Chapter 7 contributions

• Glossary and nomenclature for defaults/restructurings

• Survey of causes, costs of defaults/restructurings

• Supporting evidence on “too little, too late” problem

• Role of IMF in reducing incidence/cost of defaults
Problems with nomenclature

- Too broad definition of “default” = any debt work out
- Odd choice: restructuring is the cure for an unsustainable debt of which defaults are one of many possible symptoms
- Undesirable side-effect: puts voluntary debt workouts under a bad light (as defaults get a bad rap)
- Alternative nomenclature: DSM, Debt Sustainability Management measures
Debt Sustainability Management

• Conventional measures
  – Asset and liability management (F, S)
  – Growth inducing (F, S)
  – Fiscal adjustment (F)
  – Official bail outs (F)

• Unconventional measures
  – Debt monetization—seigniorage, inflation surprise (F, S)
  – Financial repression—real interest rate compression (F)
  – Pre-emptive debt workout—no contractual default (S)
    • Reprofiling, debt rollovers—small NPV cut (F, S)
    • Restructuring—big NPV cut (S)
  – Post-contractual default debt workout—big NPV cut (S)

F = flow measure; S = stock (including denominator reducing) measure
IMF role in borderline sustainable cases

• IMF lending from its GRA has inherent constraints
  – Safeguard reserve quality of members’ exposure to IMF to ensure low cost financing
  – Preserve preferred creditor status (ensure catalytic role of Fund financing via credible programs) to enable below market lending

• Reform toolkit to support borderline sustainable sovereigns
  – Entrust IMF to manage member-sponsored SPV with flexible financing mandate: ability to borrow in markets; ability to lend against collateral, intervene in secondary debt market, issue guarantees, e.g., to sweeten debt reprofiling; charge market rates
  – SPV is pari passu with private creditors (no seniority), upside and downside shared by participants into SPV
  – Benefits: no contamination of GRA lending, Fund catalytic role, and PCS; more skin in the game in borderline sustainable cases