“Innovations in Private and Multilateral Lending”

Discussant’s Comments

by

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De-Dollarizing Multilateral Credit

"Dollar, Debts and the IFIs: De-Dollarizing Multilateral Credit" by Eduardo Levy-Yeyati

- Major recommendation – IFIs could encourage the development of deeper domestic capital markets in EMEs (and promote de-dollarization) by extending loans and raising capital in local currencies.
- Prof. Yeyati's proposal is intriguing and deserves serious consideration. Nevertheless, I would like to play Devil's advocate for a moment.

De-Dollarizing Multilateral Credit

Cont'd

- **Some questions:**

(1) **Would the proposal have much effect?**
– If de-dollarization were confined to offshore markets, how much knock-on effect would it have in the local market? Wouldn't this be a self-contained system, much like the existing dollarized situation?

(2) **Is there a risk that domestic funds would be redirected? – IFIs obligations might attract savings that currently remain in the country. Would this pose a problem? Could it subvert the development of the domestic market?**

De-Dollarizing Multilateral Credit

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(3) How much interest will offshore investors have in IFI securities? – Prof. Yeyati assumes there is a large untapped pool of interested investors, who are not concerned with currency risk. Is this the case?

(4) Is dollarization everywhere and always a bad thing? – Can we assume that every country needs an active local currency capital market? Do we need to be more selective? Which countries might be the most obvious candidates for de-dollarization?

Optimal CAC Thresholds

"Optimal Collective Action Clause Thresholds" by Adrian Penalver (co-authored with Andrew Haldane, Victoria Saporta, and Hyun Song Shin)

- Major recommendation – A strong theoretical case can be made for allowing CAC thresholds to vary among sovereign debtors, reflecting differences in risk aversion and credit worthiness.
- The authors have presented a thoughtful and convincing analysis, which extends earlier work in this area by recognizing the interaction between solvency and liquidity crises.

Optimal CAC Thresholds

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- **Some questions:**

(1) Are creditors sensitive to differences in CAC thresholds? – Past experience and recent empirical work seem to suggest that creditors are often unaware of CACs, let alone differences in their thresholds. (Richards and Gugiatti)

(2) Is there a risk of reading too much into recent events? – Are Belize, Brazil and Guatemala substantively different than Turkey and the Philippines? Why have debtor preferences had so little effect on the thresholds embedded in U.K. bonds?

Optimal CAC Thresholds

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(3) **What are the policy implications of the analysis? – How much weight should be given to the standardization of bond covenants as opposed to tailoring them to debtors' differing circumstances? Has the G-10 been too prescriptive?**

(4) **Can the author's analysis be extended to other CACs features? – Is it possible to explain other differences in the CACs using their model? Are thresholds the only relevant degree of freedom?**