Kenya's USD-to-RMB Debt Conversion Was Really a Restructuring

Implications for Ethiopia and Other Countries

Brief

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Key Terms

Debt restructuring: A change to the original repayment terms of a loan, such as reducing the interest rate, adding a grace period, extending the final repayment (maturity) date, rescheduling payments, or reducing the present value of what creditors expect to receive.

SOFR: A U.S. dollar benchmark interest rate based on overnight secured lending in the Treasury repo market; commonly used for floating-rate loans and typically higher and more volatile than China's LPR, reflecting U.S. monetary policy conditions.

LPR: China's benchmark lending rate, the Loan Prime Rate, set based on submissions from major banks; used for RMB-denominated loans and generally lower and more stable than SOFR, reflecting comparatively looser domestic monetary conditions in China.

Margin: The fixed spread added to a benchmark interest rate (e.g., SOFR or LPR) to determine the total borrowing cost on a loan.

Grace period: A defined period during which a borrower is not required to make principal payments, delaying debt service obligations.

Maturity extension: An increase in the time allowed to repay a loan, pushing the final repayment (maturity) date further into the future and typically reducing near-term payment pressure.

Present value: The current value of a stream of future payments, calculated by discounting them using a specified rate to account for the time value of money.

Standard Gauge Railway (SGR): A 600-km railway—connecting Kenya's capital city of Nairobi with the port city of Mombasa and the country's interior—that was constructed by China Road and Bridge Corporation (CRBC) and financed by China Eximbank.

Introduction

When Kenya announced in October 2025 that it had converted its Standard Gauge Railway (SGR) debts to China Eximbank from dollars (USD) into renminbi (RMB), the move was widely characterized as a breakthrough for RMB internationalization and a clever way to reduce borrowing costs. Initial media reports indicated that the switch would save Kenya about $215 million a year in interest expenses. The deal was described as a major reduction in annual debt service requirements for the country. Several other countries—including Ethiopia, Mozambique, Zambia, Pakistan, and Indonesia—are now reportedly exploring the possibility of converting their Chinese debts from USD to RMB.

That headline, however, doesn't tell the full story.

The currency conversion was significant because it allowed Kenya to tether its borrowing costs to LPR rather than SOFR and reduce its exposure to U.S. monetary policy and the U.S. Federal Reserve. But this is not where most of the cash flow relief originates. Based on newly disclosed details of the deal, we demonstrate in this policy note that lower effective interest rates, additional grace periods, and longer maturities played a far more important role than the currency conversion itself.

This policy note explains how changes to benchmark rates, margins, grace periods, and maturity dates will likely affect Kenya's SGR debt service costs, including present value savings and near-term cash flow relief. It then uses the recent agreement between China Eximbank and Kenya as a precedent to model the effects of a hypothetical agreement between China Eximbank and Ethiopia (a country where the authorities have signaled interest in an analogous deal).

Based upon a detailed analysis of borrowing costs under alternate loan repayment scenarios, we answer three questions in this policy note:

- What were the key deal features that provided cash flow relief to Kenya?
- What would Kenya-style restructuring terms mean for Ethiopia?
- What are the potential key lessons for other borrowers seeking to restructure their Chinese debts?

What were the key deal features that provided cash flow relief to Kenya?

When Nairobi's deal with China Eximbank to convert its SGR debts from USD to RMB was announced, the Kenyan authorities claimed the switch would save them about $215 million a year in interest expenses and provide significant debt service relief. But was it really just a story of currency conversion?

Prior to the USD-to-RMB conversion, Kenya was facing severe debt service pressures. Repaying external creditors had become a politically-charged issue, especially after the 2024 protests over proposed tax hikes, which reflected broader public anger over the government's deteriorating fiscal position. As such, the October 2025 agreement with China Eximbank held political and financial significance: it was presented as a way to free up cash for essential public services, while also limiting Kenya's exposure to dollar-linked borrowing costs.

China is Kenya's largest bilateral creditor. From 2000 to 2023, official creditors from China issued loan commitments to public and publicly-guaranteed (PPG) borrowers in Kenya worth $10.2 billion (in constant 2023 USD), per the 1.0 version of AidData's CLG-Global Dataset. The largest loans came from China Eximbank. It issued three loans worth $4.9 billion in 2014 and 2015 to construct a railway linking the capital city of Nairobi to the port city of Mombasa and the country's interior.

The original borrowing terms that applied to the loans are central to understanding why the October 2025 deal was significant. Although all three loans were USD-denominated, only one had a fixed interest rate: a preferential buyer's credit (PBC) carrying a fixed 2% rate over a 20-year term. The other two were buyer's credit loans (BCLs) that carry floating LIBOR/SOFR-based rates plus margins (3% and 3.6%, respectively) and shorter maturities (15 and 20 years, respectively).[1] When the loan agreements were signed in 2014 and 2015, benchmark rates were low, making the all-in cost of borrowing relatively manageable (roughly 3.9%). But as global interest rates rose, the same debts became substantially more expensive to service, with all-in borrowing costs exceeding 7% by late 2025.

[1] All three SGR loan contracts can be accessed in their entirety via https://china-contracts.aiddata.org/.

Did Kenya default on its Standard Gauge Railway loans?

Kenya's National Treasury has largely met its sovereign repayment obligations to China Eximbank. Claims that it has defaulted on loans related to its Standard Gauge Railway (SGR) development are misleading. Our analysis suggests that the underlying source of confusion is the distinction between the National Treasury's repayment obligations to China Eximbank and the repayment obligations of Kenya Railways Corporation (KRC) to the National Treasury under a subsidiary, on-lending agreement. Existing data on principal payments and amounts outstanding indicate that Kenya's National Treasury has more or less consistently met its sovereign obligations to China Eximbank.[2] However, KRC has accumulated arrears to the National Treasury under its on-lending agreement, which has resulted in penalty (default) interest expenses, meaning it was the on-lent loans that defaulted. In this policy note, we model the National Treasury's debt service to China Eximbank rather than KRC's debt service to the National Treasury. Therefore, KRC's missed payments are not treated as arrears in our baseline or restructuring scenarios.

The SGR financing arrangement also requires that KRC maintain minimum cash balances in multiple escrow accounts. Failure to meet these requirements could be interpreted as a technical event of default (EOD) under the National Treasury's loan agreements with China Eximbank, even in the absence of missed principal or interest payments. KRC has failed to consistently meet these escrow account requirements, which may be another reason why there are differing interpretations of the status of the SGR loans. For a detailed analysis of the escrow account arrangements that underpin the SGR loans and their implications, see Gelpern et al. (2025).

In October 2025, China Eximbank agreed to convert the outstanding balances of all three loans from USD to RMB. Switching to RMB meant the floating interest rate (SOFR) would change to China's LPR. But the debt conversion was more than a shift in benchmark rates; it also appears to have eliminated the original (3% and 3.6%) margins charged on the loans. Prior to the restructuring, the all-in interest rates on the two variable-interest loans exceeded 7.2% and 7.8% (SOFR plus 3% and 3.6% margins). After the restructuring, the rate was reset to a

[2] In July 2022, the Government of Kenya received "settlement notes" (an overdue repayment notification) from China Eximbank. However, the borrower resumed repayments shortly thereafter. Kenya's National Treasury and China's Foreign Ministry have denied the claim that Kenya ever defaulted on its SGR repayment obligations to China Eximbank.

margin-free level aligned with LPR at around 3%.[3] On its face, this adjustment looked like a novel form of cash flow relief: Kenya would reduce its exposure to dollar funding pressures while China would advance the international use of the renminbi. But a switch from SOFR to LPR alone (holding the original margins constant) would have generated only modest savings: $28.3 million in nominal savings over the lifetime of the three loans—or roughly $23.6 million in present value terms.[4] If one models the full interest rate reset, including both the shift to LPR and the removal of the margins, the savings become much larger: $241.9 million in nominal terms and $227.9 million in present value terms over the lifetime of the loans.

While significant, these savings (based on switching benchmark rates and eliminating margins) still fall far short of the $215 million in *annual* savings claimed by the Kenyan authorities. However, a fuller picture of the savings has now emerged with the recent disclosure of the revised (post-restructuring) borrowing terms of the loans. By early 2026, it was apparent that the deal involved more than a simple currency conversion and reference rate adjustment. It also extended the maturities of two loans to 2040 (by 11 and 6 years), while introducing additional four-year grace periods (from 2026 to 2029). As such, the new agreement combined a reduction in borrowing costs with two classic restructuring tools: payment deferrals and maturity extensions.[5]

The distinction between a simple currency conversion exercise and a full-scale restructuring is crucial. The initial benchmark shift from a USD-linked rate to an RMB-linked rate lowers the cost of the debt service slightly, but the larger effect comes from dropping the margins, granting additional grace periods, and extending the final repayment dates. By suspending principal payments between 2026 and 2029 and pushing repayments into later years, the restructuring delivers most of the near-term liquidity relief, and the interest rate cut provides true savings.

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[3] Based on available sources, we assume the interest rate for the three loans is China's Loan Prime Rate (LPR) 1-year rate. China's LPR is a stable rate and has been kept low consistently due to China's monetary policy; it has been 3% in recent months and is unlikely to fluctuate significantly. Neither the Kenyan Treasury nor the Public Debt Management Office has publicly disclosed the exact all-in interest rate. However, the Cabinet Secretary for Kenya's National Treasury stated in October 2025 that "in US dollars, the interest cost comes to more than 6.0 percent—about 4.6% SOFR plus 2.0%. But with Renminbi it is about 3.0 percent." In January 2026, the Director General of Kenya's Public Debt Management Office confirmed that "interest rates on the yuan loans [are] dropping to as low as 3%, as opposed to a very high rate" on the dollar debt. Multiple Kenyan and international outlets have also identified the new rate as approximately 3%. Our LPR assumption rests on Treasury's repeated characterization of the new rate as "renminbi-based," which suggests a floating benchmark structure rather than a fixed coupon. However, if the new interest rate is fixed at or near 3%, our estimates of present value savings would only be modestly affected.

[4] Present value adjusts future payments into today's dollars (discounted at 5%), allowing comparison of the financial burden over time. Nominal values represent the actual dollar payments made in each year, without adjusting for the time value of money. More details are provided in the Methodology Note at the end of this policy note.

[5] Kenya has not disclosed which two of the three loans had the maturity extended to 2040. However, based on the amount of the savings it disclosed and the original repayment lengths, it is likely that the $1.903 billion BCL and $1.6 billion PBC (for Phase I of the SGR) were included, while the $1.39 billion BCL (for Phase II of the SGR) was excluded, thus maintaining its original maturity date (2036).

We have reconstructed amortization tables for the three affected loans, so we are now able to estimate that the October 2025 restructuring reduced the present value of Kenya's debt burden by roughly $385.8 million, as compared to the repayments Kenya faced prior to the restructuring (see Figure 1).The full restructuring implies a creditor loss (haircut) of about 10.6%.

Figure 1. Kenya's annual debt service for its railway loans before and after restructuring (in present value terms)

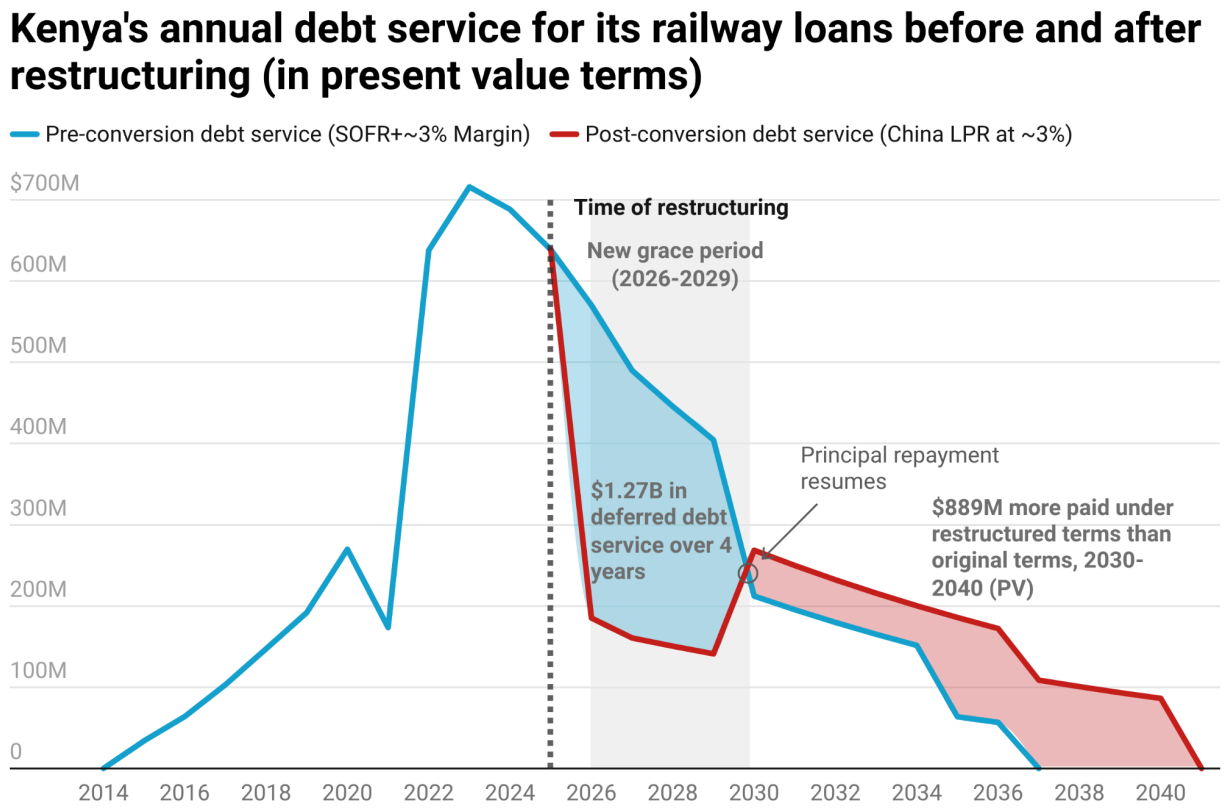


Figure 1 compares the present value of the loan repayments before and after the October 2025 debt conversion and restructuring. Although the longer maturities mean total nominal repayments are higher over time, the present value of the debt service declines by roughly $385.88 million, delivering significant savings to the borrower.

Figure 2 isolates the sources of Kenya's savings under the new agreement by identifying present value changes in four "what if" scenarios:

- Scenario 1: What if the only change is the shift in benchmark rate from SOFR to LPR?
- Scenario 2: In addition to the benchmark rate shift, what if the margin on top of the new benchmark rate is reduced?

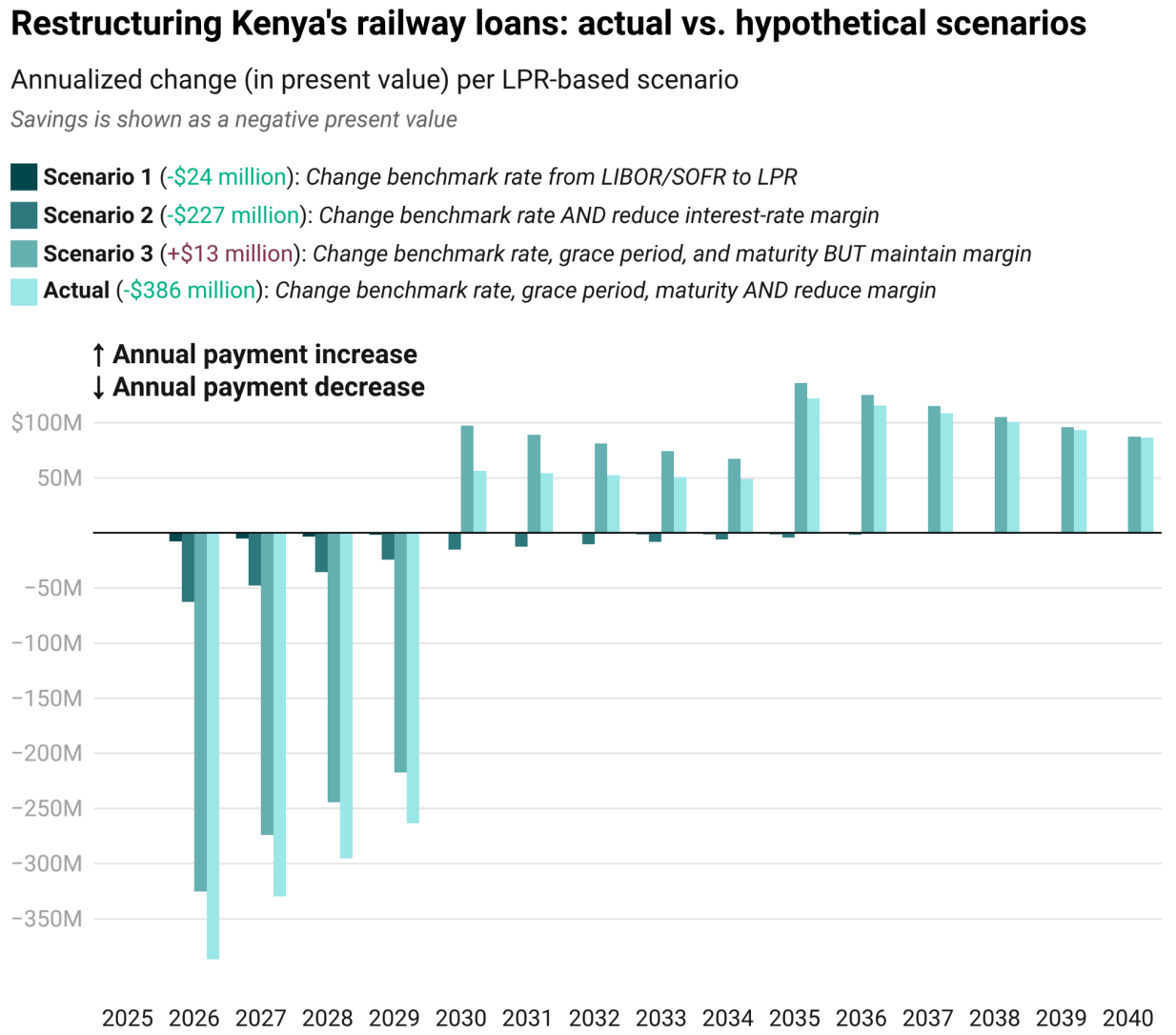
- Scenario 3: In addition to the benchmark rate shift, what if the schedule of repayments is changed in order to provide additional grace periods and extended maturities?
- Scenario 4 (Actual): What if all of these restructuring components are modeled together: change in benchmark rate, margin reductions, additional grace periods, and extended maturities?

If the only change had been the shift from a SOFR-linked rate to an LPR-linked rate while retaining the original margins (Scenario 1), Kenya would have saved little ($23.6 million) in present value terms. The larger gains accrue to Kenya because the restructuring removed the original interest margins, introduced additional four-year grace periods, and extended the maturities of the two loans. As captured in the shift from Scenario 1 to Scenario 2, the removal of margins accounts for the majority of the post-restructuring debt service cost reductions.

Scenario 3 demonstrates that, in the absence of margin relief, extending loan repayment timelines *increases* repayment costs by $13 million in present value terms. However, when combined with margin reductions, extended maturities and additional grace periods have compounding effects. Under the full cash flow relief package (Scenario 4), Kenya's estimated savings rise to $385.8 million in present value terms. This analysis implies that $362.2 million (or 93.8%) of the relief came from the restructuring terms other than the shift from SOFR to LPR.[6]

[6] It may also help clarify previous claims about large annual savings: these figures likely reflect short-term cash flow relief driven by deferred principal payments, not just lower interest costs. However, another possibility is that Kenyan officials were referring to the immediate savings between from 2026 and 2029 (due to the additional grace period). During these four years, Kenya will only be responsible for making interest payments, which will reduce annual debt service by approximately $318 million during this period.

Figure 2. Annualized changes (in present value) of Kenya's railway loan restructuring: actual vs. hypothetical scenarios



Note: This figure shows annual present value changes in debt service under different restructuring counterfactuals for Kenya's SGR loans. The baseline is the no-restructuring repayment path, based on the original borrowing terms: SOFR-based interest, including the LIBOR-to-SOFR spread and original margins, with the original repayment schedules and maturities. The benchmark-change series (Scenario 1) isolates the effect of replacing SOFR with LPR while retaining the original margins, repayment schedules, and maturities. The margin-removal series (Scenario 2) shows the additional rate effect of removing the original margins after the benchmark shift, while still retaining the original repayment schedules and maturities. The grace-and-maturity series (Scenario 3) isolates the timing effect of adding another grace period and extending maturities under the LPR-based interest-rate structure with original margins attached. The full restructuring series (Actual) compares the combined package—benchmark change, margin removal, additional grace period, and maturity extension—against the no-restructuring baseline. Negative values indicate annual payment decreases; positive values indicate annual payment increases. Values are discounted to 2025 at a 5% discount rate and do not account for exchange-rate effects from RMB conversion.

RMB-denominated debt introduces its own risks, particularly if the renminbi appreciates against the dollar or the Kenyan shilling. But the core lesson from Kenya's deal is clear. On the surface, the shift was from dollar-denominated, SOFR-linked debt to RMB-denominated, LPR-linked debt. The larger relief, however, came from more traditional restructuring levers that lowered the present value of the debt.

What would Kenya-style restructuring terms mean for Ethiopia?

Kenya's widely publicized payment relief from China Eximbank has sparked interest among other countries in converting their existing debts from USD to RMB. Ethiopia is a case in point. Discussions about converting some Chinese debts from USD to RMB have drawn attention as a possible way to reduce borrowing costs and ease pressure on the country's limited dollar reserves.

However, Ethiopia's interest in RMB debt conversion is best understood as part of a broader debt distress episode. The country initially agreed to restructure its external debts under the G20 Common Framework in January 2021. Then, in November 2023, Ethiopia's official creditors (including China) agreed in principle to a temporary debt service suspension. One month later, in December 2023, Ethiopia defaulted on its $1 billion Eurobond after failing to make a $33 million coupon payment. The default was triggered by acute foreign currency shortages and it led credit rating agencies to downgrade the country's rating to "Restricted Default" (RD) or "Selective Default" (SD). In October 2024, Ethiopia invited bondholders to participate in a parallel debt restructuring process with official creditors. Then, in January 2026, after signing a preliminary restructuring agreement with bondholders, official creditors objected on "comparability of treatment" (COT) grounds and bondholders threatened legal action.

China is Ethiopia's largest bilateral creditor.[7] Between 2000 and 2023, official creditors from China extended loan commitments to PPG borrowers in Ethiopia worth $17.7 billion (in constant 2023 USD), per the 1.0 version of AidData's CLG-Global Dataset. These loans are heavily concentrated in infrastructure sectors such as energy, telecommunications, and transport. The largest and most visible infrastructure project that Beijing has bankrolled in Ethiopia is the construction of the Addis Ababa–Djibouti railway. China Eximbank financed the construction of the railway—and the acquisition of five electric locomotives, six diesel locomotives, 30 passenger cars and 1,100 freight cars for the railway—with three large, floating-rate loans worth $2.6 billion (in constant 2023 USD).

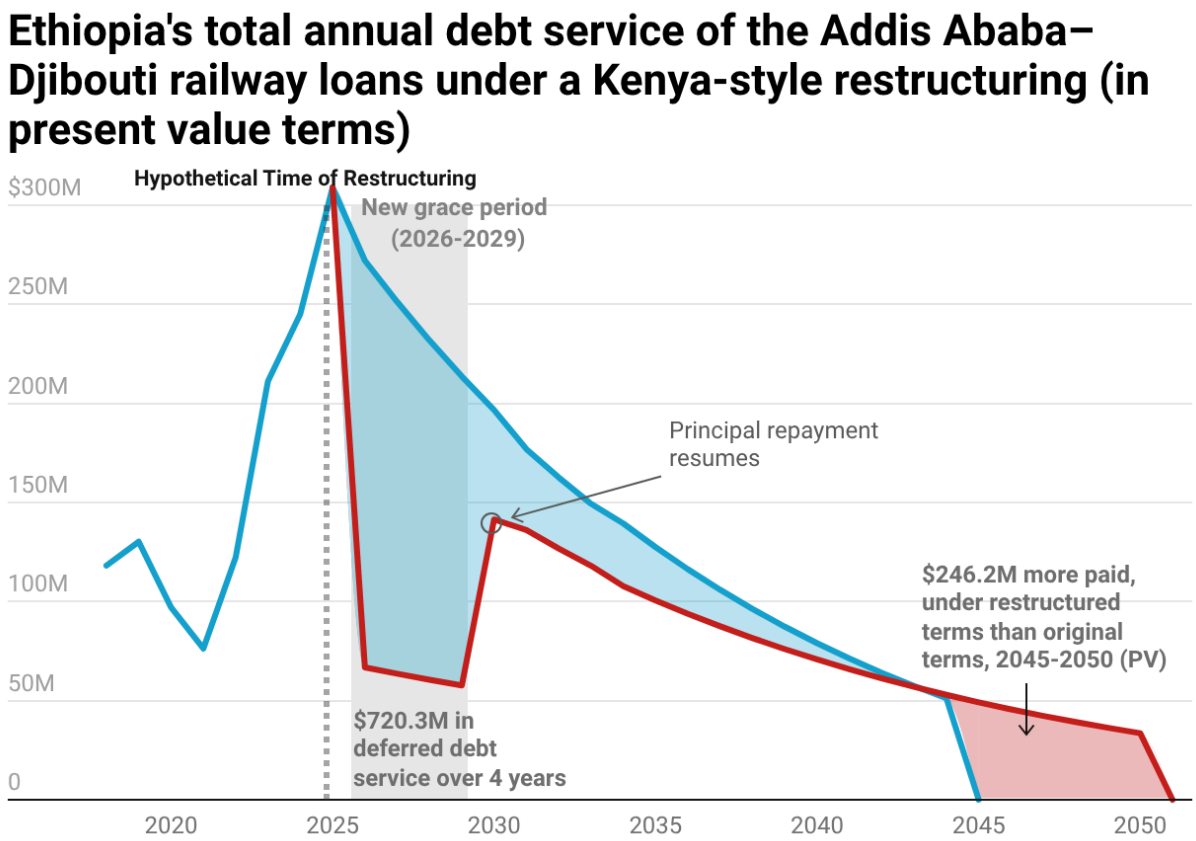
Ethiopia and Kenya have had remarkably similar experiences with servicing railway debts to China Eximbank. When Ethiopia first signed the loan agreements for the Addis Ababa–Djibouti

[7] IMF Fourth Review Under the Extended Credit

railway project in 2013, the floating interest rate structure was manageable: a low (LIBOR-based) benchmark rate and a roughly 3% margin meant that the all-in interest rate was around 3.5 to 4%. By 2025, however, the benchmark rate (SOFR) had risen to about 4.0%, pushing the all-in interest rate to roughly 7.0%. Given that none of the railway loans are scheduled to reach their maturity dates until the 2030s or 2040s, this rate hike substantially increased Ethiopia's expected debt service requirements. Consequently, a USD-to-RMB debt conversion tied to LPR could reduce borrowing costs, if the new benchmark is meaningfully lower than the existing SOFR-linked arrangement.

As Ethiopia negotiates with China Eximbank for potential relief, public reporting has not yet revealed whether a future deal may include margin removals, additional grace periods, or maturity extensions. However, to illustrate how the application of Kenya's deal terms with China Eximbank would affect Ethiopia, we apply the same terms to Ethiopia's three large China Eximbank loans for the Addis Ababa–Djibouti railway project, which are among the most likely candidates for any future deal involving a USD-to-RMB debt conversion. We compare debt service payments under existing SOFR-based repayment terms with debt service payments under Kenya-style relief measures in Figure 3.

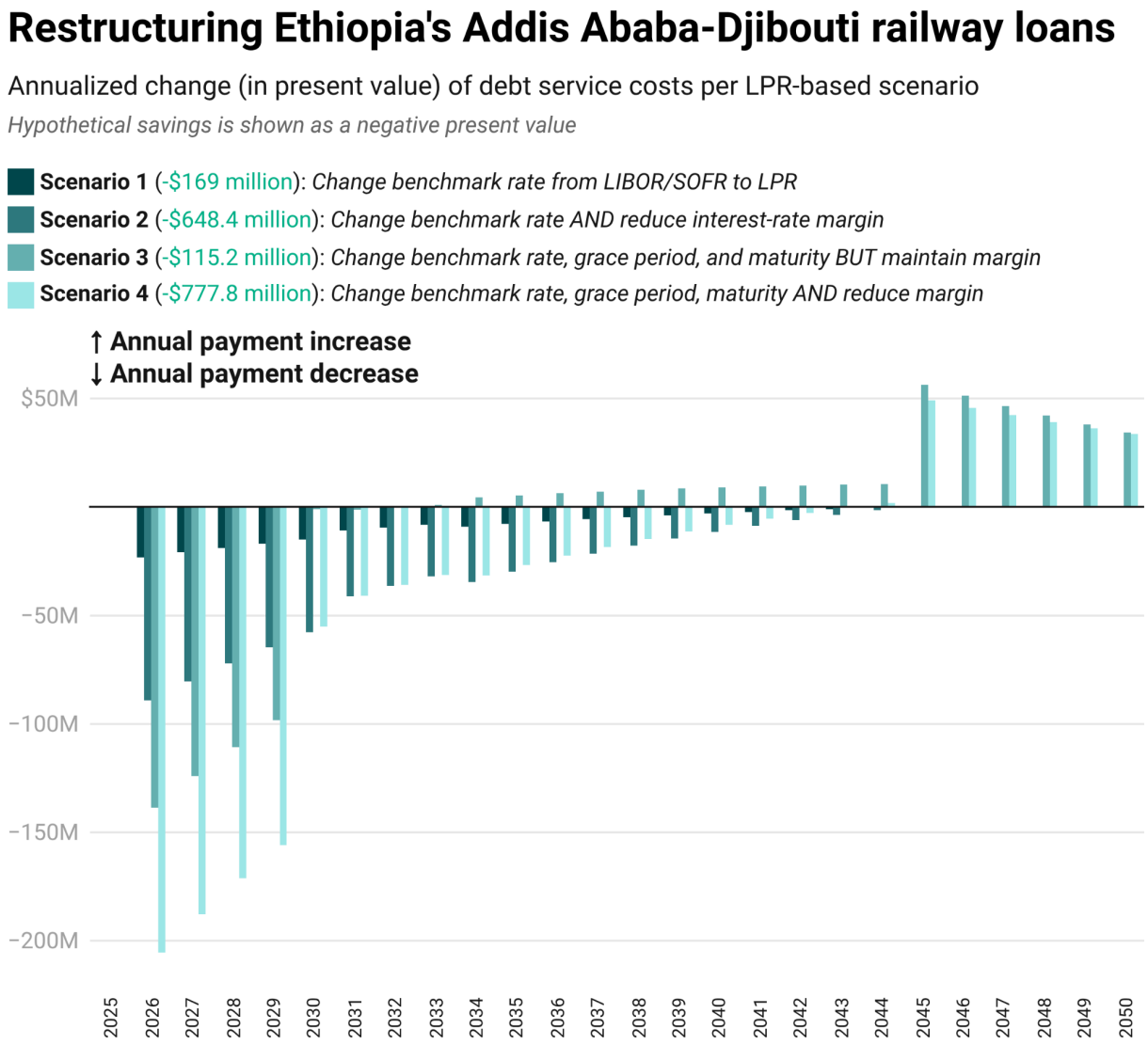
Figure 3. Projected annual debt service for Addis Ababa–Djibouti railway loans under a Kenya-style deal



If the only change is a reference rate shift from SOFR to LPR (and the original 3% margin remains intact), Ethiopia would save roughly $169.1 million in present value terms. That is meaningful but modest cash flow relief. The annual relief from the benchmark shift alone is front-loaded rather than constant, amounting to roughly $23 million in 2026, $21 million in 2027, $18 million in 2028, and $17 million in 2029, before tapering off over time.

Larger gains would accrue to Ethiopia if China Eximbank were willing to offer it restructuring terms similar to those provided in Kenya, including interest rate margin removals, additional four-year grace periods, and six-year maturity extensions (the minimum maturity extension granted in Kenya). Under that broader restructuring package, Ethiopia's savings would rise to roughly $778 million in present value terms, relative to the existing repayment structure. That means about $608.8 million (or 78.2%) of the relief would come from the additional restructuring terms beyond the change in the benchmark rate. Figure 4 disaggregates the annual changes in debt service payments based on each feature of the hypothetical restructuring package.

Figure 4. Breakdown of annual debt service changes from Ethiopia's Addis Ababa–Djibouti railway loans (in present value terms)



Note: This figure shows annual present value changes in debt service under different Kenya-style restructuring counterfactuals for Ethiopia's Addis Ababa–Djibouti railway loans. The baseline is the no-restructuring repayment path, based on the original borrowing terms: SOFR-based interest, including the LIBOR-to-SOFR spread and original margins, with the original repayment schedules and maturities. The benchmark-change series (Scenario 1) isolates the effect of replacing SOFR with LPR while retaining the original margins, repayment schedules, and maturities. The margin-removal series (Scenario 2) shows the additional rate effect of removing the original margins after the benchmark shift, while still retaining the original repayment schedules and maturities. The grace-and-maturity series (Scenario 3) isolates the timing effect of adding grace periods and extending maturities under the LPR-based interest-rate structure with original margins attached. The full restructuring series (Scenario 4) compares the combined package—benchmark change, margin removal, grace period, and maturity extension—against the no-restructuring baseline. Negative values indicate annual payment decreases; positive values indicate annual payment increases. Values are discounted to 2025 at a 5% discount rate and do not account for exchange-rate effects from RMB conversion.

In April 2026, Ethiopia and China announced a resolution on debt treatment under the auspices of the G20 Common Framework, but the terms of the deal have not yet been disclosed. Whether China Eximbank would be willing to offer a Kenya-style restructuring of the Addis Ababa–Djibouti railway loans is an open question, particularly given that some of these loans were already restructured in 2018.

What are potential key lessons for other borrowers seeking to restructure their Chinese debts?

For other borrowers, the central source of uncertainty is not whether China Eximbank might allow more loans to be converted from USD into RMB. It is whether any future debt conversion would come with restructuring terms like the ones that made Kenya's deal so valuable, i.e. margin removals, additional grace periods, and maturity extensions. Kenya received a full restructuring package, but China Eximbank may not offer the same package to other countries. If other countries only secure a benchmark rate shift from SOFR to LPR, they would receive a fraction of the cash flow relief that Kenya secured.

It is also important to keep in mind that RMB conversion is not a risk-free substitute for dollar-denominated debt. It may reduce exposure to SOFR, but borrowers would still need to secure RMB when repayments fall due. If a country's local currency weakens against the RMB, or if RMB liquidity is costly to access, the benefit of a lower interest rate might not be so large. This risk is especially relevant because the RMB remains far less widely held than the dollar.

Kenya's recent USD-to-RMB debt conversion also seems to be part of a strategic shift in China Eximbank's broader portfolio of cross-border loans as it works to accelerate the internationalization of RMB. For example, recent reporting from Sri Lanka and Bangladesh suggests that the lender is now encouraging or requiring sovereigns to borrow in RMB rather than USD. This effort seems to be part of a larger effort by Beijing to accelerate the internationalization of the RMB.

Methodology Note

This policy note draws upon data—and methods of measurement—from two proprietary sources: the 2.0 version of AidData's Chinese PPG Loan Performance Dataset (LP 2.0) and the 1.1 version of AidData's Chinese PPG Debt Restructuring Dataset (DR 1.1). LP 2.0 is a loan-level dataset that tracks the disbursements, repayments, arrears, restructurings, and outstanding amounts of public and publicly guaranteed (PPG) loans issued by Chinese state-owned creditors to low- and middle-income countries. Building on the detailed loan commitment records captured in version 3.0 of AidData's Global Chinese Development Finance Dataset, LP 2.0 combines over 11,000 independently-sourced, loan-level performance observations from public debt reports and repositories, stock exchange filings, bond prospectuses, audited financial statements, and other official and semi-official sources. These observations are used in conjunction with amortization schedule modeling techniques to estimate each loan's financial performance over time.

Our analysis also draws upon the methods of measurement that were used to construct DR 1.1, a dataset that captures changes to original loan repayment terms, including maturity extensions, additional grace periods, interest rate changes, payment deferrals, arrears treatments, and other restructuring events. We have applied these methods of measurement to a specific subset of China Eximbank's PPG loans in Kenya and Ethiopia in order to reconstruct baseline repayment schedules, incorporate observed and newly disclosed restructuring terms, and compare the debt service burdens implied by alternative repayment scenarios. This approach makes it possible to distinguish between relief generated by a benchmark-rate shift from SOFR to LPR and relief generated by more conventional restructuring tools, such as margin removal, grace period extension, and maturity extension.

To quantify the savings from restructuring, we constructed amortization tables for a specific set of PPG loans in both Kenya and Ethiopia. These tables capture loan-level disbursements, principal and interest payments, and arrears (by loan period).

To provide a benchmark for comparison, we first modeled a baseline "no-restructuring" scenario, assuming loans continued to be paid under the existing terms as of the beginning of 2025, i.e. USD payments, SOFR-based interest (which includes a "spread" applied to adjust for the move from LIBOR to SOFR) plus margin, and original maturities. We used a constant six-month SOFR + spread rate (as of January 16, 2026) for all future periods to avoid uncertainty associated with forward projections.[8] Holding SOFR constant avoids speculative forecasts; nonetheless, if rates fall, savings may be overstated, and if they rise, savings may be understated.

[8] Many loans, including those to develop the Standard Gauge Railway (SGR) in Kenya and Ethiopia, were initially LIBOR-based. The LIBOR phase-out and transition to SOFR also commonly involved fixed spread adjustments. To keep the all-in pricing roughly comparable, we apply a 0.42826% for six-month settings under standard fallback frameworks on top of SOFR and margin for all periods post 2023.

Next, we modeled a restructuring scenario, adjusting interest rates from SOFR + spread, plus margin to China's LPR (3% all-in rate) and, for Kenya, incorporating maturity and grace period extensions. USD loans were not converted to RMB due to the lack of reliable exchange rate projections, so our results do not account for exchange rate risk. We then aggregated repayments and calculated present values to compare outcomes across the two scenarios.[9] Lastly, we compared the baseline scenario with the post-restructuring scenario base in nominal and present value terms.

Additionally, to evaluate the extent of creditor losses in the Kenyan case, we estimate a Sturzenegger-Zettelmeyer (SZ) haircut by comparing the present value of debt service under the restructured scenario to that under the original repayment schedule. The haircut is defined as one minus the ratio of the present value of restructured debt to baseline debt, capturing the percentage reduction in expected repayments from the creditor's perspective.

This policy note distinguishes between nominal value and present value. Nominal value refers to the stated dollar amount of debt service or debt stock, measured at face value and not adjusted for timing. Present value, by contrast, discounts future payments into today's terms, allowing us to compare obligations that occur at different points in time on a like-for-like basis. This distinction shows that two loans can have the same nominal repayment amounts but very different financial burdens, depending on their repayment schedules, grace periods, and interest terms. In this analysis, we calculated total nominal repayments across the loans in Kenya and Ethiopia (hypothetical) and then discounted future payments at 5%, a standard fixed benchmark in sovereign debt analysis, to estimate their present value (PV) in 2025, providing a measure of the financial burden at the time of restructuring.

[9] Based on available information, we assume the new interest rate for the restructured loans is China Loan Prime Rate (LPR) 1-year rate. China LPR is a stable rate and kept low consistently due to China's monetary policy.