

# Considerations on sovereign restructurings

CAREC/MCDF Workshop on Debt Sustainability

November 2024



## Normal restructuring process

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- 1. IMF macrofiscal framework and Debt Sustainability Analysis (DSA)**
- 2. Financing assurances from official creditors**
- 3. IMF program approval**
- 4. Official creditor restructuring before the first review**
- 5. Commercial creditor restructuring on comparable terms before the second review**



# Constraints in a sovereign restructuring

What debtor countries are trying to solve for

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- 1. IMF program financing gap**
- 2. IMF debt sustainability targets**
- 3. Comparability of treatment**
- 4. Most-favored creditor provisions**



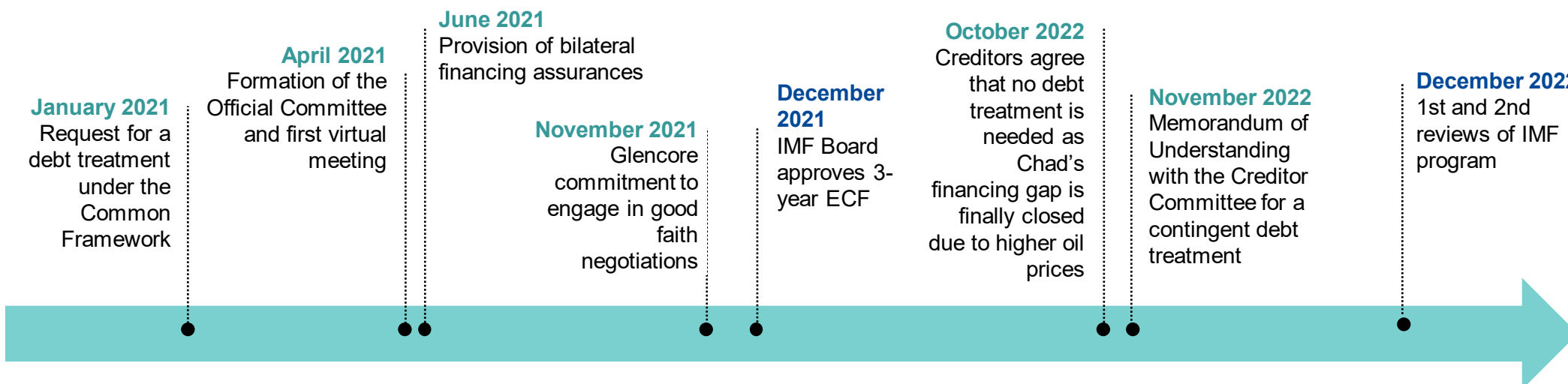
## Architecture shift: DSSI and Common Framework

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- **May 2020: DSSI**
  - *73 poor countries, standardized terms, NPV neutral, bilateral creditors only*
- **September 2020: Common Framework**
  - *Same countries, ad hoc terms, broader scope, comparability of treatment for commercial creditors*
- **February 2023: Global Sovereign Debt Roundtable**
  - *Creditors and debtors, no specific country cases, policies*



A rapid debt treatment enabled by a supportive macroeconomic context, in particular linked to higher oil prices



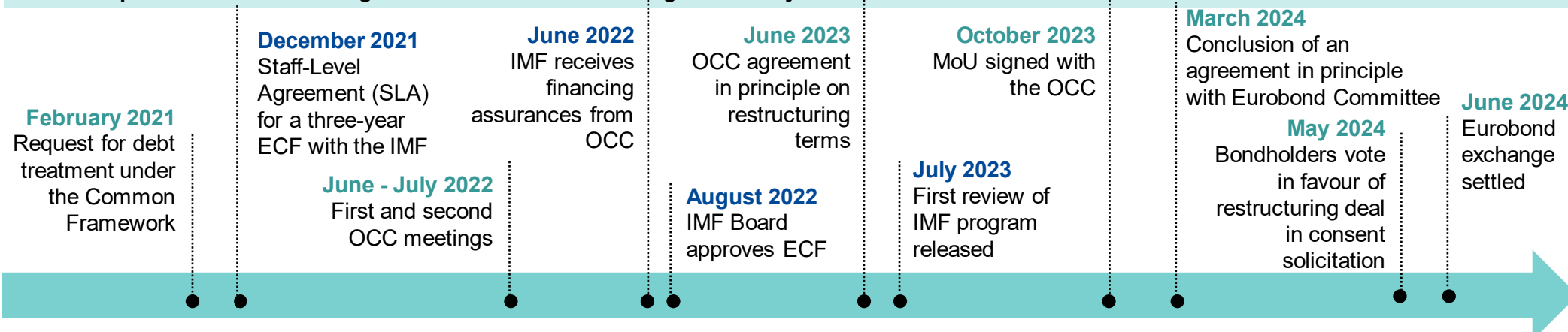
## Key takeaways

- **First test case for the Common Framework: setting up coordination mechanisms**
- **Debates around IMF assumptions for commodities**
- **Leverage of commodity traders in restructuring negotiations**





## Zambia's protracted restructuring timeline reveals the challenges faced by the Common Framework



## Key takeaways

- **Application of IMF policies: financing assurances and arrears policies leading to delay of several years before IMF program approval**
- **Debates around the perimeter: multilateral development banks, nonresident holders of domestic debt, debt of state-owned enterprises**
- **Uncertainty around the application of comparability of treatment with bondholders**
- **Design of state contingent instruments for both official and commercial creditors**





Sri Lanka's debt restructuring is well advanced, with Eurobond holders having recently received approval from both the IMF and OCC on their deal



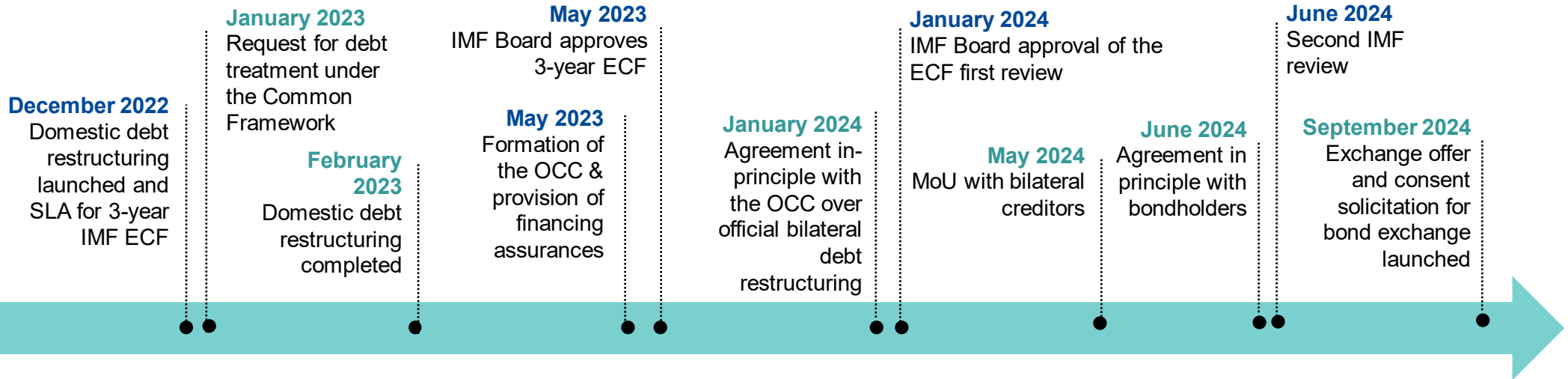
## Key takeaways

- **Soft coordination outside of the Common Framework**
- **Hesitations about a domestic restructuring, and design driven by the IMF public debt targets**
- **Difficulties with the IMF DSA: high debt targets, and the design of state-contingent**





Ghana's restructuring was unique in beginning with domestic debt, catalysing external creditors' goodwill in subsequent stages



## Key takeaways

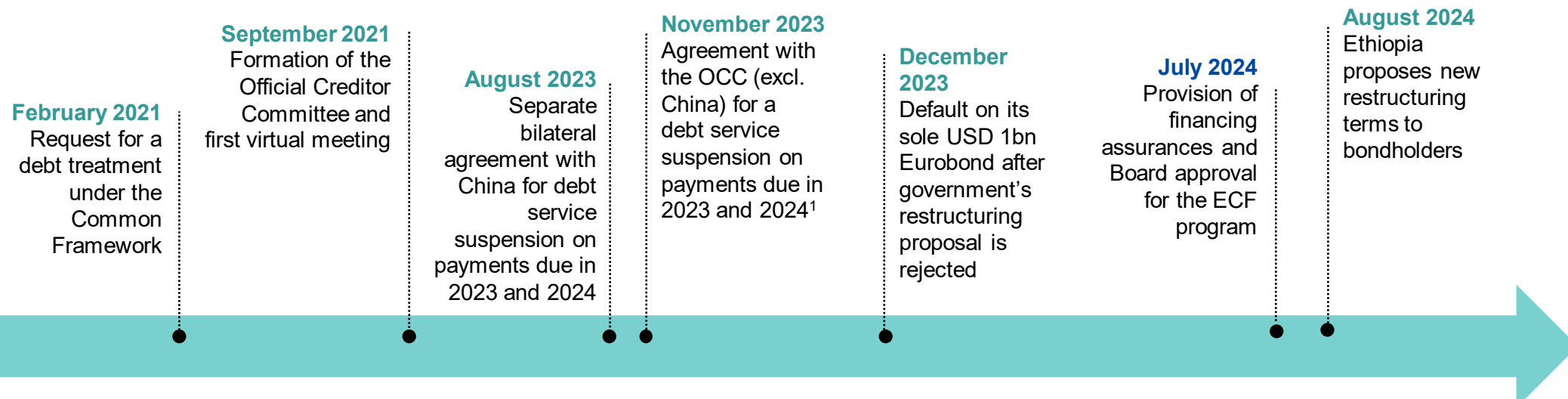
- Sequencing with a domestic restructuring before the IMF program
- Challenges to IMF economic assumptions and creditor demand for state contingent instruments
- Accelerated process with the learning curve from Zambia







Progress on Ethiopia's external debt restructuring has been slow, with IMF funding unlocking the potential for acceleration



## Key takeaways

- Official creditors providing an interim debt service suspension
- China leading the way with coordination across banks
- Uncertainty around the treatment of bondholders



## Overview of the different timelines

	CF			Non-CF	
	Chad	Zambia	Ghana	Suriname	Sri Lanka
Date of SLA	January 27, 2021	December 3, 2021	December 12, 2022	April 29, 2021	September 1, 2022
Paris Club / OCC assurances	June 16, 2021	July 30, 2022	May 12, 2023	November 30, 2021	February 7, 2023
Program approval	December 10, 2021	August 31, 2022	May 17, 2023	December 22, 2021	March 20, 2023
AIP reached with PC or OCC	November 11, 2022	June 22, 2023	January 12, 2024	June 22, 2022	November 29, 2023
1st review 1/	December 22, 2022	July 13, 2023	January 19, 2024	June 14, 2023	December 12, 2023
2nd review 1/	December 22, 2022	December 20, 2023	-	December 15, 2023	-
<b>Number of months passed between: -</b>					
SLA & program approval	10.5	8.9	5.2	7.8	6.6
program approval & 1st Review 2/	12.4	10.4	8.0	17.7	8.8
SLA & 1st review	22.9	19.3	13.2	25.5	15.4

1/ For Chad, the 1st and the 2nd Reviews were combined. For Suriname, the dates are for the 2nd and the 4th EFF reviews respectively since their reviews occur on a quarterly basis.

2/ The protracted timeline for Suriname was not only owed to difficulties in the restructuring process, but other country-specific circumstances.



## Early lessons for the architecture

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### Optimistic

- **Learning process between old and new creditors**
- **Improvements of IMF policies to accelerate the process**
- **Significant debt relief delivered, albeit with delays**

### More cautious

- **Sequentiality and comparability of treatment: important political differences**
- **New focus on liquidity pressures, with a risk of delaying the resolution of debt crises**