank of Ethiopia, and the Development Bank of Ethiopia are among the holders of long-term bonds (DBE).

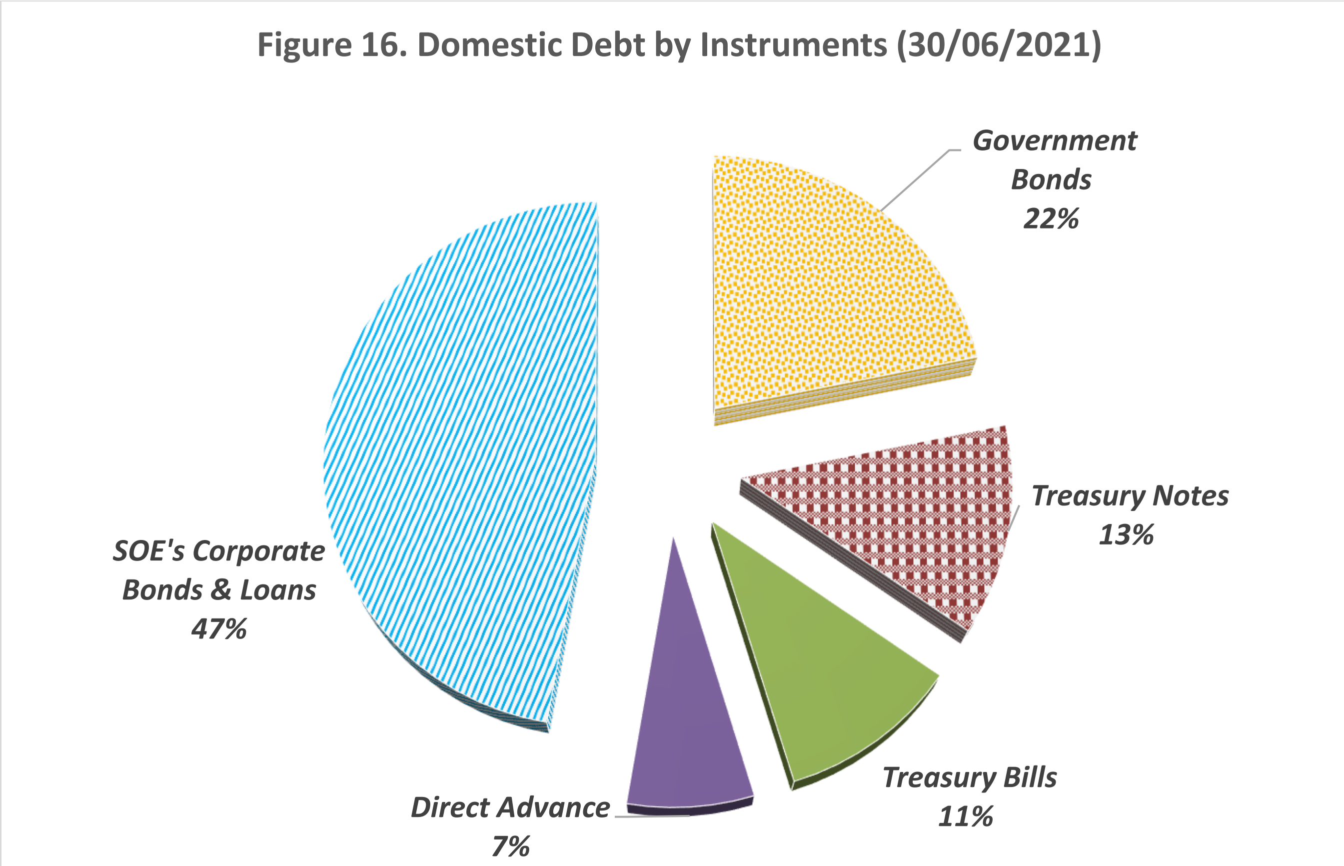
The outstanding balance of government bond was Birr 37,436.53 million in 2016/17 and increased in the following years and reaching ETB 248,457.92 million in 2020/21. As a result of the issuance of new government bond in 2016/17 for the purpose of increasing the capital of Commercial Bank of Ethiopia and Development Bank of Ethiopia, the stock of government bond increases to ETB 37,436.53 million and finally with the conversion of the stock of Direct Advance from previous year into 25 years government bond currently it stood about ETB 248,457.92 million.

Treasury Notes

The existing Treasury Bills were worth around ETB 149,332.56 million as of December 4th, 2019. As part of the transition to the new market determined Treasury Bills, the existing TBills were transformed into a three-year Treasury Note. POSSA and PESSA are most of these note holders.

4.2.4. State Owned Enterprises Domestic Debt Portfolio

State Owned Enterprises (SOE's) borrows from the domestic sources by issuing corporate bonds as well as long term and short-term loans from CBE and 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 284,421.82 million in 2016/17 and has continuously increase since then to reach ETB 539,884 million in 2020/21.



4.2.5 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.

The National Bank of Ethiopia: Over the last five years, the National Bank of Ethiopia has been the largest holder of government domestic debt. In 2016/17, it accounted for around 57 percent of central government domestic debt and 26 percent of overall domestic debt. However, its relative share has steadily decreased in succeeding years, reaching 47 percent of central government domestic debt and 25 percent of overall domestic debt in 2020/21. Its holdings are mostly in the form of direct advance, but in 2019, the Direct Advance stock from the NBE was converted into a 25-year government bond, and Direct Advance now accounts for around 7% of total domestic debt.

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 newly introduced treasury notes as their primary claims. PSSSA & POSSA's claim has climbed by 215 percent over the last five years, from ETB 57,619 million in 2016/17 to ETB 181,680 million in 2020/21. It’s part of the total government domestic debt portfolio has increased over time, reaching 30%, while its share of total domestic debt is around 15percent.

The Commercial Bank of Ethiopia (CBE): CBE held ETB 26,522 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, of which CBE holds about 35 percent of the ETB 120,959 million of total Treasury Bills stock, CBE's holding of central government securities has increased, and its share of the central government domestic debt has increased to 6%. In addition, CBE remains the major lender for SOEs, lending more than 99 percent of all SOEs domestic borrowing.

The Development Bank of Ethiopia (DBE): Its claims are mostly treasury bills and long-term government bonds; however, it does not participate in the treasury bills market now. DBE's claim has grown from ETB 15,816 million in 2016/17 to ETB 32,795 million in 2019/20. This is primarily due to a surge in the stock of 364-day Treasury Bills held by DBE in 2017/18, which were eventually converted to Treasury Notes, and the stock of total domestic central government holdings of DBE increased to ETB 53,811 million in 2020/21 because of a special bond to raise the bank's capital.

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.

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

Commercial Bank of Ethiopia and Development Bank of Ethiopia are the holder of State-Owned Enterprises Corporate Bonds and Loans mostly with the guarantee of the central government.

Over the last five years the claim by CBE from State Owned Enterprises has increased significantly from ETB 279,211.52 million in 2016/17 to ETB 538,192 million in 2020/21.

The Liability and Asset Management Corporation (LAMC)

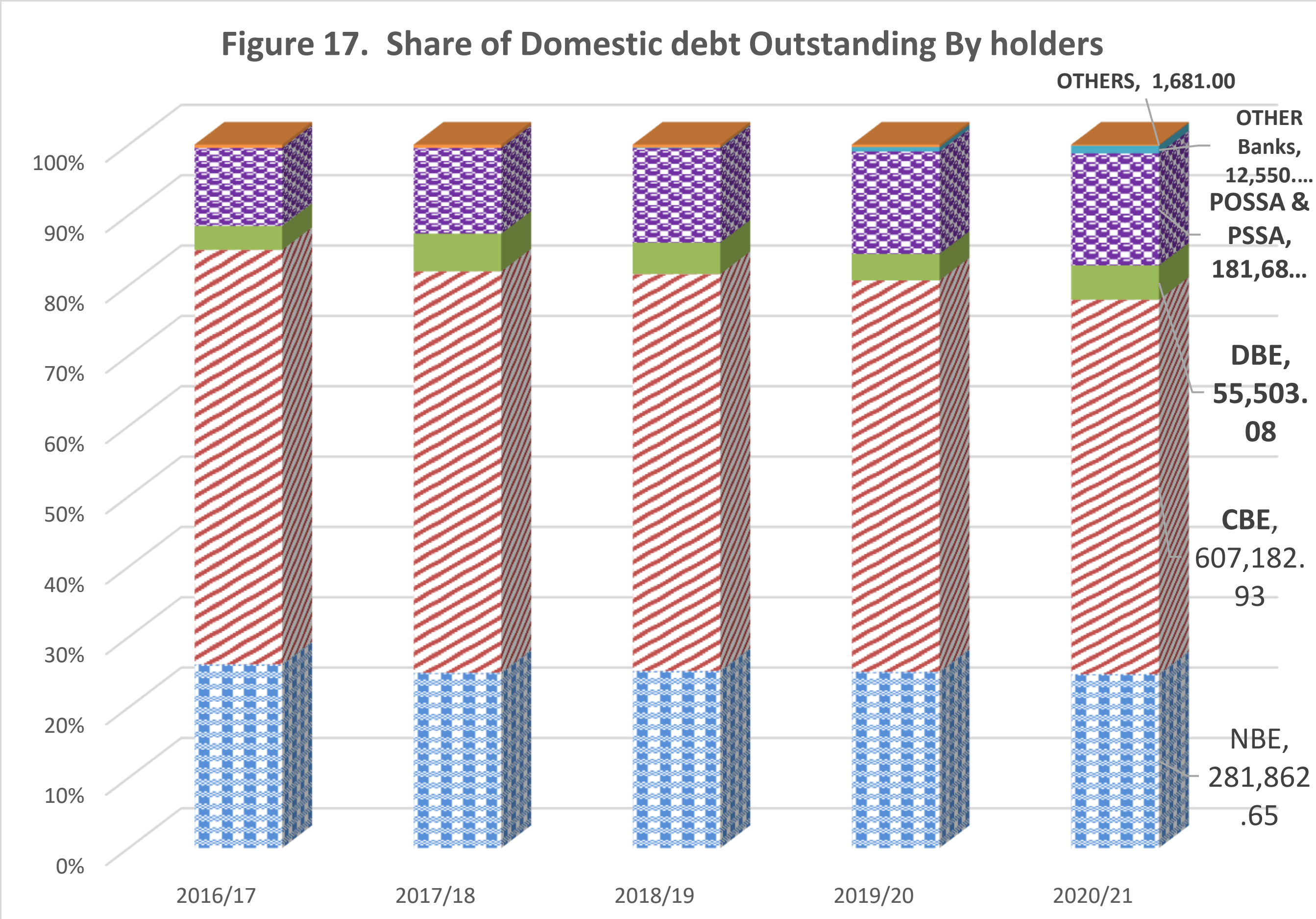
The Liability and Asset Management Corporation (LAMC) was founded by Minister of Council regulation No. 483/2021. The corporation is a state-owned enterprise, with the Ministry of Finance acting as a supervisory authority. The corporation's objectives include, but are not limited to: -

-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;

-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;

LAMAC will assume a portion of SOE's outstanding domestic debt from Commercial Bank of Ethiopia, stock of domestic debt as of December 31, 2020.



4.2.6. Government Domestic Debt Service

In 2020/21, the total domestic debt service for government securities and SOE's bond and loans was ETB 22,268 million, including ETB 3,284.57 million (14.75%) for principal repayments and ETB 18,983.74 million (85.25%) for interest payments. Government securities debt service payments totaled ETB 17,869.88 million (80.25 percent), while SOE debt service payments totaled ETB 4,398.50 million (19.75 percent) In comparison to the previous four years, the SOE's domestic debt service payment in 2020/21 is significantly lower.

The principal repayments were made for different central government and SOEs bond holders, while the interest payments were made for direct advance, treasury bills, government and SOEs bonds. The interest payment for Treasury bill and direct advance has shown an increase per annum. The interest payment for the government bonds has decreased

Table 10 PUBLIC SECTOR DOMESTIC DEBT SERVICE PAYMENT

MILLION ETB

	2016/17		2017/18		2018/19		2019/20[R]		2020/21[P]	
	ETB	%	ETB	%	ETB	%	ETB	%	ETB	%
TOTAL DEBT SERVICE	20,156.44	100.00	29,890.47	100.00	30,643.17	100.00	51,170.83	100.00	22,268.31	100.00
TOTAL PRINCIPAL	*2,437.91*	*12.09*	*5,064.16*	*16.94*	*3,845.37*	*12.55*	*13,826.52*	*27.02*	*3,284.57*	*14.75*
TOTAL INTEREST	*17,718.54*	*87.91*	*24,826.31*	*83.06*	*26,797.79*	*87.45*	*37,344.31*	*72.98*	*18,983.74*	*85.25*
CENTRAL GOV. TOTAL	5,375.01	26.67	5,809.30	19.44	7,830.20	25.55	7,720.10	15.09	17,869.88	80.25
PRINCIPAL	*845.63*	*4.20*	*296.18*	*0.99*	*516.88*	*1.69*	*516.88*	*1.01*	*2,574.18*	*11.56*
Bonds and Notes	845.63	4.20	296.18	0.99	516.88	1.69	516.88	1.01	2,574.18	11.56
Treasury Bills	-	-	-	-	-	-	-	-		-
Direct Advance	-	-	-	-	-	-	-		-	-
INTEREST	*4,529.38*	*22.47*	*5,513.12*	*18.44*	*7,313.32*	*23.87*	*7,203.22*	*14.08*	*15,295.70*	*68.69*
Bonds	11.01	0.05	2.65	0.01	5.59	0.02	2,283.90	4.46	10,891.33	48.91
Treasury Bills (Discount plus ServiceCharge)	1,107.39	5.49	1,108.71	3.71	2,247.78	7.34	1,700.30	3.32	3,026.13	13.59
Direct Advance	3,410.98	16.92	4,401.76	14.73	5,059.95	16.51	3,219.02	6.29	1,378.23	6.19
SOE TOTAL	14,781.43	73.33	24,081.17	80.56	22,812.97	74.45	43,450.73	84.91	4,398.43	19.75
PRINCIPAL	*1,592.28*	*7.90*	*4,767.98*	*15.95*	*3,328.50*	*10.86*	*13,309.64*	*26.01*	*710.39*	*3.19*
INTEREST	*13,189.16*	*65.43*	*19,313.19*	*64.61*	*19,484.47*	*63.59*	*30,141.09*	*58.90*	*3,688.04*	*16.56*

over the last five years.

5. On-Lending Loans, Guarantees and Contingent Liabilities

Contingent liabilities are potential costs that could incurred by the government as a result 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 support SOEs by offering explicit guarantees to make obtaining finance on 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 potentials;
- It has no access to multilateral credits and cannot attract competitive funding; and
- It is implementing infrastructure mega projects focusing on the country's potentials.

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 earning as well as supporting the economic development endeavor of the country. In support of these objectives, the government has continued to support the SOEs to implement these projects among others by providing guarantee 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 contingent liability.

Measures undertaken to avoid any unforeseen contingent liability occurrences

Recently, to minimize exposure and risks associated with SOEs debt accumulation the Government has embraced new 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 energy sector and Road sector. 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 was established under the PPP Act to provide good governance framework to manage direct liabilities and contingent liabilities in all phases of the project cycle.

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

Similarly, the government has issued Public Debt Management and Guarantee Directive in order to enhance monitoring system and putting in place an organized coordination mechanism to avoid any risks associated with the borrowing by SOEs. In addition, various reforms of SOEs towards finance and corporate governance are underway to increase efficiency and effectiveness of the enterprises. All these concerted efforts by all stakeholders will reduce the occurrence of contingent liability.

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

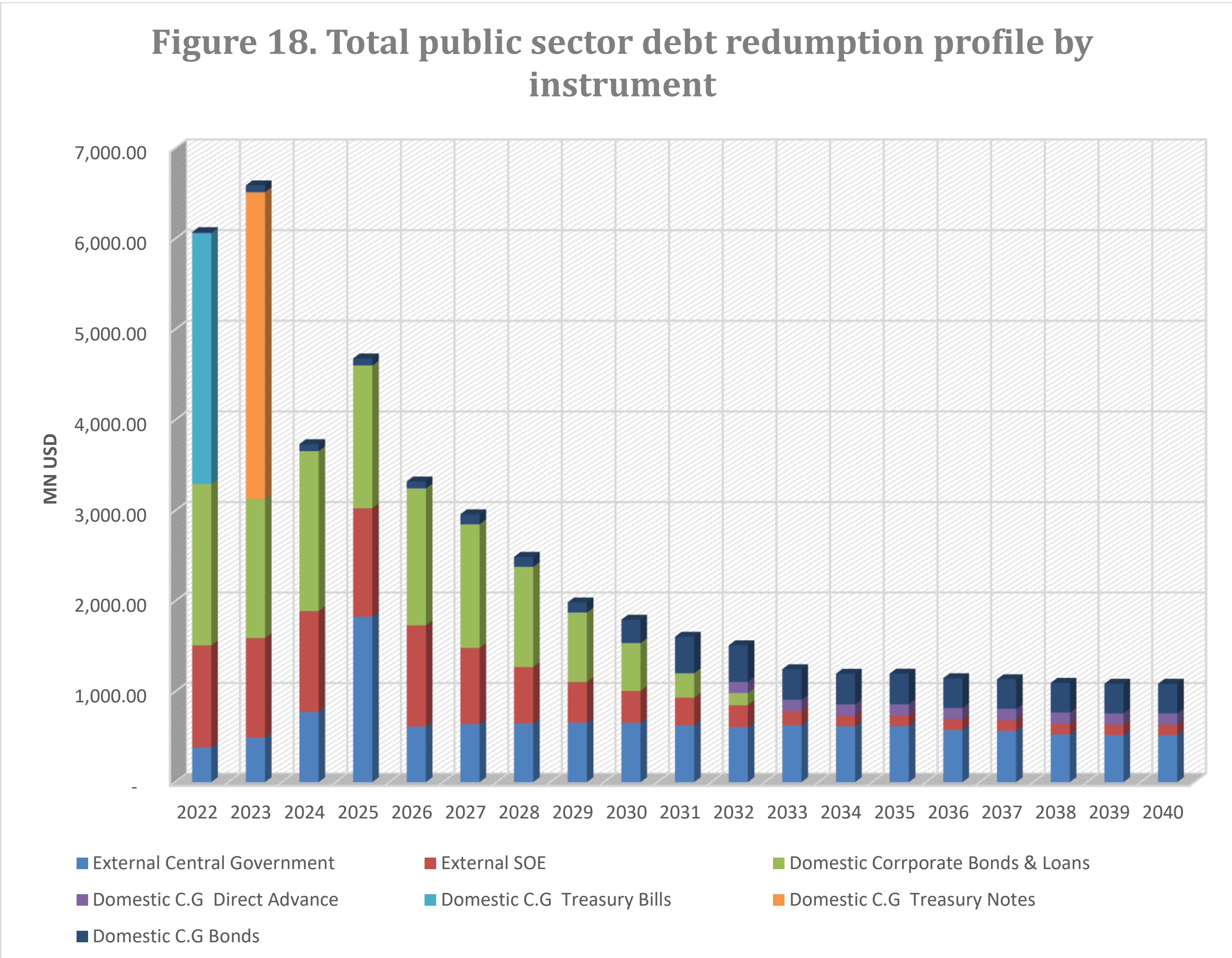
Risk refers to the possibility that the cost of debt will differ from the expected outcome. Unexpected changes in economic variables such as interest rates and currency exchange rates are to blame. Market risk, operational risk, and liquidity risk are all risks connected with a public debt portfolio. 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

Refinancing risk refers to the possibility of the loan being rolled over at a higher interest rate (rollover risk). As detailed below, the redemption (maturity) profile of debt, the Average Time to Maturity (ATM), and the debt stock maturing in one year are used to evaluate Ethiopia's public debt's exposure to refinancing risk.

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

The outstanding debt stock, or the quantity of debt due in a certain period, is referred to as the redemption profile. This indicator depicts a country's vulnerability at a certain point in time, as seen by large debt service payments in the debt repayment schedule. With new loans, you can choose a repayment profile that does not overlap with the redemption profile's humps. The redemption profile is beneficial in identifying the specific points of a country's vulnerability, which is indicated by large debt service payments in the debt repayment schedule, when choosing the maturity of new borrowing.



In 2021/22, about USD 6,073.48 million in principal payments (11 percent of total public debt) will be due. This sum excludes direct advances and includes treasury bills that will be rolled over during the year. If we exclude the treasury bills, the total amount of principal payment of total public debt is USD 3,304.95 million (6% of total public debt outstanding), and the following year in 2022/23, the principal payment of total public debt will shoot up to USD 6,590.31 million as a result of the expected maturing of newly introduced treasury notes.

External debt principal payments in 2021/22 account for USD 1,511.54 million (46%) of total public debt principal payments due this year, with the central government external debt principal payment accounting for only 11.62 percent and SOEs external principal payment for 34.11 percent.

In 2021/22 and 2022/23, the total domestic debt principal payment accounts for 75 percent of the total public debt principal due. (Central Government domestic debt principal payments account for 40 percent of total debt principal payments, while SOEs account for 35 percent.) For these two years, total external debt principal payments account for 25 percent of total debt principal payments, with central government external debt principal payments accounting for only 7 percent. Because the majority of domestic debt (excluding Direct Advance) is in the form of short-term Treasury bills and Treasury notes, which were converted from treasury bills in 2019, the principal payment for the first two years, 2021/22 and 2022/23, demonstrates how central government external debt is characterized by low rollover/refinancing risk, whereas domestic debt is characterized by high rollover risk.

The central government domestic debt principal payment due in 2021/22 and 2022/2, including treasury bills but excluding Direct advance, is approximately USD 6,234.67, accounting for 65.2 percent of total domestic debt principal payment and 49.2 percent of overall public debt principal payment. This explains the central government's short-term domestic debt, which is generally in the form of treasury bills and notes with maturities of less than or equal to two years and is rolled over as it matures. As a result, the domestic debt portfolio, particularly that of the central government, is extremely vulnerable to refinancing risk.

The redemption profile (Figure 21) shows that substantial principal payments occur in the years 2021/22, 2022/23, and 2025. This includes the rollover of Treasury bills and Treasury notes in the first two years (2021&2022), as well as the sovereign bond bullet payment due in 2025, as well as the majority of SOEs foreign borrowing maturing between these dates.

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 as shown on Table 11 of the total external fixed rate debt is 1.6 percent, the weighted average interest rate of central government external borrowing is about 1.3 percent while the borrowing by SOE’s from external source is relatively more expensive as they have borrowed at the rate of 4 percent for fixed interest borrowing. The substantial share of the central government external borrowing is from IDA and AfDB thus its weighted average interest rate is lower than others.

The weighted interest rate for SOEs external debt is higher specially borrowing made on variable interest rate are much higher. As the worldwide financial situation is volatile the current situation may not hold for long time, especially the borrowing on variable interest on the basis of LIBOR and EURIBOR, the rate is expected to rise and the cost of borrowing by the SOE’s will rise too.

Hence, to avoid refinancing risks and any unforeseen negative impacts on debt portfolio of the country there is a need to closely monitor the cost and additional conditionality’s of borrowing by SOEs. The weighted average interest for total domestic debt is 5.8 percent and 2.6 percent for Central government and it is 8.7 percent for SOEs 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 long ATM in the foreign 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 roll-over 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 significantly higher ATM.

As a result, the total public debt portfolio's average time to maturity is around 9.6 years, with the external and domestic debt portfolios showing 12.39 years and 6.7 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 14.64 years.

Table 11. Cost and Risk Indicators as at June 30,2021

		EXTERNAL DEBT TOTAL	EXTRNAL DEBT CENTRAL GOV.	EXTRNAL DEBT SOEs	DOMESTIC DEBT TOTAL	DOMESTIC DEBT CENTRAL GOV.	DOMESTIC DEBT SOEs	TOTAL DEBT
Amount (in millions of USD)		29,537.43	19,488.16	10,049.27	26,102.86	13,745.98	12,356.89	55,640.29
Nominal debt as % GDP		27.1	17.9	9.2	24	12.6	12.9	51.1
PV of debt as % of GDP		18.9	11.8	7.1	23.9	12.6	11.3	42.8
Interest Payment in % of GDP		0.5	0.2	0.3	0.37	0.36	0.01	0.87
Cost of debt	Weighted Av. IR (%) for Fixed	1.59	1.302	3.99	6.22	3.76	8.96	3.76
	Weighted Av. IR (%) for Variable							
Refinancing risk	ATM (years)	12.39	14.64	6.61	6.52	8.82	3.96	9.63
	Debt maturing in 1yr (% of total)	4	2	10	17.5	20.2	14.4	10.33
Interest rate risk	ATR (years)	9.9	14.61	1.4	6.52	8.82	8.96	9
	Debt refixing in 1yr (% of total)	29	2.5	75.12	17.46	20.17	14.43	20
	Floating rate debt (% of total)	25.79	0.5	74.85	10.61	20.14	0	18.67
FX risk	FX debt (% of total debt)	53.1						

The ATM for bonds, treasury bills, Treasury notes, and borrowing by SOEs from domestic and external sources shows a slightly shorter maturity period, which could pose a problem when refinancing the debt portfolio. According to the analysis above, the external debt will take a long time to repay. When comparing the ATM for total public debt, the external debt portfolio has a lower refinancing risk exposure. The nature of the external debt profile, which is made up of concessional loans, helps to explain this. Overall, the average duration to maturity for central government external debt is 14.6 years, compared to 6.6 years for State-Owned Enterprises (SOEs).

The average Time to Maturity of total domestic debt is 8.8 years, assuming direct advances are converted to 15-year bonds with a 10-year grace period. This means that on average, Central Government domestic debt takes 8.8 years and SOE domestic debt takes 3.9 years before repayment or rollover. Due to the short-term nature of Treasury Bills and Treasury Notes, domestic debt is connected with a significant amount of refinancing risk.

6.2. 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 external and domestic debt portfolio is made up of instruments which were contracted on fixed and relatively on a 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 external and domestic debt.

On the other hand the majority of borrowing by SOEs' from external source is on variable interest rate 75 percent and this implies that there will be an interest rate risk associated with the external borrowing by SOE's. Overall, a significant proportion of the 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 of the public debt is well captured by proportion of debt that is subject to interest rate re-fixing within a specified period. For both external and domestic debt, changes in interest rates affect debt servicing costs. Hence, assessing the proportion of debt to be re-fixed shows the extent to which the portfolio is vulnerable to higher funding costs as a result of higher market interest rates.

Analysis of Ethiopia's external public debt shows that the portfolio is subject to high interest rate risk because relatively a larger portion of the total external public debt (25.8 percent 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 as a result of the short-duration nature of the Treasury bill. By the end of June 2021 Treasury bill amounting to ETB 120,959.95 million (USD 2,768 million) is expected to be rolled over (the stock treasury bill this year is relatively higher compared to last year's stock due conversion of Treasury bills to Treasury notes as at December 2020). This implies that 20 percent of the central government domestic debt and 11 percent of 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 high risk to adverse interest rate movements. Excluding domestic debt, interest risk associated with Ethiopia's external debt is relatively lower since 70 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*

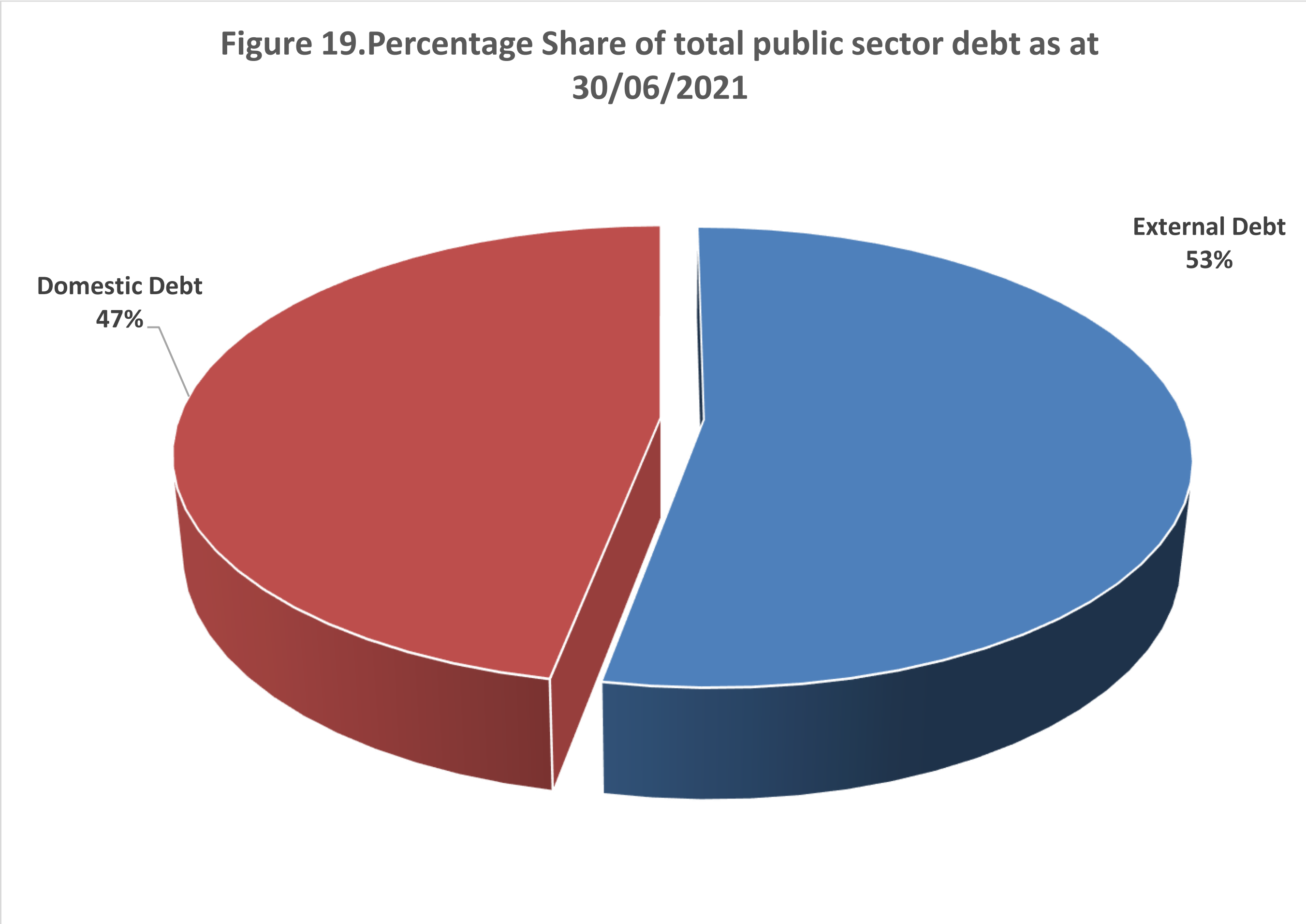
As of June 2021 the Average Time to Re-fixing (ATR) of Ethiopia's public debt was 9 years. Thus, it will take an average of 9 years to re-fix the interest rates of the portfolio. The ATR of the external debt stands at 9.9 years which imply that it will take, on average, 9.9 years to reset the interest rate of the external debt portfolio.

The ATR for central government is 14.61 years while that of SOEs external debt ATR is 1.4 years. This high value of central governments external debt ATR indicates lower interest risk associated with the central government external debt portfolio whereas SOEs external debt is with high exposure to interest risk as its ATR is the lowest.

The total domestic debt is also highly exposed to interest risk. This is confirmed by a lower value of ATR which stands at 8.8 years. This ATR implies that it will take only 8.8 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.

6.3. Exchange Rate Risks

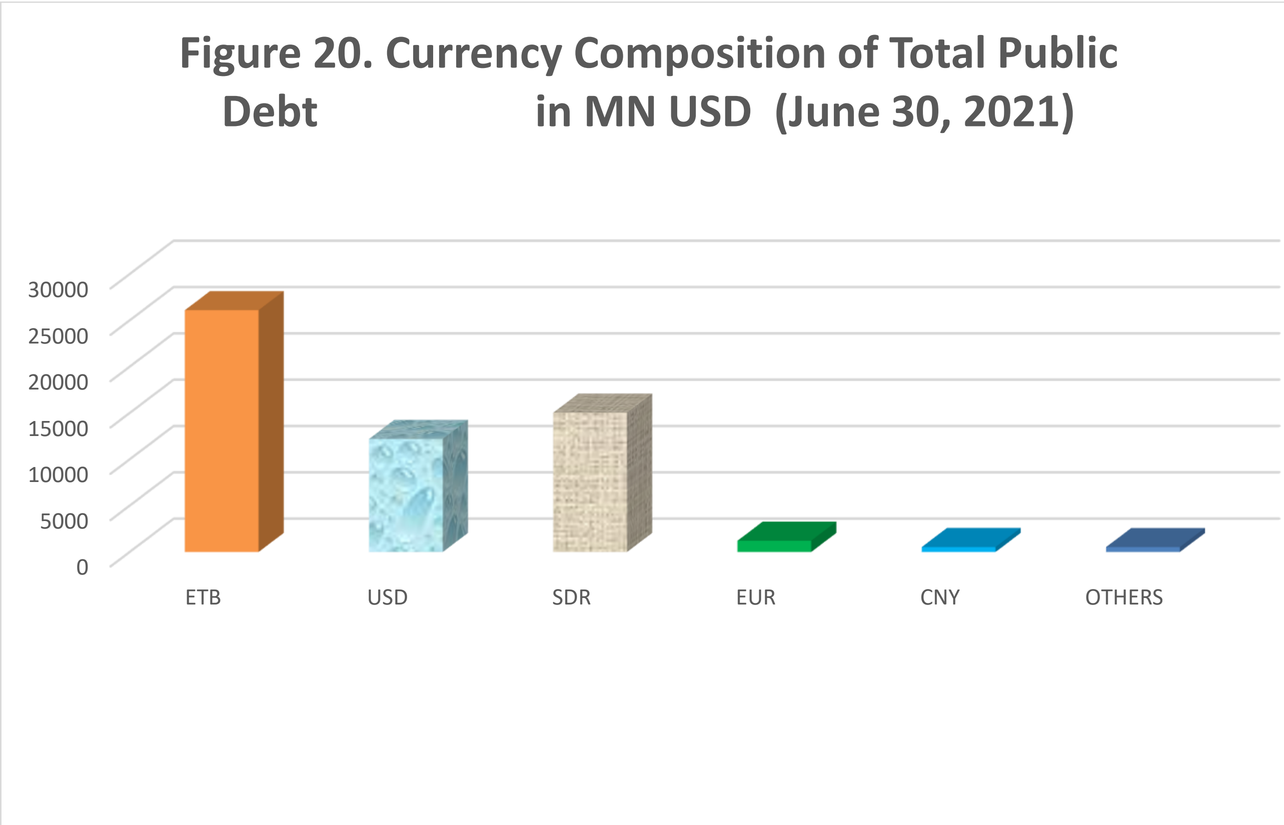
The vulnerability of the debt portfolio to exchange rate movements, or the mismatch between the repayment obligations and the sources of foreign exchange rate risk, is referred to as exchange rate risk. The percentage of external debt in total debt, the currency composition of the debt portfolio, and 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.



The share of external and domestic debt on total public debt is 53 percent and 47 percent respectively. This ratio measures the dependency on external borrowings for development. The external debt portfolio is exposed to exchange rate risks owing to adoption of 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

The current debt portfolio analysis exhibits that the stock of total public debt increases at the rate of 5 percent per annum. Both public sector external debt and domestic debt stock increased over the analysis time horizon, which can be partly explained by disbursement towards the development and upgrading of infrastructures and the other reason for the changes in total public sector debt is the relative changes in exchange rate i.e the exchange rate variation between USD and other currencies have an impact on external debt stock specially in 2021 as USD become weaker against other currencies and SDR the total external debt in USD become higher and on the other hand as ETB get depreciate against USD the domestic debt in terms of USD become relatively smaller .

Not only has the magnitude of the public sector debt changed but also the beneficiaries and the composition of the public debt shows a significant change. During the observation period the relative share of central government debt is increasing while that of the SOE's is decreasing. Over the last years the main composition of the debt portfolio continued to be concessional one compared to the non-concessional one this partly can be explained because of the government measure to pause from guaranteeing SOE's borrowing from non-concessional sources .

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 51 percent at end June 2016/17 to 62 percent as of end June 2021,this could be explained partly by the recent measure taken by the government towards decreasing borrowing from non-concessional sources for projects undertaken by SOE which are borrowed by the government guarantee 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 debt structure of the public debt has also changed towards concessional sources, as all the borrowing by SOEs from external non-concessional source is from commercial banks and suppliers and its stock is declining in the last three years. The accumulation non-concessional debt might have a negative impact on the debt sustainability of the country.

As most of the SOEs borrowing is with the guarantee of the government, it is a contingent liability for the government and if any of the SOEs are unable to repay their debt service the guarantee might be called and may have a negative impact on the government budget.

The share of external debt with variable interest rate is also increasing from time to time and this will have an interest rate risk. Following the 2008 international financial crisis the variable interest like LIBOR and EURIBOR reference rate was low and the interest payment of the SOE's to their respective creditors was relatively low but currently the interest rate is increasing, their future interest payment may show significant upward change as a result of upward movement of LIBOR rate, but since January 2020 it also starts to decline as a result of the COVID 19 Pandemic it further decline but it may not last long it may recover after a while and the interest payment of SOE's may increase again .

The borrowings of the government from domestic source is mainly in the form of direct advance and treasury bills which has high rollover risk, that is the government need to rollover the existing treasury bills whenever they mature. The borrowing of the SOEs from CBE with the guarantee of the government 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 external sector poor performance indicating some risk on debt sustainability. As the current debt volume is increasing at increasing rate, 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,
- 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.

8.GLOSSARY

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 programs.

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

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.

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.

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

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 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 over draft 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.

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 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 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 the entire amount due on a debt instrument extended by a lender in the event of nonpayment by the borrower.

H

Heavily Indebted Poor Countries (HIPCs): 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 are 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 of time.

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 of 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 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.

Program 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 which 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 actually remitted by the borrower to repay a debt.

Short-term Debt: Debt that has 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 maturity of one year or less. They are traded on a discount bases.

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.