

I Overview

In the extreme circumstances where a restructuring of sovereign debt becomes unavoidable, an overarching objective is to restore the country's debt to a sustainable path—a situation in which the borrower is expected to be able to continue servicing its debt without an unrealistically large correction to the balance of income and expenditure. Assessing whether debt sustainability has been restored involves an evaluation of the nature of the crisis—including whether it is one of solvency or liquidity—and requires complex judgments, particularly regarding whether a debt restructuring would be sufficient to contribute to a credible and durable exit from the crisis and enable the country to regain access to international capital markets.¹

Analysis to date has focused on developing tools to improve debt-sustainability assessments and the process for an orderly restructuring of sovereign debt. Less attention has been given to actual experience with debt-restructuring operations, notably on assessing whether debt sustainability was restored. This paper aims to fill this gap, with an emphasis on debt owed to private creditors.² It reviews the experience of the past several years, during which a number of countries—including Argentina (2001 and 2005),³ the Dominican Republic (2005), Ecuador (1999), Moldova (2002 and 2004),⁴

Pakistan (1999), Russia (1998–2000), Ukraine (1998–2000), and Uruguay (2003)—have restructured their sovereign debt in the context of efforts to resolve a crisis. These debt restructurings have either followed a sovereign default or been undertaken preemptively in an effort to avoid default.

Against this background, the paper examines the initial conditions that gave rise to the debt operations, discusses the impact that the restructurings had in each of these cases, and attempts an assessment of whether sustainability has been restored. The assessment of debt sustainability focuses on three aspects—the current level of debt and related vulnerabilities, as estimated by an early-warning system (EWS); vulnerabilities stemming from the liquidity position; and medium-term debt-related vulnerabilities as assessed by debt-sustainability analyses (DSAs), including stress testing to determine the effects of shocks to key variables. The assessment is based on available information and data from IMF staff reports that were issued through October 2005, most of which have been published. We recognize at the outset that the sample is too small to allow for firm generalizations.

The paper is organized as follows. Chapter II provides a cross-country overview of the economic conditions, including the composition of sovereign debt and the debt dynamics prevailing prior to the debt operations, and a discussion of the scope and outcomes—in terms of the debt relief provided by creditors—of the debt restructurings. Chapter III analyzes the debt profile, liquidity position, DSAs and accompanying stress tests, and an EWS to assess whether debt sustainability has been restored in each case. Conclusions are set out in Chapter IV.

¹See IMF (2002a).

²The focus of this paper is on countries that are not eligible for debt relief under the IMF's and the World Bank's Heavily Indebted Poor Countries (HIPC) Initiative and that, since 1998, have been restructuring the debt they owe to private creditors in near-crisis circumstances.

³While the January/February 2005 global debt exchange offer was launched post-default, Argentina had executed two rounds of restructuring prior to its default in late December 2001 (the June 2001 megaswap and the November/December 2001 Phase I restructuring).

⁴Although the 2002 bond exchange was executed while the original claims were not in default, Moldova incurred arrears on several other claims, including the Gazprom promissory notes that were exchanged in 2004. However, because the Eurobond restructuring

took place in a preemptive setting aimed at avoiding default, for the analysis of debt sustainability, Moldova is treated as a preemptive case. Nonetheless, for completeness, information on both the 2002 and the 2004 restructurings are included in the paper.