

Global Sovereign Debt Roundtable

Sovereign Debt Restructuring: A Playbook for Country Authorities

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Disclaimer: This document presents a summary of the key steps, concepts, and processes observed in recent sovereign debt restructurings undertaken in the context of an IMF-supported program, in particular those restructurings undertaken under the Common Framework. It aims to provide country authorities considering a restructuring with a user-friendly summary document. It is based on the observed practice for a typical case of a country that has defaulted on its debt. It provides a general overview while recognizing that each case may have its own specificities and complexities. It is a non-binding document, which is not aimed to constrain how debtor countries and creditors would handle a specific case, under or outside the Common Framework, and is published as a GSDR Cochairs document. More details are provided in the [Compendium of GSDR Common Understanding on Technical Issues](#). The IMF's [Guidance Note on the Financing Assurances and Sovereign Arrears Policies and the Fund's Role in Debt Restructurings](#) separately covers the IMF's role in more detail.

Step 0: Before the launch of the restructuring

- **The decisions on whether to restructure, and whether to request an IMF-supported program and the support of the World Bank and other partners, rest solely with the debtor sovereign.** When (and if) those decisions take place, the debtor country should initiate discussion with IMF and World Bank staff early.
- **Determination of the restructuring envelope.** The IMF staff develop the program macro-framework scenario together with the debtor country's authorities, consistent with restoring debt sustainability and ensuring balance of payment (BOP) financing. The IMF staff (jointly with the World Bank staff for countries using the debt sustainability framework for low-income countries, LIC DSF) also prepare a pre-restructuring debt sustainability analysis (DSA), based on the macro-framework. The macro-framework and DSA are key to determine the debt restructuring that is needed to restore debt sustainability and close the BOP financing gap – the “restructuring envelope”. For a debt restructuring undertaken under the Common Framework (CF), *“the need for debt treatment, and the restructuring envelope that is required, will be based on the IMF-World Bank DSA and the participating official creditors’ collective assessment, and will be consistent with the parameters of an upper credit tranche IMF-supported program.”*
- **Staff-level agreement (SLA) for an IMF-supported program.** This includes the set of policy actions and the calibration of the program that will support the country's recovery. Negotiations with the World Bank (and potentially other partners) are usually also advancing in parallel.
- **In parallel, the authorities should:**
 - **Mandate legal and financial advisors.** Given the complexities of sovereign debt restructurings, it is essential to hire a law firm and a financial advisory firm with significant expertise in this area. It is also important to agree on a sufficiently broad mandate upfront, in particular with regards to the debt covered. A limited scope (e.g., not covering commercial banks and other “non-bonded commercial debt”) can add complexities later.

- **Advance the work on debt data to get a clear and detailed understanding of the country’s public debt, including the breakdown between domestic and external debt and the creditor composition.** The creditor composition for external debt typically includes three broad categories: multilateral institutions; official bilateral creditors; and private creditors (bondholders and commercial banks/“non-bonded commercial debt”).¹ If not done already,² the debtor country should start reconciling loan by loan data with its different creditors.
- **Define with their advisors a restructuring strategy. This includes:**
 - **Choosing a mechanism to negotiate with official bilateral creditors.** Depending on the creditor composition, and eligibility to the CF, the choice can include: the CF (i.e. all G20 and all Paris Club creditors having claims on the country), the Paris Club (PC)³; a “PC+” format (i.e., the PC associating targeted additional creditors);; or separate negotiations with the different creditors. Experience shows that, for countries eligible to the CF, using it has helped significantly advance the process in a timely and orderly manner.
 - **Defining the perimeter of debt to be restructured.** This includes several considerations, some of which are likely to involve discussions with creditors. Short-term debt (original maturity of one year or less) is generally excluded. A key choice is whether to include domestic debt, which is country specific and depends in particular on the impact on financial stability and growth.
 - **Identifying the cut-off date.** Having early clarity on the cutoff date is critical, as new financing provided after it is excluded from the restructuring. In recent restructuring cases, cutoff dates have been decided case-by-case by creditors, generally not later than the date of the SLA

¹ Further details on the classification of claims are presented in the [Compendium of GSDR Common Understanding on Technical Issues](#).

² Regular debtor-creditor debt data reconciliation is highly recommended to ensure quality of debt data and, in times of restructuring, facilitate and accelerate processes. The World Bank offers tools to implement regular, real-time and automatic debt data reconciliation. Having robust data on debt stocks and debt service, including principal and interest amounts, collateralized debt, and, if applicable, default interest and other relevant amounts related to the underlying contractual agreements, is critical for an efficient and timely restructuring process, and for building trust among stakeholders.

³ The Paris Club is a group of currently 22 members: Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, United Kingdom, United States. South Africa is a prospective member.

- **Defining the broad contours of the efforts requested from the different groups of creditors, keeping in mind the critical importance of “comparability of treatment” (CoT) across creditors. The observed practice on CoT is that:**
 - For CF-eligible countries, CoT between official and private creditors is
 - ◆ Assessed by official bilateral creditors using 3 criteria: The change in debt service over the IMF program; the debt reduction in net present value (NPV) terms (New NPV / Old NPV), using a 5 percent discount rate; and the change in duration of the treated claims.
 - ◆ Enforced by official bilateral creditors through claw-back clauses in restructuring agreements or similar mechanisms.
 - For other countries, similar approaches are used, with NPV calculations sometimes using two or more discount rates to ensure some sensitivity analysis.
 - Private creditors may also include clauses in their own restructuring terms (e.g., most favored creditor clauses, loss reinstatement clauses).
- **Start engaging with creditors, to the extent possible** (see more details under Step 1 – very early engagement can precede SLA, which help gain time for the following steps, even if deeper technical discussions will require finalization of the SLA and the pre-restructuring DSA).

Step 1: From SLA to IMF program approval –2-3 months in the best case observed recently under the Common Framework

Things to do or to be aware of include:

- **Having the IMF program in place rapidly is critical: it helps stabilize the economy early. However, moving from SLA to IMF program approval requires certain conditions – this includes “*financing assurances*” from official bilateral creditors**, which is their commitment to delivering a debt treatment consistent with restoring debt sustainability.
- **Engaging early with official bilateral creditors is therefore essential.** For countries eligible to the CF, this includes the rapid formation of an Official Creditor Committee (OCC). If the country is not in arrears to its official bilateral creditors, it can request a solution for the debt service during the negotiation – which is not automatic, and would require a case-by-case approval by creditors.
- **Engaging with the World Bank and other MDBs helps maximize concessional financing through policy reforms supported by budget support operations.** Indicative financing envelopes provided by MDBs are subject to their policies. In the case of World Bank financing, budget support operations are conditional on the Bank’s assessment of the adequacy of the

macroeconomic policy framework and progress with the implementation of the agreed structural policies at each operation.

- **Engaging early with private creditors (bondholders and non-bonded creditors such as banks) also helps gain time in the overall process.** Engaging in “good faith” with them is necessary to meet the condition of the “lending into arrears” policy of the IMF. An early meeting with all creditors (official or private) to explain the economic situation and the authorities’ debt strategy can help. Subsequent similar meetings to share updated information can also be considered. Setting up a dedicated page on the ministry of finance’s website, with detailed debt data and progress in the restructuring, can also improve information sharing and communication.
- **IMF and World Bank have a strong role to play in facilitating these early engagements.** This includes their role in sharing information on the macroeconomic framework and debt sustainability analysis that underpin the IMF program. The IMF can also help convene the abovementioned meetings between the debtor and its creditors, using its “good offices”.
- **Being mindful of CoT considerations when engaging with the different creditor groups.** This includes appropriate information sharing to support timely and orderly processes.

Step 2: From IMF program approval to the restructuring agreement in principle with official bilateral creditors –6 months in the best case observed recently under the Common Framework

Things to do or to be aware of include:

- **Advancing the IMF program (typically, 1st review of program) involves the expectation of reaching an agreement in principle (AIP) with the official bilateral creditors.** Typically, the AIP would include the key parameters of the restructuring of official bilateral debt, without necessarily covering more granular elements that can be finalized later.
- **While not necessarily simultaneous, advancing the negotiation with private creditors in parallel helps accelerating the overall restructuring.** Generally, negotiations with bondholders are coordinated through the formation of one (or several) bondholders committees, with collective action clauses ensuring strong coordination when the negotiation moves to implementation through an actual restructuring offer. To facilitate negotiation with individual commercial banks (restructuring of non-bonded commercial debt), the London Coalition has developed a voluntary, non-binding “*Implementation Guide to Restructuring Private Sector Sovereign Loans*”, including the possible formation of a Loan Creditor Committee. **Being mindful of CoT considerations across creditors remains essential.** To accelerate the process, the debtor can, if this meets its negotiation strategy, publish the three parameters against which CoT will be assessed as soon as it has reached an AIP with its official bilateral creditors.
- **Negotiations can entail various elements that facilitate agreement. In some cases, the use of state contingent debt instruments (SCDIs) can help bridge gaps with creditors’ expectations.** However, this should not be the norm and, when used, SCDIs should respect certain conditions, including well-defined verifiable triggers and consistency with debt

sustainability and IMF program parameters in all scenarios. SCDIs also pose CoT challenges which can impact the restructuring timeline.

Step 3: Finalizing the debt restructuring

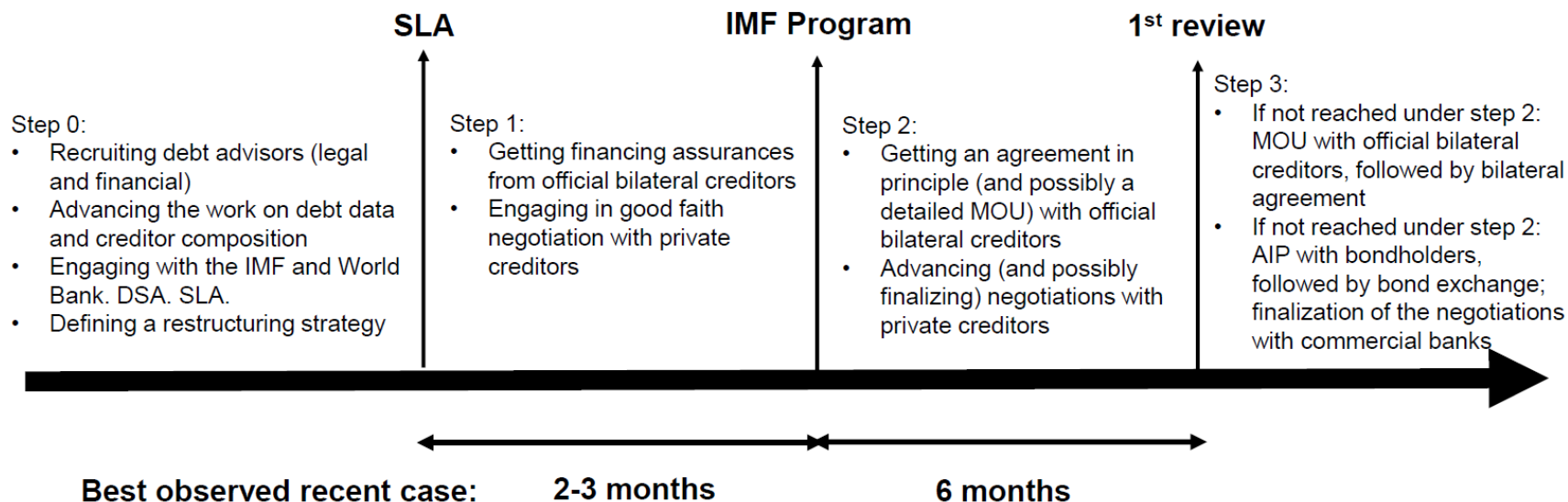
Things to do or to be aware of include:

- **On the official bilateral creditors side:** For CF cases, finalizing the restructuring would include moving from the AIP to the signature of a “Memorandum of Understanding” (MOU) with OCC members, subsequently followed by bilateral agreements with each creditor. Non-CF cases would involve similar steps. Absent specific circumstances, the debtor could expect finalizing the bilateral agreements within 12 months. Publication of an “MOU implementation table”, with regular updates on the status of signature of the bilateral agreements, can facilitate MOU implementation monitoring.
- **On the private creditor side:** for bondholders, steps would typically include first an agreement in principle with the bondholders committee, followed a few weeks later by a bond exchange. This step can happen in the abovementioned Step 2, or in Step 3. Advancing the negotiations in parallel with individual commercial banks/non-bonded creditors or their committee would expedite the overall process. However, it may not always be possible, in which case a sequenced approach would typically start with the creditors having the larger claims. **Finalization of the agreements with private creditors should be mindful of CoT, debt sustainability, and IMF program parameters considerations (see above).** Agreements with official bilateral creditors typically include an assessment of the treatment provided by private creditors, and claw-back clauses that would be activated if CoT is not met. The debtor should seek confirmation from the official bilateral creditors that CoT is met, and from the IMF staff that the agreements are consistent with debt sustainability and program parameters.

Post-restructuring credit rating upgrades

- **Progress in advancing the restructuring is critical to obtain a credit rating upgrade.** While it is impossible to provide a strict quantified metric, as ratings ultimately rely on a case-by-case approach, including judgment, experience shows that key factors that can trigger or delay a post-restructuring credit rating upgrade, and the magnitude of it, include the size but also the complexity associated with the not-yet restructured debt. An upgrade can happen even with a share of not-yet restructured debt, provided that this not-yet restructured debt does not represent a hurdle for the country to remain current on its new (post-restructuring) obligations. While acknowledging this does not create any precedent, it can be noted that recent post-restructuring upgrades included a share of not-yet restructured debt in the range of 5-10 percent.
- **Sharing information and data with credit rating agencies, including the details of the debt composition and status of the restructuring negotiations, is essential.** Scheduling deep-dive meetings with the relevant agency(ies) ahead of its/their rating committee cycles and sending monthly data packs can help track progress and inform their rating decisions with the best available information.

Schematic presentation of the key steps



The timeline indicated here reflects the best case observed recently under the Common Framework and does not represent a commitment for future cases. Experience shows that timely processes depend on multiple factors, including actions that can be advanced early by the debtor country. In particular, the earlier the debtor country authorities engage the actions mentioned in step 0 and step 1, including the work on debt data, the definition of a robust restructuring strategy, and early engagement with creditors, with the help of the IMF and World Bank, the more likely timely processes can be met.