SOVEREIGN DEBT SUSTAINABILITY IN EMERGING MARKETS: RESTRUCTURING FRAMEWORKS, IMF INTERVENTIONS, AND FISCAL DOMINANCE IN COMPARATIVE PERSPECTIVE (2020–2026)

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ABSTRACT

This study examines sovereign debt sustainability in emerging market economies in the aftermath of the COVID-19 shock, focusing on the interaction between debt restructuring frameworks, International Monetary Fund (IMF) interventions, and fiscal dominance dynamics. Using a structured comparative case analysis of Zambia, Ghana, Sri Lanka, and Argentina over the period 2020–2024, with forward-looking elements where restructuring processes remain ongoing, the study evaluates how policy sequencing, creditor coordination, and macroeconomic conditions influence debt stabilization outcomes.

Drawing on IMF country reports, World Bank data, and recent empirical literature, the analysis shows that debt restructuring consistently reduces short-term liquidity pressures but does not ensure long-term sustainability. The effectiveness of restructuring depends on timeliness, the depth of creditor participation, and the credibility of accompanying fiscal adjustments. IMF-supported programs provide an important policy anchor by supporting fiscal consolidation and signaling credibility to markets; however, their impact is constrained when restructuring processes are delayed or incomplete. Across all cases, fiscal dominance - manifested through inflation volatility, exchange rate instability, and central bank financing of deficits - emerges as a critical factor that can weaken both restructuring outcomes and policy effectiveness.

The findings suggest that sustainable debt outcomes require coordinated restructuring processes, realistic IMF program design, strengthened fiscal institutions, and credible monetary frameworks. The study contributes to the literature by integrating restructuring dynamics, IMF conditionality, and fiscal–monetary interactions within a single comparative framework, offering policy-relevant insights for managing sovereign debt distress in an increasingly fragmented global creditor environment.

Keywords: *Sovereign Debt Sustainability; Debt Restructuring; IMF Conditionality; Fiscal Dominance; Emerging Markets; Common Framework*

1.0 Introduction

Sovereign debt vulnerabilities in emerging market economies have intensified in the aftermath of the COVID-19 pandemic. The combination of expansionary fiscal responses, declining revenues, and external financing shocks led to a sharp increase in public debt levels across developing countries between 2020 and 2022 (Kose et al., 2021). As global financial conditions tightened due to rising interest rates and persistent inflation in advanced economies, debt servicing costs increased significantly, placing additional pressure on already constrained fiscal positions (International Monetary Fund, 2023).

These dynamics were further complicated by structural changes in the composition of sovereign debt. The growing role of non-Paris Club bilateral lenders and private bondholders has increased creditor heterogeneity, making coordination during restructuring more difficult (Horn et al., 2021; Trebesch et al.,

2023). As a result, several emerging markets, including Zambia, Ghana, and Sri Lanka, entered debt distress and initiated restructuring processes, while others such as Argentina continued to face recurrent debt sustainability challenges.

In response, international policy frameworks such as the G20 Common Framework for Debt Treatments were introduced to facilitate coordinated restructuring. However, early experiences suggest that implementation has been slow and uneven, with delays in creditor negotiations and uncertainties surrounding comparability of treatment (Chuku et al., 2022). At the same time, IMF-supported programs have played a central role in crisis management by providing financial support and policy guidance.

These programs rely heavily on Debt Sustainability Analysis (DSA) and fiscal adjustment measures to restore macroeconomic stability (International Monetary Fund, 2023).

Despite these interventions, debt sustainability outcomes have remained uncertain. A key factor contributing to this uncertainty is fiscal dominance, where fiscal pressures constrain monetary policy and lead to inflationary financing of deficits. Recent studies show that fiscal dominance can undermine policy credibility, increase risk premia, and destabilize macroeconomic conditions, particularly in high-debt environments (Bianchi et al., 2022; Hooley et al., 2024). The interaction between fiscal policy, monetary policy, and debt dynamics therefore plays a critical role in determining whether restructuring efforts translate into durable stabilization.

Existing literature has examined these elements separately, focusing on restructuring design, IMF conditionality, or fiscal–monetary interactions. However, there is limited research that integrates these dimensions within a single analytical framework, particularly in the post-COVID context. This gap is important because debt sustainability is shaped by the combined effects of restructuring processes, policy interventions, and macroeconomic conditions rather than any single factor in isolation.

This study addresses this gap by analyzing the interaction between debt restructuring frameworks, IMF interventions, and fiscal dominance in emerging markets. It focuses on four cases - Zambia, Ghana, Sri Lanka, and Argentina - which provide variation in creditor composition, restructuring approaches, and macroeconomic conditions. The study seeks to answer three main questions:

- How effective are current debt restructuring frameworks in restoring debt sustainability?
- To what extent do IMF-supported programs contribute to stabilization beyond short-term liquidity relief?
- How does fiscal dominance influence the outcomes of restructuring and policy interventions?

By combining structured case analysis with policy evaluation, the study provides evidence on how these factors interact in practice. The findings highlight the importance of timely restructuring, credible fiscal adjustment, and stable monetary conditions in achieving sustainable debt outcomes.

In doing so, the study contributes to the literature in two ways. First, it offers an integrated analytical perspective that links restructuring effectiveness, IMF engagement, and fiscal dominance. Second, it provides policy-relevant insights into the design of debt restructuring frameworks and stabilization programs in an environment characterized by increasing creditor fragmentation and macroeconomic uncertainty.

2.0 Literature Review

2.1 Conceptual Review

TheDebt sustainability refers to a country's ability to meet its current and future debt obligations without resorting to exceptional financing measures or compromising macroeconomic stability. In practice, sustainability depends not only on the level of debt but on the interaction between fiscal balances,

economic growth, and borrowing costs. The standard debt dynamics framework expresses this relationship through the evolution of the debt-to-GDP ratio, which is determined by the difference between the interest rate and economic growth (r − g) and the primary fiscal balance (Lian et al., 2023).

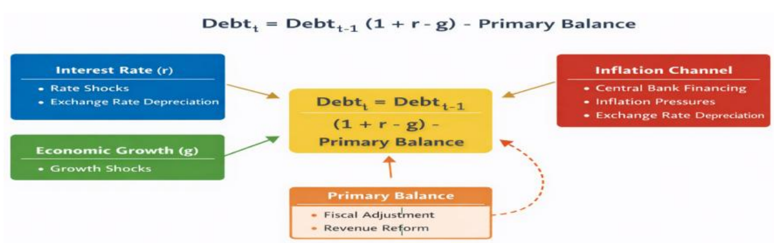

Figure 1. Sovereign Debt Sustainability Mechanics: Debt Dynamics in Emerging Markets.

The diagram illustrates the standard debt dynamics equation Debtt = Debtt-1(1+r−g) - Primary Balance, highlighting the roles of interest rate shocks (r), economic growth (g), and primary balance adjustments in shaping debt trajectories. It further incorporates the inflation channel and exchange rate pressures as amplification mechanisms - particularly under fiscal dominance conditions - demonstrating how monetary financing and macroeconomic instability can worsen debt sustainability.

While the debt-to-GDP ratio remains a widely used indicator, it provides only a partial view of sustainability. Flow-based measures such as the debt service-to-revenue ratio offer a more direct assessment of fiscal pressure, particularly in emerging markets with limited revenue capacity. High debt service burdens constrain fiscal space, reduce public investment, and increase vulnerability to rollover risks, especially in periods of external financial tightening (Kose et al., 2021). As a result, fiscal adjustment - measured through improvements in the primary balance - plays a central role in stabilizing debt trajectories.

Debt restructuring frameworks are institutional mechanisms designed to restore sustainability when debt levels become unsustainable. Their effectiveness depends on the speed of implementation, the depth of debt relief, and the degree of creditor coordination. Recent experience under the G20 Common Framework highlights persistent coordination challenges, including delays in creditor negotiations and uncertainty surrounding comparability of treatment (Chuku et al., 2022). Similarly, the use of Collective Action Clauses (CACs) in sovereign bond contracts aims to mitigate holdout problems and facilitate more orderly restructuring processes, although their effectiveness depends on creditor participation and legal design (Trebesch et al., 2023). Empirical evidence shows that prolonged restructuring processes increase output losses and delay recovery, reinforcing the importance of timely resolution (Asonuma & Trebesch, 2020).

IMF interventions play a complementary role in addressing sovereign debt distress. Through instruments such as the Extended Fund Facility (EFF) and Extended Credit Facility (ECF), the IMF provides financial support conditional on fiscal adjustment and structural reforms aimed at restoring macroeconomic stability (International Monetary Fund, 2023a). A central component of IMF engagement is the Debt Sustainability Analysis (DSA), which evaluates the trajectory of public debt under alternative macroeconomic scenarios and informs the scale of required adjustment. However, the effectiveness of IMF programs depends on their alignment with restructuring processes. Where debt restructuring is delayed or insufficient, IMF support tends to alleviate liquidity pressures without resolving underlying solvency problems (Lian et al., 2023).

Fiscal dominance represents a key constraint on the effectiveness of both restructuring and IMF-supported stabilization efforts. It arises when fiscal pressures limit the ability of monetary authorities to pursue price stability, often leading to monetary financing of deficits. This dynamic can generate inflation, exchange rate depreciation, and increased sovereign risk premia, thereby undermining debt sustainability (Bianchi et al., 2022; Hooley et al., 2024). In addition, the sovereign–bank nexus amplifies these risks, as domestic financial institutions holding government debt become vulnerable to deteriorations in sovereign creditworthiness (Brunnermeier et al., 2020).

These elements are closely interconnected. Debt restructuring frameworks and IMF interventions aim to improve fiscal balances and restore policy credibility, thereby stabilizing debt dynamics. However, their effectiveness depends on the broader macroeconomic environment, particularly the extent to which fiscal dominance is contained. When fiscal adjustment lacks credibility or monetary policy is constrained, inflationary pressures and exchange rate instability can offset gains from restructuring and external support. Consequently, debt sustainability in emerging markets is best understood as the outcome of interactions between institutional restructuring mechanisms, policy interventions, and fiscal–monetary conditions rather than any single factor in isolation.

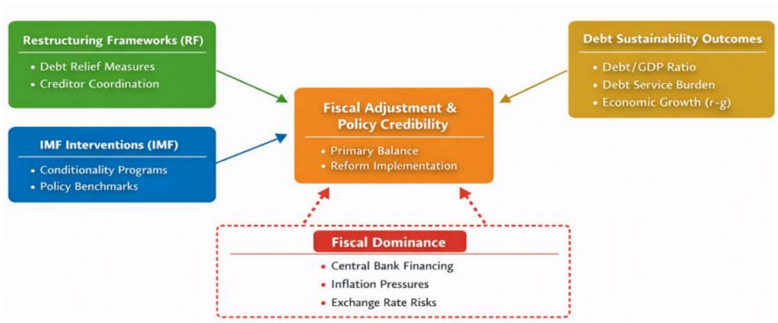

Figure 2. Integrated Conceptual Framework of Sovereign Debt Sustainability in Emerging Markets

The diagram illustrates the analytical relationships among debt restructuring frameworks and IMF interventions as policy instruments influencing fiscal adjustment and policy credibility, which in turn determine sovereign debt sustainability outcomes. Fiscal dominance operates as a moderating factor, affecting both fiscal adjustment effectiveness and debt sustainability through inflationary pressures, monetary financing, and sovereign–bank nexus risks.

Fiscal Dominance acts as a moderating variable that can weaken or distort this transmission mechanism by generating inflationary pressures, increasing risk premia, and eroding monetary credibility.

2.2 Theoretical Review

Understanding sovereign debt sustainability in emerging markets requires drawing on multiple theoretical perspectives that explain borrowing behavior, default incentives, and macroeconomic adjustment. This study integrates insights from sovereign default theory, debt overhang theory, the Fiscal Theory of the Price Level (FTPL), and the “original sin” literature to provide a coherent analytical foundation for examining debt crises in the post-COVID context.

A starting point is the sovereign default framework developed by Jonathan Eaton and Mark Gersovitz, Eaton, J., & Gersovitz, M. (1981) which conceptualizes sovereign borrowing as a trade-off between access to international capital markets and the cost of default. In this framework, governments repay debt not because contracts are legally enforceable, but because default leads to exclusion from future borrowing and reputational costs. This perspective helps explain why emerging markets accumulate debt during favorable conditions and default when external shocks reduce repayment capacity. It is particularly relevant for countries such as Zambia and Sri Lanka, where adverse shocks and declining reserves made continued debt servicing unsustainable, and for Argentina, where repeated restructuring reflects persistent credibility challenges.

Related to this, the contractual perspective advanced by Jeremy Bulow and Kenneth Rogoff Bulow, J. , & Rogoff, K. (1989)emphasizes the incomplete and renegotiation-prone nature of sovereign debt contracts. Their framework highlights the strategic interaction between debtors and creditors and explains why restructuring is often prolonged and contentious. This is consistent with recent evidence showing that creditor fragmentation and coordination failures increase the duration and cost of debt resolution (Trebesch et al., 2023). The delays observed in Zambia and Sri Lanka, particularly under the G20 Common Framework, reflect these coordination problems and illustrate how institutional arrangements shape restructuring outcomes.

Debt Overhang Theory, associated with Paul Krugman and Jeffrey Sachs, provides a complementary explanation by focusing on the real economic consequences of excessive debt (Krugman, P. 1988) Sachs, J. (1989). When a country's debt burden is perceived as unsustainable, expected future output is effectively taxed through anticipated debt servicing, discouraging investment and slowing growth. This mechanism is evident in several of the cases examined, where prolonged restructuring negotiations and high debt burdens reduced investor confidence and delayed recovery. Empirical studies confirm that delayed restructuring increases output losses and prolongs economic contraction (Asonuma & Trebesch, 2020). From this perspective, timely and credible debt relief is critical because it resets expectations and restores incentives for investment. However, as demonstrated by Argentina, restructuring alone is insufficient if underlying fiscal imbalances persist, limiting the long-term impact of debt reduction.

While debt overhang focuses on growth and investment, the Fiscal Theory of the Price Level shifts attention to the interaction between fiscal policy and inflation dynamics. According to this framework, the price level adjusts to ensure that the real value of government liabilities is consistent with expected future primary surpluses (Cochrane, 2023). When fiscal policy lacks credibility or when governments rely on monetary financing, inflation becomes the mechanism through which debt is effectively reduced in real terms. This provides a direct explanation for fiscal dominance, where fiscal pressures constrain monetary policy and undermine price stability. Recent evidence shows that fiscal dominance increases inflation volatility, weakens policy credibility, and raises sovereign risk premia (Bianchi et al., 2022; Hooley et al., 2024). These dynamics are particularly evident in Argentina and Sri Lanka, where high inflation and exchange rate depreciation were closely linked to weak fiscal discipline and reliance on central bank financing. Ghana also exhibited similar, though less severe, patterns during its crisis.

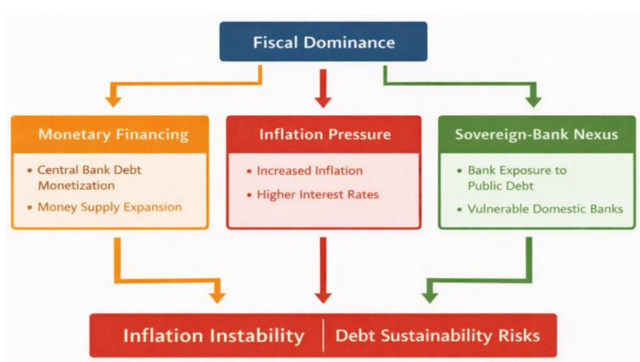

Figure 3. Fiscal Dominance Transmission Channels and Macroeconomic Implications for Sovereign Debt Sustainability.

The diagram illustrates the transmission mechanisms through which fiscal dominance affects macroeconomic stability and debt sustainability. Elevated fiscal pressures can induce monetary financing, expansion of money supply, and inflationary dynamics, while reinforcing the sovereign–bank nexus through increased domestic bank exposure to public debt. These channels interact to generate inflation instability, higher interest rates, exchange rate depreciation, and elevated sovereign risk premia, thereby amplifying debt sustainability risks.

Another structural dimension is captured by the “original sin” hypothesis, which explains why many emerging markets are unable to borrow in their own currency and instead rely on foreign currency-denominated debt (Eichengreen et al., 2021). This creates currency mismatch, exposing countries to exchange rate risk. When domestic currencies depreciate, the real burden of external debt increases, worsening debt sustainability. This mechanism played a central role in all four cases. In Zambia and Ghana, exchange rate depreciation significantly increased external debt burdens, complicating restructuring efforts. In Sri Lanka, the collapse of the currency contributed directly to the severity of the crisis, while Argentina’s long-standing reliance on foreign currency borrowing has reinforced its vulnerability to external shocks.

Taken together, these theoretical perspectives highlight that sovereign debt crises are driven by the interaction of incentives, expectations, and structural constraints. Sovereign default theory explains why countries borrow and default under changing economic conditions, while the contractual view emphasizes the difficulties of restructuring in the presence of multiple creditors. Debt overhang theory explains how excessive debt suppresses investment and growth, and FTPL provides a framework for understanding how fiscal imbalances translate into inflation and macroeconomic instability. The original sin literature adds an external dimension by showing how currency mismatches amplify vulnerability to shocks.

This integrated framework is central to the analysis in this study. Debt restructuring aims to reduce the burden of existing obligations, IMF programs seek to restore fiscal credibility and policy discipline, and monetary policy is expected to stabilize inflation and exchange rates. However, when restructuring is delayed, fiscal adjustment lacks credibility, or currency mismatches persist, these mechanisms fail to reinforce each other. The result is prolonged instability, as observed across the cases examined. By combining these theoretical insights, the study provides a more comprehensive explanation of how restructuring frameworks, IMF interventions, and fiscal–monetary dynamics jointly shape sovereign debt sustainability in emerging markets.

3.0 Methodology

3.1 Research Design

This study adopted a comparative case study design combined with structured policy analysis. The design was chosen to capture the institutional, macroeconomic, and policy dynamics underlying sovereign debt restructuring in emerging market economies.

A comparative case study approach enabled in-depth analysis of country-specific experiences while allowing systematic cross-case comparison. Sovereign debt crises are shaped by country-specific institutional arrangements, creditor structures, and macroeconomic conditions, making purely econometric approaches insufficient for capturing the full complexity of the phenomenon. The selected design therefore allowed the study to integrate contextual analysis with structured comparison across cases.

In addition, structured policy analysis was used to examine the operational features and effectiveness of debt restructuring frameworks, IMF-supported programs, and fiscal–monetary interactions. This combined approach provided a qualitative but analytically rigorous framework for evaluating how policy interventions influenced debt sustainability outcomes.

3.2 Study Scope and Case Selection

The study focused on emerging market economies that experienced sovereign debt distress and restructuring episodes between 2020 and 2024, with forward-looking policy developments extending into 2025–2026 where relevant IMF projections and restructuring processes remained ongoing.

Emerging markets were selected due to their exposure to external financing shocks, exchange rate volatility, and increasingly complex creditor compositions. These characteristics make them particularly suitable for analyzing interactions between debt restructuring frameworks, IMF interventions, and fiscal dominance risks.

Four countries were selected for detailed analysis:

- Zambia
- Ghana
- Sri Lanka
- Argentina

These cases were chosen because they represent variation in:

- Creditor composition (official bilateral vs. private bondholders)
- Restructuring frameworks (Common Framework vs. market-based restructuring)
- IMF program design and scale
- Macroeconomic instability and fiscal dominance conditions

At the same time, all cases experienced sovereign debt distress during the study period, allowing for meaningful comparison of policy responses and outcomes.

3.3 Sampling Strategy

The study employed purposive (judgmental) sampling to select information-rich cases relevant to the research objectives. Rather than selecting cases based on uniform characteristics, the sampling strategy aimed to capture variation in restructuring processes and policy responses.

Three guiding criteria were used:

1. **Debt Distress and Restructuring Episode**
   Each country experienced a clearly identifiable period of sovereign debt distress and entered a restructuring process during the study window.
2. **IMF Program Engagement**
   Each case involved an IMF-supported program (e.g., Extended Credit Facility (ECF), Extended Fund Facility (EFF), or Stand-By Arrangement (SBA)), enabling analysis of conditionality, fiscal adjustment targets, and Debt Sustainability Analysis (DSA).
3. **Variation in Fiscal-Monetary Conditions**
   Cases were selected to reflect differing degrees of fiscal pressure, inflation dynamics, exchange rate instability, and sovereign–bank linkages, rather than assuming uniform fiscal dominance across all cases.

This approach avoided pre-determining outcomes and allowed the analysis to identify how differences in institutional and macroeconomic conditions shaped debt sustainability trajectories.

3.4 Analytical Framework

The study employed a structured qualitative analytical framework to guide cross-case comparison. Debt sustainability outcomes were examined through the interaction of four core dimensions:

- **Restructuring Frameworks**
  Including time-to-resolution, creditor coordination, participation rates, and depth of debt relief.
- **IMF Interventions**
  Including program size, duration, conditionality, and the role of Debt Sustainability Analysis.
- **Fiscal and Monetary Conditions**
  Including inflation dynamics, exchange rate movements, fiscal balances, and central bank financing of deficits.
- **Macroeconomic Outcomes**
  Including debt-to-GDP trajectories, debt service burdens, growth performance, and borrowing costs.

Rather than estimating causal effects quantitatively, the framework was used to organize evidence and identify patterns across cases. This allowed the study to assess how combinations of policy interventions and macroeconomic conditions influenced debt stabilization outcomes.

3.5 Method of Analysis

The analysis combined multiple qualitative techniques to enhance rigor and transparency:

Cross-Case Comparative Analysis

A structured, focused comparison was conducted using consistent analytical questions across all cases. Each country was evaluated in terms of:

- restructuring process and timeline
- IMF program design and implementation
- fiscal adjustment outcomes
- macroeconomic stabilization indicators

Process Tracing

Within each case, process tracing was used to identify the sequence of policy actions and their observed effects. This approach helped link restructuring decisions, IMF interventions, and macroeconomic outcomes.

Policy Effectiveness Assessment

The study assessed whether restructuring agreements and IMF-supported programs corresponded with observable improvements in key indicators, including:

- reduction in debt service pressures
- stabilization of inflation and exchange rates
- improvement in fiscal balances

Thematic Synthesis

Recurring patterns across cases were identified and synthesized. These included:

- delays in creditor coordination
- optimistic assumptions in debt sustainability assessments
- inflationary pressures associated with fiscal financing
- vulnerabilities arising from the sovereign–bank nexus

Data Sources and Triangulation

To strengthen reliability, evidence was triangulated across multiple sources:

- IMF country reports and Debt Sustainability Analyses
- World Bank International Debt Statistics and country data
- central bank and ministry of finance publications
- peer-reviewed academic studies

Triangulation reduced reliance on single-source interpretations and improved the credibility of findings.

3.6 Methodological Limitations

The study acknowledges several limitations.

First, the analysis relied on secondary data sources rather than original datasets, which may limit the precision of measurement. However, the use of official IMF and World Bank data mitigated this concern.

Second, some restructuring processes and IMF programs remained ongoing during the study period. Where applicable, the analysis distinguished between observed outcomes and forward-looking projections.
Third, as a qualitative comparative study, the findings do not establish causal relationships in a statistical sense. Instead, they provide structured, evidence-based interpretation of policy interactions and outcomes.

3.7 Summary of Methodological Approach

Overall, the methodology provided a structured and context-sensitive framework for analyzing sovereign debt sustainability in emerging markets. By combining comparative case analysis, process tracing, and policy evaluation, the study was able to assess how restructuring frameworks, IMF interventions, and fiscal–monetary dynamics interacted to shape debt outcomes.

4.0 Empirical Findings and Comparative Analysis

Table 1: Key Macroeconomic Indicators at Crisis Peak

Country	Debt-to-GDP (%)	Inflation (%)	Debt Service / Revenue (%)	GDP Growth (%)	Exchange Rate Trend
Zambia	~120	~22	~30–40	Negative → recovery	Depreciation → stabilization
Ghana	~85	~54	~70+	Slowed	Sharp depreciation
Sri Lanka	~120	~60	~80+	Deep contraction	Collapse
Argentina	~90	>100	~60+	Volatile	Persistent depreciation

Source: Author's compilation based on International Monetary Fund (2022–2023) country reports and World Bank (2024))

This section examines how debt restructuring frameworks, IMF interventions, and fiscal–monetary conditions interacted across Zambia, Ghana, Sri Lanka, and Argentina. The analysis draws on country-level macroeconomic indicators, IMF program documents, and restructuring outcomes to identify patterns in debt stabilization.

Figure 4. Comparative Timeline of IMF Programs and Sovereign Debt Restructuring Episodes in Selected Emerging Markets (2020–2026).

Source: Author's illustration based on International Monetary Fund (2022–2023) country reports and World Bank (2024).

Figure 4 illustrates the sequencing of debt distress, IMF program engagement, and restructuring milestones across the four cases, highlighting differences in timing and coordination.

Table 2 Comparative Timeline of Debt Distress, IMF Programs, and Restructuring

Country	**Debt Distress Onset**	**IMF Program Approval**	**Restructuring Initiation**	**Agreement / Key Milestone**	**Peak Inflation**	**Notes**
Zambia	2020 (Default)	2022 (ECF)	2021	2023–2024 agreements	~22% (2021)	Delayed Common Framework process
Ghana	2022	2023 (ECF)	2022 (DDEP)	2023 (domestic completed)	~54% (2022)	Domestic + external restructuring
Sri Lanka	2022 (Default)	2023 (EFF)	2022	Ongoing (2023–2024)	~60% (2022)	Severe macro collapse
Argentina	Ongoing (chronic)	2022 (EFF)	2020 (private creditors)	Ongoing program revisions	>100% (2023)	Repeated restructuring cycles

Source: Author's compilation based on International Monetary Fund (2022–2023) country reports and World Bank (2024)

4.1 Zambia: Delayed Coordination and Conditional Stabilization

Zambia's experience illustrates the consequences of delayed creditor coordination under the G20 Common Framework. Following its sovereign default in November 2020, Zambia faced a prolonged restructuring process, with creditor committee formation and agreement on comparability of treatment taking nearly two years. During this period, public debt remained above 120% of GDP, and uncertainty surrounding restructuring outcomes constrained investment and growth (International Monetary Fund, 2023).

The approval of a $1.3 billion Extended Credit Facility in 2022 provided a policy anchor focused on fiscal consolidation and debt transparency. However, IMF support operated under conditions of unresolved debt restructuring, limiting its immediate effectiveness. Empirical evidence suggests that delays in restructuring amplify output losses and prolong macroeconomic instability (Asonuma & Trebesch, 2020).

Macroeconomic indicators reflected partial stabilization. Inflation declined from above 20% in 2021, and exchange rate pressures eased, supported by improved copper export performance. Nonetheless, the persistence of high debt levels and dependence on external commodity cycles continued to constrain sustainability.

The Zambian case demonstrates that IMF programs cannot substitute for timely restructuring. Instead, the sequencing of policy interventions matters. When restructuring lags behind IMF engagement, policy credibility weakens, and recovery is delayed.

4.2 Ghana: Comprehensive Restructuring and Financial Sector Trade-offs

Ghana's debt crisis in 2022 presents a contrasting case in which authorities pursued a more comprehensive restructuring strategy, including both external and domestic debt. Public debt exceeded85% of GDP, while debt service obligations consumed over 70% of government revenues, indicating severe fiscal stress (World Bank, 2024).

The Domestic Debt Exchange Programme (DDEP) marked a critical departure from traditional restructuring approaches by including local currency-denominated debt. While this broadened the scope of debt relief, it also transmitted stress to the domestic financial sector, particularly banks holding government securities. This reflects the sovereign–bank nexus identified in the literature as a key channel of financial instability (Brunnermeier et al., 2020).

The IMF's $3 billion Extended Credit Facility, approved in 2023, emphasized fiscal consolidation through revenue mobilization and primary surplus targets. Inflation, which peaked above 50% in 2022, gradually declined following policy tightening, although exchange rate volatility persisted (International Monetary Fund, 2023).

Ghana's experience highlights a central trade-off in debt restructuring. Broader restructuring improves debt sustainability but increases short-term financial instability. Fiscal dominance pressures were evident, as inflation dynamics and monetary accommodation reflected constraints on central bank independence (Bianchi et al., 2022). The case shows that restructuring design must account for domestic financial system exposure, not just external debt relief.

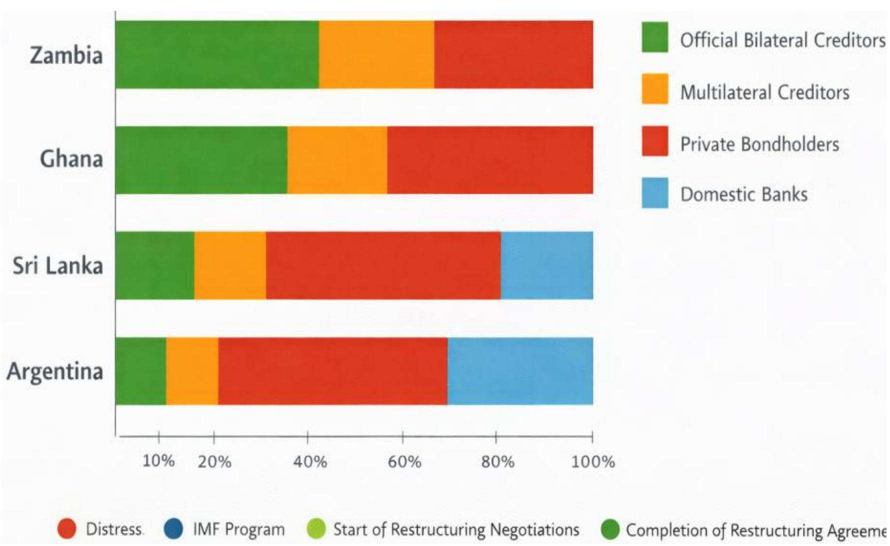

Figure 5. Creditor Composition of Public Debt Across Selected Emerging Markets

Source: Author's illustration based on International Monetary Fund (2022–2023) country reports and World Bank (2024).

Figure 5 shows the variation in creditor composition across cases, highlighting differences in exposure to bilateral lenders, private bondholders, and domestic financial institutions.

Table 3. Creditor Composition Prior to Restructuring (% of Total Public Debt)

Country	Bilateral Creditors	Multilateral Institutions	Private External (Bonds)	Domestic Debt	Key Feature
Zambia	High (~45%)	Moderate (~25%)	Moderate (~20%)	Low	Heavy exposure to bilateral lenders
Ghana	Moderate (~30%)	Moderate (~25%)	Moderate (~20%)	High (~25%)	Strong sovereign–bank nexus
Sri Lanka	Moderate (~35%)	Low (~10%)	High (~40%)	Moderate	High private bond exposure
Argentina	Low (~15%)	High (~30%)	High (~35%)	Moderate	Large IMF + private exposure

Source: Author's compilation based on International Monetary Fund (2022–2023) country reports and World Bank (2024)

4.3 Sri Lanka: Crisis-Driven Adjustment under Severe Fiscal Dominance

Sri Lanka represents a case of acute macroeconomic collapse driven by external imbalances and fiscal mismanagement. The country defaulted in April 2022 after foreign reserves were depleted, with public debt exceeding 120% of GDP and inflation surpassing 60% at its peak (International Monetary Fund, 2023).

Unlike Zambia and Ghana, Sri Lanka's crisis was characterized by simultaneous balance-of-payments failure, exchange rate collapse, and high inflation. These dynamics are consistent with the Fiscal Theory of the Price Level, where weak fiscal credibility translates into inflationary adjustment (Cochrane, 2023).

Debt restructuring negotiations were complicated by creditor heterogeneity, particularly between bilateral creditors and private bondholders. Delays in reaching agreements limited the immediate impact of the IMF's $2.9 billion Extended Fund Facility approved in 2023. While the program emphasized fiscal consolidation and revenue reforms, its effectiveness depended on restoring macroeconomic stability.

Macroeconomic outcomes showed gradual improvement. Inflation declined sharply after its peak, and exchange rate volatility reduced following policy tightening. However, output contraction and social costs remained significant.

Sri Lanka's case underscores the importance of macroeconomic stabilization as a precondition for effective restructuring. Where fiscal dominance is severe, restructuring alone cannot restore stability. Instead, credible fiscal and monetary adjustment must accompany debt relief to anchor expectations.

4.4 Argentina: Chronic Instability and the Limits of Repeated Restructuring

Argentina provides a structurally distinct case characterized by repeated debt crises and persistent macroeconomic instability. The 2020 restructuring of approximately $65 billion in private debt reduced short-term repayment pressures, while the IMF's $44 billion Extended Fund Facility approved in 2022 aimed to restore fiscal and monetary discipline (International Monetary Fund, 2022).

Despite these interventions, macroeconomic conditions remained unstable. Inflation exceeded 100% annually by 2023, and exchange rate pressures persisted. Fiscal deficits and reliance on monetary financing undermined the credibility of stabilization efforts, reflecting entrenched fiscal dominance (Bianchi et al., 2022).

Unlike other cases, Argentina's challenge lies not in the absence of restructuring but in the failure to sustain policy credibility. Repeated renegotiations of IMF targets and inconsistent fiscal adjustment weakened investor confidence. Empirical studies show that debt relief reduces borrowing costs only when accompanied by credible policy frameworks (Lang et al., 2023).

Recent policy shifts aimed at fiscal consolidation and reducing monetary financing signal attempts to address these structural weaknesses. However, the persistence of inflation and institutional constraints suggests that long-term sustainability remains uncertain.

Argentina demonstrates that debt restructuring is not sufficient in isolation. Without credible fiscal institutions and monetary discipline, restructuring gains are quickly eroded, leading to recurring crises.

4.5 Cross-Case Synthesis

Comparison across the four cases reveals several consistent patterns.
First, debt restructuring reduces immediate liquidity pressures but does not guarantee long-term sustainability. Its effectiveness depends on timeliness, creditor coordination, and the credibility of

accompanying fiscal adjustments. Delays, as observed in Zambia and Sri Lanka, prolong uncertainty and weaken recovery (Asonuma & Trebesch, 2020).

Second, IMF interventions provide important policy anchors, particularly through fiscal consolidation targets and Debt Sustainability Analysis. However, their effectiveness is conditional on the depth and timing of restructuring. Where restructuring is incomplete or delayed, IMF programs tend to address liquidity rather than solvency problems (International Monetary Fund, 2023).

Third, fiscal dominance emerges as a central constraint across all cases. Inflation volatility, exchange rate depreciation, and sovereign–bank linkages undermine monetary credibility and increase borrowing costs. These dynamics are especially pronounced in Argentina and Sri Lanka but are also present in Ghana and Zambia to varying degrees (Bianchi et al., 2022; Hooley et al., 2024).

Finally, creditor fragmentation and institutional weaknesses complicate restructuring outcomes. Differences in creditor composition, lack of transparency, and coordination failures increase time-to-resolution and reduce the effectiveness of policy interventions (Trebesch et al., 2023).

Overall, the evidence indicates that sustainable debt outcomes depend on the interaction of three factors: timely and coordinated restructuring, credible IMF-supported fiscal adjustment, and containment of fiscal dominance pressures. Weakness in any of these dimensions reduces the likelihood of durable stabilization.

Outcome Indicators	Zambia	Ghana	Sri Lanka	Argentina
Inflation	Declined in 2024	Persistently High	Peak Inflation in 2023	Hyperinflation (2023–2024)
Sovereign Debt Restructuring	Extended Timeline	Extended Timeline	Time-to-Resolution (20 Months)	Repeated Restructurings
Fiscal Dominance	Limited	High	High	High
Coordination Challenges	Moderate	High	Successive Delays	Extended Duration
Debt Sustainability Progress	Improving	Uncertain	Partial	Limited Reforms

Figure 6. Comparative Outcomes of Debt Restructuring, IMF Interventions, and Fiscal Conditions in Selected Emerging Markets (2020–2024)

Source: Author’s synthesis based on International Monetary Fund (2022–2023) country reports and World Bank (2024) data.

Figure 6 summarizes cross-country differences in inflation dynamics, restructuring outcomes, fiscal dominance, and debt sustainability progress.

Table 4. Cross-Case Outcome Matrix: Debt Sustainability Determinants

Variable	Zambia	Ghana	Sri Lanka	Argentina
Restructuring Timeliness	Low	Moderate	Low	Moderate
Creditor Coordination	Weak	Moderate	Weak	Moderate
IMF Program Effectiveness	Moderate	Moderate	Moderate	Low
Fiscal Dominance Intensity	Moderate	High	Very High	Very High
Inflation Stability	Improving	Volatile	Recovering	Unstable
Exchange Rate Stability	Moderate	Weak	Improving	Weak
Debt Sustainability Outlook	Uncertain	Fragile	Improving	Weak

Source: Author's compilation based on International Monetary Fund (2022–2024) country reports and World Bank (2024)

5.0 Summary, Policy Implications, and Conclusion

5.1 Summary of Key Findings

This study examined how debt restructuring frameworks, IMF interventions, and fiscal–monetary conditions jointly shape sovereign debt sustainability in emerging markets. Using comparative evidence from Zambia, Ghana, Sri Lanka, and Argentina, the analysis identified three consistent patterns.

First, debt restructuring improved short-term liquidity conditions across all cases by reducing immediate debt service pressures and extending maturities. However, its effectiveness depended heavily on implementation speed and creditor coordination. Delays in restructuring, particularly in Zambia and Sri Lanka, prolonged uncertainty and weakened macroeconomic recovery.

Second, IMF-supported programs contributed to macroeconomic stabilization by anchoring fiscal policy and improving policy credibility. These programs were most effective when aligned with credible and sufficiently deep restructuring efforts. Where restructuring was incomplete or delayed, IMF support primarily addressed liquidity constraints without resolving underlying solvency issues.

Third, fiscal dominance emerged as a central constraint on debt sustainability. Persistent inflation, exchange rate instability, and sovereign–bank linkages undermined monetary credibility and increased borrowing costs. These dynamics were most severe in Argentina and Sri Lanka but were also evident in Ghana and, to a lesser extent, Zambia.

Taken together, the findings show that debt sustainability is not determined by debt relief alone. It depends on the interaction between restructuring design, policy credibility, and macroeconomic stability.

5.2 Policy Implications

The findings point to specific reforms in debt restructuring architecture, IMF program design, and domestic policy frameworks.

1. Improve the speed and predictability of debt restructuring processes
Delays in creditor coordination increase economic costs and reduce the effectiveness of policy interventions. Strengthening the G20 Common Framework requires clearer timelines for creditor committee formation, improved transparency in debt data, and more consistent application of comparability of treatment principles. Faster resolution reduces uncertainty and supports earlier recovery.

2. Strengthen coordination between IMF programs and restructuring negotiations
IMF interventions are most effective when they are closely aligned with restructuring processes. Debt

Sustainability Analyses should incorporate realistic macroeconomic assumptions and explicitly account for restructuring uncertainties. Early and coordinated engagement between the IMF, official creditors, and private bondholders can reduce delays and improve policy credibility.

3. Manage the risks associated with domestic debt restructuring
Ghana's experience shows that including domestic debt can improve overall sustainability but may create financial sector stress. Policymakers should assess banking sector exposure before restructuring and implement safeguards such as recapitalization plans and liquidity support to limit systemic risks.

4. Reinforce fiscal discipline and revenue capacity
Sustainable debt outcomes require credible fiscal adjustment. This includes improving tax administration, broadening the revenue base, and maintaining realistic fiscal targets. Fiscal rules can support discipline, but they must remain flexible enough to accommodate external shocks.

5. Safeguard central bank independence and limit monetary financing
Fiscal dominance weakens stabilization efforts by undermining monetary credibility. Legal and institutional safeguards should restrict central bank financing of fiscal deficits and strengthen inflation-targeting frameworks. Maintaining policy credibility is essential for stabilizing inflation expectations and exchange rates.

6. Enhance debt transparency and reporting standards
Incomplete or opaque debt data complicates restructuring and increases risk premia. Governments should improve disclosure of creditor composition, contingent liabilities, and state-owned enterprise debt. International institutions can support standardized reporting frameworks to improve market confidence.

5.3 Conclusion

This study contributes to the literature by providing an integrated analysis of debt restructuring, IMF intervention, and fiscal dominance within a comparative framework. It shows that these factors do not operate independently but interact in ways that shape debt sustainability outcomes.

The evidence indicates that restructuring is a necessary but insufficient condition for stabilization. Its success depends on timely implementation, credible fiscal adjustment, and supportive monetary conditions. IMF programs play an important complementary role but cannot substitute for comprehensive debt resolution or strong domestic institutions. At the same time, fiscal dominance can undermine both restructuring efforts and policy interventions by generating inflation and weakening credibility.

The study also highlights the importance of institutional and structural factors. Creditor fragmentation, weak revenue systems, and financial sector vulnerabilities increase the complexity of debt crises and reduce the effectiveness of policy responses.

Two areas require further research. First, future work should quantify the interaction between fiscal dominance and restructuring outcomes using empirical methods. Second, the growing role of geopolitical factors and non-traditional creditors in sovereign debt markets warrants closer examination.

In a global environment characterized by tighter financial conditions and elevated debt levels, achieving sustainable debt outcomes will require coordinated reforms across restructuring frameworks, international financial institutions, and domestic policy regimes.

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