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of the International Monetary Fund

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Market Debt Operations and Growth in IMF-Supported Programs

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ABBREVIATIONS

CAC	Collective Action Clause
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EAP	Exceptional Access Policy
FAP	Financing Assurances Policy
GDP	Gross Domestic Product
GFN	Gross Financing Needs
GRA	General Resources Account
LIA	Lending into Arrears Policy
LIC	Low-income Country
LIOA	Lending into Official Arrears Policy
MAC	Market-access Countries
NPV	Net Present Value
NSS	National Social Security System
PRGT	Poverty Reduction and Growth Trust
SOE	State-owned Enterprise

EXECUTIVE SUMMARY

The IMF has an important but limited role in supporting debt operations, given the principle that it is the member country that decides whether and how to restructure its debt and manages the restructuring process. To the extent that debt is assessed as unsustainable or even sustainable but not with high probability in exceptional access cases, the IMF is precluded from lending unless the member takes steps to restore debt sustainability, including through adjustment and financing as well as debt restructuring, if needed. While the IMF assesses the need for debt restructuring as a condition for access to IMF resources, the Fund cannot advise countries to breach their legal claims and the authorities design and negotiate the strategy and modalities of the debt operation.

The 2018 Review of Program Design and Conditionality concluded that where debt is high, IMF-supported programs embedding sovereign debt restructuring operations tend to be more successful than those without, but also that debt operations are often inadequately timed and sized (happen too little and too late), or simply do not happen. Continued high debt burdens can hinder the restoration of investor confidence and sustain pressures on fiscal adjustment. Thus, limited use of debt restructuring may help explain why, despite guidance that IMF programs should "foster sustainable economic growth," both debt and growth outcomes often fall short of expectations.

To help understand why IMF-supported programs do not deliver better growth outcomes, this paper assesses whether and how the design and implementation of 12 recent market debt restructuring operations undertaken in the context of IMF-supported programs (including one staff monitored program), approved between September 2008 and March 2020, affected growth, debt sustainability and market access. The paper builds on an analysis of program documents and extensive interviews with IMF staff involved with debt restructuring operations.

While often Fund-supported programs including debt operations are carried out to completion, they appear to have had only mixed success in terms of debt sustainability or adjustment. Half were followed by successor programs. And in half the cases, either follow-on debt operations were needed or debt ended up in distress or at risk according to the Fund's DSA framework. It is thus hard to argue that debt operations were successful in resolving debt issues on a lasting basis.

In terms of growth outcomes, more effective debt operations have on average been associated with better growth outturns in both program and post-program periods. The recent experience shows that principal-based debt reduction can be most effective in bringing debt down to sustainable levels. Well-designed re-profiling of maturities together with lowered coupons can also help to lower the net present value of debt service obligations but is likely to be less effective when a country faces a large debt overhang. Also important to ensure successful growth outcomes is upfront policy adjustment to complement the operation and establish conditions for growth, particularly when the debt operation relies on reprofiling rather than principal reduction.

Recent debt operations also highlight that contractual innovations and the introduction of state-contingent instruments (such as value recovery instruments) and step-up coupon structures can help build participation in debt operations, although this comes at the cost of limiting the liquidity of the new debt instruments. Moreover, when designing these instruments, it is important to acknowledge that they affect future financing needs, incentives, and the cyclical properties of public debt.

A key challenge will be to address the problem of "too little, too late" by influencing debtors' incentives to embark on a debt operation and achieve a restructuring of adequate depth. Tightening the Fund's framework for assessing debt sustainability and the adequacy of debt operations could help in this regard. The Fund's existing DSA framework is intended to provide a systematic tool to assess debt vulnerabilities and thus guide the IMF's assessment of the adequacy of debt restructurings. However, applying this DSA framework to assess the adequacy of debt operations has relied heavily on establishing single debt anchors, embeds the impact of debt operations on growth outcomes in an ad hoc way, and lacks a systematic modelling of market access. All this makes the DSA framework less than fully useful for programs with market debt operations. The recent reform of the DSA framework for market access countries addresses some of these concerns but could be further strengthened in the critical area of assessing risks to market access.

To achieve better growth outcomes, program design should ensure adequate attention to the implications of debt restructuring operations for domestic creditors, including non-financial creditors. While the increased attention to impact on domestic financial intermediaries in the period reviewed is a welcome development, often social security systems are left weak, less able to protect low-income groups and tackle inequality. In addition, while domestic arrears tend to be at the heart of the lack of credit and loss of economic dynamism, their clearance within IMF-supported programs remains less satisfactory.

Other aspects of the framework for sovereign debt restructuring merit attention. Despite improvements in the design of collective action clauses, the problem of coordinating the diversity of sovereign creditors has been exacerbated by a shift in the creditor base towards new lenders and instruments, and by recent developments that limit the legal protections that are traditionally available to sovereigns. This is especially true for low-income countries, where the rise in the importance of non-Paris Club official creditors and the shift to less transparent resource-backed loans and collateralized instruments has substantially complicated negotiations on debt operations.

I. INTRODUCTION

1. The IMF has an important but limited role in supporting debt operations, given the principle that it is the member country that decides whether and how to restructure its debt and manages the restructuring process. Under the Articles of Agreement, the Fund makes its resources temporarily available to members under adequate safeguards to assist members in resolving their balance of payments problems. To the extent that debt is assessed as unsustainable or even sustainable but not with high probability in exceptional access cases, the IMF is precluded from lending unless the member takes steps to restore debt sustainability, including through adjustment and financing as well as debt restructuring, if needed. While the IMF assesses the need for debt restructuring as a condition for access to IMF resources, the decision to restructure lies solely with the country authorities. In this context, the IMF must respect the neutrality principle in debt negotiations, which implies that the Fund cannot advise countries to breach their legal claims and the authorities design and negotiate the strategy and modalities of the debt operation.

2. The 2018 Review of Program Design and Conditionality (IMF, 2019a; 2019b; 2019c) noted that where debt is high, IMF-supported programs embedding a debt operation tend to be more successful than those without, but also that debt operations are often inadequately timed and sized (happen too little and too late), or simply do not happen.[1] The limited use of debt restructuring may help explain why IMF (2019a) found that both debt and growth outcomes often fall short of expectations.

3. While the potential benefits of debt restructuring operations are well understood, country authorities weigh them against their political costs, the risks of financial instability, the potential for loss of market access, lower trade, weaker private balance sheets and discouraged investment. Another major obstacle to successful debt restructuring is the collective action problem that while a successful restructuring can be in the interest of the creditors group as a whole, individual creditors have incentives to insist on full repayment (holdout) and go to court to protect their contractual claims. As a result, debt operations often trigger extended litigation, resulting in less relief and lengthening the period during which default costs are incurred. All these growth-reducing channels are affected by the restructuring approach and the design of the accompanying IMF-supported program.

4. Thanks to the use of collective action clauses, most recent debt restructurings involving sovereign bonds have been executed in a pre-default fashion, achieved high creditor participation, and have been negotiated in a relatively short period (IMF, 2020b). Still, where debt instruments and the creditor base have become more diverse, for example, to also include collateralised debt and resource-backed loans with new commercial creditors and non-Paris Club

[1] IMF (2019b) notes that 7 out of 17 GRA-supported arrangements for countries with debt assessed to be unsustainable or "sustainable but not with high probability" and 6 out of 16 PRGT-supported arrangements with countries at high risk of debt distress or in debt distress undertook debt operations.

official creditors, coordination has been challenging and there has been a surge in litigation. This negative trend has been exacerbated, especially in some low-income countries (LICs), by a lack of transparency regarding the liability structure.

5. While it is the member country that decides whether and how to restructure debt and manages the debt restructuring process (including the design of the restructuring and negotiations with creditors), the IMF does play an important role in supporting debt operations by determining the debt restructuring envelop based on the macroeconomic framework assumptions and the DSA, together with its financing assurances and arrears policies.

6. This paper assesses whether and how the design and implementation of market debt operations within the framework of IMF programs affect growth, debt sustainability and market access, and how IMF policies affect the timing and shape of debt operations.[2] This assessment sheds light on why sovereign debt restructuring sometimes occurs "too little, too late."

7. The paper focuses on 12 recent sovereign debt restructuring operations undertaken in the context of IMF-supported programs (including one staff monitored program) over the period of 2008–19. In addition to a review of program documents and policy and research papers, the paper has benefitted from extensive interviews with IMF staff involved with specific issues related to the design and implementation of these debt operations.[3]

8. The debt operations covered include programs supported both through General Resources Account (GRA) and Poverty Reduction and Growth Trust (PRGT) arrangements with the Fund, involving all types of creditors, domestic and foreign, private and official. This diversity poses an analytical challenge by implying that each debt operation has unique characteristics from the perspective of its role within an IMF program. But it also offers a wealth of opportunities to learn by comparing specific experiences. To study what makes debt operations more successful in fostering economic growth, this paper adopts the following sequence: design, implementation, and outcome. To gain further insights into the role of IMF policies, it also reviews five recent debt operations carried out outside of IMF arrangements.

9. The next section reviews the academic literature on the relationship between debt operations and economic growth. Section III describes the Fund's policies related to debt operations in the program context and related concerns. Section IV describes the cases covered in this paper. Section V studies how the design of debt operations seek to balance different objectives while providing room for growth. Section VI evaluates whether debt operations were

[2] Market debt covers sovereign obligations to nonofficial (commercial) creditors, which exclude debt to official creditors and suppliers' credit.

[3] The interviews included at least one staff directly involved in each program, and also staff from functional departments involved in program design and debt restructuring policies (Strategy, Policy and Review Department; Monetary and Capital Markets Department; and Legal Department). Interviews were conducted at the IMF HQ (Washington, D.C.) in December 2019.

carried out effectively, and Section VII discusses whether programs were successful in terms of adjustment and growth outcomes. Finally, Section VIII presents a summary of lessons and recommendations.

II. Selected Literature Review on Debt Restructuring and Growth

10. In theory, a sovereign debt overhang raises concerns about higher future taxation and possible default, pushing borrowing costs up and crowding out private investment. Thus, reducing the debt burden should help lift growth (Aguiar and Amador, 2014; Gornemann, 2015). According to the literature, there are broad benefits from pursuing a rapid debt restructuring. Delays in completing debt operations, and the accompanying debt increase, will exacerbate economic dislocation when debt is eventually restructured, prolong financial instability, and hamper growth through debt overhang effects. On the other hand, sovereign defaults incur a range of costs, including loss of market access (reputational), loss of international trade, spillovers to the domestic economy through the adverse impact on residents' balance sheets, and legal costs.[4]

11. The existing empirical literature shows that in practice defaulting countries experience varying outcomes. Typically, defaults are associated with sharp drops in activity.[5] The overall output cost of defaults on debt held by external private creditors can be anywhere between zero percent (Levy-Yeyati and Panizza, 2011) and 20 percent of GDP (Asonuma and others, 2019; Furceri and Zdzienicka, 2012). Kuvshinov and Zimmermann (2019) find a temporary effect that peaks at a GDP loss of 4 percent after 5 years. This stands in contrast to Cerra and Saxena (2008), who using a broad definition of economic crisis, which encompasses debt default, find permanent output costs of crises larger than 4 percent of GDP. Kuvshinov and Zimmermann (2019) show that countries with fixed exchange rates, higher external imbalances and more developed financial markets suffer higher default costs. Erce and others (2020) study the effect of combining external and domestic default. They find joint domestic and external defaults lead to larger recessions and stronger declines in credit. Relatedly, Checherita-Westphal and others (2015) show, using data for government arrears to domestic creditors, that increased public payments arrears and payment delays affect private sector liquidity and dent economic growth. In the same vein, IMF (2019d) reports a multifaceted impact of domestic arrears, which reduce growth by weakening private sector performance and increasing financial instability.

12. On market access costs, Cruces and Trebesch (2013) show that restructurings involving higher haircuts are associated with higher subsequent bond yields and longer market exclusion, although in a globally benign environment, markets forget default faster (see also, Gelos and

[4] For theoretical models investigating these channels, see Aguiar and Gopinath (2006), Arellano (2008), Bolton and Jeanne (2009), Aguiar and others (2009), Arellano and Kocherlakota (2014) and Tirole (2015).

[5] See Asonuma and others (2018) for a recent overview of the empirical literature on sovereign default. One caveat to keep in mind is that the literature has found no clean way to address the causality problem, with the implication that some of the effects reported here reflect that defaults cause economic damage and vice versa.

others, 2011). Richmond and Dias (2008) show that regaining partial market access depends mostly on short-term domestic conditions, while regaining full market access depends more on global conditions. IMF (2014a) argues that several factors contribute to the speed of market re-access, including characteristics of the restructuring process, domestic policies, and the external risk environment. Debt operations can precipitate capital flight (Gelos and others, 2011), especially at times of global distress (Reinhart and others, 2016). Kuvshinov and Zimmermann (2019) show that the loss of market access is also likely to affect the private sector's ability to borrow internationally.[6]

13. Turning to the trade channel, Rose (2005) and Borensztein and Panizza (2010) document a negative impact of default on exports and export-oriented firms. Kuvshinov and Zimmermann (2019) show that defaulters undergo a rapid external adjustment, with imports in particular falling sharply.

14. Regarding domestic spillovers, Borensztein and Panizza (2008) find an increased likelihood of banking crises after sovereign default. Baltenau and Erce (2018) show that sovereign banking spillovers play a key role in generating bank crises and credit and investment crunches following debt restructuring operations (see also, Acharya and others, 2018; and Andrade and Chhaochharia, 2018).[7] In such cases, Asonuma and others (2018) and Kuvshinov and Zimmermann (2019) document GDP losses peaking at 10 percent of GDP, because of reduced bank lending and lower investment.

15. Regarding the legal costs of default, Panizza and others (2009) argue that sovereign immunity has eroded since the 1970s, strengthening the hands of creditors and raising the legal cost of default, and the ability of holdouts to achieve full repayment. Schumacher and others (2018) present a dataset covering four decades, showing that the trend identified by Panizza and others (2009) has continued, as creditor lawsuits are becoming increasingly common. Fang and others (2020) study the effectiveness of collective action clauses (CACs) in reducing holdout risk. They show that the higher the losses on a given bond, the higher the share of holdouts. They also find that smaller bonds, bonds issued under foreign law, with high coupons, and more actively traded tend to raise the share of holdouts. They show that CACs help to reduce holdout rates, although CACs with bond-by-bond voting are not sufficient to assure a successful operation, pointing to the benefits of aggregation clauses.

[6] Relatedly, Aguiar and Gopinath (2005) show that foreign acquisitions surge during liquidity crises.

[7] Gennaioli and others (2014, 2018) and Sosa-Padilla (2018) argue that default can inflict damage on banks, either via write-offs on sovereign bonds, or via contagion to funding markets.

16. The literature has traditionally focused on defaults on foreign private creditors (Cruces and Trebesch, 2013; Asonuma and Trebesch, 2016).[8] However, debt operations are far from homogeneous.[9] They differ in how they are announced, how payments due are treated, which creditors are involved, and the extent and form of the concessions required from creditors. Increasingly, debt operations involve a more diverse group of creditors, including domestic creditors, raising issues about differential treatment across creditor groups.[10]

17. There is growing evidence that the scale of the economic benefits and costs of debt operations depend on the characteristics of the negotiation process (coercive or market-friendly) and the restructuring strategy (nominal vs. re-profiling, pre-emptive vs. post-default, currency, governing law, with/without official creditors). Differences in each of these dimensions has implications for the transmission of the debt operation to the economy.

18. While debt restructuring through principal reduction can strengthen economic outcomes, softer forms of debt relief, such as maturity extensions and interest rate reductions, are not generally followed by higher economic growth or improved credit ratings. Reinhart and Trebesch (2016) show that the macroeconomic situation of debtors improves significantly after debt relief operations, but only if these involve principal write-offs. Using Paris Club data, Cheng and others (2018) compare operations with principal relief and without (only NPV), and find that more generous restructurings involving principal relief are associated with an acceleration of GDP growth, a reduction in poverty and inequality, and a drop of subsequent aid flows.

19. According to Asonuma and Trebesch (2016), pre-emptive negotiations, which avoid missing payments, result in lower overall output costs from debt strains. Relatedly, Trebesch and Zabel (2017) show that hard defaults are more damaging for growth. Asonuma and others (2016) show pre-emptive debt restructurings attenuate the impact on trade. Asonuma and others (2019)

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[8] Reinhart and Rogoff (2011b) was the first to compile a dataset on "domestic default" based on the residence of the creditors. Erce and Mallucci (2018) use a governing law criterion to code their dataset on domestic debt restructurings. Jeanneret and Soussi (2016) compare S&P defaults in local and foreign currency bonds. Cheng and others (2018), and Duggar (2018) present datasets of official debt restructuring with the Paris Club. Das and others (2012) and Beers and Patrisha de Leon-Manlagnit (2019) present comprehensive default databases.

[9] Gulati and others (2013) dissect the Greek episode. Anthony and others (2020) and Shutter (2020) study Barbados. Robinson (2016) and Asonuma and others (2017) look into Grenada. Ams and others (2020) provides details on Jamaica and Ukraine. Asonuma and others (2014, 2018) discuss the Belizean episodes. Gatien and Cheng (2020) discuss Congo, Mozambique and Chad. Jahan (2013), Durant (2013), and Okwuokei and van Selm (2017) compare episodes in the Caribbean.

[10] Ams and others (2020) considers the decision to default, by creditor type and by the manner of default. Sturzenegger and Zettelmeyer (2008), Erce and Mallucci (2018) and Beers and Patrisha de Leon-Manlagnit (2019) show that sovereign defaults are selective, and debtors often differentiate between foreign and domestic creditors, favoring one or the other. Erce and Díaz-Cassou (2010) argue that considerations that lead to this type of residence-based discrimination include the origin of liquidity pressures, the soundness of the banking system, and the domestic private sector's reliance on international markets. Schlegl and others (2019) find that sovereigns are more likely to default on official bilateral creditors than on foreign private creditors. Horn and others (2020) show that non-Paris Club official lenders are becoming increasingly relevant in restructuring operations.

show that the negative effect in credit and investment of debt strains can be attenuated by pre-emptive restructuring, especially in countries with larger banks.

20. Finally, some studies have investigated the determinants of the duration of the debt operation, which determines the period during which the costs of default are felt. Trebesch (2019) suggests that political instability, weak institutions, and strategic government behavior, influence delays in completing restructurings more than creditor characteristics. Durant (2013) notes that domestic bond exchanges are implemented faster when benefitting from the ability of parliament to legislate a debt restructuring and the active role of regulators to provide creditors with regulatory incentives to participate.

Debt Operations Within IMF-Supported Programs

21. A number of recent papers by external experts highlight diverse concerns regarding the role of debt restructuring within IMF-supported programs. According to Schadler (2013), there should be a pre-agreed technical way to assess cross-border spillovers to avoid situations like the one in Greece, where a debt operation was delayed on systemic grounds. Buchheit and others (2020) argue that IMF's ability to strike a balance between financing and adjustment can be impaired in systemic countries.[11] According to Erce (2015), IMF program design shows increasing awareness of the importance of domestic demand for achieving economic recovery, but continues to do too little about large arrears to domestic creditors and suppliers, with a negative effect on growth.[12] Hagan (2020) confirms that a central problem of debt operations under IMF-supported programs is that, under pressure from members fearing contagion, the IMF has often struggled to implement its debt sustainability criterion and has resorted, instead, to "*sometimes heroic*" assumptions. Hagan (2020) also notes that, despite improvements in the design of collective action clauses, the problem of coordinating the diversity of sovereign creditors has been exacerbated by recent developments that limit the legal protections traditionally available to sovereigns, making hold-out strategies potentially more successful, and thus discouraging sovereign creditors from seeking to restructure their debt. With a focus on growth outcomes, Gallagher and Wang (2020) note that the IMF debt sustainability framework leaves too little room for productive investment, which comes at the cost of lower long-run growth and more recurrent crises. They propose debt sustainability analyses start considering government's net worth as a metric of capacity to repay.

[11] Buchheit and others (2020) provide a comprehensive playbook of the sovereign debt restructuring process, and argue that it can fail in several ways (take too long to execute, provide insufficient relief, or be seen as confiscatory/coercive).

[12] Similar results are reported in IMF (2019d).

III. FRAMEWORK FOR DEBT RESTRUCTURING IN IMF-SUPPORTED PROGRAMS

22. Although a decision to restructure debt is taken by the country, the incentives to do so increase if the Fund can only lend when a country is taking credible action to restore debt sustainability. This means that a country's need for IMF financing can have a crucial bearing on the timing of restructuring. Moreover, in the context of IMF-supported programs, Fund policies also affect the design and extent of the debt operation since access to IMF financing depends on the Fund's judgment on how much debt relief is needed to restore debt sustainability. Many of the multiple IMF policies central to the debt restructuring process have undergone important changes and developments since 2009. This section overviews the relevant policies and their evolution.

23. The Fund has a number of policies aimed at ensuring that a program can successfully achieve its objectives while safeguarding the revolving character of IMF resources through timely repayment. Under the financing assurances policy (FAP), the IMF needs to be satisfied that the program has adequate external financing. If the financing gap cannot be filled by other means, FAP explicitly encourages debt restructuring operations on terms sufficient to meet balance of payments viability. In programs with such debt operations, the FAP does not prescribe the allocation of debt relief between official and private creditors, although ensuring good prospects of regaining market access is germane to the observance of the FAP policy (IMF, 2013a).

24. When financing exceeds normal lending limits, access is governed by the exceptional access policy (EAP) framework, which includes additional requirements on the judgement of debt sustainability (IMF, 2016). The EAP has been reformulated various times. It was first introduced in 2002 and became fully operational in February 2003 to specify the conditions that would allow lending above normal access limits, including a credible strategy to restore debt sustainability with high probability. In May 2010, in the context of the Greek crisis, a systemic exemption to the requirement of "high probability" was introduced that would apply in circumstances where debt was sustainable but not with high probability and "there is a high risk of international systemic spillovers" (IMF, 2013; IEO, 2016). In reaction to the Greek experience, in 2016, the EAP was revised again to remove the systemic exemption, and to provide more flexibility where debt is assessed to be sustainable but not with high probability (IMF, 2016).

25. The current EAP identifies three sustainability regions. Specifically, if debt is unsustainable, the country needs to obtain enough debt relief from its creditors to restore sustainability with high probability. Where the member's debt is considered sustainable but not with high probability, exceptional access would be justified if financing provided from sources other than the Fund improves debt sustainability and sufficiently enhances the safeguards for Fund resources. The policy also recognizes the situation where a country temporarily loses market access and debt is considered sustainable but not with high probability. In such cases a re-profiling of maturing claims might be preferable to a thorough debt operation affecting the entire debt stock. Finally, the policy also includes a "market access" criterion, requiring that the country has prospects for regaining market access to meet its obligations falling due to the Fund.

26. To determine whether debt is sustainable, the IMF uses its debt sustainability analysis (DSA) frameworks. According to the IMF framework, "In general terms, public debt can be regarded as sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level." The DSA is a crucial input on the decision on whether debt is sustainable or if restructuring is warranted. The DSA also helps determine if debt distress can be resolved via adjustment and Fund liquidity support, or if exceptional concessional financing and/or debt restructuring are also needed to deliver "medium-term sustainability," a pre-requisite for all Fund lending (IMF, 2021).

27. The IMF has two distinct DSA tools, one for GRA countries, the Market Access Country DSA (MAC DSA), and another for LICs, the Debt Sustainability Framework (LIC-DSF).[13] The LIC-DSF, which is prepared with the World Bank, analyses the present value of external and public debt, acknowledging that countries with different policies, institutions and buffers have different debt tolerance. The LIC-DSF classifies countries into debt-carrying capacity categories. The framework was reformed in 2012 to include more country-specific information. It was further reformed in 2017 to include a richer metric of debt-carrying capacity, scenario stress tests, and a vulnerability analysis that includes domestic debt (IMF, 2017a). The new LIC-DSF has been implemented since July 2018.

28. The MAC DSA was modified in 2011–13 to broaden the debt coverage (to include off-balance sheet exposures), introduce the option of projecting beyond the usual five years, include realism tools for forecasts, and standardize the write-up to enhance transparency. Since then, the framework has used a risk-based approach, applying greater scrutiny if a country breaches either a debt or a gross financing needs (GFN) threshold, or requests exceptional access.[14] For higher scrutiny countries, MAC DSA separately assesses risks to debt levels and GFN.[15] The MAC DSA framework came under fire following the Greek crisis when concerns were raised that the framework is too easily manipulated to deliver too little, too late relief (IEO, 2016; Gelpern, 2016; Truman, 2016).

29. In the 2021 Review of the Debt Sustainability Framework for Market Access Countries, IMF staff proposed a reform of the MAC DSA framework (IMF, 2021). Staff observed that the predictive capacity of the MAC DSA framework remains weak, while judgement lacks a clear starting point and fails to suppress the noise generated by the mechanical framework. Furthermore, staff noted that the existing framework does not support the three-zone

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[13] MAC DSA and LIC-DSF were last reviewed and modified in 2021 and 2017, respectively. The 2021 Review of the MAC DSA framework renamed MAC DSA as Sovereign Risk and Debt Sustainability Framework (MAC SRDSF).

[14] Prior to 2011, the Fund's public DSAs focused on checking if public debt stabilized under the baseline and historical scenarios, and under standardized stress-tests.

[15] The levels of debt and GFN that can be sustained depend on growth, exchange rates, primary balances, and the refinancing terms available after the debt operation (IMF, 2011).

(unsustainable, sustainable with high probability, sustainable but not with high probability) assessment required by the modified exceptional access policy. It proposed to better align the MAC DSA with the IMF's lending framework by: (i) increasing the robustness of sovereign risk analysis through broader debt coverage, a longer projection horizon, and enhanced realism tools, (ii) improving the framework's capacity to predict sovereign stress through new analytical tools at three different time horizons[16] and rely on continuous metrics rather than discrete thresholds, and (iii) enhancing transparency in exercising judgement. This reform was approved by the Executive Board in January 2021 and is expected to be applied widely by 2022.

30. IMF policies require that external payment arrears are addressed under an IMF-supported program. During the 1990s, the Fund relaxed its policy of non-toleration of arrears to external private creditors, and developed the Lending into Arrears Policy (LIA).[17] The aim was to avoid that private creditors could effectively block Fund lending decisions by refusing to participate in debt restructuring operations by allowing lending into arrears provided that a country is making good faith efforts to negotiate the restructuring of the debt in default with its private creditors. In recent years, the policy of no toleration of official arrears, reliant on the Paris Club's comparability of treatment principle, has been modified to reflect the growing role of non-Paris Club creditors, such as China and Saudi Arabia.[18] In 2015, in the context of the Ukrainian crisis, the IMF introduced the Lending into Official Arrears Policy (LIOA), under which non-toleration of arrears is still the standard if there are official arrears, but no official sector involvement is required.[19] The only representative standing forum currently recognized under the LIOA is the Paris Club but the Fund would be open to engage with other representative standing forums if they were to emerge. If a Paris Club agreement is reached covering a majority of total financing provided by official bilateral creditors over the program period, the Fund uses the comparability

[16] Near term, based on a multivariate logit model predicting stress over 1-2 years, medium term (5 years) consisting of (i) a debt fan chart to assess debt stabilization, (ii) a roll-over risk module to evaluate GFN, and (iii) triggered stress-tests to model specific risks; and an optional tool to analyze long-term risks (beyond 5 years).

[17] Reflecting their origin on capital controls, arrears policies focus on external creditors.

[18] Paris Club relief is conditional on a country's participation in an IMF program that demonstrates the need for relief and fosters policy reform. While the Paris Club was the main venue to restructure bilateral official debt, its role has declined (last deals, in Grenada and Chad, were in 2015) as its members have provided a declining share of official credits. China, India, and Saudi Arabia now account for most official bilateral flows to LICs.

[19] Prior to the LIOA, the policy on lending into sovereign arrears to external private creditors (LIA), which was introduced in 1989 to avoid the unintended consequence of giving private creditors an effective veto over Fund support, was the only limited exception to the Fund's general policy on non-toleration of arrears. Multilateral arrears were deemed resolved if the program provided for their clearance, except for the arrears to the World Bank which required upfront clearance or an agreed plan to clear arrears. Paris Club arrears were deemed resolved when the Paris Club provided financing assurances prior to the program approval or completion of a review. Relying on the comparability of treatment clause, arrears to non-Paris Club bilateral creditors were similarly deemed eliminated for Fund program purposes and the Fund assumed that these creditors would restructure the member's debts on similar terms. In cases without a Paris Club agreement, tacit approval of official bilateral creditors (generally conveyed through non-objection in the Executive Board to the Fund financial support notwithstanding the arrears) was deemed sufficient to satisfy the Fund's arrears policy.

of treatment principle to deem as cleared arrears to nonparticipating creditors.[20] When an agreement cannot be reached with creditors in an alternative grouping or bilaterally, the Fund can lend provided that the debtor is making good faith efforts to reach a restructuring agreement, and the decision to lend has no negative effect on the Fund's future ability to mobilize official financing (IMF, 2015b).[21] The LIOA also provides for the possibility for the creditor member to consent to the Fund providing financing despite the arrears to such creditor. Finally, for arrears to multilaterals, a credible plan or upfront clearance is required except for the World Bank where an agreed plan is required.

31. The Fund's analysis and reviews of how its debt and lending policies interact with sovereign debt operations have raised a number of continuing concerns. A review of sovereign debt restructuring operations within IMF-supported programs in 2013 (IMF, 2013a) noted that they often took place long after Fund staff had assessed debt to be unsustainable and failed to durably re-establish market access. In 2014, the IMF found that when a debt operation was carried out , it often did not bring debt down to a sustainable path (IMF, 2014a).[22] The 2015 Crisis Program Review acknowledged that where the near-term impact on output of large fiscal consolidation was likely to be large and protracted with consequences for program sustainability, it would be desirable to examine the scope for a more gradual fiscal consolidation path—requiring additional financing—and to restructure the debt if it was not deemed sustainable with high probability (IMF, 2015a). The 2018 Review of Conditionality (IMF, 2019b; 2019c) noted that, when debt was high, programs with debt operations were more successful, but the evidence came mainly from small and non-systemic cases. It argued that for a debt operation to improve sustainability, it must distribute the burden in a way that preserves or restores financial stability and growth. IMF (2020a) indicated that the increasingly diverse creditor base and debt instruments (especially collateralized debt) can complicate and lengthen the process of debt restructuring.

[20] The Paris Club operates following a set of principles. One of these, is the comparability of treatment principle, by which debtor country authorities are required to obtain relief in terms comparable to that offered by the Paris Club for its other official bilateral and private creditors (Cheng and others, 2018).

[21] Against a backdrop of lower income countries seeking to boost growth through higher public investment to cover large infrastructure gaps, the Fund also reformed its debt limits policy (DLP) in 2014 and more recently in 2021. The previous reform of the DLP (in 2009) was a first step to accommodate these concerns: the need to provide countries with greater flexibility to finance productive investments while containing risks to medium-term debt sustainability. The key changes to the DLP that became effective in June 2015 were broadening the policy to encompass all public debt rather than only external public debt, integrating the treatment of concessional and non-concessional external debt, and linking public debt vulnerabilities and the use and specification of public debt conditionality more closely. Under the new policy, such public debt conditionality should be included in Fund arrangements when a member faces significant debt vulnerabilities (IMF, 2014b). The reforms which took effect on June 30, 2021 (IMF, 2020c) are intended to: (i) better encourage adequate debt disclosure to the IMF; (ii) allow for greater tailoring of debt conditionality for LICs that have been accessing international financial markets on a significant scale; (iii) encourage the broader use of debt conditionality in present value terms, which provides greater flexibility to countries on the mix of borrowing terms; (iv) facilitate the utilization of the existing policy for accommodating non-concessional borrowing (subject to safeguards); and (v) clarify the definition and measurement of concessional debt.

[22] Two-thirds of operations with private foreign creditors led to repeat operations (IMF, 2014a).

32. Most recently, IMF (2020b) discussed the recent experience with sovereign debt restructuring and identified the main pitfalls of the international financial architecture to achieve smooth debt restructuring. It found that compared with earlier periods, recent restructurings of sovereign bonds have generally proceeded smoothly, were largely pre-emptive and had a shorter average duration and higher participation, mainly due to use of CACs. However, restructurings of other more diverse private claims for a number of LICs were protracted, incomplete, and non-transparent. It identified the main problems with the current framework for sovereign debt restructuring as the following: (i) a significant amount of sovereign debt has no aggregation clauses, (ii) litigation is on the rise, (iii) sovereigns are increasingly using collateralized borrowing, complicating debt restructuring negotiations, (iv) state-owned enterprises (SOEs) are a source of hidden debts, leakages and corruption, especially in resource rich countries, and (v) lack of transparency makes fair burden-sharing more difficult, limiting coordination.

IV. MARKET DEBT RESTRUCTURING IN IMF-SUPPORTED PROGRAMS: 2009–19

33. Eleven of the 12 market debt operations examined here occurred for countries with GRA and PRGT programs in the period under consideration (9 under GRA, 2 under PRGT). The remaining operation occurred in the context of a staff-monitored program (SMP), with IMF monitoring but no financial support.[23] All these cases involved operations to achieve a permanent reduction in the net present value of debt service obligations, while providing cash flow relief in the early years.

34. Table 1 presents the main features of the 12 IMF-supported programs with market debt operation covered in this paper. IMF policies played diverse roles in the various restructurings. In some cases, LIA and LIOA policies were active, while in others they were not relevant. Five of the programs involved exceptional access.

35. The reasons for countries to restructure their debt varied widely. In some cases, the debt operations followed lasting recessions and financial distress in the wake of the global financial crisis (Cyprus, Jamaica, Grenada, Barbados). In others, it was weak economic activity and prolonged fiscal problems, and the ensuing buildup of public debt (including from state-owned enterprises), like in Greece, Antigua, St. Kitts and Nevis, and Seychelles.[24] In some cases, problems were compounded by natural disasters (Grenada, Barbados), severe civil conflict (Ukraine, Gambia), or external shocks (petroleum and food price shocks hit Seychelles particularly hard). In some countries, previous operations had restructured debt in a way that left debt service still too onerous to satisfy, requiring the country to re-engage with creditors to obtain additional relief (Jamaica, Belize, and Grenada). The number of episodes in small (mostly Caribbean) islands is noteworthy. Antigua and Barbuda, St. Kitts and Nevis, Grenada, Barbados,

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[23] SMP is an informal understanding between a country and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

[24] In October 2008, Seychelles defaulted on a sovereign bond and sought IMF assistance. Jamaica spent years in a cycle of low growth and bouts of financial instability that contributed to high public debt. St. Kitts and Nevis had one of the largest debt stocks in the world, largely financed internally using collateralized agreements.

Jamaica, and Seychelles, are all small open economies with a narrow economic base in which tourism is key, leaving these economies exposed to external shocks, both economic and climatic.[25]

Table 1. IMF-Supported Programs with Market Debt Operation

	Program Type	Signing Date	Loan Size (in percent of quota)	Exceptional Access	LIA[1]	Official Arrears	DSA at Approval	Treatment in Program
Antigua and Barbuda	SBA	June 2010	600	Y	Y	Y	UN (MAC)	Program objective
Barbados	EFF	October 2018	220	Y	Y	LIOA	UN (MAC)	Prior Action[2] (Domestic)
Côte d'Ivoire	ECF	November 2011	120	N	Y	Y	Distress (DSF)	
Cyprus	EFF	May 2013	563	N	N	N	Sustainable (MAC)	Structural Benchmark
Gambia	SMP	June 2017	18.75 (RCF)	N	N	Y	High-risk (DSF)	
Greece	EFF	March 2012	2159	Y	N	N	SNWHP (MAC)	Launched prior to the program
Grenada	ECF	June 2014	120	N	Y	Y (China)	UN (DSF)	Launched prior to the program
Jamaica	SBA	February 2010	300	N	N	N	SNWHP (MAC)	Prior Action[2]
Jamaica	EFF	May 2013	225	N	N	N	SNWHP (MAC)	Prior Action[2]
St. Kitts and Nevis	SBA	July 2011	590	Y	Y	Y (EIB)	UN (MAC)	Prior Action[2]
Seychelles	EFF	November 2008	225	N	Y	Y	UN (MAC)	Program objective
Ukraine	EFF	March 2015	900	Y	N	LIOA	SWHP (MAC)	Initially not envisaged

Source: IMF program documentation.
Note: In the penultimate column, UN, SWHP and SNWHP stand for "unsustainable," "sustainable with high probability," and "sustainable but not with high probability," respectively.
[1] When the Fund provides financial assistance to members with outstanding external arrears to private sector, every purchase or disbursement are subject to the completion of financing assurances review while such arrears remain outstanding.
[2] Prior actions included launching exchange offer for debt restructuring of the government domestic debt held by private creditors (Barbados), launching and completing debt exchange operation that achieves an estimated saving of over 3 percent of GDP in FY2010/11 and a reduction in the amount of debt maturing during 2010–12 by at least two-thirds (Jamaica, 2010), completing a debt exchange for domestic government bonds consistent with a reduction in the public debt-to-GDP ratio by 2020 equivalent to at least 8.5 percent of GDP (Jamaica, 2013) and public announcement of the government's commitment to undertake a debt restructuring (St. Kitts and Nevis).

36. Tables 2 to 4 present the main features of the debt operations. A first clear message is the heterogeneity of sovereign debt restructurings. Not only are there differences in the root of the debt problems, but also regarding the creditor composition of restructured debt (Table 2): 8 cases

[25] The Caribbean basin is widely recognized as the most disaster-prone region in the world. The IMF classifies 34 member countries as small states with populations under 1.5 million, excluding advanced economies and fuel exporting countries. The World Bank uses an expanded list of 50 countries, including Jamaica.

involved external private creditors, 10 cases involved domestic creditors, 10 cases involved official bilateral debt, and 3 cases involved multilateral debt. There were also differences in the ultimate result of the restructuring (Table 3) and in the proportion of creditors accepting the agreement (Table 4).

37. Various other countries carried out market debt operations outside the program context during the period covered in this study. These countries include Belize (2012, 2016), Chad (2015), Mozambique (2016), and Congo (2018) (see Annex I).[26] The experience of Chad, Mozambique, and Congo highlights the role of new creditors (suppliers, commodity traders and non-Paris Club official creditors). In conjunction with SOEs, these creditors operated with a lack of transparency, often using expensive resource-backed loans and collateralization techniques. In Chad and Congo, the operations occurred prior to an IMF-supported program, and in Mozambique, after an IMF program went off-track. Despite their off-program operations, these countries are regular users of IMF resources.[27] By contrast, Belize has restructured three times since 2006 outside IMF-supported programs.

V. Design of Market Debt Operations in IMF-Supported Programs

What was the Role of the Fund?

38. IMF-supported programs provide a macroeconomic framework and policy measures that lay out a country's financing needs and how they are to be met through a combination of fiscal adjustment, official lending and private financing. As described in Section III, when the government's debt is unsustainable, even with a strong adjustment effort and official financial support, a debt operation is necessary to allow IMF financial support (Hagan and others, 2017), and is integrated into the IMF-supported program.

39. While the DSA acts as the scorecard to assess the need for debt restructuring to allow access to IMF resources, the decision to restructure stays with the countries. As described above, the DSA and associated models are used to identify resources available for debt servicing under alternative scenarios and provide the restructuring envelope. Table 1 details the type of DSA tool employed and the DSA assessment at program approval in each program. In various cases, the DSA results indicated that additional debt relief was necessary to achieve a sustainable debt situation. As an example, in Grenada staff found that the maximum feasible fiscal adjustment left debt too high, so that an operation delivering a large debt stock reduction was needed. The Fund Article IV DSA analysis can play a crucial role even in cases where an IMF program did not accompany the debt operation, as shown by the Belizean experience where it served as an independent baseline for negotiations between authorities and creditors.

[26] Annex I contains a brief description of these five debt operations. The period also saw various operations with China (Horn and others, 2020; Bon and Cheng, 2020). The debt operation in Congo continues while the restructuring with People's Republic of China has been completed.

[27] Chad and Congo subsequently restructured their public debt within the framework of IMF programs.

Table 2. Creditor Composition of Restructured Debt

	Antigua and Barbuda	Barbados	Côte d'Ivoire	Cyprus	Gambia	Greece	Grenada	Jamaica 2010	Jamaica 2013	St. Kitts and Nevis	Seychelles	Ukraine
Debt restructured												
Domestic	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
External privately held	Y	Y	Y	N	N	Y	Y	N	N	Y	Y	Y
Official bilateral	Y	N	Y	Y	Y	Y	Y	N	N	Y	Y	Y
Multilateral other than IMF/WB	N	N	N	N	Y	Y	N	N	N	N	N	N

Sources: IMF program documentation, Moody's, and Asonuma and Trebesch (2016).

Table 3. Restructuring Outcome Details[1]

	Antigua and Barbuda	Barbados	Côte d'Ivoire	Cyprus	Gambia	Greece	Grenada	Jamaica 2010	Jamaica 2013	St. Kitts and Nevis	Seychelles	Ukraine
Domestic Debt[2]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Arrears	Y	Y	Y	N	Y	N	Y	N	N	Y		
Principal Relief	15 (NSS), 0 (BA)	37.5 (NSS), 0 (BA), 16 (CB)	0	0	0	68.5	50 (no-NSS), 0 (NSS)	0	0	50 (unsecured, par), 0 (unsecured discount), 0 (secured)		
NPV	-3–13	39 (NSS), 27 (BA), 75 (CB)	5	36	n.a.	34–77	49 (non-NSS), 59 (NSS)	15–20	24	61–73		
External Debt	Y	Y	Y	N	N	Y	Y	N	N	Y	Y	Y
Arrears	Y	Y	Y			N	Y			Y	Y	N
Principal Relief (in percent)	0	26	3.8			53.5	50 (25 upfront)			50 (par option), 0 (discount option)	50 (BO), 0 (BA)	0–20
NPV	25–30	30	6			-5–70	49			61–73	75	0–28

Source: IMF program documentation.

[1] NSS stands for National Social Security. BA stands for Banks. BO stands for bonds. Figures for principal debt relief and NPV are in percent of total debt.

[2] Does not include debt with domestic residents and suppliers.

Table 4. Contractual Innovation: Financial and Legal Features of Private Sector Debt Operations

	Type of restructuring	Financial features	Legal features	Negotiation period	Credit participation
Antigua and Barbuda	Post-default	Domestic bank loans and liabilities with NSS. No bonds	Negotiation bank by bank (dom.). CACs, Paris Club Comparability of Treatment Clause (CTC) (ext.).	January 2011–2013 (external) February 2009–2012 (domestic)	No information
Barbados	Post-default	Claw back clause, natural disaster clause in external and domestic debt, step-up coupon.	Retrofitted CACs in local debt. Exit consents on loan. Natural disaster relief voted by committee in foreign law debt.	June 2018–October 2018 (dom.) June 2018–October 2019 (ext.)	100% (CACs)
Côte d'Ivoire	Post-default	Eurobond (previously Brady Bond)	Used CTC	October 2011–December 2011 (dom.) February 2011–January 2013 (ext.)	96% (domestic)
Cyprus	Pre-emptive	Longer maturities	Capital controls, euro CACs	May 2013–July 2013	100%
Gambia	Post-default (official)	Domestic bonds with longer maturities	Post conflict	April 2017–January 2018	April 2017–January 2018
Greece	Pre-emptive	GDP warrant	CACs thresholds not met in some foreign bonds. Retrofitted aggregated CAC in local debt. Overdue financial obligations to the Fund. Exclusion of ECB, negative pledge, Capital controls.	July 2011–April 2012 (external) July 2011–March 2012 (domestic)	100% (domestic CACs), 75% (external, CACs)
Grenada	Post-default	Sequenced conditional relief, natural disaster clause, step up coupons	CACs used successfully. Pari-passu	March 2013–October 2015 (external and domestic)	100% (external, CACs), 100% (domestic)
Jamaica – 2010	Pre-emptive	Longer maturities, less dollar debt, step up coupon	Local law and local residents only. Voluntary to meet constitution. No committee.	January 2010–February 2010	99%
Jamaica – 2013	Pre-emptive	Longer maturities	Local law and local residents only. Voluntary to meet constitution. No committee.	February 2011–March 2013	99%
Seychelles	Post-default	Principal reinstatement clause linked to IMF, ADB guarantee	CACs used, Paris Club CTC	July 2008–February 2010	100% (CACs)
St. Kitts and Nevis	Post-default	Menu of instruments. Revenue sharing agreement. Claw back linked to IMF program, CDB guaranteed, goodwill payment, step down coupons.	Forbearance, CAC in both laws. Land for debt swap (domestic debt).	June 2011–July 2013 (domestic) June 2011–April 2012 (external)	100% (CACs)
Ukraine	Pre-emptive (official arrears)	GDP warrants. No cap after 5 years. Increased coupon in Eurobonds.	CACs. Ongoing litigation with Russia.	January 2015–December 2015	100% (CACs)

Sources: IMF program documentation.

40. In some cases, debt operations occurred in successor programs after previous programs went off track. This happened in Seychelles, Antigua and Barbuda, Greece, Ukraine, and Côte d'Ivoire, where the need for debt relief was increased by weaker than planned fiscal performance in previous programs.

41. Financing assurances and arrears policies played crucial roles. Where external arrears existed (see Table 1), the program had to make sure that they were dealt with. Against a background of an increasingly heterogeneous official creditor base; this task was often not easy. Also obtaining adequate assurances from official sector creditors, both inside and outside the Paris Club, proved at times hard.[28]

42. According to some interviewees, longer-term Fund arrangements were more likely to deliver successful debt operations by providing more time to address debt problems. For example, Jamaica's SBA put in place fast in 2010 did not solve the crisis and an accompanying debt operation proved insufficient to deal with debt sustainability concerns. In 2013, Jamaica successfully restructured under a longer, more comprehensive EFF-supported program. In Greece, the initial program, an SBA, under-estimated the difficulties of implementing a deep fiscal adjustment within a short time frame and achieving an internal devaluation to improve competitiveness in a monetary union (Blanchard and Leigh, 2013). Subsequent Fund arrangements with Greece and Cyprus, including debt operations, were EFF. While a rush to approve a program may also help explain the problematic experience, providing the authorities with more time to implement the requested measures, while simultaneously engaging with its private creditors in a debt operation, may have helped with ensuring more successful outcomes.

43. Debt restructuring operations were embedded in the program design in different ways, as different approaches have been considered appropriate in different situations. Where debt is assessed as unsustainable in a pre-default scenario, a credible process towards a debt restructuring needs to be in train, which could be reflected as conditionality if critical to the success of the program (IMF, 2002). In Barbados, program conditionality focused on intermediate steps towards restructuring of external debt (e.g., hiring advisors or conducting audits), while the restructuring of domestic debt was a prior action. In other cases, restructuring was included as a condition for the program's first review (Grenada). In St. Kitts and Nevis, prior actions included measures to facilitate the operation. In Cyprus, completion of the operation was a structural benchmark. The role of clearing domestic arrears (present in all cases) in program design depended on their macro criticality.

[28] The issue of coordination between regional official lenders and the IMF was discussed in detail, for the Cypriot and Greek cases, in a previous IEO evaluation (IEO, 2016).

Balancing Objectives: Restoring Debt Sustainability and Supporting Growth

44. In designing programs with debt operations, the aim has been to balance various objectives: reducing debt and financing needs, re-establishing market access, and providing better conditions for growth. This section discusses how debt operations affected these trade-offs.

45. Debt operations' primary goal was to contribute to stabilize debt levels and restore public finances.[29] In some cases, programs targeted the clearance of external private or official arrears (Seychelles, Antigua and Barbuda, St. Kitts and Nevis, and Gambia). In other cases, the operations were carried out to obtain short-term cash flow relief. In Jamaica (2010), the goal of the operation was to reduce the interest burden from domestic debt. In Greece and Ukraine, debt operations were called on to contain gross financing needs given the country's debt structure and the depth of domestic financial markets. Also, the Cypriot and Belizean operations targeted smoothing repayments and reducing interest costs.

46. From a growth perspective, debt operations were designed to the extent possible to limit their adverse impact on activity, while paving the way for restoration of debt sustainability and investor confidence needed for longer-term growth. In Cyprus, Jamaica, and others involving domestic debt operations, substantial attention was given to preserving the health of the financial sector.

47. Interviewees highlighted that differences in the balance between financing and adjustment across programs affected the extent and timing of debt relief. According to staff involved in the episodes, a key consideration was to find a balance between having financing assurances in place (obtaining sufficient relief) to allow IMF financing to proceed and not providing creditors with undue leverage. The phasing of adjustment under the program also made a difference. In Seychelles, Antigua, Grenada, Cyprus, St. Kitts and Nevis, and Barbados front-loaded fiscal consolidation helped to convince creditors to share the burden. That the phasing of fiscal adjustment matters is best exemplified by Jamaica and Grenada, whose adjustment paths were back loaded in earlier unsuccessful operations, but frontloaded in the more recent and successful operations.

48. Often different areas of the IMF would disagree on the best approach but eventually reach consensus. In Jamaica in 2010, there was a dispute inside the IMF regarding what was the best approach, with some proposing a comprehensive debt operation affecting a broad range of domestic debt and others concerned about its financial stability implications and suggesting a narrower operation (see discussions below). Similarly contrasting views were reported in Greece and Cyprus. According to the staff, the fact that there are debt experts across the Fund facilitates eventual consensus.

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[29] For example, in Cyprus the target was 100 percent by 2020, and in Grenada 60 percent by 2020.

Analytical Framework

49. Different approaches have been used under the MAC DSA to assess the sustainability implications of debt operations. One approach considers whether, by the end of the program, the debt ratio will be sufficiently low or on a descending path. The other evaluates whether future gross financing needs can be met. Although both approaches were relevant, in Ukraine, creditors agreed to principal haircuts to reduce debt consistent with the debt stock framework. In Greece and Cyprus, given that Europeans provided long maturities, the GFN framework was more appropriate (Hagan and others, 2017).

50. The DSA does not include a systematic analysis of the impact of restructuring on growth. DSA was used to evaluate the effect of different debt operations on GFN and debt, but the trade-offs among variables were embedded in diverse ways (different types of operations can lead to different assumptions), not always clearly grounded. Staff argued that each case is unique and requires the application of judgement. An important information source, especially in the Caribbean, was past experience.

51. In practice, staff generally took an ad hoc approach to assess debt-growth trade-offs used in program design. Staff embedded the effects of debt operations in the form of lower primary balance and reduced interest payments, but usually did not include direct links between debt operations and risk premia (hence investment) or fiscal multipliers.[30] Nevertheless, in some cases (e.g., Jamaica 2013), staff's analysis of direct and indirect effects (through the exchange rate) of the debt operation on growth contributed to a milder restructuring as being judged to be sufficient to restore debt sustainability. In St. Kitts and Nevis, Côte d'Ivoire, and Cyprus, growth projections were adjusted to reflect the design of the debt operation. A key consideration was whether creditors were domestic residents. In Seychelles, the burden of the restructuring fell on external creditors and staff expected no negative impact on the domestic economy. In Antigua and Barbuda, staff raised growth projections on the expectation that the operation would unlock investment and support confidence.

52. Assumptions about regaining market access typically depended on staff judgement. There is no generally applied model of market access. According to staff involved, in Côte d'Ivoire, the path of debt issuance was a function of economic growth. In Grenada, Greece, Cyprus, and Barbados, among others, staff reported that no specific model was used to assess the impact of the debt operation on market access. This lack of firm foundations raises concerns since unless a program provides a path for a country to regain access to markets, the IMF does not have a strong basis to conclude that the program is addressing the underlying problems (Hagan and others, 2017; Guscina and others, 2017).

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[30] IMF staff generally follows FAD guidance on fiscal multipliers, which does not consider debt operations when providing advice on fiscal multipliers (IMF, 2014c).

53. Lack of solid modelling of the impact of debt operations, together with general forecasting uncertainty, sometimes allowed the authorities to push benign scenarios, effectively delaying and limiting debt relief. Reflecting the difficulty in providing accurate forecasts, in some programs staff accepted a "worst-case" scenario that was in fact far from the worst, under pressure from country officials who "knew better." This, together with the fact that expected outcomes were often conditional upon continued ambitious adjustment, staff were in practice often not confident that the planned operations would re-establish debt sustainability (reportedly, this happened in Seychelles, Ukraine, and Greece). To limit the effect of growth optimism, some programs (Jamaica 2013, Cyprus) were designed so that they could buffer growth performing below the baseline.

Debt Perimeter and Restructuring Modalities

54. Once the extent of debt relief required is determined under the DSA, the question becomes what categories of debt should be involved and how. In the end, the answer depends on the debt structure, and is for the authorities to determine with considerations on the sources of debt pressure and political and economic feasibility, provided that the overall goals for debt relief are met. Typically, the largest components of debt have been included in the restructuring, with official creditors often asking for comparable treatment of private creditors. However, smaller debt categories have been excluded since restructuring would be disproportionately harmful and could jeopardize access to new credit. Also, multilateral development banks are typically excluded to preserve their capacity to provide new credits.

55. Differential treatment by the authorities of creditors and debt instruments was common. In Jamaica and Cyprus, external debt and external creditors were left out (to preserve access to international markets). Operations in Antigua and Barbuda, Grenada, Barbados, and St. Kitts and Nevis were comprehensive, applying to external and domestic creditors. In Gambia, the focus was on official debt although there was also some domestic debt restructuring. In Ukraine and Seychelles, resident creditors were spared. Even in comprehensive debt operations for St. Kitts and Nevis, Grenada, Antigua and Barbuda, and Barbados, different terms were offered to different claims.

56. When operations were not comprehensive, they focused on the sources of liquidity pressures. In Jamaica and Cyprus, this was domestic debt. Cyprus also involved a Eurobond from Russia that was creating a bunching of repayments. The bulk of the restructured debt in Ukraine and Seychelles was external. Trade credits, collateralized debt obligations and Treasury bills, previously generally excluded, were repeatedly involved in debt operations during this period, given their prominence within some countries' debt stocks. For example, Barbados included Treasury bills and St. Kitts and Nevis collateralized debt.

57. When domestic debt was being restructured, the design of the debt operations often tried to limit damage to exposed sectors. When the debt being restructured was held by domestic agents, the design of the debt operation typically considered the effect it would have

on them. In this way, financial stability and, to a lesser extent, social cohesion, concerns were taken into account in choices over debt perimeter and restructuring modalities (see Table 3). For example, as detailed below, in Barbados and Grenada, commercial banks, insurers and other financial institutions were treated differently, given concerns about implications for the health of domestic financial institutions.[31]

58. Legal considerations affected the perimeter of debt instruments included. Sovereigns can use domestic legislation to change the terms of debt subject to their local jurisdiction. By contrast, when restructuring foreign-law debt, the sovereign cannot unilaterally change the terms of the debt. In such cases, debtors need to reach an agreement with creditors to avoid litigation, and have used contractual devices such as collective actions clauses (CACs) and other means to try to ensure high creditor participation and limit holdouts. As a result, in Jamaica (where debt did not have CACs) and Cyprus, avoiding legal risks was an important factor in the decision to spare external debt and creditors. Grenada reached an agreement on a debt operation soon after Taiwan's Export-Import Bank used the pari-passu provision to commence legal action in New York.[32]

59. Resolving external debt in arrears often required difficult negotiations with creditors, both private and official. While good faith efforts by the member to reach a collaborative agreement with its private creditors were required for the Fund to lend into arrears, in practice it was often difficult for a country to conclusively show engaging constructively with creditors.[33] In Gambia, Grenada, and Barbados discerning whether good faith efforts were being made became a chicken and egg problem, with government asking creditors to provide debt relief and creditors asking the IMF to support the country by providing a loan.

60. Arrears with non-financial domestic creditors were pervasive, and their clearance was often given priority, in part to support growth. Domestic arrears existed in all cases, and in various cases (St. Kitts and Nevis, Antigua and Barbuda, Seychelles) were very large. Generally, program conditionality targeted the clearing of domestic arrears. The importance of conditions regarding the clearance of domestic arrears depended on their macro-criticality. When they were seen as macro-critical, they were included as performance criteria. In Seychelles, Antigua and Barbuda, Jamaica, and Grenada, staff emphasized that resolving domestic arrears would release liquidity, facilitate investment and lift growth. Also, in Greece, domestic arrears were seen as contractionary, although staff noted they had no technical way to study their macroeconomic relevance.

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[31] Yet different modalities applied to individuals and the national social security system (Anthony and others, 2020).

[32] For more recent developments, including in Ecuador and Argentina, see IMF (2020b).

[33] LIA requires the member to make a good faith effort to reach a collaborative agreement with its private creditors, which could mean engaging in early dialogue, sharing relevant information, and providing creditors with an early opportunity to provide input. However, it does not require creditors' assurances on debt relief.

Financial Stability, Social Cohesion and Contagion

61. Attention to the financial stability implications of debt restructuring increasingly affected the design of debt operations covering domestic debt. While program design always paid attention to the fiscal costs of financial instability, the role of spillovers from sovereign debt restructuring on to the financial system and the real economy has become increasingly relevant as domestic banks and other financial intermediaries have been major holders of debt being restructured. In Seychelles and Antigua and Barbuda, indigenous banks were weak and would have needed to be recapitalized. Therefore, they were spared from debt operations. In Jamaica (2010), where most debt was held by domestic financial institutions, financial stability concerns limited the extent of debt relief sought through the debt operation.[34] At the time, some IMF departments advocated for a large haircut, excluding foreign debt to preserve market access and placing the burden on local agents, while other departments argued that such an approach would trigger a bank crisis. In the end, the exchange relied on lowering coupons and extending maturities, and did not involve a principal haircut. In addition, the Jamaican program provided for a financial stability fund (FSF, also set in 2013) to support distressed institutions if needed (it was left unused both times). In St. Kitts and Nevis, the authorities customized the restructuring in a similar way, and the SBA included a Banking Sector Reserve Fund to provide support if needed. In Côte d'Ivoire, local currency-denominated T-bills, mostly held by banks in the West African Economic and Monetary Union underwent a maturity extension but no cut in coupons or principal. In Jamaica and Barbados, staff-designed stress tests were used in designing operations to limit the impact on bank's capital and their ability to provide credit. In Ukraine, domestic debt was excluded to limit the burden on domestic banks and avoid a banking crisis. In Greece, while the program did include funds to restructure and recapitalize banks that were already weakened from deep recession, it failed to foresee the banking crises that erupted.[35] In Cyprus, initially, Europeans opposed the operation, concerned about sovereign bank feedback loops.

62. The design of some debt operations also reflected the role of national social security systems (NSS), which were often large holders of government debt. In some countries, the debt operation was designed to minimize its impact on their balance sheets; in other cases, the NSS was an important source of debt relief. In Antigua and Barbuda, large debt to the Social Security Board and Medical Benefit Scheme had been in arrears for decades (GoAB, 2011). Reflecting over-riding concerns about the condition of the banking system, the new instruments offered to NSS had more extended maturities and lower coupons than those offered to commercial banks. Moreover, the principal value of domestic debt in arrears was cut by 15 percent (see Table 3). Barbados's and Greece's operations also left their NSS in a very weak position. By contrast, in Grenada, where debt with the NSS was not as large, the operation was designed to protect it. In

[34] Jamaica 2010 SBA was described as a turning point regarding the recognition of the impact of debt operations on financial stability.

[35] It is unclear whether the bank crisis occurred because domestic banks held Greek bonds that received a haircut or because the economy collapsed. Both factors had an effect, but their weight is unclear.

St. Kitts and Nevis, the operation left the exposure by the Social Security Board as a residual liability, in an effort to guarantee its long-term sustainability.

63. Fears for regional contagion sometimes delayed debt operations and prompted the exclusion of debt held in the regional market. Contagion fears were particularly acute in Greece, leading the IMF to hastily introduce a systemic exemption in its exceptional access policy to avoid the requirement for debt restructuring despite an unsustainable debt situation when the 2010 SBA was first approved. In Jamaica, the fund set up to guarantee the stability of the banking system was also aimed at limiting regional contagion. In Grenada, at the request of the Eastern Caribbean Central Bank, Treasury bills issued in the regional market were excluded. In Antigua and Barbuda, concerns about contagion from restructuring bills issued in the regional market led to their exclusion from the restructuring operation. Contagion concerns were considered to be less relevant for other members of the East Caribbean Currency Union. Similarly, the operation in Côte d'Ivoire, the largest economy of the West African Economic and Monetary Union, did not raise contagion concerns.

VI. IMPLEMENTATION OF DEBT OPERATIONS IN IMF PROGRAMS

64. As shown in Table 3, the extent and type of debt relief achieved varied widely. Debt operations for Seychelles, St. Kitts and Nevis, Greece, Antigua and Barbuda, Ukraine, and Barbados involved substantive reductions in principal, at least from some creditors. In general, operations involving reductions in principal achieved larger NPV relief than those involving only maturity extensions and changes in coupons. Jamaica and Cyprus received flow relief through interest rate reductions and rescheduled principal payment, with no principal haircut. Reflecting the weighting of different concerns and the source of liquidity pressures, the extent of restructuring differed not only across domestic and external debt, but also across domestic actors. For example, in Barbados, NPV losses experienced by domestic public creditors were significantly larger than those of private creditors.

65. While the evidence is limited, domestic debt has generally been easier and quicker to restructure (even if it can become complicated when the debt is collateralized like in St. Kitts and Nevis). Table 4 provides information on the duration of the restructuring process. In Barbados, negotiating and carrying out the domestic operations took only six months. In Jamaica and Cyprus, the domestic restructuring took just two months. This was considerably faster than Grenada and Greece, where both external and domestic debt were restructured in parallel, or Seychelles and Antigua and Barbuda, where it took years to arrange the external debt exchange. Operations with official creditors were often protracted, particularly those including countries not members of the Paris Club. In the absence of a mechanism for collective action, and with debt often including complicated collateralization clauses, negotiations typically involved discussions with each major creditor separately. Also, the resolution of domestic arrears with resident non-financial creditors and suppliers often took longer than planned.

66. Most debt operations involved an actual default and accumulation of arrears with external private and/or official creditors (see Table 1). Only in Greece, Cyprus, and Jamaica was debt restructured without accumulating any arrears. Ukraine did not default on its external liabilities to the private sector but did so on a Eurobond liability to an official creditor (Russia).

Role of the IMF

67. The IMF used the DSA framework to assess the adequacy of different proposals. Fund supported negotiations by evaluating whether restructuring proposals would achieve sufficient savings to meet the debt sustainability goal. In various cases (e.g., Ukraine or Gambia), staff used the DSA results to insist that more debt relief was needed to allow the IMF to proceed with program financing. However, in the Greek case, pressures from European partners, concerned about a systemic meltdown, limited the ability of the IMF to use its DSA to objectively set the restructuring envelope.[36]

68. In some cases, IMF provided technical assistance to conduct stress-testing to understand the impact of the debt operation on local banks and help contain financial stability concerns. This first happened in Jamaica. Those tools were fine-tuned and successfully used in later programs (e.g., Barbados).

69. While the IMF's neutrality in debt negotiations prevents it from advising debtors, at times it is asked to provide technical advice related to the debt operation. The IMF must respect a neutrality principle in debt negotiations. This implies it cannot advise countries to breach their legal claims, and that the strategy and details of the operation are for the debtors and their advisors to design and negotiate. For example, in Seychelles, authorities asked IMF staff whether they should default. Staff stated that they could not advise a course of action under the neutrality principle but that, if such an approach was followed, it was worth doing so comprehensively.[37] The Fund can play a helpful convening role where countries lack capacity. For example, Gambia sought the good offices of the IMF, who used the 2017 IMF meetings to sit everyone together.

70. The Fund often played a role in encouraging the degree of creditor participation needed for a successful debt operation. In Seychelles, the mission chief played a crucial part to convince stakeholders to participate. In Jamaica and Greece, the IMF noted that a high creditor participation was critical to restore debt sustainability. In Ukraine and Barbados, staff met creditors to explain the operation. In Grenada, the IMF mission chief met with creditors to explain the Fund-supported program and the DSA, which helped ensure that the deal was accepted.

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[36] According to the IEO (2016), the troika arrangement in Europe subjected IMF staff's technical judgments to political pressure from an early stage.

[37] Staff advised Seychelles that building credibility would make it easier to receive relief.

71. IMF arrears policies were critical during debt negotiations.[38] In many countries, arrears accumulated during the negotiation, requiring a judgement that debtors were negotiating in good faith, even if at times arrears accumulation was part of the countries' negotiation strategy. Thus, arrears policies played a critical role affecting the leverage of debtors and creditors. In Grenada, the operation was delayed due to protracted negotiations, as creditors threatened to claim a lack of good faith efforts. In other cases, it was arrears with official creditors that were difficult to clear. In Barbados, a guaranteed loan by the Canadian Government went into default. As Canada would not accept that only their loan was restructured and would trigger LIOA, Barbados eventually paid in full.

72. Modifications of existing policies can complicate the impact of the debt operation. In Chad, the IMF program that followed the 2015 stand-alone debt operation included a debt operation designed to meet the thresholds of the old DSF, but the framework was reformed. As a result, despite the debt operation, Chad was assessed to be in high risk of distress. This left the country unable to access non-concessional financing, potentially denting public investment and long-term growth.

Official Creditors

73. The increasingly heterogeneous structure of official creditors has complicated the path to moving ahead promptly with debt negotiations. Often, no official creditor wanted to act as a leader and some claimed senior creditor status. In Gambia, some non-Paris Club creditors and plurilaterals considered themselves senior. An agreement took two years to reach. Antigua and Barbuda needed to involve the European Investment Bank, with which the country was in arrears.[39] Also, debt operations involving the Paris Club took a long time in some cases. Not only the Paris Club processes proved often lengthy but, in a few cases, negotiations with the Club were hampered by mistrust towards the debtor country authorities. In Seychelles, only the intervention of the French ambassador unlocked Paris Club debt relief for the country.

74. Early involvement of the Paris Club played a strategic role. Where the authorities (or their advisors) considered they could obtain substantial relief from the Paris Club, the authorities engaged first with it, and then applied leverage from the Paris Club's comparability of treatment principle to insist on similar restructuring terms with other private and official creditors. Antigua and Barbuda, St. Kitts and Nevis, Côte d'Ivoire, and Seychelles followed this approach.[40] By contrast, in Grenada, as the Paris Club showed no political will to give relief, the authorities left Paris Club debt as the last component to restructure.

[38] All countries but Jamaica, Cyprus and Greece accumulated external arrears (see Table 3).

[39] The European Investment Bank wanted that part of the first disbursement would go to pay outstanding arrears.

[40] Diaz-Cassou and Erce (2010) document a similar pattern in earlier debt restructurings.

Litigation

75. Debt operations were at times considerably delayed by prolonged litigation, including by official creditors. Antigua and Barbuda's debt operation lasted so long in part due to disputed claims in U.S. Courts. Ukraine, Congo, and Mozambique are still in court: Ukraine is litigating with Russia; Congo and Mozambique with private creditors. Prolonged litigation makes the output costs of default felt for a longer period. Moreover, a confrontational stance with holdout creditors may compromise a country's ability raise new financing in international capital markets. Therefore, countries' have an incentive to obtain participation from as many creditors as possible in the debt operation being negotiated (Hagan, 2020).

76. Engaging constructively with creditors pays off but can take different forms in difficult circumstances. Jamaica and Seychelles engaged in informal negotiations. The Greek negotiations involved creditor committees (Zettelmeyer and others, 2013).[41] Grenada, Barbados, Ukraine, and Belize all negotiated with creditor committees.[42] Cyprus and Jamaica did not engage with creditor committees but achieved a quick restructuring process for domestic debt. Still, to the extent that creditor committees affect market perceptions regarding the authorities' readiness to cooperate, this strategy may have affected the conditions for market re-access (Okwuokei and van Selm, 2017).[43] In contrast, as part of their negotiation tactics, Antigua and Barbuda and Grenada missed payments without agreement with their creditors, and negotiations were protracted.

77. Despite concerns about the effectiveness of the market-based contractual approach to debt restructuring, several restructurings achieved very high participation rates, avoiding successful litigation by hold-out creditors not willing to agree to the operation. In Greece, Barbados, Grenada, Seychelles, Ukraine, and St. Kitts and Nevis, the use of CACs enabled full creditor participation in some instruments and facilitated the restructuring process. However, the use of CACs did not prevent holdouts in some of Greece's and Ukraine's foreign-law debt, where given the size of the bonds and the thresholds included in the CACs, hold-out creditors managed to build blocking minorities (for details, see Fang and others 2020). In Cyprus and Jamaica, debt was successfully restructured without CACs.[44] Table 4 provides information regarding the participation of creditors in different episodes.

[41] In Greece, it took long to come up with the offer, and the authorities could only give creditors two weeks to accept or reject the offer (domestic-law repayments were coming due).

[42] In its 2012 restructuring, Belize included a creditor engagement clause (commitment to create a bondholder committee and negotiate with it in good faith). It was used in 2016.

[43] With the limited evidence at hand it is difficult to make a call regarding whether what matters is the form (formal or informal committees) or the attitude of the authorities.

[44] IMF (2020b) discusses the recent failure to use the single-limb version of the ICMA CACs embedded in Argentinean and Ecuadorian bonds, and the potential for such clauses to be strategically used by the authorities.

78. A number of legal techniques were used to increase participation and avoid litigation. Two countries retrofitted an aggregate CAC for restructuring domestic law debt. This was first done in Greece and later in Barbados. In both cases, the Parliament passed legislation to retrofit an aggregate collective action clause in all local-law bonds, and used it to limit hold-out risk.[45] Participation has been further encouraged through exit consents, delisting of bonds and cross-default clauses.[46] The aim of these techniques has been to strip holdouts of enforcement powers.

79. In some cases, authorities modified financial regulations, affecting incentives to restructure. Sometimes, regulation adjustments made the debt operation more palatable. In Jamaica, restructured bonds could be used as collateral. In St. Kitts and Nevis, the part of debt that was collateralized was resolved using a land-for-debt swap.[47] Devising a framework that ensured a smooth liquidation of the land assets was challenging. In Jamaica 2010, to reduce holdouts, the government threatened to impose a punitive tax on income earned from the old bonds. In contrast, in other cases, regulatory changes likely allowed the authorities to delay the request for debt relief. For example, during the Greek and Cypriot crises, ECB collateral policies were repeatedly adjusted to reduce tensions in sovereign bond markets.

Contractual Innovation

80. Achieving high creditor participation is important not only for a smooth debt restructuring process, but also to promote earlier and more robust market re-access. To foster creditor participation, contractual innovations have been commonplace in recent episodes. The use of innovative techniques and instruments increased the likelihood of success (Cohen and others, 2020). Features deployed to foster investor participation include value recovery instruments (VRIs), as well as counter-cyclical and state contingent payouts and incentives for prudent fiscal policy. Table 4 summarizes the main financial and legal features included in each operation.

81. In Greece and Ukraine, GDP warrants increased creditor upside by sharing the benefits of success. The Greek operation provided VRIs in the form of GDP-linked warrants, which delivered additional payments if GDP growth met certain targets. As the targets were set high, expectations that the warrants would offer an upside were low.[48] In contrast, in Ukraine, the warrants offered private creditors an upside, without an upper cap, if the program was successful in lifting growth. This helped increase investor participation rates. A caveat of leaving the upside uncapped is that it could lead to excessively large debt payments in the future (see IMF, 2020b).

[45] While some IMF departments preferred retrofitting, others preferred a parliamentary change.

[46] Buchheit and others (2020) detail different restructuring techniques for bonds and loans. Bonds are typically restructured through an exchange offer. Syndicated loans are usually amended.

[47] The debt-for-land swap was executed through the establishment of a special purpose vehicle and took into consideration the specifics each bank's balance sheet.

[48] The Greek operation used additional techniques to encourage creditor participation. The exchange offered a cash payment (equivalent to 15 percent of the face value of old debt).

St. Kitts and Nevis offered a portion of future tax revenues. This increased participation, although at the cost of encumbering future revenues.[49]

82. Step-up coupon structures provide immediate cash flow relief during the program, but can also lead to a re-emergence of problems in the future. Step up coupons—involving an initially low interest rate that is raised over time—were used in Jamaica, Grenada, Barbados, and Belize. Step-up features reflect the willingness of the market to accept that the sovereign's economic prospects will improve over time.[50] The initial relief can help limit fiscal adjustment, meet financing assurances, and help the borrower resume growth. However, the future increase in interest rates implied by the step-up can put pressure on the fiscal authorities and adversely affect confidence in longer-term prospects. The experiences of Seychelles, Jamaica, and Belize, where step-up structures introduced in earlier debt operations were partly responsible for the re-emergence of distress, show the risks posed by these coupon structures for future debt sustainability (see also Okwuokei and van Selm, 2017).

83. Clauses making debt relief contingent on reform implementation build in incentives to pursue responsible fiscal policies but can also reduce the authorities' ability to conduct counter-cyclical policies. The Seychelles debt operation included a provision granting bondholders an additional 25 percent of the face value of the new bond if Seychelles failed to complete the first review under the EFF by the end of 2010. St. Kitts and Nevis and Barbados used similar clauses.[51] Converting the stick into a carrot, Grenada's agreement included a two-step nominal haircut, stipulating that half of the haircut would be granted only after the successful completion of the IMF program. While, in practice, none of these clauses was activated, one potential drawback with them is that they could limit the ability of the authorities to conduct expansionary fiscal policy during a severe and protracted recession, potentially inducing pro-cyclicality.

84. Some debt operations have built in contingencies that make debt service obligations countercyclical. Operations for Grenada and Barbados included a novel downside feature, an extension of maturity for a pre-determined period in case of a natural disaster. This creative growth-enhancing solution to a critical problem of small islands exposed to climate risks was proposed by Fund staff during the Grenadian debt operation. In Grenada, the clauses were introduced in foreign-law bonds, Paris Club debt and debt with Taiwan's Exim Bank (Robinson, 2016). They were designed to be NPV-neutral, making them acceptable to investors. Barbados attempted to introduce the clauses in both domestic and foreign debt, which

[49] Also, the resource-backed loan renegotiated by Chad, which ties debt payments to oil prices, serves to share with creditors the country's success but encumbers the country's future revenues.

[50] Step-up bonds are long duration instruments and may appeal to investors with a long investment horizon.

[51] Relatedly, during its 2012 debt operation, Belize tied debt relief to the achievement of specific fiscal targets and, in case of not meeting these targets, agreed to request IMF's technical assistance.

protracted the negotiation, but only succeeded with domestic law bonds.[52] Also in Chad, the 2018 operation to restructure a resource-backed loan that was absorbing a large part of the country's oil revenues tied principal payments to oil prices. In this way, Chad's debt service is tied to future revenues in a countercyclical way, which has already proved beneficial.

85. Partial multilateral guarantees were successfully deployed to facilitate investors' buy-in. Seychelles was the first operation featuring a partial guarantee from the African Development Bank on the interest payments of the restructured debt. The St. Kitts and Nevis exchange also included a Caribbean Development Bank (CDB) partial guarantee (and a restructuring of a previous CDB guarantee triggered by the operation). In Greece, the exchange included a co-financing agreement with the EFSF. This meant that Greece could not default to the private creditors without also defaulting to the official creditors.

86. In some cases, capacity constraints limited authorities' ability to develop and implement a debt restructuring strategy, implying that debt operations took longer than expected to complete. In Grenada, due to lack of administrative capacity, it took one year to prepare and publish an initial financing estimate (Okwuokei and van Selm, 2017). Due to further delays in preparing the legal documentation, the exchange took place one year later. This experience contrasts with Barbados (see Table 4), where strong administrative capacity was key to limit the time needed to complete the operation.

VII. Impact of Debt Operations on Debt Sustainability and Growth Outcomes

87. Judging whether a debt operation is successful is not straightforward. There are a number of possible metrics focusing on different goals. Regarding restoration of external viability, one could consider whether the IMF-supported program embedding the debt operation was completed, or whether the country needed subsequent IMF support. In terms of debt sustainability, one could consider whether the operation achieved the targeted debt relief in a reasonable time frame without substantial litigation, and whether debt stress resurged. From a macroeconomic perspective, relevant yardsticks could be whether the operation helped to achieve program goals and whether it contributed to supporting growth outcomes.

Impact on External Viability and Debt Sustainability

88. Overall, IMF-supported programs with market debt operations had only mixed success in terms of debt sustainability and the balance of payments position after the program. Less than half of the 12 debt restructuring operations were successful in avoiding a follow-on IMF arrangement, subsequent debt operations or further debt distress.[53] As shown in Table 5, despite most programs including debt operations being carried out to the end (the Jamaica 2010 and Greece 2012 programs went off track and were not completed), half of the countries involved

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[52] Concerned about liquidity, external creditors didn't buy the clause (CBR 2020). They only agreed to a version where enacting the clause requires majority acceptance by a creditor committee.

[53] In some instances, successor programs may be needed to consolidate the gains made by debt operations.

requested follow-on IMF support within a few years. Two countries required additional debt restructuring (Greece, a further restructuring of official bilateral debt; and Jamaica, a second round of restructuring of domestic debt). As of end 2019, three of the countries were in debt distress (Grenada, Gambia, St. Kitts and Nevis). Only St. Kitts and Nevis, Grenada, Antigua and Barbuda, and Cyprus managed to avoid additional Fund support after the IMF-supported programs ended (Barbados' program still continues).

89. Where the debt operations fell short of restoring debt sustainability, the underlying reasons varied across debt operations as shown in the last column of Table 5. In some cases, this happened because of lack of technical expertise or political pressures. In other cases, debt relief was insufficient while the accompanying fiscal adjustment fell short. In a few cases, it was the discovery of previously undisclosed debts. The discovery of unreported debts (Gambia), the materialization of contingent liabilities (Antigua and Barbuda, Greece) and of guaranteed debt (St. Kitts and Nevis) created unforeseen additional debt, implying that more debt relief or more adjustment would have been required.[54]

90. Debt operations with upfront principal haircuts combined with needed policy adjustments have been most successful in restoring debt sustainability, although well-designed re-profiling operations can also be effective if supported by the necessary macroeconomic policy framework. Data suggest that programs with debt operations were able to reduce debt on average by 14 percent of GDP over the three-year horizon following program approval, with debt reduction of 21 percent of GDP in programs with principal-based operations compared to an average increase in debt of 3 percent of GDP in programs with debt reprofiling, although this is an unfair comparison because it does not take into account the impact of coupon reduction on the NPV of the debt (Figure 1).

91. Country evidence, albeit limited, also seems to indicate that reductions in principal are more credible in driving debt down and enhancing confidence. Even though the final review of both programs noted the existence of remaining vulnerabilities, successful operations by Seychelles and St. Kitts and Nevis were grounded on a large principal haircut that secured an immediate reduction in debt stocks, as well as on a strong implementation of the reform program. Similarly, the program in Côte d'Ivoire was successful in terms of restoring debt sustainability. While Grenada's program was also implemented successfully, its 2016 Article IV consultation classified it in debt distress due to the non-completion of all debt restructurings and the existence of arrears to official creditors. In Jamaica 2010, the limited debt relief created a repayment bunching, leading to a subsequent operation.[55] Using debt re-profiling, combined with upfront and substantial fiscal adjustment, Cyprus and Jamaica (2013) managed to put their public debt on a downward path with no principal haircut (and without destabilizing the financial sector), but this success depended on more sustained fiscal adjustment.

[54] Undisclosed or non-transparent debt contracts were an issue also in debt restructuring operations undertaken outside the program context in Chad, Mozambique, and Congo. See Annex I for further details.

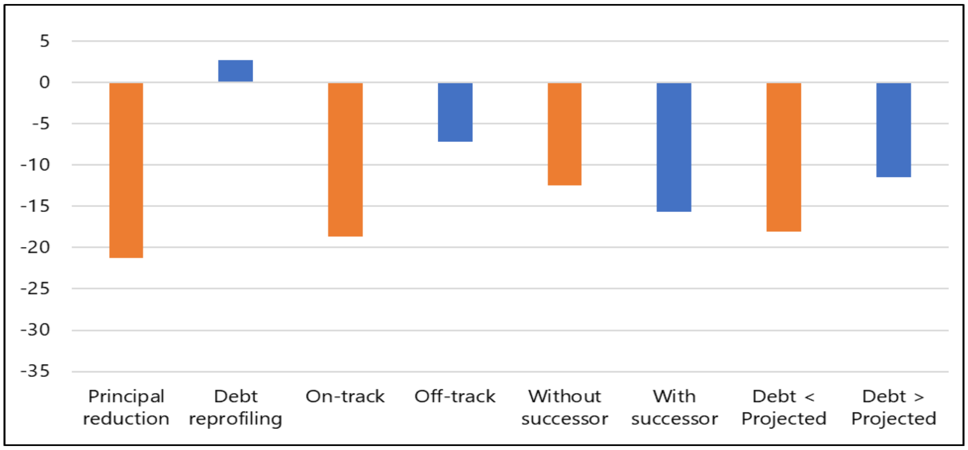
[55] The 2010 operation consolidated 345 instruments into 24 new instruments.

Table 5. Outcome: Metrics of Success

	Program off-track	Additional debt restructuring	Additional program	DSA Assessment in 2019	Problems identified by interviewees
Antigua and Barbuda	N	N	N	No public documents in 2019	Resolving bank crisis (triggered by the operation) increased debt stock. Litigation in U.S. led to longer process.
Barbados	N	N	N	Sustainable but not with high probability	It took long to convince foreign creditors to accept hurricane clauses.
Côte d'Ivoire	N	N	Y	Moderate Risk	-
Cyprus	N	N	N	Sustainable but risks remain high	Euro area authorities pushed against the operation.
Greece	Y	Y	Y	Debt sustainability is not assured under realistic macro-fiscal assumptions	Too much adjustment and insufficient debt relief (CACs not triggered). Took long to come up with an offer (delayed by euro area authorities). Contingent liabilities (from bank crisis).
Grenada	N	N	N	In debt distress (official arrears)	Dispute with Ex-Im Bank lasted 10 years. Lack of administrative capacity further delayed the operation.
Jamaica – 2010	Y	Y	Y	Sustainable	Insufficient relief and lack of fiscal adjustment.
Jamaica – 2013	N	N	Y	Sustainable	Fears of financial instability limited the extent of relief.
Seychelles	N	N	Y	Sustainable	It took long for the authorities to acknowledge the problem. Also, to negotiate with the Paris Club.
St. Kitts and Nevis[1]	N	N	N	Sustainable	Restructuring on collateralized domestic debt (with safeguards for banks) took long and provided little relief.
Gambia	N	Y	Y	External debt distress	Coordinating multiple official creditors without a leader proved difficult. Discovery of unreported debts.
Ukraine	N	N	Y	Sustainable	Russia litigated. Some CACs failed (reducing the extent of relief). GDP-linked with generous upside.

Source: IMF webpage, program documentation, and interviews with staff.
[1] DSA assessment is based on the 2017 AIV Consultation Report.

Figure 1. Debt Outcomes of Programs with Debt Operations
(Three-year cumulative change in debt from program approval)
(In percent of GDP)



Sources: Author's calculations.
Notes: Based on the data for 10 programs with market debt operations, excluding Barbados (2018) and Gambia (2017). "Without successor" stands for programs not followed by a successor program in less than three years; "Debt < projected" denotes programs where actual debt is less than projected; public debt data represent the face value and do not take account of additional reduction in NPV terms.

92. Strong and upfront fiscal adjustment played a crucial role in supporting debt operations and in restoring debt sustainability more durably. For example, staff emphasized that St. Kitts and Nevis already operated a primary surplus by the time of the debt operation. By contrast, in Greece, Antigua and Barbuda, Ukraine, and Jamaica (2010), the lack of accompanying fiscal adjustment impeded a successful restoration of debt sustainability.[56]

93. Principal debt reductions did not always restore debt sustainability, however. For instance, the delayed operations in Greece (reflecting contagion concerns) and Ukraine (driven by the near war situation with Russia)—two large economies in the sample—had more limited success.[57] This raises the question of whether debt reduction was sufficiently ambitious or program implementation too weak. At least in the case of Greece, given the additional debt buyback and further restructuring of official debt, there is some scope to argue that relief was too little.

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[56] In Antigua and Barbuda, the program enabled the country to find new creditors and re-engage existing ones. However, after it ended, the fiscal stance was relaxed and arrears re-emerged (GoAB, 2015). Following Jamaica's 2010 operation, despite the country regained market access quickly, the SBA went off track rapidly owing to fiscal slippages. By contrast, under the 2013 EFF Jamaica sustained a large primary surplus, sending public debt on a downward path.

[57] Also, Barbados received a sizable debt reduction. As with other recent operations, the pandemic crisis makes it hard to judge its success.

94. The success in clearing domestic arrears was mixed despite increased awareness regarding their adverse growth effects. In various cases, the conditionality associated with domestic arrears was not met, and often additional domestic arrears emerged. For example, in Jamaica 2010, indicative targets on domestic arrears were breached repeatedly.

Impact on Macroeconomic Outcomes

95. A comparison of GRA programs with and without debt operations shows stark differences in macroeconomic dynamics.[58] Figure 2 compares the dynamics of real GDP growth, fiscal deficits and public debt for the programs with market debt operation with the 42 GRA programs without debt operations included in the evaluation sample. Debt outcomes of the programs with debt operations were on average better than projected and better than those of other GRA programs (Figure 2, Panel C). While initial debt was far higher in programs with debt operations, debt ratios were on average put on a broadly declining trend while the opposite was the case for other GRA programs. Success in putting debt on a declining path in part reflected that in programs with debt operations, fiscal adjustment (measured as the change in the primary balance) was stronger and more front-loaded than in other GRA programs (Figure 2, Panel B).

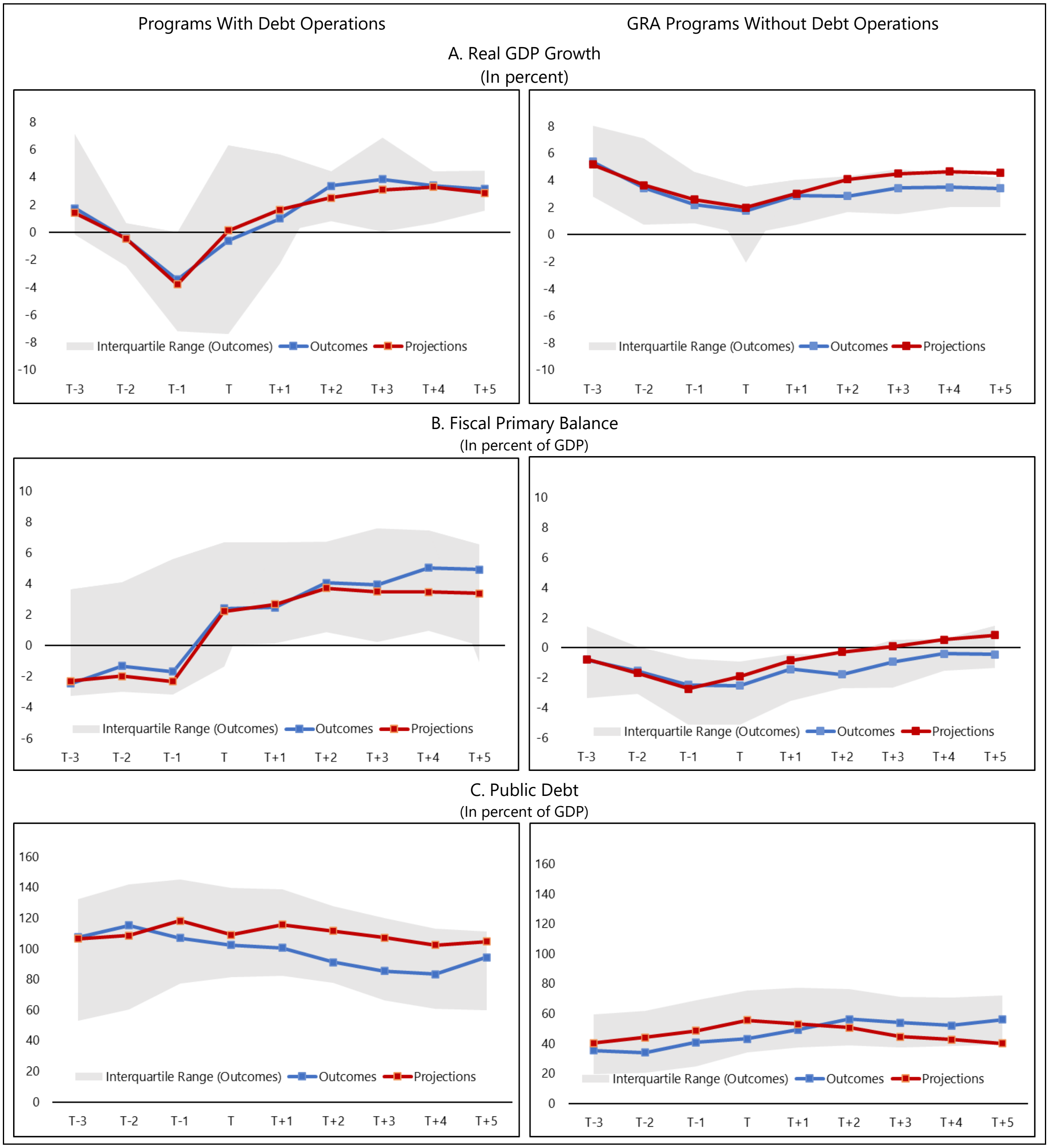
96. As to the growth trajectory, growth on average rebounded sharply from a deep trough at T-1 in programs with debt operations, with the U-shaped pattern being much sharper than that of other GRA programs in both growth projections and outcomes (Figure 2, Panel A). Growth outcomes of the programs with debt operations on average slightly underperformed initial projections in early years of the program (T and T+1) but exceeded projections in later years. As with debt and fiscal outcomes, growth outcomes ranged widely across programs with debt operations as indicated by the interquartile range in shade, which is significantly wider than that for other GRA programs.

97. Comparing outcomes to the IEO estimated growth benchmarks, the evidence suggests that more effective debt operations have on average been associated with better growth outturns in both program and post-program periods (Figure 3). Specifically, both within-program and post-program growth outcomes (during five years after the program) relative to the growth benchmark estimated in Kim and others (2021) have been superior for: (i) programs with debt operations based on principal reduction rather than reprofiling and (ii) programs where debt trajectory has been better than projected during the program.[59]

[58] For consistency, the analysis in this section is based on 10 programs with market debt operations, excluding Barbados (2018) which is an ongoing program and Gambia (2017) where GDP rebasing in 2018 affected actual debt ratios significantly, skewing their comparison with program projections. Given the small sample size, evidence on adjustment and growth outcomes in programs with debt operations is indicative (at best).

[59] The growth benchmark corrects for the influence on growth of exogenous external factors—such as the terms of trade, trading partners' growth and global interest rate (measured by the U.S. policy rate)—as well as the difference in historical trend growth across countries. See Kim and others (2021) for further technical details.

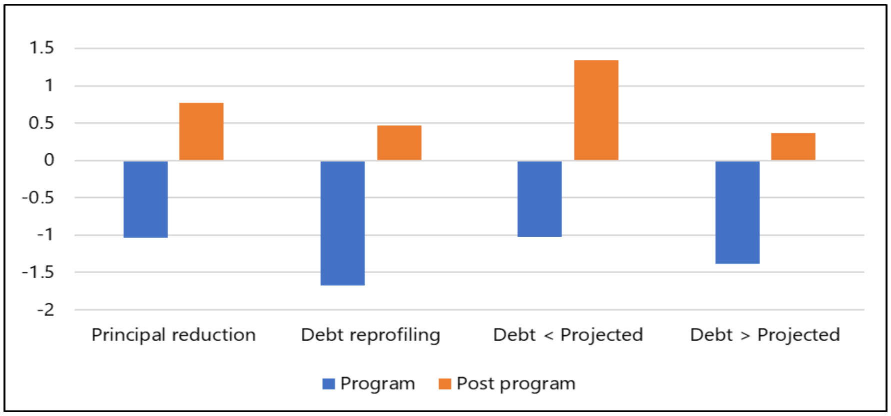
Figure 2. Adjustment and Growth Trajectories: Programs With and Without Debt Operations



Source: Author's calculations.

Note: Based on the data for 10 programs with market debt operation, excluding Barbados (2018) and Gambia (2017), and 42 GRA programs without debt operation. Outcomes and projections represent cross-country medians. All projections are initial projections at program approval (T). Data availability is not uniform across periods. Due to the presence of successor programs for some countries in the sample, there is overlap in the data presented over the period and, therefore, the results are not always fully consistent with those based on program periods only.

Figure 3. Growth Outcomes of Programs with Debt Operations (Average annual deviation from IEO growth benchmark) (In percent)



Source: Author's calculations.
Notes: Based on the data for 10 programs with market debt operation, excluding Barbados (2018) and Gambia (2017). Post-program period spans five years after the program. See Figure 1 for the definition of the categories on the horizontal axis.

Impact on Market Access

98. Experience with regaining external market access was mixed. Market re-access was slower than projected in Greece, Grenada, and Jamaica, but in Cyprus and Côte d'Ivoire it recovered faster than expected. In Jamaica (2010), outside advisors expected bond prices to recover following the operation. To staff's surprise that is what happened. In Grenada, despite the substantial principal relief, the still large debt stock hindered market re-access after the program.

99. Country experience suggests that it could take time to achieve re-access to domestic markets. In Jamaica (2013) and Grenada, domestic demand for government debt was damaged for longer than expected.[60] Legislation to change contractual conditions retroactively to facilitate debt operations proved effective, but in some cases the long-term consequences on market confidence have been a concern. Following its 2013 operation, Jamaica issued a Eurobond in July 2014, but the domestic market remained inactive until February 2016. This differential experience was likely explained by the exclusion of external debt from debt restructuring.[61] Even in Côte d'Ivoire's successful program, demand for domestic government bonds did not recover. In

[60] This implies that more program funding had to go to budget support than otherwise.

[61] Okwuoikei and van Selm (2017) speak of a downside to "domestic-only" restructuring. With access to global but not to domestic markets, the share dollar debt increased.

Greece, some Fund staff considered that access had been lastingly damaged, as the investor base shifted towards more speculative investors.[62] In other cases (e.g., Cyprus), re-access was fast.

100. According to interviews with staff, predictions about regaining access to bond markets were not backed by a tested benchmarking and remained purely judgmental. Some staff considered that the IMF lacks market intelligence and needs a better gauge of markets' long-term views. Others viewed no need for it. Evidence seems to vindicate the first.

VIII. LESSONS AND RECOMMENDATIONS

101. The IMF played a positive role in supporting debt operations in the program context during the evaluation period. Financing assurance and lending into arrears policies as well as the catalytic role of the Fund seem to have provided balanced incentives for both debtors and creditors to engage constructively in debt operations to restore debt sustainability. Beyond this, the IMF's main contribution has been technical advice based on its DSA framework, which has been used to determine the extent of debt relief needed to restore debt sustainability. In addition, Fund staff has often played a role in encouraging creditor participation in debt negotiation by communicating with stakeholders about a country's economic prospects and capacity to repay its debt.

102. Given the large adverse economic impact of the COVID-19 pandemic, debt operations in the context of IMF-supported programs seem likely to increase in the period ahead (Reinhart and Rogoff, 2020). Countries will have to devise approaches that fit their specific circumstances, but for all it will be crucial to ensure that the debt operations provide conditions for renewed growth, as well as for avoiding a recurrence of excessive debt burdens. With these objectives in mind, this section extracts lessons and recommendations from recent experience.

Lessons

103. Market debt operations often occur too little, too late, which can imply a need for repeated restructuring and lingering debt-related uncertainties that can have negative growth consequences. Of the 12 programs with market debt operations, only less than half restored debt sustainability without further official support or debt restructuring.

104. In some relatively large countries, political concerns delayed debt operations or led to agreement on terms providing insufficient relief. The case in point is Greece, where pressures from European partners related to contagion concerns and the impact on creditor balance sheets limited the ability of the IMF to use its DSA to effectively set a realistic restructuring envelope. Domestic debt operations were also delayed, mainly owing to financial stability concerns and

[62] Against this unfavorable view, the government has recently gained market access on favorable terms, including issuing a 30-year bond in March 2021, in the context of the ECB's commitment to maintaining highly easy monetary conditions.

other strategic reasons (e.g., political concern on distributional consequences for domestic creditors).

105. To provide a firmer basis for IMF to reach judgment, the framework for evaluating debt sustainability needs to be applied more carefully to better separate technical from political factors. IMF program design depends on specific debt anchors and time-targets to achieve them, affecting the path of adjustment and setting the envelope for debt relief. These targets are to a large extent determined based on judgement rather than on firm empirical analysis. Not only does this imply that they can be disputed, but the application of judgement has often not improved the program design. While efforts were made recently to further reform the MAC DSA framework to help address these issues, further attention is needed in the areas of: (i) analysis to underpin predictions for the speed and terms at which market access will be regained, (ii) macro scenarios that links growth and fiscal projections to debt operations more systematically, and (iii) fuller integration into the macroeconomic framework of the consequences of debt default on non-financial domestic creditors.

106. Reviews of experience suggest that debt operations with principal haircuts supported by upfront fiscal adjustment have tended to be more successful in restoring debt sustainability and supporting growth than simply reprofiling maturities and lowering coupons, which delivered too limited NPV reduction. Although reprofiling operations can be effective, especially if the country is facing a liquidity rather than a solvency problem or is committed to strong fiscal adjustment, this is clearly a harder route and takes longer to demonstrate success.

107. A well-designed debt operation needs to be accompanied by a credible fiscal plan and growth-boosting reforms that help restore investor confidence and market access and lift long-run growth. By providing creditors with greater assurances that the restructured claims will be serviced, such approach also encourages participation.

108. IMF-supported programs can help encourage creditor participation. Investor buy-in avoids lasting negotiations and negative effects on market access. In the evaluation period, the following factors were critical to facilitate creditor participation and avoid disruptive litigations:

- A high degree of ownership and good faith effort by the authorities in negotiations.
- CACs and additional strategies to discourage holdouts and encourage constructive negotiations.[63]

109. Financial sweeteners, like GDP-linked warrants and step-up coupons, helped build consensus by providing investors with potential pick up in pay-outs in good states of the world, and the authorities with incentives to conduct prudent fiscal policies. However, care must be

[63] While some practitioners favor the use of creditor committees, these can at times challenge the coordination process. For example, in the recent Argentinean operation there were three separate creditor committees.

taken in designing such instruments to avoid imposing too great a burden when outcomes are positive, particularly since the valuation of sweeteners may be limited by lack of liquidity. Incorporating mechanisms to introduce counter-cyclical or disaster-related contingencies can be helpful to make public debt more robust against adverse events.

110. During the period there was litigation by official creditors (Russia against Ukraine in London and by China against Grenada in New York). The increasing use of legal and financial clauses to create priority/default protection by both private and official lenders is generating a race to seniority that may complicate future debt operations (see also AfDB, 2021).

111. Financing instruments, such as resource-backed and collateralized loans, which often are used by countries with poor governance, can encourage creditors to lend, but need to be weighed against their potential stability implications. Collateralized borrowing and large resource-backed loans can undermine debt sustainability and complicate debt operations, especially if non-transparent.

Recommendations

112. A variety of approaches can be combined to address the problem of "too little too late" debt restructuring, by influencing the debtor's and creditors' incentives, and by strengthening the Fund's framework for assessing the need for and adequacy of debt operations.

113. To encourage the authorities to embark on debt restructuring, when judged to be required, program design could include financing buffers to protect against risks to market access, credit intermediation, and contagion (such as the financial stability funds in Jamaica, Cyprus and various other programs to reduce risks of financial instability).

114. To limit the scope for political influence in determining the need for a debt operation, the approach to applying the DSA methodology in the context of debt operations should be further strengthened. In this respect, the use of single debt anchors to constrain the parameters of the debt operation should be reconsidered and projections should be systematically adapted to reflect the various facets of the debt operation. The recently reformed MAC DSA framework (IMF, 2021) is equipped with new realism tools to limit overoptimistic debt forecasts and a GFN module to evaluate refinancing risks. While the GFN module is an important step forward, the DSA methodology and associated program projections should include a systematic and robust analysis of the timing and conditions at which debt markets will be re-accessed. The lack of firm foundations to assess risks to market access raises concerns as without a path to regain market access, the programs will not be able to address the underlying problems.

115. To support long-term inclusive growth, the increased attention paid to the impact of debt operations on financial stability should be consistently applied to the effect of the operations on non-financial domestic creditors, particularly social security systems. The design of debt operations should avoid leaving them too weak to fight poverty and inequality. Also, the

authorities' payment behaviour vis-à-vis private non-financial domestic creditors, which has first order implications for economic growth, should gain relevance when designing a growth-friendly resolution of sovereign debt distress.

116. A few multilaterals already offer natural disaster clauses, oil-price linked loans, and export-linked grace periods. Also, some loans and bonds issued to the private sector contain counter-cyclical features, which should help making public debt less pro-cyclical. Along those lines, the IMF has supported further efforts to develop state-contingent and countercyclical instruments that help improve the resilience of public debt to shocks (IMF, 2017b; Cohen and others, 2020).

ANNEX I. MARKET DEBT RESTRUCTURING OUTSIDE IMF PROGRAMS

Belize. In 2012, Belize faced step-up coupons set in the 2006 operation with private bondholders, and negotiated a restructuring operation to reduced external interest payments. Neither domestic nor official creditors played a part in the debt operation. Fund staff remained in contact with both parties and provided technical assistance to the Belizean authorities. The operation was agreed with a bondholder committee (Belize missed a coupon and partly repaid it to reopen negotiations). New bonds included a committee engagement provision, a reinstatement clause, and step-up coupons. The operation successfully reduced spreads. However, lacking fiscal adjustment, by 2016, Belize's Article IV consultation concluded that public debt was again non-sustainable. The authorities decided to restructure once more without the IMF (stigma was too strong according to staff) but used the Article IV DSA to set the negotiation framework.[1] Faced with stepping up interest payments, the target was (again) to obtain flow relief by lowering coupon payments. To encourage greater fiscal effort, creditors linked the new coupons to fiscal performance.[2]

Chad. High-cost private resource-backed loan with Glencore, a multinational trading and mining company, proved a source of difficulties to achieve sufficient debt relief. Chad borrowed from Glencore in 2014, right after reaching its HIPC completion point.[3] The Glencore loan was non-transparent, and had a very high interest rate, allowing the firm to capture a large part of Chad's oil revenues. In 2015, Chad restructured the loan by lengthening the repayment period without IMF involvement. However, the operation raised the NPV of the loan. When Chad subsequently sought IMF support using an ECF arrangement, it was required to restructure again as a prior action for approval of the arrangement. Staff was closely involved this time, reviewing and rejecting various offers. The operation built in contingencies. New principal payments are linked to oil prices. After the operation, the concessional limits within the LIC-DSF changed, leaving Chad at high risk of debt distress. Other external loans remain under negotiation.

Mozambique. The government had engaged in nontransparent practices with private external contractors, which led to a sharp deterioration of debt sustainability, and to a protracted restructuring process. The private external debt operation occurred outside a Fund-supported program. A program in place right before the operation went off-track after the uncovering of "hidden debts" with private contractors pushed the DSA into unsustainability. The authorities sought to restructure its external debt and reached out at Credit Suisse and VTB, who had government-guaranteed SOE loans, to Eurobond holders, and to China. The Eurobond was swapped in October 2019, three years after announced, with significant debt relief. Fund staff

[1] Article IV assessed that a primary surplus of 4 percent would be need for debt sustainability, but authorities decided to restructure again on the grounds that such surplus was not feasible.

[2] If the fiscal balance goes below 2 percent, coupons increase and authorities must ask for IMF TA.

[3] Staff was not sure how Glencore managed to provide the loan right after the HIPC completion point.

was kept informed by the advisors, but was not involved. Debt with China was restructured in 2018 (Bon and Cheng 2020). The two loans with private contractors are still under litigation.

Republic of Congo. Debt has been in litigation since 2014, with collateralized debt posing a major obstacle. After reaching the HIPC completion point, Congo accumulated substantial new debt with China and through non-transparent deals with oil-traders and producers. In 2017, previously undisclosed oil-backed contracts (one with Glencore) signed in 2014 were discovered.[4] Given questions about debt sustainability, Congo was required to restructure debt prior to signing an ECF in July 2019. Congo restructured debt with China (February 2018 and April 2019).[5] According to its 2019 Article IV, Congo is still in debt distress. According to Global Witness (2020), Congo has continued to accumulate hidden debt.

[4] In 2014, Congo received hidden debt relief from various oil companies (Global Witness, 2020).

[5] Congo's 2019 ECF planned to clear domestic arrears and obtain nominal relief from external private and domestic creditors. It excluded local banks and regional instruments, as stress-tests showed that restructuring banks' exposures would trigger a bank crisis. At the time of writing, negotiations continue with oil traders.

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