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Clarification Note on the Treatment of Value Recovery Instruments (VRI) in Macroeconomic Statistics

Exploring the Statistical Treatment of Value Recovery Instruments in the Balance of
Payments, International Investment Position, and External Debt Statistics

Prepared by the Statistics Department

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Clarification Note on the Treatment of Value Recovery Instruments (VRI) in Macroeconomic Statistics

Exploring the Statistical Treatment of Value Recovery Instruments in the Balance of Payments, International Investment Position, and External Debt Statistics¹

Value Recovery Instruments (VRIs) are instruments that entitle creditors to receive additional payments (beyond the restructured principal or interest obligations and standard debt service), conditional on the realization of specific economic outcomes—such as GDP growth, commodity revenues, or export performance. These instruments are typically issued in the context of sovereign debt restructurings, where the debtor seeks to restore partial value to creditors in exchange for a reduction in principal or interest obligations. They entitle creditors to receive additional payments if the debtor's economic performance exceeds predefined thresholds—such as GDP growth, commodity revenues, or export performance, are designed to compensate creditors for forgone value while sharing upside potential while preserving fiscal space for the sovereign. Their hybrid nature—combining conditionality, performance linkage, and restructuring context—raises complex questions about their classification in macroeconomic statistics and financial accounts.

The core statistical question is whether VRIs should be recorded as (i) financial derivatives, (ii) debt instruments, (iii) contingent liabilities (not recorded at all until the conditions for payment are met), or a (iv) hybrid approach. The choice of classification affects the timing and nature of the entries in the International Investment Position (IIP), Balance of Payments (BOP) and the measurement of gross External Debt Statistics (EDS).

INTRODUCTION

1. Value Recovery Instruments (VRIs) gained visibility through their use in major sovereign debt restructurings. Argentina (2005 and 2010 exchanges), issuing GDP-linked warrants to compensate creditors for haircuts. Greece 2012, offering similar instruments tied to GDP performance. Ukraine's 2015 restructuring introduced VRIs linked to GDP growth, with payments triggered above specific thresholds. More recently, Suriname issued oil-linked VRIs in 2023, Zambia included VRIs in its restructuring framework, and Sri Lanka is exploring state-contingent instruments as part of its Extended Fund Facility-supported program. These cases illustrate the evolving role of VRIs in aligning debt service with economic recovery, while raising classification questions for macroeconomic statistics.
2. The core statistical question is whether VRIs should be recorded as (i) financial derivatives, (ii) debt instruments, or (iii) contingent liabilities (not recorded at all until the conditions for payment are met), or a (iv) hybrid approach. The choice of classification affects the timing and nature of the entries in the International Investment Position (IIP), Balance of Payments (BOP) and the measurement of gross External Debt Statistics (EDS).

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3. Given the hybrid nature of VRIs, their statistical classification raises important questions. On one hand, VRIs share features with debt instruments, as they are issued in the context of sovereign debt restructurings and are intended to compensate creditors for lost principal or interest. On the other hand, they resemble financial derivatives, since payments are subject to uncertainty, based on notional rather than nominal values. The comparative table below highlights these differences, helping to assess whether VRIs should be classified as debt instruments or financial derivatives.

Table 1. Characteristics

Characteristic	Financial Derivative	Debt Instrument	How VRIs Compare
Existence of obligation	No guaranteed obligation; payments depend entirely on the outcome of an underlying variable.	Unconditional obligation to repay principal and/or interest.	VRIs have no unconditional obligation; payment occurs only if conditions are met.
Principal vs. Notional	Notional value is used only to calculate payoffs.	Nominal principal must be repaid.	VRIs are based on notional amounts, not repayment of principal until the conditions are met.
Uncertainty	The very existence of payoff itself is uncertain.	Timing/amount may vary, but some repayment always occur.	VRIs are uncertain in amount and existence of payments.
Conditionality	Always linked to underlying variables (e.g. equity prices, interest rates, commodities).	Rare, except for index-linked bonds.	VRIs are explicitly contingent on macroeconomic outcomes such as GDP or commodity royalties, prices or performance.
Balance Sheet Recognition	Recorded as derivative liability at market value.	Recorded with debt liability with principal and interest.	Depending on the structure of the instrument and the applicable accounting standards, VRIs may be classified as debt with contingent clauses, or as derivative-like contracts.
Context of use	Hedging, speculation, or risk transfers.	Financing purposes (loans, bonds).	VRIs are used in sovereign debt restructuring to provide creditors with upside potential.

CLASSIFICATION AS FINANCIAL DERIVATIVES

4. Under *BPM7* paragraphs 5.95–5.98, financial derivatives are defined as financial instruments that derive their value from the price or performance of an underlying item and do not require the delivery of the underlying asset. Derivatives include options and warrants, provided they are tradable and valued at market prices. If a VRI is structured as a separately tradable instrument, valued at market value, and conditional on a measurable economic indicator (e.g., GDP growth or oil royalties), it satisfies the definitional criteria for classification as a financial derivative.

5. Additionally, *BPM7* paragraph 5.34 and *EDS Guide* paragraph 2.1 defines debt instruments as financial claims that require the payment of principal and/or interest at some point in the future; yet the framework allows for uncertainty in timing or amount such as index-linked bonds,² as long as there is an enforceable obligation.

6. When the legal structure of the instrument is examined, VRI does not impose an unconditional obligation to pay. The obligation arises only if specific economic conditions are met. Conditions that are clearly defined in the contract but can (maybe with high or low probability of occurrence) never materialize. This is not a case of uncertain timing or amount, but of uncertain existence of the obligation itself. If the conditions are not met by the end of the contract term, the issuer is under no legal obligation to make any payment whatsoever. This undermines the core definitional requirement of a debt instrument: the existence of present financial liability.

7. Additionally, in general, VRI is legally insulated from the issuer's broader debt structure. It does not include a cross-default clause. A default on other debt instruments does not trigger a default on the VRI as there is no nominal value to be repaid. Another legal and statistical distinction lies in the use of notional value rather than nominal value in the contract. The notional value serves only as a reference for calculating potential payments; it is not an amount owed or repayable. This is a fundamental departure from the structure of debt instruments, which are defined by the obligation to repay a nominal amount. The use of notional value aligns more closely with derivative-like instruments, where the notional serves as a basis for calculating contingent payoffs, not as a principal to be repaid.

8. From the creditor's perspective, these features also complicate the classification. If the VRI were to be recorded as a debt asset, it would be measured at market value. But this assumes the existence of a current, enforceable claim. In the case of a VRI, the creditor has no such claim unless and until the conditions are met. There is no principal or interest to be repaid, and the notional value does not

² Index-linked securities instruments for which either the coupon payments (interest) or the principal or both are linked to another item such as a price index, an interest rate or the price of a commodity. These instruments are designed to preserve the real value of returns for investors by linking payouts to economic indicators, but they do not involve uncertainty about whether payments will occur—only how much will be paid. Index-linked securities are debt instruments where the amount of payment (interest and/or principal) is adjusted based on a reference index—such as inflation, commodity prices, or GDP. However, the obligation to pay is always present and legally binding. The issuer must make payments regardless of index performance; only the amount varies.

In contrast, VRIs involve uncertainty not only in the amount but also in the occurrence of payment itself. Payments are conditional and may not materialize at all if predefined thresholds or triggers are not met. While both instruments link payments to external indicators, VRIs are typically issued in the context of sovereign debt restructuring, and their contractual structure reflects a negotiated liability—not a standard indexed adjustment. This makes VRIs more complex in terms of classification, as they combine elements of debt with contingent features.

represent an asset. This undermines the basis for recognizing a debt asset on the creditor's balance sheet. The creditor may disclose the VRI in notes as a conditional right.

CLASSIFICATION AS DEBT INSTRUMENTS

9. Value Recovery Instruments (VRIs) can be considered debt instruments from the moment they are issued, based on the principle of legal enforceability. According to BPM7 §5.34, a financial claim qualifies as debt if it involves a legally binding obligation to pay principal and/or interest in the future—even if the timing or amount is uncertain. This definition has been applied to instruments such as index linked bonds, where payment amounts may vary but the obligation itself is present and enforceable. A similar rationale applies to VRIs, which—although subject to uncertainty—are not designed solely to transfer financial risk. They are structured to provide payments to creditors under specific conditions, reflecting negotiated terms that typically emerge from sovereign debt restructuring processes. Rather than speculative instruments, VRIs are embedded in a contractual framework that establishes a legally binding obligation, where the issuer is required to make payments if those conditions are met—supporting their classification as debt instruments from the outset.

CONTINGENT LIABILITIES (EXCLUSION FROM RECORDING UNTIL CONDITIONS ARE MET)

10. Treating VRIs as instruments that should not be recorded—neither as debt nor as derivatives—until their conditions are met risks overlooking their legal and economic substance. These instruments are issued as part of sovereign debt restructurings and represent a negotiated claim, even if conditional. Ignoring them entirely until activation understates the issuer's financial position and creates asymmetry with creditor reporting, where VRIs may be disclosed as conditional rights and even valued at market prices. If the instrument can be priced and traded, its relevance begins at issuance—not at realization.

HYBRID APPROACH

11. Due to their structural complexity and unique features, VRIs exhibit characteristics that make it difficult to fully exclude them from the debt category—even when they do not meet all the standard criteria for debt. This opens the possibility for hybrid classification. Drawing on the conceptual framework used for off-market swaps, a VRI can be viewed as comprising two components: (i) a debt component—specifically, a loan valued at market price on the issuance date, representing an expected future obligation; and (ii) a financial derivative component—capturing the variable return linked to market performance. While this conceptual split is analytically sound, its practical application can be challenging.

RECORDING IMPLICATIONS

12. If VRIs are classified as financial derivatives, they would be recorded at market value in both the BOP and the IIP, consistent with BPM7 paragraphs 5.95–5.98. In the BOP, transactions would be captured under the financial account as “financial derivatives (other than reserves).” In the IIP, the VRI would appear as an asset or liability at its market value, with changes in valuation reflected over time under other changes in value. In the EDS, derivatives are excluded from the measurement of gross external debt, meaning that a VRI—if classified as a derivative—would not be counted toward the sovereign's debt stock.

13. If VRIs are classified as debt instruments, they would be recorded in the BOP and IIP (most probably long term) debt liabilities at market value. In the BOP and IIP, transactions would be recorded under “portfolio investment”, and the instrument would be recorded at market value, with valuation changes tracked over time. In the *2014 External Debt Statistics: Guide for Compilers and Users (EDS Guide)*, the recommended practice is to record debt at nominal value, which for VRIs is typically zero at issuance and remains so until the conditions are met.

- Nominal value: Reflects the amount legally owed; for VRIs, this is zero until conditions are fulfilled.
- Notional value: Represents the maximum potential payment; while it signals exposure, it does not constitute an actual obligation and may overstate the debt position by capturing a ceiling rather than a committed liability.
- Market value: Reflects tradability and investor perception; although more economically meaningful, it is currently recommended for *EDS Guide* only as supplementary item.

Table 2. Recording Implications

	Financial Derivative	Debt Instrument	Not Recorded Until Conditions Are Met	Hybrid approach
BOP	Recorded under financial account as “financial derivatives (other than reserves)” at market value	Recorded under portfolio investment (likely long-term debt liabilities) at market value	No entry until conditions are met	<p>1. Debt Component</p> <p>If the VRI is subject to market valuation, the market value at the date of issuance is used as the initial nominal value of the instrument. It is then recorded in the financial account under other investment liabilities, classified as a loan.</p>
IIP	Recorded as asset/liability at market value; valuation changes tracked under “other changes in value”	Recorded as debt liability at market value; valuation changes tracked in changes in prices	Not recorded until activation; no asset/liability recognized	<p>2. Financial Derivatives Component</p> <p>The remainder of the VRI, representing the derivative exposure, is recorded under financial derivatives in the financial account.</p> <p>Changes in market value are tracked over time, and valuation adjustments are reflected in the IIP.</p>
External Debt Statistics (EDS)	Excluded from gross external debt until the conditions are met; once triggered, the instrument is reclassified as debt, as the obligation becomes legally enforceable and the liability is recognized.	Included in gross external debt from the moment of issuance, at notional value (plus accrued interest); no reclassification is needed upon trigger, as the obligation is already recognized within the contractual framework.	Not recorded; excluded from debt stock until conditions are met, once triggered, the instrument is classified as debt, as the obligation becomes legally enforceable and the liability is recognized.	The debt portion of a VRI is recorded at nominal value, which approximates the market value at issuance (or strip).

Questions for the Committee:

1. Do Committee members consider it appropriate to classify VRIs as:

- (i) financial derivatives,
- (ii) debt instruments,
- (iii) not recorded at all until the conditions for payment are met or
- (iv) hybrid approach.

If (ii), proceed to Question 2.

2. If the answer is ii) debt instruments, what value should be reflected in the External Debt Data (EDS)?

- a. Nominal value: Legally owed amount: zero before conditions are met.
- b. Notional value: Represents the maximum potential payment; signals exposure but does not reflect an actual obligation, potentially overstating the debt as it captures a ceiling rather than a committed liability.
- c. Market value: Reflects tradability and investor perception; although more economically meaningful, it is more appropriate for the IIP and creates challenges in for the external debt, as the current EDS guide recommends using market values as supplementary item only.

3. Do members agree to consult the Government Finance Statistics Advisory Committee to obtain the views of Government Finance Statistics (GFS) compilers—in addition to those of national accountants—before taking a final decision?

Appendix I. Background Context for Countries Involved in VRIs

Case of Argentina

Prospectus:

https://www.argentina.gob.ar/sites/default/files/mfin_us_prospectus_and_prospectus_supplement.pdf**Cas**

Argentina has a history of sovereign debt restructuring with innovative elements. In its 2005 and 2010 sovereign debt restructuring, Argentina issued GDP-linked warrants alongside restructured bonds.

“In this restructuring, the Government expects to issue three new debt securities together with a detachable GDP-linked security entitling holders to certain benefits.”

Case of Greece

Prospectus:

sec.gov/Archives/edgar/data/931106/000104746911001837/a2202445zs-b.htm

Press release

“....The bonds settled on 25 April 2012 were exchanged for (i) new bonds of the Republic having a principal amount equal to 31.5% of the principal amount of the bonds tendered for exchange, (ii) PSI Payment Notes of two series maturing on 12 March 2013 and 12 March 2014, respectively, together having a principal amount equal to 15% of the principal amount of the bonds exchanged (reduced in accordance with the invitations by an amount equal to interest accrued after 24 February 2012 and paid by the Republic in cash after such date) and (iii) detachable GDP-linked securities of the Republic having a notional amount equal to the principal amount of the Republic’s new bonds exchanged”

Case of Ukraine

https://mof.gov.ua/storage/files/Prospectus-Standalone_dc.PDF

*“The Ministry of Finance subsequently engaged in negotiations with an ad hoc committee of creditors (the “AHC”), comprised of some of the largest holders of its outstanding Eurobonds. On 27 August 2015, the Government announced that it had reached an agreement with the AHC on restructuring Ukraine’s Eurobonds and state-guaranteed Eurobonds of the State Enterprise “Financing of Infrastructural Projects” (FinInPro). This agreement provided, *inter alia*, for a 20 per cent. nominal haircut, an increase in coupon to 7.75 per cent. per annum, the extension of the maturities of the notes to fall in the period from 2019 to 2027, and the issuance to bondholders participating in the debt restructuring of GDP-linked securities providing potential value recovery and upside to holders from 2021 to 2040, conditional on real-GDP growth in Ukraine reaching certain thresholds. The new sovereign notes and GDP-linked securities issued as a result of this restructuring were issued together as a package, in consideration for the exchange and cancellation of Ukraine’s then outstanding Eurobonds.”*

Case of Suriname

<https://gov.sr/wp-content/uploads/2023/05/Suriname-Cleansing-Statement-Agreement-in-Principle-with-Bondholders-May-3-2023.pdf>

In December 2023, Suriname's debt was reorganized, resulting in the exchange of previous Global Bonds (USD 912 million, including accrued interest at the time of renegotiation) for:

- a) A new Global Bond (USD 660 million)
- b) A Value Recovery Instrument (VRI) issued as a Global Oil-Linked Security (USD 314 million)

Interest and principal on the VRI will be paid from royalty income earned by the government from the exploitation of offshore oil Block 58, once (and only if) the royalties exceed USD 100 million. The exploitation contract was signed on October 1, 2024, and it is estimated that the block will start producing oil in 2028.

Main Characteristics of the VRI issued as a Global Oil-Linked Security

- **Face Value/ Notional Value:** USD 314 million
- **Interest Rate:** Fixed rate of 9%, which could rise to 13% if the government fails to comply with certain commitments. Interest will accrue on the principal until the redemption date of the bonds, up to a maximum of 2.5 times the face value. The interest will be accrued from the closing date (12/2023) of the negotiation of the debt with the bondholders.
- **Maturity:** Indeterminate, with a maximum of 2050. (The earliest to occur of (i) December 31, 2050, (ii) the Payment Date on which the Outstanding Balance calculated as of such date is paid in full, (iii) the date on which, following a Put Exercise, the Put Amount shall have been deposited in full in the Oil-linked Securities Account, or (iv) the Payment Date on which the aggregate amount of all payments made by the Republic under the Oil-linked Securities is equal to the Cumulative Payment Cap.)
- **Repayment:** After an initial USD 100 million of oil royalty revenues is allocated to the government, holders will receive 30% of the yearly oil royalties until they receive the total amount of the haircut they consented to in December 2023 plus the accrued interest since December 2023. Any payments shall be made quarterly on April 10, July 10, October 10, and January 10, terminating on the Termination Date (as defined in the Terms), which shall be no later than December 31, 2050.)