Global Sovereign Debt Roundtable

Cochairs Progress Report

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Introduction

The Global Sovereign Debt Roundtable (GSDR) was set up in February 2023 and is co-chaired by the Managing Director of the International Monetary Fund (IMF), the President of the World Bank, and the Finance Minister of India as G20 Presidency. The GSDR comprises representatives of the official bilateral creditors from and outside the Paris Club, private sector creditors and borrowing countries.

The GSDR focuses on processes and practices and is not a forum to discuss country specific restructurings. It aims to build common understanding among key stakeholders on debt sustainability and debt restructuring challenges, and ways to address them. In this way, it complements other fora, such as the G20 and the Paris Club, and country specific debt restructurings, including under the G20 Common Framework for Debt Treatments.

Since its launch, the GSDR met twice at Principals level, in April and October 2023, and four times at Deputies level, in February, April, June and September 2023. Technical-level meetings and workshops were also organized to help inform the discussion.

In April 2023, GSDR Principals reached common understandings on (i) the **importance of improving information sharing** including on macroeconomic projections and debt sustainability analyses (DSAs) from the IMF and World Bank; (ii) the **role of multilateral development banks (MDBs)** through the provision of net positive flows of concessional finance and grants; and (iii) the need to clarify how **comparability of treatment** will be assessed and enforced. The discussion also underlined the importance of the provision by the International Development Association (IDA) of ex ante implicit debt relief through increased concessionality and grants to countries facing higher risk of debt distress. GSDR Principals agreed to work on **other technical issues** where greater common understanding would improve restructuring processes.

The GSDR discussions since April indicate that several practices were used in recent restructuring cases: (i) the debt restructuring perimeter excluded **short-term debt**; (ii) **cutoff dates** were set by the creditor committees at a date no later than the IMF's staff level agreement (SLA); and (iiii) the use of **state contingent debt instruments** was identified as a potential tool in certain restructuring contexts to help foster consensus even though it should not become the norm. On **comparability of treatment**, the recent discussions in the context of the Common Framework helped enhance the understanding of the methodology among official bilateral creditors, although private creditors were of the view that this methodology underestimates their contribution to debt workouts. Discussions have been held on **debt service suspension** (when requested by the debtor) and **treatment of arrears**, though a consensus has not yet been reached. The GSDR has also started discussion on other issues including **domestic debt** and **state-owned enterprise (SOE) debt**.

Significant progress has also been made in **actual debt restructuring cases**. There has been a landmark agreement in June between **Zambia** and their official bilateral creditors, and continued progress in the discussion of **other cases**. More broadly, the past 6 months have seen a positive momentum, with somewhat shorter timelines and somewhat smoother processes. It took 11 months for Chad in 2021 to move from the staff-level agreement for an IMF program to the actual approval of the program by the IMF

Executive Board; 9 months for Zambia in 2022; 6 months for Sri Lanka in March 2023; and 5 months for Ghana in May 2023. This is still beyond the 2-3 months that were observed in the past.

GSDR Principals welcomed the positive momentum in resolving individual cases and reaching common understanding on ways to address key impediments at their meeting in Marrakech on October 12, 2023, and agreed on the priority areas to work on going forward. These include further work on **domestic debt restructuring** and how to treat **SOE debt**; engagement with **credit rating agencies** on restructuring-related issues; and analysis of the **drivers of debt accumulation** and ways to **prevent debt build-up.** Many participants also requested discussion on **debt transparency** and how to support countries confronted with both **climate and debt vulnerabilities**.

Since April, Policy Work of Interest for the GSDR Included:

- **The G20 has continued its work to address debt vulnerabilities,** including meetings at working group, Ministers and Central Bank Governors, and Leaders level (see the G20 New Delhi Leaders' Declaration, 9-10 September 2023).
- **The IMF and the World Bank have published guidance to staff on information sharing** in the context of sovereign debt restructurings. These notes provide guidance on what information can be shared, with whom, and through which channels, at the different stages of the restructuring.[1]
- **A GSDR Technical Group meeting was held on June 9** to exchange views on how to define cutoff dates; the exclusion of short-term debt from debt restructuring perimeter; a debt service suspension during the restructuring negotiations; the treatment of arrears; issues in domestic debt restructuring; and the use of state contingent instruments in debt restructurings.
- **A workshop on comparability of treatment was held on June 15,** cochaired by the Indian G20 Presidency, the Paris Club Secretariat, and the Institute of International Finance (IIF), with a large attendance from official bilateral creditors, private creditors, borrowers, and experts.
- **The GSDR Deputies meetings on June 30 and September 26** took stock of the technical discussions and on potential ways forward.
- **A GSDR workshop on domestic debt restructuring was held on September 15,** with all GSDR members, all G20 members, all Paris Club members and a large representation of private creditors, borrowers, civil society organizations (CSOs), debt experts and advisory firms.

In parallel, actual restructuring cases have gained momentum:

- **In Zambia**, the authorities and the official creditor committee (OCC) formed under the Common Framework (CF), co-chaired by China and France, announced a landmark restructuring agreement on June 22, 2023. The agreement paved the way for the approval of the first review of the IMF program by the IMF Executive Board in July, and for negotiations with private external creditors to move forward more decisively. The formal MOU between Zambia and the official bilateral creditors is currently being finalized. This second agreement under the CF, after **Chad** in November 2022, has provided fresh momentum for the CF.
- **In Ghana**, an OCC was formed in May under the CF, cochaired by China and France and provided financing assurances that paved the way for the approval of the IMF program that month. Since then, OCC discussions have advanced further.
- **In Ethiopia**, the OCC created in 2021 under the CF has remained engaged with the authorities and indicated their readiness to move forward as soon as the authorities have reached agreement with Fund staff on the parameters of an IMF-supported program. Recently, China agreed with the

[1] IMF Paper No. 2023/027: Staff Guidance Note on Information Sharing in The Context of Sovereign Debt Restructurings (June 2023); and Bank Guidance : Staff Guidance Note on Information Sharing in the Context of Sovereign Debt Restructurings (English). Washington, D.C.: World Bank Group.

authorities on a temporary debt service suspension. Discussions are ongoing within the OCC on how other official bilateral creditors could implement debt service suspension.

- Outside of the CF, **Suriname** has almost completed its sovereign debt restructuring, with deals agreed with the Paris Club and India, and agreement in principle with Eurobond holders. The authorities hope to conclude an agreement with China soon. For **Sri Lanka**, the financing assurances provided by an ad hoc committee of official creditors (comprising the Paris Club and India, and co-chaired by France, Japan and India) and China, enabled the approval of the Fund-supported program in March 2023. Since then, the work continues toward reaching an agreement in principle with official creditors on specific restructuring terms. In parallel, the authorities have concluded a restructuring of some of the domestic debt and are in active negotiations with Eurobond holders on a restructuring plan.

Building Further Common Understanding for Efficient Debt Restructurings

Progress in actual debt restructurings as well as the series of policy meetings and workshops have helped advance the international debt discussion on several key topics, including issues related to the restructuring perimeter (e.g., domestic debt, short-term debt, SOE debt), parameters (e.g., cutoff dates, comparability of treatment), and processes and approaches (e.g., use of state contingent instruments, debt service suspension, treatment of arrears). At the same time, GSDR participants recognized that individual country cases are subject to the decisions of the official creditor committees.

Restructuring Perimeter

1. *Domestic Debt*[2]

Amid the large increase in public debt in emerging markets and developing economies (EMDEs) during the past two decades, the share of domestic debt in total public debt has risen from about 31 percent in 2000 to 46 percent in 2020. Consequently, the need to restore public debt sustainability through a sovereign debt restructuring may require some countries to consider including domestic debt within the perimeter of the restructuring, i.e., a domestic debt restructuring (DDR).

The Technical Group meeting on June 9 and the workshop on DDR on September 15 underlined the complexities and trade-offs attached to DDRs, which are different from external debt restructurings (EDR). Although a DDR may appear easier to accomplish as sovereigns raise debt under local law, giving them, in principle, stronger leverage on the terms and pace of the debt restructuring, domestic debt is generally held predominantly by domestic creditors whose losses can spread the initial sovereign debt distress to the broader economy and society through various channels. While there should not be a presumption ex ante that domestic debt should be included or excluded in the restructuring perimeter, as the analysis should be data-driven and country-specific, a range of underlying circumstances should be considered when assessing whether to include or exclude domestic debt and the impact on financial stability, growth, social cohesion and ultimately debt sustainability. They include, inter alia, the overall level of public debt, the share of domestic debt in total public debt, the country's financial depth, the legal features and currency and creditor composition of the domestic debt, and the social and political implications of the potential restructuring strategy. These considerations present a different set of constraints than in external debt restructurings.

The relative balance between different factors would differ case-by-case. A DDR might be necessary in some cases—including when public debt is assessed unsustainable and EDR would be insufficient to restore debt sustainability—, but inappropriate in others. The decision to include domestic debt in the restructuring perimeter and, if so, the extent of such a DDR, should be based on a scenario analysis that considers the costs and benefits of different combinations of DDR and EDR, anchored in the objective to restore debt sustainability while minimizing potential costs, including to financial stability, economic growth, social cohesion, etc.

[2] In this paper, domestic sovereign debt (domestic debt for short) is defined as public debt liabilities that are governed by domestic law, and subject to the exclusive jurisdiction of the domestic courts of a sovereign. See IMF Policy Paper No. 2021/071: Issues in Restructuring of Sovereign Domestic Debt (July 2021) for more precisions.

Pursuing a single metric of comparable treatment for both DDR and EDR seems unlikely to be appropriate—rather, scenario analyses, communication and transparency are essential. While DDR and EDR are often part of the same broader restructuring strategy, they have different characteristics and follow different constraints. However, it is critical for national authorities to explain to their creditors the approach to domestic debt restructuring (which could be the absence of any DDR) as well as the considerations attached to the potential scenarios analyzed as part of the cost-benefit analysis. Moreover, transparency and disclosure of country's domestic debt portfolio, regardless of whether DDR is pursued, gives comfort to external creditors and can help facilitate EDR.

The IMF and World Bank staff indicated their intention to work in the coming months on a joint guidance note to help country teams working with countries using the LIC DSF and where a DDR is (or could be) considered.

2. *External Debt—Short-term Debt, SOE Debt*

Discussions showed growing support to generally exclude short-term debt (debt with an original maturity of one year or less) from the restructuring perimeter. The exclusion of short-term debt is common practice under Paris Club treatments and an explicit feature of the Common Framework. It is important for restructuring countries as it helps maintain access to trade finance. In recent and ongoing restructuring cases, including outside the Common Framework, the practice has similarly excluded short-term debt from restructuring perimeters.

Some questions were raised on the treatment of SOE debt. In particular, some participants suggested to exclude government guaranteed debt of financially viable SOEs from the restructuring perimeter. Others underlined that, typically for low-income countries, the joint IMF-WBG Debt Sustainability Analyses (DSAs) include this debt in the DSA perimeter, with limited exceptions[3]. They recalled that the creditors and the restructuring country can always agree on a restructuring perimeter that differs from the DSA perimeter. However, in doing so, the discussion would likely raise sensitive issues of burden sharing as the exclusion of some debt would require more effort on the debt remaining in the restructuring perimeter. **Given these different views and considerations, GSDR members agreed that more technical exchanges would help inform this discussion, potentially through a dedicated technical workshop.**

Restructuring Parameters

1. *Cutoff Dates*

Cutoff dates are key for the restructuring process but also an important parameter to protect new financing to the restructuring country, including emergency support. As such, having early clarity on the cutoff date is critical. That said, flexibility seems warranted to account for case-specific circumstances. In practice, in recent restructuring cases, cutoff dates have been decided case-by-case by creditors, generally not later than the date of the staff-level agreement (SLA) reached between the authorities and IMF staff on an IMF-supported program, which protects new financing provided after the SLA.

[3] See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, Appendix III.

2. Comparability of Treatment (CoT) between Official Bilateral and Private Creditors

Assessing and enforcing comparability of treatment (CoT) between official bilateral and private creditors remains a divisive issue and no consensus could be reached among all stakeholders. In particular, while progress could be made on several aspects, divergences remained on the appropriate discount rate to be used in calculations involving net present value terms. In addition, several proposals have been made in the past 2-3 years to estimate CoT differently than the approach used by the Common Framework or the Paris Club, including calls by some to use a simpler and more standardized approach, according to which CoT would be assessed only against the debt burden reduction in net present value terms.

In practice, the Common Framework includes three parameters to assess CoT, which build on Paris Club practices: (i) the changes in nominal debt service over the IMF program period; (ii) where applicable, the debt reduction in net present value terms; and (iii) the extension of the duration of the treated claims. However, the Common Framework doesn't specify which formula should be used to assess "the debt reduction in net present value terms", nor the discount rate to be used to calculate the NPVs. It also doesn't specify how the three parameters would be factored in the assessment and what is the enforcement mechanism. Private creditors are of the view that using the discount rate of the LIC DSA framework (currently 5 percent) underestimates private creditors' contribution to debt workout. Official bilateral creditors, on the other hand, underline that using the discount rate of the DSA is consistent with the contributions by the different groups of creditors to restoring debt sustainability, in line with the DSA framework.

In practice, in the recent and ongoing restructuring cases under the Common Framework (Zambia and Ghana in particular), official bilateral creditors have been using the following approach:

- Assessment based on the three CF parameters (see above);
- Calculation of the debt reduction in NPV value based on the comparison between the NPV of the claims after and before the restructuring ("New NPV / Old NPV");
- Use of the discount rate of the LIC DSAs (currently 5 percent) to calculate the NPVs;
- Enforcement of CoT via mechanisms such as claw-back clauses in the restructuring agreement (i.e., should the debtor provide private creditors with a deal that would not respect CoT, the agreement with official bilateral creditors would be reversed) and/or request to remain in arrears vis-à-vis private creditors until an agreement has been found that respects CoT.

For countries outside of the Common Framework, recent experience of restructuring cases involving official bilateral creditors (Paris Club and non-Paris Club) and private creditors is more limited (no case is yet fully completed) and it may be too early to detect a clear pattern. That said, the elements above seem to have also been used in these cases, with NPV calculations based sometimes on two or more discount rates (the 5 percent discount rate as a baseline and alternative discount rates, such as 7, 9 or 10 percent), to ensure some sensitivity analysis.

Official bilateral creditors seem intent to maintain the approach presented above in future cases.

Restructuring Processes and Approaches

1. *State Contingent Debt Instruments*

Discussions at policy meetings, but also the important case of Zambia, have led to a growing recognition that state contingent debt instruments (SCDIs) can help bridge the gap in certain restructuring negotiations where uncertainty is high, while they should not be the norm. Agreeing on a fully defined debt treatment early on brings certainty to the creditors and investors and is more efficient than a prolonged restructuring. There may be cases, however, when uncertainty around the economic outlook and future capacity to repay of the country is so high that it is difficult for the debtor and its creditors to find a common ground in a timely manner. At the same time, delaying the negotiations until uncertainty dissipates is costly for both debtors and creditors. In such circumstances, SCDIs can help bridge debtor-creditor differences. When used, SCDIs should be well-defined and include precise triggers, caps and contingent scenarios, while ensuring consistency with IMF program parameters and the DSA in all scenarios.

2. *Debt Service Suspension and Treatment of Arrears*

On the issue of whether and how debt service could be suspended during the negotiation, in particular for CF cases, some would support an automatic debt service suspension (DSS) on official bilateral claims from the point when an SLA has been reached for an IMF-supported program, which would provide debtors with liquidity relief at a time of major stress and incentivize creditors to expedite the process. Others expressed preference for creditors and creditor committees to provide DSS at the country's request (upon reaching an SLA), without automaticity. Some consideration may be also given to granting debtor countries a time-limited debt suspension.

The proposal to provide a waiver on penalties on arrears accumulated during the negotiation, as opposed to arrears accumulated before, gained growing support. Generally, arrears accrue at contractual rates (with a potential penalty). However, the treatment of arrears accumulated during the debt restructuring negotiation phase has varied. Many participants showed openness to provide a waiver on arrears penalties accumulated during the negotiation, subject to internal procedures and domestic approval where needed.

Support Provided by Multilateral Development Banks (MDBs).

GSDR Principals reached in April a common understanding on the role of MDBs to support countries undertaking a debt restructuring through the provision of net positive flows of concessional finance and grants. Subsequent meetings helped explain how the International Development Association's (IDA), for example, provides not only net positive flows, but also ex-ante implicit debt relief through increased concessionality and grants to countries facing higher risks of debt distress. Members underlined the importance of MDBs' financial support.

Next Steps for GSDR Work

GSDR Principals discussed and provided guidance on the work agenda for the GSDR going forward. They supported work on:

Further advancing the common understanding on technical issues as appropriate. This could include discussions through Technical Group meetings or/and targeted workshops on issues related to the treatment of **SOE debt**, follow up discussions on issues in **domestic debt restructuring** such as the situation of non-resident holders of domestic debt, and any other specific issues related to debt and efficient debt restructurings. Participants expressed support for the IMF and World Bank to develop guidance to staff to support countries faced by a potential domestic debt restructuring, which could be further discussed in the context of the GSDR.

Exploring further measures and ways to help address debt vulnerabilities and debt restructuring challenges and prevent further build-up of debt. These could include further work on **domestic debt restructuring** and how to treat **SOE debt**; engagement with **credit rating agencies** on restructuring-related issues; and analysis of the **drivers of debt accumulation** and ways to **prevent debt build-up**. Many participants also requested discussion on **transparency of domestic and external debt** and how to support countries confronted with both **climate and debt vulnerabilities**.