



Preface

This report, Sovereign Debt and Global Financial Stability: A Market-Oriented Lens on Risks, Restructurings, and Opportunities (2025–2027), is part of the Bank & Finance Deep-Dive Series. The series provides forward-looking analysis on the strategic, financial, and policy implications of emerging global trends, with a focus on the challenges and opportunities facing institutional investors, regulators, and financial market participants.

Sovereign debt has always been a cornerstone of global finance, linking governments, markets, and societies. Today, it sits at the nexus of macroeconomic headwinds, climate transitions, geopolitical realignments, and financial innovation. Elevated debt burdens, tighter external financing conditions, and fragile domestic markets amplify vulnerabilities — particularly in emerging and frontier economies. At the same time, evolving restructuring frameworks, contractual innovations, and stronger policy anchors offer pathways to more orderly outcomes.

This report explores how sovereign debt dynamics interact with global financial stability. It examines the vulnerabilities facing low- and middle-income countries, the design and effectiveness of restructuring architectures, the emergence of state-contingent instruments and climate-resilient clauses, and the strategic implications for investors navigating a complex landscape of risks and opportunities. It argues that sovereign risk over 2025–2027 will be defined by the balance between persistent macro headwinds and improvements in debt architecture that are reshaping pathways to resolution.

The analysis deliberately integrates perspectives from both advanced economies and the Global South — including Latin America, Sub-Saharan Africa, Eastern Europe, and Asia — recognizing that debt challenges manifest differently across contexts, depending on market depth, institutional capacity, and policy credibility.

The report builds on the structure and style of earlier publications in our series, including:

- 1. The Value of Truth: Information Integrity in Global Finance
- 2. Ponzi Games: Anatomy, Evolution, and Containment Strategies
- 3. Cyber Resilience in Finance: From Risk Mitigation to Competitive Advantage
- 4. The Future of Payments and Cross-Border Finance: Navigating Transformation Amid Risk and Opportunity
- 5. Open Finance: Unleashing the Next Wave of Financial Innovation
- 6. Global Financial Stability in Transition: Structural Risks, Regulatory Challenges, and Strategic Pathways
- 7. Climate Change and Financial Risks: Navigating the Transition and Managing Physical Exposure
- 8. Demographic Change: Challenges and Opportunities in the Age of Low Fertility and Aging Populations
- 9. <u>Unveiling the Future of Digital Currency Infrastructure: Navigating the Transformation of Finance in a Tokenized World</u>
- Artificial Intelligence Industry Deep-Dive Report: Investment Implications and Strategic Outlook 2025 2030
- 11. Financing Infrastructure with Private Participation

In each, our aim is to go beyond technical detail to frame issues in terms of financial stability, institutional strategy, and global competitiveness.

We hope this report will help financial institutions, regulators, and policymakers better understand the evolving sovereign debt landscape, assess its implications for global financial stability, and design strategies that strengthen resilience while enabling sustainable growth.

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List of Acronyms

AIP - Agreement-in-Principle

CACs - Collective Action Clauses

CDS - Credit Default Swap

CF – Common Framework (G20)

CoT - Comparability of Treatment

CRDCs - Climate-Resilient Debt Clauses

DSA - Debt Sustainability Analysis

DS/R - Debt Service-to-Revenue Ratio

EM – Emerging Market

EMBI/GBI – Emerging Market Bond Index / Government Bond Index (J.P. Morgan)

EMDEs – Emerging Markets and Developing Economies

FX – Foreign Exchange

GDP - Gross Domestic Product

GSDR – Global Sovereign Debt Roundtable

HC – Hard Currency

IFI - International Financial Institution

IG - Investment Grade

IMF - International Monetary Fund

LC - Local Currency

LMICs - Lower-Middle-Income Countries

MDBs - Multilateral Development Banks

MoU – Memorandum of Understanding

NPV – Net Present Value

OCC – Official Creditor Committee

PPP - Public-Private Partnership

SBA/EFF – Stand-By Arrangement / Extended Fund Facility (IMF programs)

SCDIs – State-Contingent Debt Instruments

SOEs – State-Owned Enterprises

SSA - Sub-Saharan Africa

ST ext debt – Short-Term External Debt

UST – U.S. Treasury Securities

VRIs – Value Recovery Instruments



Executive Summary

Sovereign debt pressures remain elevated across emerging markets and developing economies (EMDEs), yet the 2025 market backdrop has turned more constructive. External financing windows are open, benchmark spreads have tightened from their 2022–2023 wides, and primary issuance has resumed for both sovereigns and corporates. At the same time, the restructuring toolkit has evolved: coordination through the G20 Common Framework (CF) and the Global Sovereign Debt Roundtable (GSDR), greater use of state-contingent debt instruments (SCDIs) and climate-resilient debt clauses (CRDCs), and the widespread adoption of enhanced collective action clauses (CACs) in international bonds are steadily improving exit certainty and timelines. For investors, this creates a differentiated opportunity set: selective recovery trades in post-agreement names, idiosyncratic risk premia in ongoing restructurings, and renewed carry/duration in higher-quality credits and credible local-currency stories. Unless otherwise noted, all data and case references are as of September 11, 2025.

Our thesis. Over 2025–2027, sovereign risk will be shaped by a tug of war between macro headwinds—slower global growth, trade-policy uncertainty, and delayed Fed easing—and micro improvements in debt architecture: clearer restructuring pathways, broader creditor coordination, and stronger transparency norms. Countries with an IMF anchor, credible fiscal/FX policy mixes, and realistic debt sustainability targets can regain market access faster and at lower exit yields. In contrast, sovereigns without credible anchors, or with large near-term amortizations and shallow domestic markets, will remain vulnerable to rollover shocks.

What's changed for markets. First, the CF and parallel platforms have shortened some restructuring timelines and clarified comparability of treatment across creditor classes. Second, innovation in instruments—CRDCs, SCDIs, and value-recovery instruments—is spreading beyond pilots. Grenada's hurricane clause activation in 2024 and Barbados's 2025 global bond with embedded CRDCs are now practical precedents. Third, litigation risk has receded in most new-law paper due to enhanced CACs, reducing holdout premia and facilitating comprehensive exchanges. Together, these shifts mean restructurings are less binary, with clearer pathways and reduced execution risk compared with the 2020–2023 cycle.

Investor implications.

- Primary access and duration: With external windows open, investment-grade and select BB/BBB sovereigns offer carry without outsized tail risk. Duration exposure is attractive if the global policy-rate path turns decisively lower.
- Distressed/recovery trades: Post-agreement bonds often re-rate toward exit yields as
 policy delivery locks in; ongoing cases become attractive once instrument menus and
 burden-sharing are clearer.
- Local currency: Where inflation credibility improves and FX is fairly valued, local-currency duration can outperform hard-currency peers on a hedged basis.



- ESG and climate: CRDCs and debt-for-climate structures will increasingly shape instrument design and index eligibility; investors must scrutinize triggers, documentation, and valuation impacts.
- Legal/contractual: CAC architecture remains a decisive factor for recovery dispersion; New York-law bonds with aggregated CACs ease execution risk, while legacy paper retains optionality premia.

House view (2025-2026).

The Bank & Finance house view is framed over 2025–2026, consistent with the tactical horizon used by investors. Beyond that, outcomes are best analyzed through scenarios (see Section 6), which extend the horizon to 2027 and capture the higher uncertainty inherent in longer-term projections.

- Baseline: Gradual disinflation in advanced economies, U.S. policy rates drifting lower from 2026, and resilient global demand keep EM hard-currency spreads near long-run averages. Issuance windows remain healthy.
- **Downside:** Sticky U.S. inflation and higher-for-longer policy rates, combined with trade-policy shocks, widen spreads and retest weaker credits. Frontier issuance shuts and liquidity strains re-emerge.
- **Upside:** Faster IMF-anchored reforms, smoother creditor coordination, and a commodity upswing accelerate exits and compress frontier spreads.

Key Messages

For investors

- **Position with barbell strategies.** Combine investment-grade and upper-BB carry anchors with selective recovery trades in post-agreement names and hedged local-currency exposure.
- Execution risk matters as much as macro risk. Recovery dispersion is increasingly driven by contract design (CACs, CRDCs) and IMF anchor credibility, not just global rate cycles.
- Engagement is a source of alpha. Constructive dialogue with debtors and official creditors compresses timelines and improves recoveries, while litigation-driven strategies are losing relevance.

For policymakers

- Transparency and realistic DSAs are essential. Over-optimistic assumptions extend negotiations and risk repeat restructurings.
- Innovation must scale. CRDCs and other state-contingent instruments should move from pilots to standard features in official and bilateral lending.
- **Domestic markets are buffers.** Broader local investor bases, robust repo frameworks, and FX risk management reduce reliance on volatile external flows and improve resilience.



Figure 1 distils the main insights of the report. It highlights the investment implications of sovereign debt dynamics, the policy priorities shaping debt sustainability and stability, and the baseline, downside, and upside scenarios that frame strategy over 2025–2027.

Figure 1 – Key Highlights of the Report

Investor Insights

- Carry with resilience: Investment grade and upper-BB sovereigns anchor portfolios, with local-currency selectively outperforming when inflation credibility is restored.
- Event-driven strategies: Recovery premia emerge once IMF anchors and instrument menus stabilize; timing AIP and settlement phases is critical.
- Contract design matters: Enhanced CACs, CRDCs, and state-contingent instruments drive recovery dispersion more than nominal relief.
- Engagement is alpha: Constructive dialogue accelerates deals; litigation-based approaches yield diminishing returns.

Policy Takeaways

- Transparency is non-negotiable: Realistic DSAs and disclosure of the full public-sector perimeter compress timelines and lower litigation risk.
- Innovation must scale: CRDCs and other state-contingent instruments should move from pilots to standardized features in official and bilateral lending.
- Domestic markets are buffers: Deeper local investor bases, repo frameworks, and FX risk mitigation reduce reliance on volatile hard-currency flows.
- Architecture is evolving: The G20 CF, GSDR, and contractual innovations are improving coordination but timelines remain protracted.

House View (2025–2026; scenarios extended through 2027):

Baseline (60%): Gradual DM disinflation, U.S. rate cuts from 2026, EM spreads near long-run averages.

Downside (25%): Higher-for-longer U.S. rates + trade-policy shocks widen spreads, frontier issuance shuts.

Upside (15%): Faster IMF reforms and smoother creditor coordination compress frontier spreads and accelerate market re-entry.

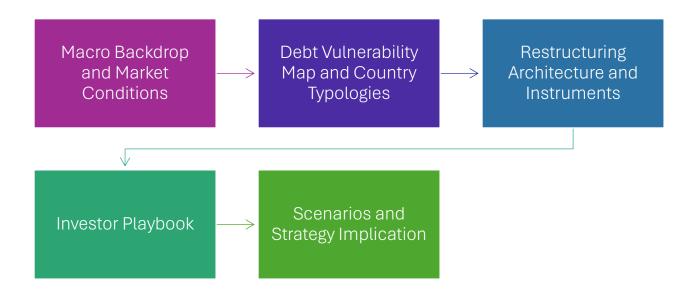
Source: Bank & Finance analysis, data as of September 11, 2025.

The figure underscores that investor strategies and policy design are two sides of the same coin. Portfolio outcomes hinge not only on global macro conditions but also on transparency, contract innovation, and the credibility of sovereign policy anchors. Together, these elements will determine whether sovereign risk remains contained or destabilizes broader financial stability.

Figure 2 maps the report's structure—linking macro context, vulnerability diagnostics, and restructuring architecture to the investor playbook and policy implications.



Figure 2 – Report Roadmap



Source: Bank & Finance analysis, data as of September 11, 2025.



1. Introduction and Scope

This report examines how sovereign debt dynamics will shape global financial stability and investor strategies over the 2025–2027 horizon. It is written for an institutional audience—asset managers, bank treasuries, sovereign advisory teams, multilaterals, and policymakers. The analytical lens is intentionally market-oriented: we connect macro conditions and debt sustainability mechanics to contract design, creditor coordination, pricing and recovery valuations, and portfolio construction. The focus is on EMDEs with market or near-market access, while drawing lessons from low-income country restructurings relevant to the broader architecture. Unless otherwise noted, the data vintage is as of September 11, 2025, with rolling updates to country cases in subsequent editions.

1.1 Motivation and Audience

Sovereign debt strains matter for global markets because they can impair banks and pension funds, disrupt cross-border flows, and reprice risk across credit curves. After the 2020–2023 shock cycle (pandemic, commodity swings, and rapid rate tightening), EM financing windows have reopened but remain selective. Rollover risks persist for issuers with large external amortizations, shallow domestic markets, or weak policy anchors.

Investors and policymakers face three recurring questions:

- 1. Who is vulnerable, and why?
- 2. How do restructuring architecture and contractual features shape outcomes and timelines?
- 3. What are the implications for pricing, recovery values, and investment strategy?

This report addresses these questions by aiming to:

- Provide a clear vulnerability map and country typologies that matter for market access.
- Decode the restructuring architecture (Common Framework and beyond), including legal and contractual elements that drive execution risk and recoveries.
- Translate the analysis into an investor playbook: signals, catalysts, valuation tools (NPV haircuts, exit yields), and portfolio tilts under alternative scenarios.
- Highlight policy design levers—transparency, realistic DSAs, domestic market deepening, and climate-resilient clauses—that improve outcomes for both debtors and creditors.

This analysis is timely: issuance windows have reopened but remain fragile, while ongoing restructurings in Ethiopia, Ghana, Zambia, and Sri Lanka are testing the evolving architecture.



1.2 Definitions (Sovereign, Public Sector Perimeter, Domestic vs. External)

Sovereign and public sector perimeter. Unless specified, "sovereign" refers to the central government. We use the following nested perimeter when relevant to risk assessments, data, or comparability:

- General government: central government plus sub-national governments and social security funds.
- Wider public sector: general government plus state-owned enterprises (SOEs), extrabudgetary funds, and other public entities whose liabilities can migrate onto the sovereign balance sheet (explicit guarantees, on-lending, policy mandates).
- Quasi-sovereign issuers: corporates with significant government ownership or support
 whose credit risk is often correlated with the sovereign, creating spillover risk for
 portfolios and restructurings.

Contingent liabilities and off-balance-sheet exposures. We track guarantees, public-private partnership (PPP) obligations, central-bank swaps and FX forwards with fiscal backstops, supplier arrears, and collateralized or resource-backed loans—any of which can migrate onto the sovereign balance sheet under stress.

Domestic vs. external debt. Classification can be based on creditor residency (macro/BoP perspective), governing law and jurisdiction (legal perspective), or currency of denomination (financial perspective). Because each lens is useful for different questions, we adopt a dualtag approach:

- For macro vulnerability and rollover analysis, we use a residency-based split (domestic vs. external creditors).
- For restructuring, legal risk, and recovery analysis, we emphasize governing law and contract features (e.g., New York-law bonds with aggregated CACs vs. legacy series-by-series CACs; local-law instruments and their amendability).
- We flag FX-denominated local-law instruments and local-currency foreign-law bonds where classification could otherwise mislead risk assessments.

Instrument and process terminology.

- Enhanced collective action clauses (CACs): aggregation features that allow single-limb or dual-limb voting across series, limiting holdout risk.
- State-contingent debt instruments (SCDIs): bonds with payoffs linked to macroeconomic, commodity, or climate variables. Climate-resilient debt clauses (CRDCs) allow time-bound suspensions after qualifying disasters.
- Standstill: a period during which debt payments are paused (de facto or formal) while negotiations proceed.



- Exit yield: the yield at which new instruments are expected to trade post-exchange; a critical input to NPV haircut calculations.
- Comparability of treatment (CoT): the principle guiding burden-sharing across creditor classes in coordinated restructurings.

1.3 Data and Methodology

Data sources and vintage. We combine (i) official-sector publications (IMF debt sustainability analyses, Fiscal Monitor, World Bank International Debt Statistics and country briefs), (ii) sovereign documentation (program memos, prospectuses, term sheets), and (iii) market datasets (index aggregates, bond/CDS pricing, primary-issuance logs). Country authorities' statistics (ministries of finance, DMOs, central banks) are used to reconcile coverage and perimeter. Unless otherwise indicated, the reference date is September 11, 2025.

Vulnerability map and typologies. We construct a composite risk score using standardized indicators across five pillars: (1) solvency (public debt-to-GDP, interest-to-revenue), (2) liquidity (gross financing needs, near-term external amortizations), (3) external resilience (reserve adequacy vs. short-term external debt, current-account gap), (4) market access (spread levels vs. issuer history, issuance windows, share of non-resident holdings), and (5) policy/IMF anchor (program presence, fiscal/FX credibility). Z-scores are winsorized to limit outlier influence and averaged with pillar weights calibrated to reflect market pricing sensitivities.

Restructuring case database. We maintain a structured dataset of recent sovereign restructurings and reprofilings covering: timeline (standstill, agreement in principle, exchange/closing), creditor perimeter, instrument menus (including SCDIs/CRDCs), governing law and CAC architecture, participation outcomes, indicative exit yields, and estimated recovery values. NPV haircuts are computed using cash flows discounted at UST+spread benchmarks consistent with post-exchange trading histories. Where data are scarce, we present ranges.

Pricing and strategy analytics. We map the event path onto valuation tools used by investors: recovery-value backsolves, breakeven exit yields, and CDS-bond basis checks. Scenario analysis (baseline, downside, upside) ties macro drivers (developed-market rates, commodity terms of trade, global risk appetite) to spread outcomes using a combination of historical betas and forward-looking assumptions.

Quality control and limitations. Data gaps—particularly regarding SOE liabilities, contingent guarantees, and domestic arrears—are frequent. We prioritize triangulation across sources and document assumptions in Appendix A. Revisions to official data and program parameters can alter assessments. The report is analytical and informational in nature and does not constitute investment advice; judgments about country prospects and recoveries involve uncertainty and will evolve as new information emerges.



2. Macro Backdrop and Market Conditions

This section frames the investment context for sovereign debt over 2025–2027. We connect global rate dynamics and risk appetite to EM hard-currency (HC) and local-currency (LC) performance, issuance windows, and liquidity conditions. Unless otherwise stated, the assessment reflects information as of September 11, 2025.

2.1 Global rates, risk appetite, and EM issuance windows

Policy rates and duration. The drift lower in developed-market policy rates—combined with fading inflation volatility—has stabilized global duration and reduced the tail of outsized UST sell-offs. This supports EM duration in both HC and LC. The convexity of long tenors rises in importance for total-return investors, while liability-driven buyers favor the belly of the curve where roll-down is strongest during a shallow cutting cycle.

As of September 2025, sticky U.S. inflation has delayed expectations of Federal Reserve rate cuts into 2026, tempering duration enthusiasm and slightly widening EM spreads compared with late August.

Risk appetite and cross-asset correlation. Correlations between EM credit spreads and UST moves have normalized from the 2022–2023 stress regime. Equity volatility remains the key transmission channel into EM credit: spikes in VIX/vol-control flows can transiently widen EM spreads and compress issuance windows. For portfolio construction, higher-quality HC sovereigns (IG/upper-BB) act as carry anchors, while frontier names remain event-driven.

Issuance windows. Primary markets have been open but selective: windows cluster around macro data prints and central-bank meetings, and close rapidly around idiosyncratic headlines. Sovereigns printing during favorable windows have achieved longer tenors and benchmark sizes, with reopenings (taps) often preferred over brand-new lines to concentrate liquidity. LC issuance is increasingly the workhorse for funding programs where domestic investor bases are deep and inflation credibility improves.

Investor takeaways. (i) Duration beta is again investable; (ii) carry is plentiful in high-quality EMs; (iii) frontier access hinges on policy anchors (IMF, credible FX frameworks) and transparent funding plans; (iv) windows are tactical—issuers should prefund and maintain documentation readiness. September's repricing highlights that issuers and investors must remain tactical, maintaining prefunding flexibility and using barbell allocations to balance carry with event risk.

Figure 3 juxtaposes the JP Morgan–style EM hard-currency (HC) spread gauge with monthly gross sovereign HC issuance since 2020. The line (left axis) tracks the evolution of spreads from the pandemic shock through the 2022–2023 stress period and the 2025 reopening; the bars (right axis) show how issuance clustered in "open windows." Shaded bands mark months when



monthly sovereign HC issuance exceeded US\$10 billion, highlighting the stop-start nature of market access.

COVID shock Record monthly issuance (Jun 2025) 700 25 650 bn) Russia/Ukraine shock 600 EM HC spread (bps) issuance 550 Sovereign HC 500 450 400 350 2021 2022

Figure 3 – EM hard-currency spread index and issuance windows, 2020–2025

Source: JPM EMBI (for spreads) and IMF/Dealogic/Bloomberg primary logs (for issuance). August 2025 information is partial through August 21, 2025.

Main lessons from Figure 3 include: (i) windows re-emerge when spreads compress toward long-run averages and volatility subsides; (ii) issuance is path-dependent—reopening often occurs via taps and on-the-run lines before new curves are built; (iii) dispersion matters—frontier names remain event-driven even as higher-quality credits regain duration access; and (iv) record prints (e.g., June 2025) tend to coincide with policy clarity and supportive global duration. For investors, the pattern argues for maintaining documentation readiness to prefund, and for barbell portfolios that pair IG carry with targeted event exposure.

2.2 EMBI/GBI trends, FX dynamics, liquidity conditions

Beyond issuance windows, spread dynamics, FX valuation, and secondary-market liquidity set the tone for relative performance.

Hard-currency spreads and composition. Benchmark EM spread indices have retraced a large share of the 2022–2023 widening. Dispersion persists: post-restructuring credits and reform stories trade at materially lower exit-yield assumptions, while policy-fragile or commodity-exposed issuers still clear at wider risk premia. Sectoral composition (quasi-sovereign energy names, systemically important SOEs) influences index behavior and should be monitored alongside sovereign curves.



Local-currency performance. LC total returns have improved where inflation credibility has recovered and real policy rates are positive but declining. FX fair-value diagnostics (REER gaps, balance-of-payments flows) guide LC duration vs. FX risk budgeting. Countries combining (a) anchored inflation expectations, (b) modest current-account deficits, and (c) improving terms of trade are best placed for LC outperformance.

Liquidity and market depth. Secondary-market depth is uneven. On-the-run HC benchmarks and reopened lines trade with tighter bid-offers and higher dealer appetite. Legacy small lines and off-the-run locals remain liquidity constrained, especially in risk-off episodes. ETF flow sensitivity is highest in B/CCC cohorts.

Investor takeaways. (i) Lean into dispersion with barbell constructs (IG carry + targeted event risk); (ii) prefer reopened/on-the-run lines for executable liquidity; (iii) in LC, align duration with inflation credibility and FX valuation, using overlays (NDFs/CDS) to manage basis and tail risk. September market conditions reaffirm that dispersion dominates—index-level spreads conceal sharp differentiation between post-restructuring credits, reform anchors, and policy-fragile issuers.

2.3 Primary market recap: volumes, tenors, use of proceeds

Volumes and mix. Sovereign gross issuance has surpassed recent annual averages, with an increased share of liability-management components (switches, buybacks, taps). Corporates have followed selectively, prioritizing refinancing over capex expansion.

Tenors and coupons. Average tenors have lengthened in higher-quality names, while frontier prints cluster in the 3–7 year bucket. Coupon dispersion reflects both credit quality and timing—issuers printing into supportive windows capture meaningfully lower coupons and tighter newissue concessions.

Use of proceeds and ESG labels. Net new financing remains modest; most activity is for refinancing and prefunding. Labeled bonds (sustainability, SLB) retain a presence, though pricing premium vary by documentation quality and verification credibility. Climate-resilient or catastrophe-linked features (e.g., CRDCs) are appearing in select programs; investors must scrutinize triggers and legal enforceability.

Issuer guidance. Maintain flexible shelf documentation; prepare for opportunistic taps; strengthen domestic investor engagement to smooth external maturities; and clarify use-of-proceeds narratives to broaden the buyer base.

Table 1 provides a monthly breakdown of EM sovereign and corporate hard-currency issuance from January 2024 through August 21, 2025. It reports volumes, tenors, coupons, and the composition of labeled and frontier supply. It offers a quick read on the breadth and depth of market access alongside the evolution of pricing and terms through the cycle.



Table 1 – EM Sovereign and Corporate Hard-Currency Primary Issuance Snapshot (2024–2025 YTD)

| | Sovereign | Avg | Avg | Corporate | Labeled | Re- | # | Frontier |
|--------|-----------|-------|--------|-----------|---------|-----------|-----------|----------|
| Month | gross | tenor | coupon | gross | share | openings | sovereign | share |
| | (US\$ bn) | (yrs) | (%) | (US\$ bn) | (%) | share (%) | issuers | (%) |
| Jan-24 | 11.8 | 11.8 | 4.9 | 7.5 | 14.1 | 60.3 | 6 | 24.6 |
| Feb-24 | 15.8 | 11.3 | 5.6 | 8 | 15.2 | 64.2 | 8 | 25.2 |
| Mar-24 | 17.5 | 11.1 | 5 | 8.7 | 8 | 68 | 10 | 24.8 |
| Apr-24 | 18.1 | 11.3 | 5.1 | 9.5 | 8 | 70 | 9 | 22.5 |
| May-24 | 13.8 | 11.6 | 5 | 7.4 | 17.2 | 68.6 | 9 | 30 |
| Jun-24 | 13.9 | 11.6 | 5 | 7.7 | 15.8 | 58.3 | 7 | 26.4 |
| Jul-24 | 16.3 | 12.7 | 5.1 | 8.3 | 13.3 | 53 | 8 | 23.2 |
| Aug-24 | 17.1 | 11.8 | 5.4 | 9.6 | 17.9 | 58.9 | 10 | 19.2 |
| Sep-24 | 17.4 | 12 | 4.9 | 10.4 | 20.1 | 53.9 | 10 | 20.4 |
| Oct-24 | 13 | 11.7 | 5 | 7.4 | 13.6 | 66.7 | 8 | 25.9 |
| Nov-24 | 13.6 | 12.8 | 4.7 | 7.2 | 8 | 52.1 | 9 | 18.1 |
| Dec-24 | 13.8 | 12.4 | 5.1 | 8.2 | 12.9 | 49.1 | 8 | 18.9 |
| Jan-25 | 20.2 | 12.3 | 5.1 | 11.2 | 16.5 | 62.9 | 9 | 17.8 |
| Feb-25 | 18.8 | 13.7 | 4.9 | 12.3 | 13.8 | 45.3 | 10 | 19.1 |
| Mar-25 | 16.6 | 13.4 | 5 | 8.8 | 17.1 | 46.2 | 7 | 17 |
| Apr-25 | 19.2 | 13.9 | 5 | 12.4 | 17.5 | 39.3 | 9 | 11.3 |
| May-25 | 21.9 | 13.1 | 5.1 | 10.9 | 12.9 | 39.5 | 10 | 14.4 |
| Jun-25 | 30.3 | 14.2 | 4.5 | 16.3 | 10.3 | 30.7 | 13 | 11.1 |
| Jul-25 | 20 | 14.5 | 5 | 9.2 | 16.2 | 31.8 | 8 | 8.6 |
| Aug-25 | 20.7 | 14.4 | 5.1 | 12.8 | 11.8 | 34.1 | 9 | 12.6 |

Source: Primary issuance aggregates from Dealogic/Bloomberg; instrument terms from offering circulars; classification and calculations by Bank & Finance. Spread context from JPM EMBI. August 2025 information is partial through August 21, 2025.

Three patterns stand out. First, breadth improved materially in 2025: more sovereigns returned to market, and reopenings dominated early in the year as issuers prioritized liquidity and curve consolidation before launching new benchmarks. Second, tenor extension was selective: IG and upper-BB names lengthened maturities, while frontier issuance clustered in the 3–7 year bucket with higher coupons and narrower execution windows. Third, labeled supply remained steady but premium varied with documentation and verification quality; investors increasingly discriminate among frameworks and external reviews. Corporate prints lagged sovereigns but followed the same windows, focusing on refinancing rather than capex. Reported August volumes reflect issuance through August 21 only and may therefore understate full-month totals. Nonetheless, the trend toward broader participation and selective tenor extension remains clear.

For investors, the message is clear: concentrate exposure in liquid benchmarks, scale through taps, and discriminate among ESG frameworks rather than treating labels as homogenous.



3. Debt Vulnerability Map and Country Typologies

This section translates macro and balance-sheet diagnostics into a country-level vulnerability map and a set of investable typologies. The map ranks EMDE sovereigns along five pillars: solvency, liquidity, external resilience, market access, and policy/IMF anchor. The objective is to separate cyclical macro noise from structural debt dynamics, and to link diagnostics to pricing, recovery expectations, and portfolio positioning.

3.1 LIC/LMIC risk of distress and debt-service burdens

Why LIC/LMICs matter. Low-income and lower-middle-income countries are disproportionately exposed to external shocks (commodity swings, climate events) and to the composition of their creditor base (official vs. commercial). Rising debt-service-to-revenue ratios and the growing share of non-concessional borrowing amplify rollover risk when external windows are tight.

Core indicators tracked.

- Debt service / government revenue (DS/R): principal + interest due over the next 12 months divided by general government revenue; levels above ~30–40% often coincide with arrears risk absent concessional relief or reprofiling.
- Interest / revenue (I/R): a proxy for debt-carrying capacity and policy space; persistent double-digit shares are a red flag for fiscal dominance.
- External amortizations (T+12/T+24): near-term FX funding needs relative to usable reserves and predictable concessional inflows.
- **FX composition and concessionality:** grant element, average interest rate, and maturity structure; rising non-resident LC holdings improve depth but increase flight risk.
- SOE and guarantee perimeter: potential migration of quasi-sovereign liabilities; PPP obligations and arrears.

Implications for the map. LIC/LMICs score high (riskier) when DS/R and I/R are elevated, external amortizations exceed buffers, and policy anchors are weak or lagging. Conversely, even high-debt LICs can score lower risk if concessional flows are stable, the IMF anchor is credible, and domestic markets can absorb issuance without destabilizing inflation or FX.

3.2 Market-access EMs vs. frontier issuers

Market-access EMs (IG to upper-BB). Typically feature deeper local markets, broader investor bases, and credible policy frameworks. Vulnerability is cyclical (growth, terms of trade, global rates) rather than solvency-driven. Funding strategies combine LC benchmarks with opportunistic HC taps.



Investor angle: carry-and-roll strategies, curve trades, and relative value vs. peers; monitor inflection points in inflation credibility and primary balance delivery.

Frontier issuers (single-B and below). Smaller lines, episodic access, and higher reliance on HC borrowing. External amortization "humps," shallow domestic bids, and FX pass-through elevate risk.

Investor angle: event-path investing—pre-default pricing, standstill dynamics, agreement-in-principle (AIP) timing, exchange menus, and post-exchange re-rating. Legal architecture (enhanced CACs, governing law) and IMF program realism are dominant drivers of recovery dispersion.

Execution matrix (summary).

- Access: continuous (EM) vs. windowed (frontier).
- **Instruments:** locals + taps (EM) vs. shorter HC, liability-management operations when windows reopen (frontier).
- Sensitivities: EM = global duration/FX; frontier = policy anchors and creditor coordination.
- Liquidity: on-the-run depth (EM) vs. small, volatile lines (frontier).

3.3 Typology: IMF-anchored, reform-anchored, commodity-anchored, policy-fragile

We classify sovereigns into four **archetypes** that map cleanly into investment strategies. Countries can migrate across types as policies, prices, or programs change.

A. IMF-anchored

Definition: Active IMF program with realistic conditionality, credible DSA, and financing assurances; domestic policy alignment on FX/fiscal.

Signals: SBA/EFF on track; prior actions met; primary-balance improvement; FX policy coherence; Paris Club/CF processes advancing if relevant.

Pricing path: Spreads compress as targets are met; exit yields for distressed names converge toward peer medians.

Investor playbook: Add on confirmation of tranche reviews; value post-AIP exchanges with credible menus; prefer NY-law aggregated CACs; monitor domestic arrears and SOE spillovers.

B. Reform-anchored

Definition: No IMF program, but credible homegrown reforms (fiscal rules, inflation-targeting credibility, governance and revenue measures).

Signals: Sustained primary surpluses; improving I/R and DS/R; market-friendly liability-management operations; central-bank credibility.



Pricing path: Gradual spread compression with lower volatility; LC outperformance when real rates normalize.

Investor playbook: Overweight locals with FX hedges; buy into liability-management tenders that extend and smooth curves.

C. Commodity-anchored

Definition: Terms of trade dominate fiscal/FX dynamics; buffers built in upswings, stress in downswings.

Signals: Commodity price betas in fiscal/CA; stabilization funds and rules; hedging practices; sovereign wealth fund governance.

Pricing path: Cyclical two-way risk; issuance concentrated in windows; spreads mean-revert with price cycles.

Investor playbook: Use options/CDS overlays; avoid crowded beta; favor structures with commodity-linked features or conservative price decks in DSAs.

D. Policy-fragile

Definition: Weak or inconsistent policy mix; pro-cyclical fiscal/FX; shallow domestic markets; ad-hoc debt practices.

Signals: Revisions to fiscal targets; exchange restrictions; rising arrears; low transparency on public sector perimeter; litigation or payment subordination risks.

Pricing path: Event-driven; high dispersion of recovery values; prolonged timelines without credible anchors.

Investor playbook: Maintain optionality; require higher carry to compensate for illiquidity/headline risk; prefer post-agreement recovery trades over pre-event exposure.

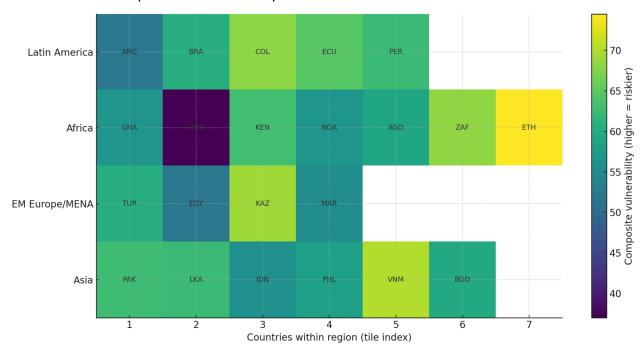
Figure 4 presents a two-panel view of sovereign risk. **Panel A** is a choropleth-style tile map of the composite vulnerability score across a representative EMDE sample (green = lower risk, red = higher risk). **Panel B** plots Debt service to revenue (next 12–24 months) on the horizontal axis against usable reserves to T+12 external amortizations on the vertical axis. Marker shapes denote typology (IMF-anchored, reform-anchored, commodity-anchored, policy-fragile), and marker borders scale with the share of enhanced CACs in the HC stock. Together, the visuals translate balance-sheet pressures and buffers into a geography of risk that investors can use to prioritize diligence and sizing.

This Figure shows that three clusters typically emerge. (i) IMF-anchored/reform-anchored names tend to show lower composite risk and sit in the upper-right of the scatter (stronger reserve cover with manageable DS/R), supporting LC duration and benchmark HC carry. (ii) Commodity-anchored names migrate with terms of trade—attractive in upswings but prone to sharp reversals—requiring overlays. (iii) Policy-fragile/frontier names congregate in the low-reserve/high-DS/R quadrant and exhibit higher composite scores, where IMF anchor credibility, creditor coordination, and CAC architecture drive recovery dispersion. Track migration across clusters following policy moves, Board decisions, or liability-management announcements—these often precede spread re-ratings.

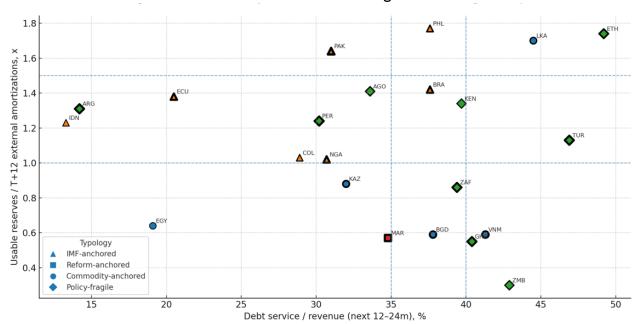


Figure 4 – Global Vulnerability Map

A. Composite Score Tile Map



B. Debt Service / Revenue vs Reserve Coverage



Source: Composite vulnerability score and scatter derived from Bank & Finance calculations using publicly available data as of September 11, 2025. Underlying indicators from IMF (DSAs, Fiscal Monitor), World Bank (International Debt Statistics), country authorities (budget/external debt bulletins; central-bank reserves), and index/market sources for legal architecture and market access (e.g., ICMA CAC resources; bond prospectuses). See Appendix C for methodology and indicator thresholds.



Table 2 translates the vulnerability framework into a standardized indicator set across solvency, liquidity, external resilience, market access, and policy/IMF anchors. The table applies traffic-light thresholds and z-scores, allowing cross-country comparison.

Table 2 – Vulnerability Indicators by Pillar

| Pillar | Indicator (thresholds) | Example: Ghana (2025) | Example: Peru (2025) | Example: Zambia (2025) |
|---------------------|---|--------------------------|-------------------------|---------------------------|
| Solvency | Debt/GDP; I/R > 10– 15% | 85% / 21% | 35% / 9% | 110% / 19% |
| Liquidity | DS/R > 30–40%; financing needs | 45% | 18% | 52% |
| External resilience | Reserves / ST ext debt <100% | 60% | 180% | 70% |
| Market access | EMBI > +1σ vs history; nonresident share | +1.3σ | -0.5σ | +2.0σ |
| Policy anchor | IMF program status, fiscal rule | On-track | Credible | Delayed 🛑 |

Source: Bank & Finance calculations using IMF (Fiscal Monitor, DSAs), World Bank (International Debt Statistics), country authorities, and market data as of September 11, 2025.

Table 2 makes clear that triple-constraint cases—high DS/R, weak reserves, delayed IMF programs—are most prone to arrears. In contrast, even highly indebted countries with credible IMF anchors and deep locals (e.g., Peru) score lower on vulnerability.

Investor takeaways from Section 3. Use the typology to bucket positions and size risk: IMF-anchored (core), reform-anchored (overweight locals), commodity-anchored (hedged, tactical), policy-fragile (event-driven optionality). Watch for migration triggers: IMF Board decisions, liability-management announcements, budget executions vs. targets, reserve changes, and shifts in legal architecture (e.g., adoption of enhanced CACs or CRDCs).

4. Restructuring Architecture and Instruments

Sovereign debt workouts run on two rails. The first is **policy coordination**—anchored in the G20 Common Framework (CF) and the Global Sovereign Debt Roundtable (GSDR)—which sets expectations on process, timelines, and information flows. The second is **contractual engineering**—collective action clauses (CACs), pari passu reform, and state-contingent features—which determines how quickly markets can execute deals. Recent cases such as Zambia and Ghana (within the CF) and Sri Lanka (outside the CF) show progress on coordination but persistent bottlenecks around timing, comparability of treatment, and domestic-debt interfaces.



4.1 G20 Common Framework: process, timelines, comparability of treatment

What the CF does. The CF extends Paris Club principles to a broader creditor set and ties debt treatment to an IMF-supported program. After a request, an Official Creditor Committee (OCC) forms, aligns parameters with the IMF DSA, and records them in a Memorandum of Understanding (MoU). The debtor then seeks CoT from other official and private creditors before finalizing the exchange.

Sequence and pain points. The agreed sequence—request → OCC formation → IMF staff-level agreement (SLA) → parameters/MoU → private engagement → documentation/settlement—has shortened in parts thanks to earlier DSA sharing. Still, total elapsed time remains long. Zambia reached an OCC agreement in mid-2023 and an MoU later that year; Ghana's MoU was completed in 2024–2025 and, as of September 2025, is fully signed by all official creditors; Ethiopia reached SLA in early 2025 but progress toward an MoU has stalled; Sri Lanka negotiated OCC terms outside the CF with MoU finalization in 2024.

Comparability of treatment (CoT). CoT is increasingly assessed across three lenses: (i) nominal debt-service relief during the program horizon, (ii) NPV reduction at the agreed discount rate (e.g., LIC-DSF), and (iii) maturity/duration extension. Most-favored-creditor clauses in MoUs are used more often to reinforce CoT in subsequent negotiations.

Investor / policy implications. Debtors should front-load transparency (credible perimeter, arrears, guarantees) and publish offer templates aligned to OCC parameters. Creditors should pre-agree CoT metrics and data fields to compress negotiation cycles. The CF is improving consistency, but timelines remain vulnerable to official coordination delays and domestic-debt treatment choices.

Box 1 – Ethiopia under the CF: progress, comparability of treatment, and bondholder dynamics

Context. Ethiopia requested CF treatment in early 2021, reaching an IMF SLA in 2023. OCC progress was delayed by data gaps and geopolitical risks. Bondholder engagement was limited until late 2024, when CoT discussions intensified. Domestic arrears complicated the perimeter but phased disclosure improved confidence.

Lessons. Frontier restructurings can stretch timelines. Transparent data-sharing and a credible IMF anchor stabilize recovery expectations and narrow dispersion, even when progress toward an MoU is slow.

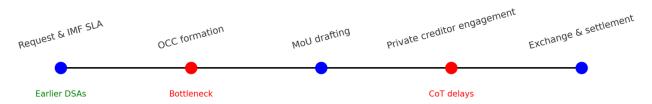
Source: IMF (2023b); IMF–World Bank (2025); Ethiopia MoF releases.



Ethiopia's case highlights that even small frontier sovereigns can set important precedents on transparency, creditor coordination, and domestic-debt treatment. For investors, the lesson is that official-sector patience and gradualism can extend timelines, but eventual clarity on CoT supports recovery values.

To clarify the sequencing of steps under the Common Framework, **Figure 5** lays out the typical timeline from a sovereign's request for treatment to the final settlement of new instruments. The schematic emphasizes the role of the IMF program, the Official Creditor Committee (OCC), and the comparability-of-treatment (CoT) assessment that links official and private creditor outcomes.

Figure 5 – Restructuring process flow under the Common Framework (timeline)



Source: Bank & Finance analysis based on G20 (2024), Paris Club (2023), IMF (2023a, 2024a), IMF–World Bank (2025).

Figure 5 shows that while DSA sharing and SLAs occur earlier, OCC formation and CoT enforcement remain bottlenecks. Even in the most recent cases, the request-to-exchange interval often exceeds two years—a key source of pricing volatility around official milestones.

4.2 Global Sovereign Debt Roundtable: common understandings and transparency

Purpose and outputs. Co-chaired by the IMF and World Bank with G20 support, the GSDR issued a Compendium of Common Understandings standardizing what is shared from the DSA, when, with whom, and how CoT is assessed (IMF–World Bank, 2025). IMF Staff Guidance on Information Sharing operationalizes this by stage (pre-announcement, pre-SLA, post-SLA), balancing confidentiality with the need for timely financing assurances (IMF, 2023a).

Why it matters. Earlier, structured information sharing reduces modeling gaps across creditor groups, accelerates OCC formation, and allows private committees to calibrate term sheets to program targets. The GSDR also clarifies cut-off dates, MDB net-positive flows, and approaches to domestic debt where financial-stability risks are material (IMF–World Bank, 2025; IMF, 2023b).



Outlook. Under Brazil's 2025 G20 presidency, follow-up notes emphasize consistent application of the Common Understandings and explicitly using them to shorten the SLA \rightarrow MoU \rightarrow exchange intervals (G20, 2024).

Investor / policy implications. Greater transparency and synchronized data fields reduce uncertainty premium, accelerate participation, and lower litigation risk. Embedding these standards in both CF and non-CF restructurings will be key to sustaining credibility.

4.3 Contractual tools: Enhanced CACs, aggregated voting; local-law nuances

Enhanced CACs and modified pari passu. Since 2014, market documentation has widely adopted ICMA-style aggregated CACs—including single-limb voting—and modified pari passu clauses that reject ratable payment remedies (NML v. Argentina). IMF progress reports find broad uptake in NY- and English-law bonds and no systematic pricing penalty (ICMA, 2014; IMF, 2015, 2017, 2019).

Aggregation design choices. Modern CACs permit: (a) single-limb aggregation, (b) two-limb voting (series + cross-series thresholds), or (c) series-by-series votes—allowing issuers to tailor tactics while reducing holdout risk.

Local-law (domestic) debt. Domestic-law instruments remain central:

- Statutory retrofitting of CACs—as in Greece (2012)—enabled high participation but raises rule-of-law and market-access considerations (Zettelmeyer, Trebesch, Gulati, 2013).
- Barbados (2018–2019) retrofitted domestic instruments and embedded disaster clauses—now a SIDS template (Government of Barbados, 2019; IMF, 2019).
- Exit consents (e.g., Ecuador 2000; Uruguay 2003) remain lawful under NY law for non-payment terms but should be used judiciously (Buchheit & Gulati, 2000; Sturzenegger & Zettelmeyer, 2006).

Euro-area CACs. Since 2013, Euro-area model CACs have been mandatory in new sovereign issues, further normalizing cross-series aggregation (Eurogroup, 2012).

Investor / policy implications. For future issues, sovereigns should standardize single-limb aggregated CACs and modified pari passu, align governing law across curves, pre-agree committee engagement mechanics in offering docs, and map domestic-debt levers well ahead of any exchange.



4.4 State-Contingent Debt Instruments (SCDIs): macro, commodity and climate-linked; CRDCs

What they are. SCDIs share risk by linking cash flows to observable states:

- Macro-linked (GDP) warrants: Argentina (2005/2010), Greece (2012), Ukraine (2015) (IMF, 2021; Zettelmeyer, Trebesch, Gulati, 2013).
- Commodity-linked VRIs: Brady-era designs where fiscal capacity co-moves with export prices (IMF, 2021).
- Climate-linked clauses (CRDCs): time-bound disaster pauses; parametric designs enable rapid activation (World Bank, 2023; ICMA, 2022).

Design lessons. Macro-linked instruments benefit from simple, credible statistics and caps/floors to manage valuation volatility; commodity-linked payoffs fit exporters with tight fiscal linkages; CRDC-style deferrals operate as temporary reprofilings that create fiscal space without NPV loss.

From concept to use. Grenada embedded hurricane clauses and activated them in 2024; Barbados mainstreamed disaster-pause clauses and issued a global bond with CRDCs in 2025; Belize's 2021 blue bond paired debt reduction with parametric insurance (Government of Grenada, 2024; Government of Barbados, 2019; The Nature Conservancy, 2021).

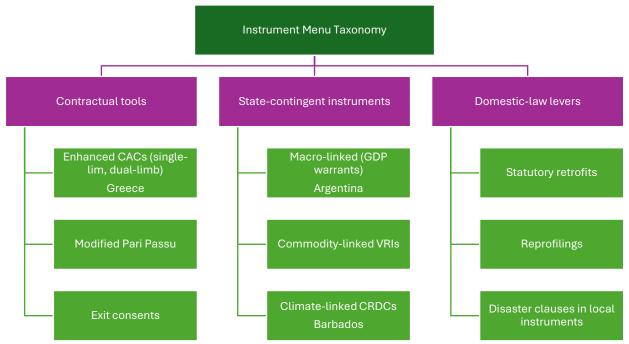
When to use SCDIs. Most valuable where shocks are frequent and exogenous, data quality permits third-party verification, and program anchors legitimize trigger logic (Bretton Woods Committee, 2024; World Bank, 2023).

Policy recommendation. Treat SCDIs as supplements to NPV-restoring relief. Deploy CRDC deferrals broadly in new IFI/official loans to harden resilience; use macro/commodity VRIs selectively with caps, sunsets, and calls to contain pricing uncertainty.

Figure 6 groups the modern "menu" of restructuring and issuance instruments into enhanced contractual tools (CACs), state-contingent instruments (macro-/commodity-/climate-linked), and domestic-law levers. Contemporary restructurings rely on toolboxes beyond simple coupon cuts. For investors, this expands recovery scenarios and requires explicit valuation of embedded optionality.



Figure 6 – Instrument menu taxonomy: SCDIs, CRDCs, CAC structures



Source: Bank & Finance analysis based on ICMA (2014, 2022), IMF (2019, 2021), World Bank (2023), Bretton Woods Committee (2024).

Box 2 explores how CRDCs are being priced by investors, what triggers are most credible, and how index providers are treating instruments with such clauses.

Box 2 – Climate-Resilient Debt Clauses: pricing, triggers, and index implications

What CRDCs do. Allow temporary suspension of debt service after natural disasters.

Parametric triggers (e.g., windspeed, quake magnitude) with third-party verification price near-vanilla; vague triggers face liquidity discounts. Index eligibility (JPM, Bloomberg) is pivotal for investor uptake.

Lessons. To scale, CRDCs need standardized parametric triggers, independent verification, and clear index treatment.

Source: World Bank (2023), ICMA (2022), Government of Barbados (2019), Government of Grenada (2024).

The box shows that well-defined, parametric triggers attract minimal pricing premium, while vague or discretionary clauses can face liquidity discounts. Index eligibility is a pivotal factor in mainstreaming CRDCs into portfolios.



4.5 Case mini-studies: Zambia, Ghana, Sri Lanka—contrasting designs and lessons

To illustrate how the evolving restructuring architecture and contractual innovations play out in practice, we highlight three recent cases—Zambia, Ghana, and Sri Lanka. Each followed a distinct path, shaped by the use (or absence) of the G20 Common Framework, the integration of domestic debt, and the introduction of state-contingent instruments. The comparison provides concrete lessons on timelines, burden-sharing, and design choices, which we summarize in Box 3.

Box 3 – Zambia, Ghana, and Sri Lanka: contrasting restructuring designs and lessons

Sovereign restructurings over 2020–2025 have produced a diverse set of precedents, each highlighting different elements of the evolving architecture. Three cases—Zambia, Ghana, and Sri Lanka—show how the interplay of the G20 Common Framework, Global Sovereign Debt Roundtable, contractual innovations, and state-contingent instruments shape both process and outcomes.

Zambia (2023–2024). First CF case (request 2020). OCC agreement (mid-2023) clarified needed NPV/maturity relief; timelines were protracted by CoT calibration and private alignment. Enhanced CACs ultimately facilitated exchanges across Eurobonds; lesson: agree CoT metrics earlier to reduce drift (IMF, 2024a; G20, 2024; IMF–World Bank, 2025).

Ghana (2024–2025). Domestic–external sequencing was decisive: statutory CACs reprofiled local-law bonds; the external exchange aligned with CoT standards. As of September 2025, the official MoU is fully signed. Pilot CRDCs broadened post-exchange investor reach. Lesson: domestic-law tools can secure participation while innovation supports market reentry (Ghana MoF, 2025; IMF, 2024a).

Sri Lanka (2024–2025). Outside CF but parallel standards: IMF-supported program (2023), OCC terms (2024), and private talks centered on aligning VRIs with program anchors. Aggregated CACs eased execution; lesson: even non-CF cases converge on CF/GSDR norms when IMF and information-sharing standards frame expectations (Sri Lanka MoF, 2024; IMF–World Bank, 2025).

Cross-case lessons. (i) Timelines remain long even with the CF—early DSA disclosure and clear CoT metrics are crucial. (ii) Domestic-debt treatment is unavoidable in bank-centric systems; sequencing and statutory tools matter for financial stability. (iii) Instrument innovation (CRDCs, VRIs) is moving from concept to practice, widening recovery distributions and investor bases.

Source: IMF (2024a), Ghana MoF (2025), Sri Lanka MoF (2024), G20 (2024), IMF–World Bank (2025).



Taken together, these experiences underscore that sovereign restructurings are multi-layered processes, not one-dimensional exchanges. Architecture (CF vs. non-CF), domestic–external sequencing, and contractual design drive timelines and recoveries. For investors, the practical implication is clear: event-path strategies must track institutional milestones (IMF Board reviews, OCC MoUs), domestic-debt treatments, and the adoption of state-contingent features as closely as headline NPV calculations. The next section distills these lessons into a forward-looking Investor Playbook mapping signals, catalysts, valuation tools, and portfolio positioning under alternative scenarios.

5. Investor Playbook

Building on the evolving restructuring architecture (Section 4) and the vulnerability diagnostics (Section 3), this section translates insights into a structured investor playbook. Sovereign distress is not a binary event but a sequence of stages with distinct signals, catalysts, and pricing dynamics. Investors who anticipate this sequence—and align valuation and positioning tools accordingly—can better manage risk and capture recovery premia.

We organize the playbook across five dimensions: event-path mapping, pricing frameworks, portfolio construction, legal/documentation diligence, and engagement practices.

5.1 Event-path mapping: pre-default \rightarrow standstill \rightarrow AIP \rightarrow exchange \rightarrow post-exchange

Sovereign credit events typically follow a recognizable path, even if timelines vary (Sturzenegger & Zettelmeyer, 2006; IMF, 2019). The key stages are:

- **Pre-default.** Characterized by widening spreads, rising CDS basis, and tightening issuance windows. Monitoring DS/R, near-term external amortizations, and IMF staff-level negotiations is critical.
- Standstill (formal or de facto). Payment suspensions trigger rapid repricing, with bonds trading on expected recovery values rather than carry. IMF engagement and domestic-debt treatment anchor price floors.
- Agreement-in-principle (AIP). When OCC parameters and indicative creditor menus converge, prices front-run expected exit yields. Litigation premia shrink if CACs or statutory tools are credible.
- Exchange and settlement. Liquidity temporarily fragments between old and new lines; taps of exchanged instruments are important for scaling.
- Post-exchange stabilization. Policy delivery (primary balance, FX anchor) drives rerating toward peer medians. Timely coupon resumption and transparent liability-management operations reinforce gains.



Investor takeaway. Mapping this progression allows targeted event-path strategies: buying into dislocated spreads at credible IMF entry, scaling post-AIP, and consolidating positions once new benchmarks establish liquidity. Recent cases confirm that market prices often front-run AIP disclosures by weeks, highlighting the value of monitoring IMF Board calendars and OCC communiqués.

Table 3 applies a traffic-light system (● green = manageable, ● amber = elevated, ● red = critical) to the signals, catalysts, and pitfalls at each stage of the restructuring cycle. This visual format helps investors distinguish between early warning signs and moments where execution risk is highest.

Table 3 – Investor Playbook by Stage (signals, catalysts, pitfalls)

| Stage | Key signals (traffic- light) | Catalysts for repricing | Common pitfalls | |
|---------------------------------------|---|---|---|--|
| Pre-default | | IMF staff-level negotiations; credit-rating downgrades; debt-service calendar spikes | Overweighting carry trades without stress-testing serviceability | |
| Standstill (formal or de facto) | Red: missed payments, arrears, capital controls | Standstill announcements; IMF Board meetings; OCC formation | Panic selling at distressed levels; ignoring domestic-debt burden-sharing | |
| Agreement-in- Principle (AIP) | Amber → Green:OCC parametersdisclosed, indicativemenus aligned | Release of OCC term sheets; investor committee endorsements | Anchoring on headline nominal relief instead of NPV/exit-yield math | |
| Exchange and settlement | Amber: CAC voting thresholds tested, old vs. new bond liquidity split | Launch of exchange; exit consents applied; settlement mechanics | Mispricing liquidity premia; underestimating exit- consent/retrofitting effects | |
| Post-exchange stabilization | Green: IMF program on track, primary balance delivery, FX stability | IMF tranche reviews; liability-management operations; rating upgrades | Assuming automatic rerating; neglecting reform execution risks | |

Source: Bank & Finance analysis based on IMF (2019, 2021, 2023a), IMF–World Bank (2025), G20 (2024), ICMA (2014), and case data from Zambia, Ghana, Sri Lanka.

The table underscores that restructurings evolve along a continuum of risk, not a single event. For investors, the opportunity lies in distinguishing amber phases (where preparation matters) from red phases (execution risk peaks) and green phases (where recovery premia consolidate).

5.2 Pricing frameworks: recovery values, exit yields, NPV haircuts

Valuation pivots from carry to recovery analysis once distress looms. Three tools dominate investor playbooks (Buchheit & Gulati, 2000; IMF, 2021):



- Recovery-value backsolves. Market prices imply recovery assumptions that can be benchmarked against historical cases, IMF DSAs, and OCC parameters.
- Exit-yield analysis. The assumed trading yield of new instruments post-exchange is the most powerful determinant of NPV haircuts. Peer comparisons anchor assumptions. As of September 2025, Ghana's external exchange and Zambia's Eurobond settlement provide live benchmarks in the 9–11% range.
- NPV-haircut scenarios. Discounting prospective cashflows under different exit yields clarifies sensitivity to coupon step-ups, maturity extensions, or state-contingent triggers.

Investor takeaway. Rather than debating headline nominal relief, focus on recovery dispersion under plausible exit-yield ranges. This is critical when VRIs, CRDCs, or dual-limb CACs add optionality.

5.3 Portfolio construction: barbell strategies, local vs. hard-currency, CDS overlays

Positioning through distress requires barbell construction—pairing liquid IG anchors with targeted event exposure in distressed credits (J.P. Morgan, 2024).

- IG/upper-BB carry anchors. Provide duration and roll-down in stable regimes.
- Event-driven distressed names. Offer recovery premia once IMF anchors and creditor menus stabilize.
- Local vs. hard-currency. Where inflation credibility and FX valuation improve, LC duration outperforms; HC remains the hedge against external shocks.
- Overlays. CDS and FX hedges provide convexity and mitigate window-closing risks.

Investor takeaway. Combine resilient core holdings with tactical allocations to restructuring names, using CDS and FX overlays to manage tail scenarios. Barbell strategies are most effective when paired with the issuance-window dynamics highlighted in Section 2.

5.4 Legal and documentation diligence checklist

Documentation governs execution risk and recovery dispersion. A practical diligence checklist includes (ICMA, 2014; IMF, 2019):

- CAC architecture: aggregated vs. series-by-series; single-limb thresholds.
- Governing law: NY/English vs. local-law amendability.
- Pari passu clause: modified vs. legacy "ratable payment" wording.
- Exit consents: scope under NY law and reputational implications.
- **Domestic retrofitting potential:** statutory CACs or maturity extensions.



Investor takeaway. Legal heterogeneity is often underpriced. Enhanced CACs and modern pari passu reduce holdout premia; legacy bonds may retain litigation optionality and warrant separate valuation. For investors, screening portfolios by contractual architecture is now as important as country-level macro analysis in shaping recovery dispersion.

Table 4 systematizes legal considerations for sovereign investors, highlighting how contractual features drive restructuring execution and recovery dispersion.

Table 4 – Legal checklist: CACs, pari passu, governing law, aggregation features

| Feature | Modern bonds (NY/English law) | Legacy bonds | Implications |
|---|-------------------------------------|----------------------|---|
| CAC structure | Aggregated, single- limb | Series-by- series | Holdout risk higher in legacy |
| Pari passu clause | Modified (excludes ratable) | Original | Litigation risk in legacy (NML precedent) |
| Governing law | NY/English | Local law | Local-law amendability but reputational costs |
| Exit consents | Permissible (non- payment terms) | Limited | Can accelerate restructuring but reputationally sensitive |
| Domestic Pre-designed retrofitting statutory CACs | | Absent | Tool for bank-centric systems (e.g., Greece 2012, Barbados 2018) |

Source: Bank & Finance synthesis based on ICMA (2014), IMF (2015, 2017, 2019), Buchheit and Gulati (2000), Sturzenegger and Zettelmeyer (2006).

The table shows that modern CACs and pari passu reforms reduce holdout risk, while legacy instruments embed real and persistent optionality premia.

Box 4 examines how litigation risk has evolved with the spread of enhanced CACs and why certain legacy bonds still trade with optionality premia.

Box 4 – Litigation risk and enhanced CACs: what's priced and why it matters

Litigation risk has declined as enhanced CACs have become standard. Still, legacy series without aggregation remain exposed, trading with holdout premia. Hedge funds target such bonds for litigation-driven returns (as in Argentina's 2001 default).

Lessons: Investors must separate modern aggregated-CAC bonds from legacy holdouteligible instruments. Optionality premia are real and persistent, and should be explicitly valued.

Source: IMF (2019), ICMA (2014), Zettelmeyer, Trebesch and Gulati (2013), U.S. court filings (NML v. Argentina).

The analysis underscores that while litigation risk is declining for modern NY/English law bonds, legacy series still attract hedge-fund interest and can complicate comprehensive restructurings. For investors, the optionality embedded in such instruments must be explicitly valued.



5.5 Engagement and debtor-investor dialogue (DDI) best practices

Creditor coordination and constructive dialogue can materially accelerate timelines (IMF–World Bank, 2025; G20, 2024).

- Data transparency. Early release of DSAs and perimeter definitions reduces divergence.
- Representative committees. Balanced representation across creditor types improves legitimacy.
- Common templates. Standardized term sheets and CoT metrics compress negotiation cycles.
- **Investor conduct.** Collaborative engagement, rather than litigation threats, raises the probability of a comprehensive deal and reduces reputational risk.

Investor takeaway. Active but constructive engagement with debtors and official creditors is increasingly a source of alpha, especially as GSDR norms standardize expectations.

Box 5 draws on recent cases to highlight which forms of debtor–investor engagement have accelerated restructurings, and which approaches have backfired.

Box 5 – Debtor-investor engagement: what works (and what doesn't)

Restructuring outcomes are shaped by engagement practices. Ghana and Sri Lanka showed that early data-sharing and balanced creditor committees accelerated consensus. By contrast, confrontational standoffs prolonged Zambia's process.

Lessons: Constructive engagement compresses timelines and boosts participation; adversarial approaches reduce NPV recoveries.

Source: IMF-World Bank (2025), G20 (2024), creditor committee communiqués (2022-2025).

Evidence suggests that transparent data-sharing and representative creditor committees accelerate outcomes, while confrontational tactics prolong timelines and reduce participation. For investors, constructive engagement is increasingly an alpha source.

Taken together, the five dimensions of the investor playbook highlight that sovereign restructurings require anticipating event paths, valuing recovery dispersion, building barbell portfolios, monitoring contractual architecture, and engaging constructively. The next section, 6, extends this framework into forward-looking scenarios that link global macro conditions, debt architecture, and investor positioning.



6. Scenarios (2025–2027) and Strategy Implications

Building on the investor playbook (Section 5), we now apply scenario analysis to frame strategy choices under alternative global and restructuring conditions. While our house view is calibrated for 2025–2026, reflecting the tactical horizon most relevant to investors, the scenario framework extends through 2027. This distinction anchors near-term expectations while also exploring longer-term risks and opportunities under baseline, downside, and upside paths.

6.1 Baseline, downside, upside

Baseline scenario (60% probability).

- *Macro drivers:* Gradual DM disinflation; U.S. policy rates lower by ~150–200 bps by 2027; stable global demand.
- Market impact: EM HC spreads hover around long-run averages (~350–400 bps); issuance windows remain open with moderate volatility.
- Restructuring pipeline: Zambia, Ghana, Sri Lanka, Ethiopia move toward closure; no systemic wave emerges.
- Strategy: Favor IG/upper-BB carry and selective recovery trades; add LC exposure where inflation credibility improves.

Investor takeaway. The baseline suggests steady carry and recovery opportunities, with live benchmarks from Ghana and Zambia showing exit yields of 9–11% when IMF anchors are credible.

Downside scenario (25% probability).

- *Macro drivers:* U.S. "higher-for-longer" rates; sticky inflation; trade-policy shocks; commodity volatility.
- Market impact: EM spreads widen by 150–200 bps; frontier issuance shuts; EM LC outflows accelerate.
- Restructuring pipeline: More frontier issuers enter standstills, especially those without IMF anchors. Ethiopia's stalled MoU illustrates the risk of extended limbo.
- Strategy: Reduce frontier exposure; overweight IG liquidity; hedge with CDS; prioritize liquid benchmarks.

Investor takeaway. The downside reinforces the need to prioritize liquidity and optionality, avoiding concentrated frontier risk until anchors and credible menus emerge.

Upside scenario (15% probability).

 Macro drivers: Faster disinflation and synchronized DM easing; stronger creditor coordination; commodity upswing.



- Market impact: Frontier spreads compress ~200 bps; LC markets outperform HC.
- Restructuring pipeline: Several cases close quickly with innovative menus (CRDCs, VRIs). Barbados's 2025 CRDC bond sets a positive precedent.
- Strategy: Add frontier reform names post-AIP; overweight LC with FX hedges; target commodity exporters with fiscal credibility.

Investor takeaway. Upside positioning requires readiness to scale frontier allocations once IMF anchors are credible and innovative clauses (CRDCs, VRIs) gain traction.

To distil the scenario framework, **Figure 7** presents a spider chart mapping key macro drivers against sovereign spread outcomes under the baseline, downside, and upside paths. Each axis represents a critical driver—developed-market (DM) rates, global growth, trade policy, commodity prices, and restructuring efficiency—with the shape of each scenario showing how the constellation of risks translates into EM spread performance.

Global growth

Global growth

Trade policy

Downside
Upside

Downside

Downside

Downside

Downside

Downside

Downside

Downside

Figure 7 – Scenario spider chart: macro drivers and spread outcomes (2025–2027)

Source: Bank & Finance analysis based on IMF (2023a, 2023b), IMF–World Bank (2025), G20 (2024), JPM EMBI spread data, and scenario assumptions by Bank & Finance (as of September 11, 2025).



The spider chart highlights that sovereign spread outcomes are shaped not by any single factor but by the configuration of multiple drivers. The baseline sits in the middle of the risk constellation, with moderate DM easing offset by lingering uncertainties. The downside shows risks clustering on the rates—trade—growth axes, while the upside is defined by a favorable alignment of DM policy, commodities, and restructuring execution. For investors, this visualization reinforces the need to position portfolios with convex exposure—anchoring in resilient carry names while retaining tactical capacity to add risk when macro and restructuring drivers align positively.

6.2 Sector and regional tilts

Sectors.

- *IG/upper-BB*: Core carry; benefit most from DM disinflation.
- Frontier/distressed: Event-driven opportunities, only with IMF anchors and credible menus.
- Quasi-sovereigns: Energy/utility SOEs remain sovereign risk transmission channels.

Regions.

- Latin America: Commodity upside supports Brazil, Chile, Peru; Mexico resilient; Argentina/Ecuador remain high-beta.
- Sub-Saharan Africa: Zambia, Ghana, Ethiopia still restructuring; Nigeria's reform credibility pivotal; exporters gain in upside but LC depth is limited.
- Asia: Sri Lanka sets restructuring precedent; Pakistan vulnerable; Indonesia/Philippines resilient.
- Europe/EMEA: Frontier CEEs exposed to EU demand; Turkey stabilizing with policy shifts.

Table 5 summarizes indicative strategy tilts under the baseline, downside, and upside scenarios, linking them to sectoral and regional positioning.

Table 5 – Scenario-linked strategy tilts and indicative positioning

| Scenario | IG/upper-BB sovereigns | Frontier/distressed | Local-currency | Overlays |
|----------|------------------------|---------------------------|---|-------------------------|
| Baseline | Overweight carry | Selective recovery | Moderate add in credible FX regimes | CDS hedges light |
| Downside | Core defensive anchor | Reduce sharply | Limited exposure | Heavy CDS and FX hedges |
| Upside | Maintain core | Add post-AIP reform names | Overweight LC duration with FX hedges | Optionality via CDS |

Source: Bank & Finance scenario framework; EMBI/GBI data from JPM; IMF-World Bank (2025).



Table 5 highlights that frontier exposure should be the main swing factor across scenarios. Liquidity and carry dominate in baseline/downside, while upside hinges on selectively adding reform-driven frontier risk.

6.3 Risk management: liquidity, crowding, headline risk

Three cross-cutting risks shape positioning:

- **Liquidity risk.** On-the-run HC and reopened lines are resilient; off-the-run/frontier lines gap in stress.
- Crowding risk. Recovery trades often crowd once IMF anchors are in place; monitoring ETF flows and index rebalancing avoids squeezes.
- **Headline risk.** OCC statements, IMF Board reviews, litigation drive volatility; CDS overlays and barbell portfolios reduce noise.

Investor takeaway. Risk management is not a separate layer but integral to sovereign investing: balance carry and liquidity in baseline, preserve capital in downside, and keep convex exposure for upside.

Investor outcomes over 2025–2027 will depend as much on policy design and market architecture as on macro cycles. The clarity of DSAs, consistency of CoT metrics, and scalability of CRDCs will shape restructuring efficiency and sovereign risk pricing. The next section, 7, turns from investor strategy to the policy levers that can improve debt outcomes and enhance financial stability.

7. Policy Implications and Market Design

While scenarios frame investor positioning (Section 6), outcomes ultimately depend on the policies, norms, and market structures that govern debt issuance and resolution. Recent reforms have shortened some restructuring timelines and broadened the toolkit, but gaps remain in transparency, contract standardization, and domestic market depth. This section highlights three priority areas where policy initiatives can materially improve outcomes for both debtors and creditors.

7.1 Transparency, DSA realism, and program design

Framing. Credible debt sustainability analyses (DSAs) and transparent public-sector perimeters are the foundation for orderly restructurings and sustainable re-entry.

• Debt Sustainability Analyses (DSAs). Over-optimistic growth, fiscal, or external-flow assumptions have led to repeat restructurings (IMF, 2021). Embedding conservative baselines, explicit stress tests, and transparent assumptions improves creditor alignment and reduces disputes.



- Transparency of perimeter and flows. Disclosure of SOE liabilities, guarantees, PPP obligations, and central-bank FX forwards remains patchy. A minimum disclosure template, as proposed by the GSDR (IMF–World Bank, 2025), should be institutionalized across all program countries.
- **Program design.** IMF-supported programs should better sequence fiscal adjustment with available financing. Anchoring debt relief to feasible fiscal paths (rather than front-loaded consolidation) reduces default–rescue cycles.

Policy implication. Standardized disclosure and realistic DSAs compress negotiation timelines, lower litigation risk, and improve market re-entry prospects.

7.2 Scaling CRDCs and standardizing SCDI terms

Framing. State-contingent instruments have moved from pilots to credible tools, but scaling requires consistency.

- From pilots to mainstream. CRDCs and other SCDIs are transitioning from pilots (Grenada, Barbados, Belize) to broader adoption. Embedding these features in official-sector loans by default would normalize use and lower pricing uncertainty (World Bank, 2023).
- Standardization. Variation in triggers, verification, and legal drafting currently limits appetite. A common template—akin to ICMA's CAC model clauses—should specify:
 - Parametric, independently verified disaster triggers.
 - •Time-bound suspension mechanics.
 - Clear treatment in bond indices and ratings.
- Market depth. MDBs and IFIs should issue benchmark CRDC-linked instruments to seed liquidity, while index providers clarify eligibility to encourage integration into mainstream portfolios.

Policy implication. Scaling CRDCs and standardizing SCDIs aligns debt service with exogenous shocks, lowers crisis incidence, and improves credit risk-sharing.

7.3 Domestic market deepening and FX risk mitigation

Framing. Robust domestic markets and prudent FX risk management reduce vulnerability to external shocks.

• **Domestic absorption.** Deeper local markets with broad investor bases provide buffers. Policy levers include pension-fund reforms, repo and collateral frameworks, and secondary-market liquidity.



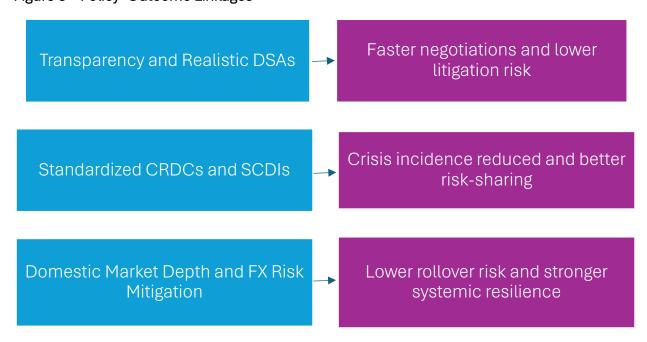
- FX risk. Excessive reliance on HC borrowing amplifies shocks. Developing LC benchmarks, lengthening maturities, and expanding FX-hedging tools (NDFs, swaps) mitigate rollover risk.
- Crisis management. Where domestic-law bonds are restructured, statutory retrofits should be predesigned with safeguards to protect financial stability (e.g., exempting retail holders or systemic banks).

Policy implication. Deeper LC markets and effective FX risk management reduce reliance on volatile HC flows, lower refinancing risk, and limit contagion from global shocks.

Together, these three levers—transparent DSAs, scalable CRDC/SCDIs, and deeper local markets with FX buffers—reduce the probability of disorderly restructurings while improving the efficiency of debt workouts when they occur. For the global system, they enhance financial stability by aligning incentives across debtors, creditors, and official institutions.

Figure 8 summarizes how three key policy levers—transparency and realistic DSAs, standardized CRDC/SCDI terms, and deeper domestic markets with FX buffers—map directly into improved sovereign debt outcomes.

Figure 8 - Policy-Outcome Linkages



Source: Bank & Finance analysis (as of September 11, 2025).

The figure highlights that policy reforms are not abstract: they shorten negotiations, reduce crisis frequency, and strengthen systemic resilience. For both debtors and creditors, these reforms shift restructurings from reactive responses to proactive stability strategies.



Taken together, the three policy levers—transparent and realistic debt sustainability analyses, wider adoption of CRDCs and other state-contingent instruments, and deeper domestic markets with stronger FX-risk mitigation—form the connective tissue between country-level vulnerabilities and the global scenarios outlined in Section 6. In a **baseline environment**, these reforms can sustain investor confidence and keep spreads near long-run averages. In a **downside scenario**, they act as buffers that limit rollover stress and reduce the probability of disorderly defaults. In an **upside scenario**, they can amplify the benefits of global disinflation and commodity tailwinds by accelerating market re-entry and improving recovery values. In this sense, policy design is the hinge between the evolving debt architecture and investor strategy, directly shaping the trajectory into the conclusion's central message: sovereign debt outcomes will be decisive for global financial stability over 2025–2027.

8. Conclusions

Sovereign debt dynamics will remain a central determinant of global financial stability over 2025–2027. The reopening of issuance windows, the evolution of restructuring architecture, and the gradual adoption of innovative instruments such as CRDCs create a more constructive environment than the 2020–2023 crisis cycle. Yet vulnerabilities persist—particularly for frontier issuers with shallow domestic markets, large external amortizations, or weak policy anchors. This conclusion distills the key lessons for investors and policymakers and highlights the triggers to monitor as early-warning signals.

8.1 Key takeaways for investors and policymakers

For investors

- Macro matters, but architecture is decisive. The U.S. rates path and global trade outlook shape EM spreads, but recovery dispersion is increasingly driven by execution risk—CACs, CRDCs, and IMF anchor credibility (Sections 4–5).
- Positioning requires barbell strategies. Combining IG/upper-BB carry anchors with selective recovery trades and hedged LC exposure remains the most resilient approach across scenarios (Section 6).
- Engagement is alpha. Constructive debtor–creditor dialogue shortens timelines and improves recovery values, while litigation-based strategies increasingly offer diminishing returns under modern CACs (Section 5.5).

For policymakers

- Transparency and realistic DSAs are non-negotiable. Over-optimistic assumptions lead to repeat restructurings and prolonged market exclusion (Section 7.1).
- Innovation must scale. CRDCs and SCDIs should move from niche pilots to standardized features across IFI and bilateral lending (Section 7.2).



• **Domestic markets are buffers.** Broader local investor bases, robust repo frameworks, and FX risk management reduce rollover pressures and contagion (Section 7.3).

8.2 Watchlist and triggers

Over the 2025–2027 horizon, three sets of triggers will determine whether sovereign risk remains contained or destabilizes broader markets:

Global macro triggers

- DM rates path: slower or faster U.S. easing than expected.
- *Trade-policy shocks:* tariff escalations or supply-chain disruptions.
- Commodity volatility: swings in oil, metals, and food prices.

Country-specific triggers

- IMF program reviews: on-track vs. delayed disbursements.
- Liability-management operations: buybacks, switches, or taps.
- Domestic-debt measures: statutory retrofits and banking-system implications.

Systemic/architecture triggers

- Effectiveness of the G20 Common Framework and GSDR Common Understandings.
- Uptake and pricing of CRDCs and other SCDIs.
- Litigation outcomes on legacy bonds without enhanced CACs.

The sovereign debt landscape is entering a more constructive but still fragile equilibrium. Success will hinge on whether policymakers can institutionalize transparency, realistic program design, and scalable contractual innovations, while investors balance carry, recovery, and risk management.

Ultimately, sovereign debt is not only about country credit stories, it is also a systemic variable that shapes global capital flows, financial stability, and the resilience of the international monetary system.

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10. Appendices

The appendices provide the technical foundation and supporting material for the analysis presented in this report. They serve three purposes: first, to document the data sources and methodological choices underpinning the sovereign vulnerability framework and scenario analysis (Appendix A); second, to clarify terminology and concepts through a concise glossary (Appendix B); third, to detail the screening criteria used to build the country sample (Appendix C); and finally, to map each exhibit to its underlying sources (Appendix D). Together, these resources are intended to enhance transparency, allow readers to replicate or adapt the analysis, and support further research by policymakers, investors, and academics.

Appendix A. Methodology and Data Sources

This appendix documents the data sources, methodologies, and caveats underpinning the analysis in this report. Unless otherwise specified, all data are as of **September 11, 2025**.

Official sources

- International Monetary Fund (IMF): Debt Sustainability Analyses (DSAs), Fiscal Monitor, International Financial Statistics, program staff reports, and guidance notes on information sharing and comparability of treatment.
- World Bank: International Debt Statistics, country briefs, PPP and contingent-liability databases.
- Paris Club / G20: Implementation notes, comparability-of-treatment guidelines, Common Framework and GSDR documentation.
- Country authorities: Ministries of Finance, Debt Management Offices (DMOs), central-bank reserve and FX operations, and official statements (MoUs, term sheets, prospectuses).



Market sources

- *Indices:* JPM EMBI/GBI, Bloomberg, ICE, and other benchmark providers for spreads, flows, and local rates.
- *Primary issuance:* Dealogic, Bloomberg, and official offering circulars for volumes, tenors, coupons, and labeled bond shares.
 - Note: August 2025 issuance figures reflect data through August 21; late-month issuance is not yet captured.
- *Pricing and CDS*: Bloomberg, Refinitiv, CMA, and OTC trading desk inputs for secondary-market validation.

Analytical methodology

- *Vulnerability map:* Composite risk scores across solvency, liquidity, external resilience, market access, and policy anchor pillars. Z-scores are winsorized to limit outliers; weights emphasize investor pricing sensitivities.
- *Typologies*: Countries are bucketed as IMF-anchored, reform-anchored, commodity-anchored, or policy-fragile, based on program presence, reform track record, and market signals.
- Restructuring database: Tracks timeline (standstill, AIP, exchange), creditor perimeter, contractual architecture, participation rates, and recovery estimates. NPV haircuts are computed using instrument cashflows discounted at post-exchange trading yields (exityield method).
- Scenario analysis: Spreads modeled as functions of DM rates, commodity terms of trade, and EM risk premia. Parameters calibrated using historical betas (2010–2023) and forward-looking adjustments.

Limitations

Data gaps remain significant (e.g., SOE liabilities, domestic arrears, contingent exposures). Triangulation across sources is applied where possible. IMF and World Bank revisions may alter assessments. This report is analytical and informational in nature; it does not constitute investment advice. Judgments about country prospects and recoveries involve uncertainty and may change as new information emerges.

Appendix B. Glossary

Agreement-in-Principle (AIP): A preliminary understanding between a debtor and its creditors on the broad parameters of restructuring terms. It precedes formal documentation of the exchange and typically anchors investor pricing expectations.



Comparability of Treatment (CoT): The principle that different creditor groups (official and private) should provide debt relief on broadly equivalent terms. CoT is usually assessed across three dimensions: nominal debt-service relief, net present value (NPV) reduction, and maturity/duration extension.

Collective Action Clauses (CACs): Provisions in sovereign bonds that allow a qualified majority of holders to approve restructuring terms that then become binding on all holders. *Enhanced CACs* introduced after 2014 permit aggregated voting across multiple bond series, reducing holdout risk.

Climate-Resilient Debt Clauses (CRDCs): Contractual features that allow for temporary suspension of debt service following a qualifying natural disaster. CRDCs are typically designed as time-bound reprofilings and do not alter the overall NPV of obligations. They are a type of state-contingent debt instrument (SCDI).

Debt Service-to-Revenue Ratio (DS/R): A liquidity indicator calculated as total annual debt-service payments divided by general government revenue. Ratios above 30–40 percent often coincide with heightened risk of arrears or distress.

Exit Yield: The assumed yield at which new instruments are expected to trade following a restructuring. Exit yield assumptions are critical for calculating NPV haircuts and benchmarking recovery values.

International Monetary Fund (IMF) Anchor: The presence of an IMF-supported program that provides financing assurances, policy conditionality, and credibility to the debtor's macroeconomic framework. IMF anchors reduce uncertainty around debt sustainability and reentry.

Official Creditor Committee (OCC): A group of bilateral creditors—traditionally Paris Club members but increasingly including non-Paris Club lenders—that negotiate debt treatment with the debtor. OCCs play a central role under the G20 Common Framework.

State-Contingent Debt Instruments (SCDIs): Instruments whose cash flows depend on specified states of the world, such as macroeconomic performance, commodity prices, or climate events. Examples include GDP-linked warrants, commodity value-recovery instruments (VRIs), and climate-resilient debt clauses (CRDCs).

Standstill: A formal or de facto period during which debt-service payments are suspended while restructuring negotiations proceed. Standstills provide temporary liquidity relief but often raise questions about arrears treatment.



Value Recovery Instruments (VRIs): Instruments that increase creditor payoffs if the debtor's economic performance exceeds agreed thresholds. VRIs are often used to bridge valuation gaps between debtors and creditors during restructurings.

Appendix C. Country Screening Criteria and Indicators

Screening universe.

The report covers **emerging market and developing economies (EMDEs)** with market access or near-market access, excluding very small economies without meaningful bond issuance.

Screening pillars and indicators.

- 1. Solvency:
 - Public debt-to-GDP (%)
 - Interest-to-revenue (%)
- 2. Liquidity:
 - Debt service-to-revenue (DS/R, %)
 - o Gross financing needs (% GDP)
- 3. External resilience:
 - Usable reserves to short-term external debt (ratio, %)
 - Current account balance (% GDP)
- 4. Market access:
 - o EMBI spreads relative to 5-year historical mean (z-score)
 - Share of non-resident holdings in local debt (%)
- 5. Policy anchor:
 - IMF program status (active/on-track, delayed, absent)
 - Credible fiscal rules or FX frameworks

Scoring methodology.

- Each indicator is standardized into z-scores relative to peers.
- Thresholds applied: green (low risk), amber (moderate), red (high).
- Pillar scores averaged with weights reflecting market pricing sensitivities (liquidity and external resilience weighted most heavily).
- Composite scores used for vulnerability maps and typology classification.

Use in report.

The screening framework underpins the vulnerability maps and scatterplots in Figures 3–4 and the indicator thresholds summarized in Table 2. It also supports the typology classifications (IMF-anchored, reform-anchored, commodity-anchored, and policy-fragile) discussed in Section 3.



Appendix D. Source–Exhibit Matrix

This appendix provides a consolidated mapping of all figures, tables, and boxes in the report to their primary sources. It highlights the mix of IMF/World Bank documents, G20/Paris Club notes, country authority releases, market data providers, and academic references that underpin the exhibits.

| Exhibit | Title | Section | Primary Sources |
|----------|---|----------------------|---|
| Figure 1 | Key Highlights of the Report | Executive Summary | Bank & Finance synthesis (2025). |
| Figure 2 | Report Roadmap | Executive Summary | Bank & Finance analysis, report structure. |
| Table 1 | EM Sovereign and Corporate Hard-Currency Primary Issuance Snapshot (2024–2025 YTD) | Section 2 | Dealogic, Bloomberg, IMF issuance logs, JPM EMBI; Bank & Finance calculations. |
| Figure 3 | EM hard-currency spreads and issuance windows (2020–2025) | Section 2 | JPM EMBI, IMF/Dealogic/Bloomberg issuance logs; Bank & Finance analysis. |
| Table 2 | Vulnerability Indicators by Pillar | Section 3 | IMF (Fiscal Monitor, DSAs), World Bank IDS, country authorities; Bank & Finance calculations. |
| Figure 4 | Global Vulnerability Map (tile map and scatter) | Section 3 | IMF DSAs, World Bank IDS, central-bank reserves, ICMA CAC database, bond prospectuses; Bank & Finance analysis. |
| Box 1 | Ethiopia under the CF: progress, comparability of treatment, and bondholder dynamics | Section 4.1 | IMF (2023b), IMF–World Bank (2025), Ethiopia MoF releases. |
| Figure 5 | Restructuring process flow under the Common Framework (timeline) | Section 4.1 | G20 (2024), Paris Club (2023), IMF (2023a, 2024a), IMF–World Bank (2025); Bank & Finance analysis. |
| Box 2 | Climate-Resilient Debt Clauses: pricing, triggers, and index implications | Section 4.4 | World Bank (2023), ICMA (2022), Government of Barbados (2019), Government of Grenada (2024). |
| Figure 6 | Instrument menu taxonomy: SCDIs, CRDCs, CAC structures | Section 4.4 | ICMA (2014, 2022), IMF (2019, 2021), World Bank (2023), Bretton Woods Committee (2024); Bank & Finance analysis. |
| Box 3 | Zambia, Ghana, and Sri Lanka: contrasting restructuring designs and lessons | Section 4.5 | IMF (2024a), Ghana MoF (2025), Sri Lanka MoF (2024), G20 (2024), IMF– World Bank (2025). |
| Table 3 | Investor Playbook by Stage (signals, catalysts, pitfalls) | Section 5.1 | IMF (2019, 2021, 2023a), IMF–World Bank (2025), G20 (2024), ICMA (2014); Bank & Finance case analysis. |



| | Legal checklist: CACs, pari | | ICMA (2014), IMF (2015, 2017, 2019), |
|----------|-----------------------------|-------------|--|
| Table 4 | passu, governing law, | Section 5.4 | Buchheit & Gulati (2000), Sturzenegger & |
| | aggregation features | | Zettelmeyer (2006). |
| | Litigation risk and | | IMF (2019), ICMA (2014), Zettelmeyer, |
| Box 4 | enhanced CACs: what's | Section 5.4 | Trebesch & Gulati (2013), U.S. court |
| | priced and why it matters | | filings (NML v. Argentina). |
| | Debtor-investor | | IMF–World Bank (2025), G20 (2024), |
| Box 5 | engagement: what works | Section 5.5 | creditor committee communiqués |
| | (and what doesn't) | | (2022–2025). |
| | Scenario spider chart: | | IMF (2023a, 2023b), IMF–World Bank |
| Figure 7 | macro drivers and spread | Section 6.1 | (2025), G20 (2024), JPM EMBI data; Bank |
| | outcomes (2025–2027) | | & Finance scenario framework. |
| | Scenario-linked strategy | | Bank & Finance scenario framework; |
| Table 5 | tilts and indicative | Section 6.2 | EMBI/GBI data (JPM); IMF–World Bank |
| | positioning | | (2025). |
| Figure 8 | Policy–Outcome Linkages | Section 7 | Bank & Finance analysis (2025). |

This matrix demonstrates the evidentiary base behind the report's exhibits, systematically linking each figure, table, and box to its supporting sources.