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## From Default to Recognition: Sovereign Recovery and the Timing of Rating Normalisation



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# Executive Summary

## The Puzzle

Countries emerging from sovereign default frequently experience a persistent gap between macroeconomic stabilisation and the normalisation of market access and credit ratings. Governments implement adjustment programmes, achieve fiscal consolidation, and demonstrate improving fundamentals under IMF-supported frameworks. Yet financing costs remain elevated, market access remains constrained, and credit ratings remain depressed long after stabilisation begins. For policymakers working within these constraints, this persistence creates frustration and confusion. The expectation is straightforward: if reforms are working, ratings and market conditions should improve accordingly. When they do not, the delay is interpreted as evidence that progress is going unrecognised or that assessment frameworks are misaligned with economic reality. This paper explains why this gap occurs systematically, and why it reflects the structure of post-default recovery rather than assessment failure or institutional inertia.

## Core Argument

The post-default period operates under a distinct analytical and evidentiary regime. Recovery after default is governed by different rules, responds to different forms of evidence, and operates according to different institutional logics than pre-crisis conditions. Macroeconomic stabilisation demonstrates that adjustment programmes are working. Normalisation requires procedural closure of legal obligations and the rebuilding of credibility through sustained performance. These are separate processes, governed by different institutions, operating on different timelines. The misalignment between them is structural.

## Three Distinct Timelines

Post-default recovery unfolds across three timelines that do not align automatically. The first is macroeconomic stabilisation. This measures policy direction and forward-looking commitment, governed through IMF-supported programmes. Evidence includes fiscal consolidation, inflation control, and programme conditionality. Progress can be relatively rapid once financing is secured.

The second is procedural debt resolution. This measures whether legal and contractual consequences of default have been formally resolved

through negotiations between the sovereign and its creditors. This timeline moves more slowly because it depends on coordination across multiple creditor classes. Agreement in principle is not the same as completion. Formal completion across all creditor categories is required before default can be resolved procedurally.

The third is default exit and subsequent rating normalisation. This timeline measures, first, when credit rating agencies lift a sovereign's default designation and, second, the pace at which ratings begin to move out of distressed categories toward normalised levels. These are related but distinct steps. 'Default exit' reflects the resolution of default status, while normalisation reflects the gradual rebuilding of creditworthiness over time. Rating committees assess this timeline through aggregated evidence across legal resolution, macroeconomic performance, and credibility rebuilding. Movement occurs only after multiple conditions are satisfied, and normalisation typically lags default exit as sustained performance is demonstrated.

Progress on one timeline does not mechanically produce progress on the others. A sovereign can demonstrate strong policy performance while restructuring remains incomplete, or complete restructuring while ratings remain constrained as credibility is rebuilt. This divergence reflects the fact that each timeline answers a different question about recovery.

## Why Procedural Completion Takes Time

Debt restructuring architecture creates delays that are independent of economic fundamentals. Coordination requirements across multiple creditor classes, legal documentation processes, and sequencing constraints mean that formal completion lags macroeconomic recovery systematically. Creditors operate through separate forums with limited coordination. Official creditors negotiate through mechanisms like the Paris Club or G20 Common Framework. Private bondholders negotiate through collective action clauses or ad hoc committees. Each forum has its own procedures and timelines.

Agreement is not the same as completion. Legal documentation must be executed, exchange offers completed, and old instruments replaced

with new ones. Partial resolution across some creditor classes does not end default status. Formal closure requires completion across all categories. This explains why sovereigns can demonstrate improving fundamentals yet remain in default status while procedural steps are completed.

## Why Ratings Remain Conservative After Completion

Sovereign default functions as an information shock that elevates uncertainty and alters the evidentiary environment in which creditworthiness is assessed. In post-default contexts, greater evidentiary weight is placed on policy durability and performance consistency over time. This reflects a rational response to elevated uncertainty following crisis. Hidden debt revelations and fiscal opacity damage the information basis on which ratings are constructed. Transparency becomes necessary but insufficient. Sustained performance and accumulated track record become central to demonstrating that improvements are durable under stressed conditions.

Rating committees emphasise forward-looking stability and policy durability rather than contemporaneous performance. Ratings move conservatively, waiting for multiple conditions to be satisfied before lifting default designations. This reflects institutional design choices about how to produce reliable signals in uncertain environments. Ratings aggregate evidence across legal resolution, macroeconomic stabilisation, and credibility rebuilding. Their movement signals that the post-default regime's requirements have been met.

## What the Country Cases Show

The patterns described are visible across recent African sovereign debt restructurings. Cases where macroeconomic stabilisation, procedural restructuring completion, and rating normalisation occur in close sequence experience shorter periods of constraint. Cases where these timelines diverge experience extended periods in which ratings remain depressed despite visible policy progress. The evidence demonstrates that alignment across timelines shortens delay, while misalignment extends it. These patterns confirm that post-default recovery operates under distinct rules, and that delays persist even when progress is visible across macroeconomic indicators and policy reform.

## Implications

Misreading delay leads to frustration and misaligned expectations. When stabilisation does not produce rapid normalisation, the persistence of

constrained financing terms can be interpreted as assessment failure or institutional unfairness. This interpretation is understandable but incorrect. Delay reflects the distinct logic of post-default recovery. Recognising this logic allows better sequencing, clearer communication, and more realistic planning. It enables governments to manage internal expectations, align policy implementation with external timelines, and navigate post-default constraints more effectively.

Sovereign credit ratings are more consequential than policymakers often assume because they integrate evidence across legal, macroeconomic, and credibility domains. They function as institutional infrastructure rather than market commentary. This does not imply primacy over other assessments, but reflects the role ratings play in aggregating and signalling when multiple conditions across the recovery process have been satisfied. Understanding this does not require deference to rating agencies, endorsement of their judgments, or acceptance of outcomes as optimal. It requires understanding what ratings actually measure, how they respond to evidence, and why their timelines diverge from macroeconomic indicators. This understanding is the foundation for strategic navigation of post-default recovery.

This paper explains why post-default delay occurs as a structural feature of the sovereign debt and credit rating architecture. It does not seek to predict the exact duration of post-default recovery, rank country performance, or identify a single pathway to faster normalisation. The timing and length of post-default constraint vary across cases depending on creditor composition, legal architecture, and domestic political conditions. These sources of variation are acknowledged but not analysed in detail here. They constitute important questions for follow-on work rather than limitations of the framework developed in this paper.

## Conclusion

Stabilisation does not mean normalisation. The post-default period has its own rules. Procedural completion and credibility rebuilding take time. Credit rating agencies operate within frameworks that prioritise durability over immediacy. These are structural features of the sovereign debt and credit rating architecture. Understanding why delays occur is not the same as accepting them as inevitable. But it is the necessary foundation for managing them strategically, without attributing fault or failure to any actor within the architecture.

# Introduction



**S**overeign debt distress has become a defining feature of development finance in the 2020s. Multiple African and emerging market sovereigns have defaulted or restructured debt under acute fiscal pressure. Governments have implemented adjustment programmes, achieved macroeconomic stabilisation, and negotiated with creditors. Yet market access remains constrained, financing costs remain elevated, and credit ratings remain depressed long after stabilisation begins. For policymakers working within these constraints, the persistence of restricted market access despite visible policy progress creates frustration and confusion. The expectation is straightforward: stabilisation should lead to normalisation. When it does not, the delay is interpreted as evidence that reform efforts are going unrecognised or that assessment frameworks are misaligned with economic reality.

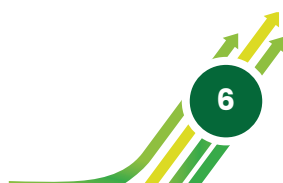
Existing literature has examined the mechanics of sovereign debt restructuring, the design of IMF programmes, and the determinants of market access. It has documented that private debt restructurings impose lasting penalties on sovereign ratings, with effects persisting up to seven years after final closure (Marchesi, Masi and Bompreszi, 2023: 1). But this literature does not explain why recovery timelines diverge systematically. The gap is conceptual. The post-default period is treated as a continuation of normal times, governed by the same logics and responding to the same forms of evidence. This expectation is rarely articulated as a formal claim, but it is observable in how post-crisis recovery is publicly narrated by policymakers. Governments frequently frame programme reviews, disinflation, reserve accumulation, or fiscal consolidation as milestones that should restore confidence and normalise financing conditions. When these milestones are followed by continued market exclusion,

elevated spreads, or delayed rating movements, the resulting gap is experienced as frustration rather than as a predictable feature of the post-default environment. This reaction is observable across recent cases in official statements, parliamentary debates, and international fora, where reforms are presented as having ‘done their work’ even as external assessments remain cautious. The paper argues that this tension does not arise from miscommunication or assessment failure, but from a misreading of how recovery is evaluated after default. The post-default period is governed by distinct procedural and evidentiary requirements that systematically alter how progress is recognised

This paper argues that the post-default period operates under a distinct analytical and evidentiary regime. Recovery is not governed by contemporaneous macroeconomic performance alone. It is governed by procedural closure and credibility rebuilding. Procedural closure requires completing legal and contractual steps across multiple creditor classes. Credibility rebuilding requires demonstrating sustained track record over time. Sovereign credit ratings function as a key institutional site through which this distinct regime operates. Rating committees work within methodologies that emphasise policy durability and forward-looking stability rather than point-in-time indicators. This creates structural lag between macroeconomic improvement and rating normalisation. The lag is structural in a sense that it arises from institutional design rather than from contingent assessment choices. Default exit and normalisation are conditioned on procedural debt resolution, legal closure across creditor classes, and the accumulation of post-crisis performance evidence over time. These requirements are embedded in sovereign debt architecture and rating methodologies and therefore



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recur across cases. While the duration of delay varies, the presence of delay does not depend on idiosyncratic misjudgement or episodic caution. It reflects the fact that post-default recovery is assessed through a different evidentiary sequence than recovery under non-crisis conditions.

The paper makes this visible through three analytical moves. First, it disaggregates post-default recovery into three distinct timelines: macroeconomic stabilisation, procedural debt resolution, and rating exit and normalisation. Each timeline is governed by different institutions, responds to different forms of evidence, and operates according to different logics. Progress on one does not mechanically trigger progress on the others. Second, it demonstrates how debt restructuring

architecture creates procedural delays that are independent of economic fundamentals. Coordination requirements across creditor classes, legal documentation processes, and sequencing constraints mean that formal completion lags macroeconomic recovery systematically. Third, it shows how sovereign default functions as an information shock that creates distinct evidentiary standards. In post-default contexts, rating assessment places relatively greater weight on the durability of policy frameworks and the stability of credit fundamentals over time, alongside contemporaneous macroeconomic indicators. Transparency remains necessary, but greater emphasis is placed on sustained performance and accumulated track record, reflecting the higher uncertainty that follows sovereign distress.

The paper proceeds in six sections.

### Section 1

establishes why post-default delay matters for development finance and situates the puzzle within the broader constraints facing sovereigns in recovery.

### Section 2

introduces the three-timeline framework and explains why these timelines diverge structurally.

### Section 3

examines how debt restructuring architecture creates procedural delays through coordination requirements and legal closure mechanisms.

### Section 4

analyses how rating assessment operates under post-default conditions, focusing on the evidentiary shift from contemporaneous performance to sustained credibility demonstration.

### Section 5

uses country cases to illustrate how these dynamics manifest in practice, showing that the patterns described are visible across recent African sovereign debt restructurings.

### Section 6

translates the analysis into implications for policymakers and development partners, focusing on how to interpret delay, manage expectations, and align policy sequencing with the institutional timelines that govern recovery.

This paper is explanatory, not prescriptive. It seeks to make visible the distinct logic of post-default recovery so that policymakers, development partners, and sovereigns can navigate this environment more effectively.

# 1 Why Post-Default Delay Matters for Development Finance



Sovereign default imposes immediate and severe constraints on a country's access to international capital markets. The investor base subsequently narrows. Governments become reliant on short-term or official financing arrangements. These consequences of default itself are relatively well documented in the literature. Yet, these constraints can persist long after macroeconomic stabilisation has begun and reform programmes are delivering measurable progress. This persistence is less widely recognised.

The magnitude and duration of post-default rating penalties can both be substantial. Default history has grown more consequential over time. Before the 2008 Global Financial Crisis, sovereigns with prior defaults received ratings approximately two notches lower than countries with similar economic fundamentals but no default history. By 2015, this penalty had increased to 2.5 notches for any default history, and nearly four notches for bond defaults (Amstad and Packer 2015: 85-86). These penalties translate into extended periods in speculative-grade ratings. Recent analysis of sovereign rating cycles over three decades finds that debt restructuring programmes and exits from international capital markets are associated with prolonged periods of low credit ratings (Agnello, Castro, and Sousa 2025: 2). Rating recovery following default is slower and more gradual than the downgrades that preceded it (Broto and Molina 2016: 206). Delays in addressing sovereign debt distress result in deeper crises for debtor countries, larger creditor losses, and longer exclusion from capital markets (Griffith-Jones and Kraemer 2021: 11).

Policymakers in affected countries interpret this prolonged constraint as evidence that reform efforts are going unrecognised. Fiscal adjustment measures are implemented, often under IMF-supported programmes. Revenue mobilisation improves and expenditure discipline strengthens. Debt sustainability trajectories begin to stabilise and reforms deliver visible macroeconomic improvements. Yet these improvements do not translate into timely changes in financing conditions.

From the policymaker perspective, the logic seems straightforward: stabilisation should lead relatively quickly to normalisation, and reform should be rewarded with improved market access and rating

upgrades. Credit rating agencies, however, operate under a fundamentally different assessment logic. They evaluate post-default credibility through sustained track records rather than contemporaneous performance, creating a temporal mismatch between policy implementation and credit recognition. This paper explores how these divergent institutional logics - one focused on demonstrating reform, the other on verifying sustainability - generate systematic delays in post-default recovery.

The problem is compounded by evidence that countries which have been downgraded possess limited capacity to accelerate subsequent upgrades through improving economic fundamentals, even when experiencing dramatic recovery (Broto and Molina 2016: 219). When alignment between reform effort and rating improvement does not materialise on expected timelines, policymakers understand this as a misalignment between policy progress and assessment outcomes. Financing remains severely constrained despite sustained policy discipline.

These perceptions matter not only for the sovereigns directly affected but also for development partners working alongside them. Multilateral institutions, donor governments, and regional development banks all operate within the constraint environment created by default status and low credit ratings. Their ability to mobilise co-financing, attract private capital participation, or leverage concessional resources depends in part on perceptions of sovereign creditworthiness. Extended periods of rating constraint therefore shape the financing architecture available to countries in recovery. They limit the scale and terms of support that can be deployed effectively.

Understanding why this delay occurs requires examining the institutional processes that govern post-default recovery and the distinct evidentiary standards that apply once default has been declared. The puzzle is not whether reform matters, but why the timeline for demonstrating credibility operates on a fundamentally different schedule than the timeline for implementing reform. Credit rating agencies assess sustainability through demonstrated consistency over time, while policy implementation focuses on delivering measurable improvements. Both logics are internally coherent; the challenge lies in their structural divergence.

## 2 The Three Timelines of Post-Recovery



After sovereign default, recovery does not unfold as a single, linear process. Three distinct timelines begin simultaneously. Each is governed by different institutions, each responds to different forms of evidence, and each operates according to different logics. Progress on one timeline does not mechanically trigger progress on the others. Understanding this divergence is essential to explaining why macroeconomic stabilisation often precedes debt resolution and rating normalisation by months or years.

### 2.1 Macroeconomic Stabilisation

The first timeline measures policy direction and economic trajectory. IMF-supported programmes and bilateral engagements with development partners govern this timeline. The evidence includes fiscal consolidation measures, inflation control, external balance improvements, and adherence to programme conditionality.

This timeline focuses on intent and forward-looking commitments rather than final outcomes. Revenue mobilisation targets are set and monitored. Expenditure discipline frameworks are established. Debt sustainability analyses project future trajectories based on policy assumptions. Progress can be relatively rapid once financing is secured and programme conditions are agreed, providing the sovereign is well disciplined. Fiscal deficits can narrow within a fiscal year, whilst inflation can be brought under control through monetary tightening. This timeline is about direction and effort, not completion.

### 2.2 Procedural Debt Resolution

The second timeline measures whether the legal and contractual consequences of default have been formally resolved. Negotiations between the sovereign and its creditors govern this timeline. These processes must reach legal and contractual closure.

This timeline can move more slowly than macroeconomic stabilisation when it depends on coordination rather than unilateral policy levers. Of course, not all sovereigns face such coordination problems because of the composition of their creditor base. But when coordination is an issue, negotiations must reach closure with all creditors and legal documentation must be executed. Partial deals or agreements in principle do not end this

timeline. Formal completion does. A sovereign can demonstrate strong policy performance under an IMF programme while debt restructuring negotiations remain incomplete, particularly when multiple creditor classes with different legal frameworks must reach agreement. The two processes operate in parallel but are governed by different actors responding to different triggers.

### 2.3 Default Exit and Normalisation

The third timeline measures when credit rating agencies determine that a sovereign's creditworthiness has been sufficiently restored to warrant exit from default status and the gradual normalisation of ratings. Rating committees operating within formal methodologies govern this timeline. These committees respond to evidence that includes both quantitative indicators and qualitative assessments.

Rating committees, not individual analysts, produce sovereign credit ratings. The committee is where individual views are debated and transformed into official assessments (Columbano and Ezzamel 2025: 645). Ratings emerge from 'a combination of quantitative factors and qualitative considerations' applied within methodological frameworks (Elkhoury 2008: 4). As Fitch's now obsolete 2002 methodology notes, 'the rating of sovereigns depends more on the art of political economy than on the science of econometrics. It depends on the careful judgement of experienced analysts about the durability of policy and the values of policy-makers' (Fitch 2002: 4).

This judgment operates within defined methodological boundaries. Committees can adjust from quantitative model outputs within specified ranges, but these adjustments are 'clearly restricted and also in layers' (Columbano and Ezzamel 2025: 643). The emphasis is on policy durability and sustained performance rather than point-in-time indicators.

Rating agencies design their frameworks to produce stable assessments over time. 'Rating agencies are averse to reversing ratings within a short period of time,' reflecting 'the view that more stable ratings are "better" ratings' (Elkhoury 2008: 10). This means that 'ratings tend to be sticky, lagging market sentiment and overreacting with a lag to economic conditions' (Elkhoury 2008: 9). This lag reflects design choices about stability versus immediacy, not analytical failure.

The reliance on judgment intensifies when data is weak or unreliable. For emerging markets and post-crisis sovereigns, 'data is usually limited and/or of questionable quality,' requiring 'analysts having to rely more on their qualitative judgment for such countries compared to the advanced markets' (Slapnik and Lončarski 2023: 8).

## 2.4 Why the Timelines Diverge

These three timelines are not designed to align automatically. Each answers a different question about post-default recovery. Macroeconomic stabilisation asks whether policies are moving in the right direction. Procedural debt resolution asks whether contractual obligations have been formally settled. Rating normalisation asks whether sustained creditworthiness has been demonstrated through performance over time.

The institutions governing each timeline operate according to different logics and respond to different forms of evidence. IMF programmes assess policy implementation against agreed targets. Debt restructuring processes assess legal completion. Rating committees assess for-

ward-looking risk using frameworks that emphasise durability and stability rather than contemporaneous economic performance.

This divergence explains why post-default recovery often feels stalled even when progress is being made. A sovereign can implement strong policies, negotiate with creditors, and demonstrate improving fundamentals, yet remain in constrained rating categories for extended periods. The misalignment is structural: it is embedded in how different institutions define and measure recovery according to their distinct mandates and accountability structures. IMF programmes respond to fiscal and macroeconomic indicators because their mandate centres on balance of payments stability. Debt restructuring processes respond to legal closure because creditors require enforceable agreements. Credit rating agencies assess credibility over time because their clients demand forward-looking risk assessment. Each institution's measurement framework reflects its core function, making the divergence a product of institutional architecture rather than coordination failure.



# 3 What 'Exit from Default' Actually Requires



Section 1 established that post-default constraints persist long after macroeconomic stabilisation begins. Section 2 explained that recovery unfolds along three distinct institutional timelines. This section addresses why exit from default is procedurally constrained - why even when governments are stabilising economies and negotiating with creditors, they often remain in default or severely constrained rating categories for extended periods.

## 3.1 What default status means in practice

From a legal perspective, a default event is a contractually specified breach of the debt contract - most notably, a failure to pay scheduled debt service beyond the grace period (Martinez et al., 2022: 9). Grace periods for interest payments typically range from 10 to 30 days (Ams et al., 2019: 4). Once the grace period expires without payment, contractual default occurs.

Default can also arise through 'distressed debt exchanges'. Credit rating agencies define as default an episode in which the sovereign offers restructuring at terms less favourable than the original debt product agreed between the parties (Martinez et al., 2022: 9). The threshold for what constitutes 'less favourable' varies across agencies: some treat any material alteration to original terms as a distressed exchange, while others apply more discretion in distinguishing liability management from distressed restructuring. This means a sovereign can enter default status even when making efforts to avoid missed payments by proactively restructuring obligations.

Default status is a legal and contractual condition, not an economic judgment. It reflects unresolved obligations under debt contracts, not an assessment of policy intent or reform effort. In defaults, old debt is typically accelerated, becoming due and payable immediately (Martinez et al., 2022: 10). Creditors gain the right to invoke contractual remedies, though they are not obligated to do so (Ams et al., 2019: 6). Cure requires meeting specific contractual conditions, not simply resuming payments or demonstrating improved economic performance.

## 3.2 Agreement is not completion

The difference between reaching an agreement in principle and formal completion is critical to understanding why rating exit lags stabilisation. Reaching a restructuring deal marks progress, but does not automatically resolve default status.

Formal completion requires that old debt instruments be surrendered and exchanged for new instruments according to applicable contractual or legislative provisions. Approval typically requires consent of the debtor and a supermajority - often 75 percent - of creditors (UNCTAD, 2015: 56). A Paris Club negotiation (country-to-country) ends in Agreed Minutes - a document that is not legally binding and does not specify all terms with precision. It must be implemented through individual bilateral government-to-government agreements (Dillon et al., 1987: 17-18). Actual restructuring occurs only through these subsequent bilateral agreements, each requiring its own legal documentation and formal execution.

If creditors previously accelerated the debt, formal reversal of that acceleration is required. In bond contracts, holders of at least 50 percent of principal may be needed to instruct reversal (Ams et al., 2019: 6). Partial deals do not resolve default status when cross-default provisions link otherwise-unrelated debt contracts (Ams et al., 2019: 6). A sovereign can successfully restructure bonded debt while remaining in default on bilateral obligations, triggering continued default status across the debt stock through contractual linkages.

Credit rating agencies cannot remove default status while material contractual conditions remain unresolved without misrepresenting the legal status of obligations. To do so would expose the credit rating agencies to legal liability from investors who utilise their products.

## 3.3 Why procedural resolution takes time

International sovereign debt restructuring involves an inherent imbalance because bankruptcy regimes do not apply to sovereign nations (Talero, 2022: 4). Domestic bankruptcy procedures provides



discharge of debts subject to supermajority agreement, with results binding on dissenters. At the sovereign level, this mechanism does not exist.

Sovereign debt is restructured in multiple fora, loosely linked through financing conditionality (Haley, 2017: 1). Different categories of debt are negotiated in different institutional settings: official bilateral debt through the Paris Club, multilateral debt through specific institutions, bank loans, external bonds, domestic bonds, and trade credits (UNCTAD, 2015: 16). The absence of a comprehensive forum has led to decisions being made across a wide range of settings at the expense of global coherence (UNCTAD, 2015: 3).

The process operates sequentially. The Paris Club typically negotiates after an IMF programme is agreed but before the sovereign restructures debt to private creditors (UNCTAD, 2015: 42). Official bilateral creditors commit first, followed by private creditor negotiations. The Paris Club requires debtors to seek comparable treatment from all other creditors, meaning the debtor is barred from providing private creditors treatment more favourable than Paris Club terms (Haley, 2017: 5).

Comparability is assessed ex-post, after private creditors conclude negotiations (Rivetti, 2022: 2). Private restructurings may occur years after the Paris Club treatment (Rivetti, 2022: 2). Empirical evidence shows significant gaps between official and private creditor terms in past restructurings, yet formal comparability assessments have been generously evaluated (Rivetti, 2022: 2). Negotiation duration reflects these coordination requirements. Pre-emptive restructurings average twelve months of negotiations. Post-default restructurings average sixty months (Martinez et al., 2022: 9). These global averages mask substantial variation however. Some post-default cases resolve within two years while others extend well beyond the average, reflecting differences in creditor composition, debt complexity, and coordination challenges. Some debt workouts extend for over a decade, with creditor groups coming on board piecemeal (UNCTAD, 2015: 55).

Holdout creditors create open-ended timelines. These creditors refuse to participate expecting the sovereign will pay them in full if it receives debt relief from others (Talero, 2022: 4). Holdout litigation is rising, reflecting increasing bonded debt held by dispersed creditors. Legal disputes can extend for many years after initial default.

The voluntary nature of private creditor participation means no mechanism exists to compel agreement (Talero, 2022: 5). When the Heavily Indebted Poor Countries Initiative (HIPC) was introduced in 1996,

private claims averaged only 5 percent of total debt eligible for relief (Talero, 2022: 4). By 2020, private creditors held more debt than bilateral creditors in approximately one quarter of relief-eligible countries (Talero, 2022: 5). Voluntary participation by private creditors - who may hold the majority of claims - has become essential, yet no enforcement mechanism exists. Recent international debt initiatives have seen limited private creditor participation despite comprehensive frameworks designed to facilitate it (Talero, 2022: 11).

Procedural completion cannot be accelerated through unilateral sovereign action. A country can implement strong policies and achieve fiscal targets, yet remain unable to complete restructuring because coordination across multiple creditor classes with different legal constraints requires time that policy performance alone cannot compress.

### 3.4 Why Post-Default Ratings Cannot Normalise Early

Credit rating agencies operate within this procedural architecture. They cannot declare defaults resolved based on macroeconomic stabilisation alone because default is a legal and contractual status, not an economic condition. The IMF permits lending to countries in arrears to private creditors when the member is pursuing appropriate policies and making good faith efforts to reach agreement (Haley, 2017: 13). These requirements create obligations to negotiate but do not require completing agreements before support flows.

Countries can implement IMF-supported programmes and resume growth while legally remaining in default. Fiscal improvement or IMF programme compliance do not cure contractual breaches or satisfy creditors' legal rights. Credit rating agencies assess whether restructuring has achieved sufficient completion to warrant exit from selective default. When negotiations proceed sequentially, when comparability is verified ex-post, when bilateral implementation extends for years, and when holdout litigation can persist for extended periods, agencies cannot confidently declare default fully resolved while material creditor classes remain unaddressed.

Evidence shows that many sovereigns that restructured debt required more than one restructuring (Martinez et al., 2022: 14). Rating exit is rule-bound rather than discretionary. Agencies cannot exit a sovereign from default while contractual conditions remain unresolved without misrepresenting the legal status of obligations. This procedural constraint operates independently of judgments about policy quality or economic trajectory. The system itself provides no clear moment of closure when multiple

creditor classes negotiate separately, when comparability assessment occurs ex-post without enforcement, when voluntary participation cannot be compelled, and when holdout litigation can disrupt outcomes indefinitely.

This procedural delay is necessary but not sufficient to explain the full duration of post-default

constraint. Even after restructuring is formally completed and default status is cured, ratings often remain in distressed categories for extended periods. Understanding why requires examining a different set of constraints - those relating to information quality, credibility assessment, and the rebuilding of track records after crisis has damaged institutional trust.



Customer	Product 1	Product 2	Product 3	Product 4
Customer 1	15%	12%	15%	3%
Customer 2				
Customer 3				
Customer 4				
Customer 5				

# 4 Information, Credibility, and the Post-Default Evidentiary Shift



Section 3 explained why procedural completion takes time and cannot be accelerated through unilateral sovereign action. This section addresses why delay often persists even after restructuring is completed. Post-default assessment operates under different evidentiary conditions than normal times. Data availability alone becomes insufficient, and credibility must be rebuilt over time through sustained confirmation.

## 4.1 Crisis as an information shock

Sovereign crises reveal previously unknown information about fiscal positions, exposing hidden liabilities and data quality problems that were not incorporated into market pricing before default. Debt statistics are systematically under-reported, with hidden debt accumulating in boom years and being revealed in bad times, often during IMF programmes and sovereign defaults (Horn et al., 2024: 2). Across all countries and years, USD 1 trillion in hidden sovereign borrowing has been added to debt statistics only in hindsight, representing more than twelve percent of total sovereign borrowing (Horn et al., 2024: 1).

Hidden debt revelations are particularly sizeable during sovereign default episodes, when the sovereign's books come under close scrutiny (Horn et al., 2024: 5). For Zambia, reported external public debt for 2021 was initially USD 12.5 billion but later revised to USD 15.7 billion, an upward revision of 14 percent of GDP (Horn et al., 2024: 7). These revelations extend beyond simple misreporting to structural features of sovereign balance sheets. Contingent government liabilities - including guarantees, sub-national government obligations, and state-owned enterprise exposures - can normally be kept off the balance sheet (Buchheit and Gulati, 2013: 287). Because their fiscal cost is invisible until they come due, they complicate fiscal analysis (Polackova, 1999: 46).

The crisis thus functions as an information shock, revealing not merely that fiscal positions were worse than reported but that the information environment itself was unreliable. Conventional approaches to public finance analysis fail to reveal hidden government obligations (Brix and Schick, 2002: 22). The fact that a government maintained balanced budgets for years does not prove fiscal prudence

when contingent liabilities are excluded from analysis (Polackova, 1999: 46).

## 4.2 Why transparency alone is insufficient

Post-crisis sovereigns often implement enhanced disclosure regimes, but publishing more data does not automatically restore trust. Data that meets formal reporting standards is still systematically revised upward, demonstrating that adequate representation at time of release does not mean accurate representation (Horn et al., 2024: 8). Even after disclosure begins, creditors may decline restructuring proposals over concerns about lack of transparency (Horn et al., 2024: 6).

The deficit persists because hidden borrowing is revealed slowly. The median revelation takes place four years after unreported borrowing, with average revelation times of 7.6 years (Horn et al., 2024: 17). Around 10 percent of unreported loans are revealed only more than 15 years after commitment (Horn et al., 2024: 17). The measure represents a lower bound, as it does not capture unreported debt that is never incorporated into debt statistics (Horn et al., 2024: 13).

Reporting noise is substantially higher in countries with weak institutional strength, limited checks and balances, and low capacity (Horn et al., 2024: 16). Information credibility is institutionally path-dependent rather than policy-adjustable; the greater the weaknesses in a country's macroeconomic framework, regulatory systems, and disclosure practices, the larger the information deficit (Polackova, 1999: 46).

## 4.3 Limits of IMF surveillance as a credibility substitute

IMF programmes provide structured monitoring and policy discipline, reducing uncertainty about near-term financing and policy intent. They do not, however, substitute for longer-term credibility rebuilding.

IMF programmes trigger hidden debt revelations but do not prevent them. New IMF programmes are associated with an increase in hidden debt revelations of 12 percent of the standard deviation of revelations (Horn et al., 2024: 18), meaning the IMF discovers rather than prevents hidden debt. Sur-



veillance depends fundamentally on member-provided data. Data can be provided to the Fund on a confidential basis without public disclosure (IMF, 2024: 9), though establishing that availability to the Fund does not equal market credibility. Compliance is often based on customary practice and bilateral understandings rather than objective audit (IMF, 2024: 25). Staff assessment of data accuracy relies on cross-checks with other macroeconomic variables (IMF, 2024: 34), indicating that mandatory data is verified only indirectly.

Enforcement mechanisms are limited. When capacity constraints prevent provision of mandatory data, members are expected to improve statistical reporting systems gradually (IMF, 2024: 9). Even after new requirements become effective, members are only required to provide data to the extent they have capacity (IMF, 2024: 43). Where obligations exist, the Fund exercises discretion not to apply remedial measures for certain categories of non-provision (IMF, 2024: 45).

IMF programmes signal effort and intent, not durability. Programmes are conditional and temporary arrangements that certify compliance with agreed benchmarks but cannot guarantee that institutional reforms will persist after programme completion. Markets and credit rating agencies require independent confirmation over time that policy performance reflects genuine institutional strengthening rather than temporary compliance driven by programme conditionality.

#### 4.4 Asymmetric belief updating after default

Negative information during crisis is incorporated quickly, while positive information after crisis is incorporated slowly. This asymmetry reflects structured risk assessment under heightened uncertainty; downside risks require immediate recognition to protect investors, while upside improvements require sustained demonstration to distinguish genuine recovery from temporary stabilisation.

Default reveals substantial but incomplete information. Post-default, lender beliefs about sovereign type change dramatically, but substantial uncertainty persists with considerable volatility in beliefs during repayment periods (Stangebye and Wright, 2021: 2, 13). Average belief dynamics slowly tend toward assessing the sovereign as reliable, with average change in lender beliefs falling by only -0.2 percent following each period of repayment (Stangebye and Wright, 2021: 2). This extremely slow convergence rate demonstrates persistent uncertainty.

Higher hidden debt at restructuring onset is associated with both longer restructuring episodes and larger creditor losses (Horn et al., 2024: 5). A one percentage point increase in unreported debt is associated with an increase in haircut of 1.23 percentage points and an increase in default duration by approximately two months (Horn et al., 2024: 21). Eliminating uncertainty associated with hidden debt allows economies to sustain higher debt at lower spreads, delivering welfare gains of 5.5 percent of permanent income (Horn et al., 2024: 3).

Deteriorating information aligns with post-crisis priors about hidden risks and is believed immediately. Improving information is treated as provisional because investors recognise that disclosure quality is endogenous to political and institutional conditions that may not have fundamentally changed. Positive signals about fiscal recovery face higher evidentiary standards post-default.

#### 4.5 Track record rebuilding and time as evidence

Post-default credibility is rebuilt through sustained policy performance, repeated data confirmation, and absence of negative surprises. Time itself becomes part of the evidence base.

Lenders' expectations about hidden debt vary with time since the last revelation (Horn et al., 2024: 26). As time passes since the last hidden debt revelation, lenders' expectations of future levels of hidden debt feature higher mean and higher variance (Horn et al., 2024: 30). Credibility is built through long-standing data provision practices established over time (IMF, 2024: 25), not through one-time disclosure.

Rebuilding data provision capacity is gradual. Improvements are supported by sustained capacity development efforts (IMF, 2024: 13). Even with new obligations, transition periods of approximately 1-3 years are required to allow members to build statistical infrastructure (IMF, 2024: 43). Legal and institutional alignment, which is necessary before disclosure can occur, requires time (IMF, 2024: 24).

Policymakers are more likely to behave fiscally responsibly when media, public, investors, credit rating agencies, and multilateral institutions understand government fiscal performance and impose sanctions when governments expose themselves to excessive risks (Brix and Schick, 2002: 12). Since the 1997 crisis in Asia, credit rating agencies have increasingly discussed government risk exposure in their country risk analyses (Brix and Schick, 2002:

56), confirming that markets distinguish between formal compliance and substantive transparency.

Single period performance is ambiguous, potentially reflecting transitory political conditions rather than genuine institutional improvement. Sustained performance across multiple periods provides costly signalling that institutional capacity has genuinely strengthened. Track record is cumulative evidence that sovereigns manage fiscal policy reliably under varied conditions, service debt without interruption across economic cycles, and implement stated policies despite political pressures.

This explains why ratings lag reforms even after completion. Post-default recovery is assessed under different evidentiary standards because crisis has revealed information deficits that cannot be resolved through declarations. Procedural completion is necessary but not sufficient. Credit rating agencies wait for track record validation

before upgrading significantly, requiring sustained evidence that improvements are durable - implemented through stressed conditions, maintained across political transitions, and consistent with institutional strengthening. This is why stabilisation does not mean normalisation.



# 5 Country illustrations – how timelines diverge in practice



## 5.1 How to read the table

The country comparison table presented below tracks the sequence and timing of key events in recent sovereign debt distress cases. It is designed to show how macroeconomic stabilisation, debt restructuring processes, and exit from default ratings by credit rating agencies often move on different timelines, even when a country is implementing an IMF-supported reform programme and macroeconomic indicators are improving.

Each column in the table represents a distinct milestone. The ‘Default or Restructuring Trigger’ marks the event that initiated debt distress, typically a missed payment or restructuring announcement. ‘Rating Default Designation Date’ shows when credit rating agencies formally designated the sovereign as being in default. ‘IMF Programme Approval’ marks the point at which an IMF-supported adjustment and reform framework is formally in place. ‘Formal Recognition of Macroeconomic Stabilisation’ reflects the point at which IMF or World Bank sources explicitly recognise macroeconomic stabilisation, citing indicators such as inflation control, primary balance improvement, or reserve accumulation. ‘Procedural Restructuring Agreement’ indicates when an agreement in principle or formal agreement is reached with creditors, which may occur before negotiations are fully completed. ‘Procedural Restructuring Closure’ marks when restructuring negotiations are completed and exchanges are executed, representing procedural completion rather than merely political or technical agreement. Finally, ‘Exit from Default Rating’ shows when credit rating agencies lift the default designation.

The table tracks timing, not the quality of policy. It is not ranking countries. The gaps between columns are analytically meaningful. The table illustrates how stabilisation, restructuring completion, and rating exit frequently occur on different timelines.

## 5.2 Early stabilisation, delayed procedural closure

In several cases, macroeconomic stabilisation preceded formal completion of restructuring by a considerable margin. Zambia provides a clear illustration. The World Bank reported macroeco-

omic stabilisation, yet procedural restructuring closure did not occur until June 2024, two years later. Ghana achieved formal recognition of macroeconomic stabilisation in December 2024. However, at that point, S&P noted that restructuring negotiations were still ‘nearing completion’ rather than concluded.

Sri Lanka followed a comparable pattern. The World Bank confirmed macroeconomic stabilisation in 2023. Procedural restructuring closure, however, occurred only in December 2024, more than a year after macroeconomic conditions had demonstrably improved.

These cases illustrate that macro-level improvement does not automatically trigger the completion of creditor negotiations. The lag reflects coordination requirements across multiple creditor classes, legal documentation processes, and sequencing constraints inherent in the restructuring architecture. As Ams et al. observe, sovereign debt is ‘restructured in multiple fora, loosely linked through financing conditionality and informal undertakings’ (2019: 1), creating structural delays that are independent of macroeconomic conditions. This is not a reflection of policy failure but of the distinct procedural requirements that govern debt resolution.

## 5.3 Procedural completion does not imply immediate rating normalisation

The table demonstrates that rating normalisation typically lags procedural completion of restructuring. This pattern is consistent with the post-crisis evidentiary standards described in earlier sections. Zambia’s restructuring negotiations were completed in June 2024. S&P did not lift Zambia from selective default to CCC+ until November 2025, one year and five months after procedural closure. This gap persisted despite the completion of formal restructuring processes.

Ghana’s case shows a similar lag. The preliminary agreement with private creditors was reached in June 2024. S&P lifted Ghana from selective default to CCC+ in May 2025, nearly eleven months after the agreement. Importantly, this rating exit came before formal procedural conclusions, suggesting that agencies assess both agreement and implementation timelines when determining default exit.

Sri Lanka's restructuring negotiations were completed in December 2024, and Fitch lifted Sri Lanka from restricted default to CCC+ on the same day. S&P and Moody's followed shortly afterward. This alignment between procedural completion and rating exit reflects the simultaneity of legal closure and agency recognition, rather than a lag between the two events.

These patterns suggest that procedural completion is a necessary condition for rating exit, but not a sufficient one for rapid rating normalisation. Time and track record appear to matter. The table does not support an interpretation based on arbitrariness or discretionary delay. Rather, the delays appear consistent with agencies waiting for demonstrable procedural resolution before lifting default designations.

#### 5.4 Ecuador as a contrast case

Ecuador serves as a contrast case, illustrating how closer alignment across timelines can shorten post-default constraint, rather than as a template for replication. The IMF Executive Board concluded in September 2021 that 'macroeconomic conditions are stabilising,' roughly one year after IMF programme approval in September 2020. The agreement in principle with creditors was reached in July 2020, and procedural restructuring closure occurred in August 2020. S&P and Fitch both raised Ecuador from selective default or restricted default to B- on 1st and 3rd September 2020, respectively, just one and three days after procedural completion.

The tighter alignment across timelines in Ecuador's case coincided with faster rating normalisation. This does not make Ecuador a model. Differences in creditor composition, legal architecture, and procedural complexity mean that Ecuador's experience

is not directly comparable to cases where multiple creditor classes and coordination mechanisms are involved. The case does, however, illustrate that when stabilisation, restructuring agreement, and procedural closure occur in close sequence, the time spent in default ratings can be shorter.

#### 5.5 Synthesis

The country comparison table confirms that post-default periods operate under distinct rules. Delays persist even when progress is visible across macroeconomic indicators and policy reform. The misalignment between stabilisation timelines, restructuring processes, and rating normalisation explains why post-default recovery can feel slow, without attributing fault to any particular actor.

Macroeconomic stabilisation does not automatically end default status. Procedural completion of restructuring does not immediately trigger rating upgrades. These patterns are structural features of the current sovereign debt and ratings architecture. They reflect the temporal disconnect between economic recovery, creditor coordination processes, and the evidentiary standards applied by credit rating agencies after default. These patterns have important implications for how policymakers and partners interpret post-default recovery.



Country	Default or Restructuring Trigger	Rating default designation date	IMF Programme Approval	Formal Recognition of Macro Stability (IMF/ WB)	Procedural Restructuring Agreement	Procedural Restructuring Closure	Exit from Default Rating	Gap: Macro Stabilisation > Rating Exit	Private Creditor Agreement > Default Rating Exit	Formal Negotiation Closure > Default Rating Exit
<b>Zambia</b>	Missed coupon payment of \$42.5 million, on the 14th October 2020	21st October 2020. Selective Default (SD) by S&P Global.	IMF Board approves SDR 978.2 million (\$1.3b) 38-month ECF arrangement - August 31st 2022.	World Bank reports major fiscal consolidation (primary surplus by 2023), sharp disinflation, and reform momentum under IMF-supported programme, while noting continued structural and social challenges	Zambia reaches \$3b deal with private creditors - 24th March 2024. It restructured with official creditors under the Common Framework a year earlier on 22nd June 2023.	Negotiations completed June 11th 2024.	S&P lifts Zambia from SD to CCC+/C with stable outlook - 23rd November 2025	2 years	1 year 8 months	1 year 5 months
<b>Ghana</b>	Government announces suspension of external debts - 19th December 2022	20th December 2022. S&P cuts Ghana to Selective Default (SD)	IMF Board approves a 36-month Extended Credit Facility (ECF) for SDR 2.242b (\$3b) - 17th May 2023	2024 programme review reports CPI inflation within MPCC band, net international reserves exceeding targets, and primary balance returning to surplus (0.5% of GDP), indicating macro stabilisation under the ECF - December 2024	12th January 2024 - Ghana reaches agreement with official creditors under Common Framework on \$5.4b. On 24th June 2024, Ghana announces preliminary agreement with private creditors for \$13b.	S&P noted that restructuring negotiations were 'nearing completion' on 9th May 2025.	S&P lifts Ghana from SD to CCC+/C with stable outlook - May 9th 2025	6 months	11 months	Exit came before formal conclusions.

<b>Sri Lanka</b>	Government officially announces suspension of all debt repayment - 12th April 2022	21st April 2022 - S&P cuts Sri-Lanka to Selective Default (SD). Other two CRAs follow suit shortly after.	IMF Board approves 48-month Extended Fund Facility for SDR 254 million (\$334m).	World Bank confirms macro-economic stabilisation, citing four consecutive quarters of growth, current account surplus in 2023, declining inflation, and restored macro balance under ongoing reforms - October 2024.	Sri Lanka agrees with official creditor committee to \$5.9b of restructured debt in November 2023. In July 2024, Sri Lanka announces \$12.5b restructuring deal with its private creditors.	Negotiation completed 20th December 2024.	Fitch lifted Sri Lanka out of Restricted Default (RD) to CCC+ on December 20th 2024. S&P and Moody's followed shortly afterwards.	1 year 2 months	5 months	Same Day
<b>Ecuador</b>	Ecuador announces liquidity constraints on March 24th 2020, and defaults formally a month later.	Fitch downgrades Ecuador to Restricted Default (RD) on April 20th 2020.	IMF Board approves 27-month Extended Fund Facility of SDR 4.615b (\$6.5b) - 30th September 2020.	IMF Executive Board concluded Second and Third Reviews under the EFF, stating that "macroeconomic conditions are stabilising" - September 2021.	Agreement in Principle agreed on 7th July 2020.	Negotiation completed August 31st 2020.	S&P and Fitch both raised Ecuador from SD/RD to B-/B- on the 1st/3rd September 2020.	No lag	6 weeks	1 day for S&P/ 3 days for Fitch
<b>Suriname</b>	Government asks private bondholders to reschedule payments on 2023 and 2026 Eurobonds - 30th June 2020.	Fitch and S&P downgrade Suriname to Restrictive Default/ Selective Default - 13th July.	IMF approves 36-month EFF for SDR 472.8m (\$688m) - 22nd December 2021.	IMF notes that Suriname's economy is stabilising - September 2023.	Agreement in Principle with bondholders agreed in May 2023. IMF notes agreement finalised in December 2023.	Negotiation completed December 6th 2023.	S&P upgraded Suriname to CCC+/C from SD on December 6th 2023.	3 months	8 months	Same Day



# 6 Implications for policymakers and development partners



## 6.1 Interpreting delay correctly

Post-default timelines are frequently longer than macroeconomic recovery would suggest. This is not unusual, nor does it imply that reforms are unrecognised. Delay after stabilisation reflects procedural and evidentiary requirements already built into the sovereign debt and credit rating architecture. Procedural completion requires coordination across multiple creditor classes, legal documentation, and formal exchange execution. Rating normalisation requires demonstrable track record rather than declarations of intent. Policymakers benefit from recognising that these processes operate on distinct timelines and respond to different forms of evidence.

Understanding this distinction helps avoid misinterpreting delayed rating upgrades as judgments on policy quality. Macroeconomic stabilisation demonstrates that adjustment programmes are working. Rating normalisation demonstrates that legal obligations have been met and credibility has been rebuilt. These are separate processes. The gap between them can span months or years, as illustrated in the country comparison table. Anticipating this lag, rather than treating it as anomalous, allows governments to manage internal expectations and avoid political strain that can arise when rapid normalisation is assumed. It also helps avoid the conclusion that additional policy measures alone will accelerate rating exit when procedural or evidentiary conditions remain incomplete.

## 6.2 Managing expectations and communication

Over-promising rapid normalisation creates political and institutional strain. When governments signal that rating upgrades will follow quickly after stabilisation, delays can be interpreted as failure, undermining domestic support for continued reform. Clear communication about post-default sequencing can reduce this frustration. Distinguishing short-term stabilisation wins from longer-term credibility rebuilding helps set realistic timelines for stakeholders. This involves explaining that macroeconomic improvements are recognised and valued, but that rating exit depends on completing distinct proce-

dural steps and accumulating performance track record.

Finance ministries and debt management offices benefit from explaining that procedural completion and rating exit are governed by contractual and evidentiary standards that differ from programme conditionality. This does not mean progress is invisible. It means progress is measured differently across different institutional frameworks. Governments can point to restructuring milestones, creditor engagement progress, and fiscal performance indicators as evidence of forward movement, even when rating designations remain unchanged. Managing expectations internally within government and externally with legislatures, civil society, and the public reduces the risk that structural delays are misread as policy shortcomings.

## 6.3 Sequencing policy, restructuring, and engagement

Stabilisation, restructuring, and credibility rebuilding require different types of evidence. Macroeconomic stabilisation relies on fiscal indicators, reserve accumulation, and inflation control. Restructuring completion relies on legal agreements, exchange execution, and creditor coordination. Credibility rebuilding relies on sustained performance and demonstrated fiscal discipline over time. Policy design should account for the fact that procedural completion and track record accumulation take time, and that these processes cannot be compressed through declarations alone.

Early engagement with creditors and transparent sequencing can reduce uncertainty, even if they do not accelerate outcomes. Providing creditors with regular updates on restructuring progress, sharing non-confidential fiscal data, and maintaining dialogue throughout negotiations can build confidence without shortening procedural timelines. Governments should recognise that procedural completion is a necessary condition for rating exit, but not a sufficient one for rapid normalisation. Sustained track record matters. Planning policy implementation with this sequencing in mind allows governments to align internal workflows with external timelines.



## 6.4 Role of development partners

Development partners should not treat delayed rating normalisation as policy failure. The analysis presented in this paper demonstrates that delays are structural features of the post-default environment, not reflections of inadequate reform effort. Support should be calibrated to post-default conditions, not pre-crisis benchmarks. Countries operating under post-default constraints face distinct challenges in market access, credibility signalling, and institutional trust that differ from those faced by countries that have not defaulted. Concessional financing, technical assistance, and programme design can account for the reality that market re-entry takes time and that rating constraints persist even after stabilisation is achieved.

Long-term capacity-building and institutional strengthening matter as much as short-term programme compliance. Procedural delays highlight the importance of debt management capacity, fiscal transparency systems, and creditor engagement frameworks. Partners can support governments by recognising that track record accumulation takes time and that sustained institutional performance is required to rebuild credibility. Interpreting post-default timelines correctly allows partners to provide more effective support and avoid misdiagnosing structural delays as

policy inadequacy. This interpretive shift enables partners to design support that matches the distinct requirements of post-default recovery rather than expecting pre-crisis dynamics to apply.

## 6.5 Closing

Recognising the distinct logic of the post-default period improves coordination and reduces misinterpretation. Delay is not anomalous. It reflects the procedural and evidentiary architecture that governs sovereign debt restructuring and credit rating processes. Understanding this structure allows policymakers to navigate post-default recovery more effectively, manage expectations more clearly, and align policy sequencing with the timelines inherent in the system. This interpretive shift supports more effective recovery strategies without attributing fault or failure to any actor within the architecture.



# Conclusion

Post-default recovery operates under a distinct analytical and evidentiary regime. This is the paper's core finding. The period after sovereign default is not a continuation of normal times. It is governed by different rules, responds to different forms of evidence, and operates according to different institutional logics. Recovery is assessed through procedural completion and credibility rebuilding rather than contemporaneous macroeconomic performance alone. Delay is therefore structural, not anomalous. Understanding this structure is essential to explaining why rating normalisation lags stabilisation by months or years, and why this lag persists even when reform programmes deliver measurable progress.

The paper has demonstrated this through three integrated arguments. First, post-default recovery unfolds across three distinct timelines. Macroeconomic stabilisation measures policy direction. Procedural debt resolution measures whether legal and contractual consequences of default have been formally closed. Rating exit and normalisation measures when creditworthiness has been sufficiently restored. These timelines are governed by different institutions and respond to different triggers. Progress on one does not mechanically produce progress on the others. This divergence reflects the fact that each timeline answers a different question about recovery.

Second, debt restructuring architecture creates procedural delays that are independent of economic fundamentals. Coordination requirements across multiple creditor classes, legal documentation processes, and sequencing constraints mean that formal completion lags macroeconomic recovery systematically. Agreement is not the same as completion. Partial resolution across some creditor classes does not end default status. The architecture requires closure across all creditor categories before default can be formally resolved. These requirements are procedural, not discretionary. They explain why sovereigns can demonstrate strong policy performance under IMF programmes while restructuring negotiations remain incomplete.

Third, sovereign default functions as an information shock that elevates uncertainty and alters the evidentiary environment in which creditworthiness is assessed. In post-default contexts, greater evidentiary weight is placed on the durability of policy

frameworks and the consistency of performance over time, alongside standard macroeconomic indicators. Transparency remains necessary but is not sufficient on its own. Sustained performance and accumulated track record become central to demonstrating that improvements are durable under stressed conditions. The shift in evidentiary standards is rational given the information environment created by crisis. Hidden debt revelations and fiscal opacity damage the information basis on which ratings are constructed. Restoring that basis requires demonstrating policy durability, not just achieving stabilisation.

Sovereign credit ratings emerge in this architecture as a central integrating signal, reflecting evidence across legal resolution, macroeconomic stabilisation, and credibility rebuilding. They do not simply reflect current conditions. They aggregate evidence across all three timelines and translate that evidence into forward-looking assessments of creditworthiness. Rating committees operate within methodologies that emphasise stability and durability rather than point-in-time indicators. They are designed to move conservatively, waiting for multiple conditions to be met before lifting default designations or upgrading assessments. This conservatism is not arbitrary. It reflects institutional design choices about how to produce stable, reliable signals in uncertain environments.

This explains why ratings are more consequential than policymakers often assume. Because they integrate across legal, macroeconomic, and credibility domains, and because they move only after procedural and evidentiary conditions are satisfied, ratings function as stable reference points embedded in regulatory frameworks, investment mandates, and financing architecture. They are designed for institutional stability rather than real-time market responsiveness, which explains why they adjust more slowly than market prices or macroeconomic indicators.

For policymakers and development partners, misreading delay leads to frustration and misaligned expectations. When stabilisation does not produce rapid normalisation, the persistence of constrained financing terms can be interpreted as assessment failure or institutional unfairness. This interpretation is understandable but incorrect. Delay reflects the distinct logic of post-default recovery. Recog-

nising this logic allows better sequencing, clearer communication, and more realistic planning. It does not require deference to credit rating agencies, endorsement of their judgments, or acceptance of outcomes as optimal. It requires understanding what ratings actually measure, how they respond to evidence, and why their timelines diverge from macroeconomic indicators.

Stabilisation does not mean normalisation. The post-default period has its own rules. Procedural completion and credibility rebuilding take time. Credit rating agencies operate within frameworks that prioritise durability over immediacy. These are

structural features of the sovereign debt and credit rating architecture, not choices made by individual actors. Recognising these features improves policy realism without assigning blame. It allows governments to navigate post-default constraints more effectively and partners to calibrate support more appropriately. Understanding why delays occur is not the same as accepting them as inevitable. But it is the necessary foundation for managing them strategically. Understanding the structure of post-default recovery is a necessary precursor to any discussion of how recovery timelines might be shortened or better supported.

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Understanding the structure of post-default recovery is a necessary precursor to any discussion of how recovery timelines might be shortened or better supported.

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