Economic and Social Council

Special meeting on

The debate on the architecture for sovereign debt restructuring is not new. A decade ago, on the heels of a series of debt crises in many countries in Latin America and the Asian financial crisis, the international community explored a range of possible options to facilitate timely, orderly restructuring of sovereign debt. The objective of those discussions was to augment the international adjustment toolkit in cases where debt burdens had become so high that they were widely viewed as unsustainable and possibly posed a risk of distorting the incentives to pursue sound macroeconomic policies, with spill over effects to neighbouring countries and the global economy more broadly. These efforts to develop a better framework for the timely, orderly restructuring of sovereign debt were marked by a divergence of views between those prepared to support so-called “voluntary” approaches, in which bondholders would accept contractual modifications that facilitated restructuring, and those who supported a more formal, statutory approach—the Sovereign Debt Restructuring Mechanism (SDRM)—as developed by the IMF. A lack of adequate buy-in by stakeholders led to the demise of the statutory proposal, and the decision was taken to abandon statutory approaches and efforts were directed at the inclusion of collective action clauses (CACs) in new bond issues of key emerging market economies.

The discussion went into a decade long hiatus as a result of the ample global liquidity and the benign global environment that preceded the global financial and economic crisis. The debt problems in low income countries were dealt with special approaches to deal with their special situation. The complacency both in policy circles as well as amongst the private sector has been shaken up with the ongoing debt crisis of Eurozone members to force the recognition that debt problems can pose a systemic risk, and the need to

Solutions have often been accompanied by undue lags and, for the most part, have provided too little relief, often leading to future debt restructurings, jeopardizing the resumption of growth and prospects for keeping debt sustainable. This, in turn, may result in unilateral debt reductions with possible loss of access to international capital markets or punitive costs of raising new money.