Sovereign Debt Sustainability, Debt Relief Initiatives and Restructurings in the COVID-19 Era

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This paper examines the causes, processes, and outcomes of the sovereign debt restructuring episodes that occurred during 2020-2021 in the context of the prevailing IMF sovereign debt restructuring framework and the G20 debt relief initiatives for LICs instituted as a result of the Covid-19 economic implications. The central role of debt sustainability analysis in the IMF sovereign debt restructuring framework is presented for both low-income countries and countries that maintain market access. Based on the observed salient features of the recent restructurings, we point out common traits in the behavior of involved stakeholders and draw lessons on facilitating sovereign and creditor attributes for efficient sovereign debt resolutions.

I. Introduction

The accumulation of sovereign debt by Low-Income Countries (LICs)/developing/Emerging Market (EM) countries in the last few years, particularly after the Covid-19 pandemic, resulted first in an acute inability of the most vulnerable of these economies to service their debts and eventually in debt defaults and sovereign debt restructurings of some of them. The international community came to the help of these

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countries early on in the crisis through the G20 Debt Service Suspension Initiative (DSSI) and the Common Framework for LICs.

However, as the pandemic persists, an even greater number of vulnerable countries will likely face higher public and external financing (borrowing) needs and ensuing sovereign indebtedness, leading to more debt distress situations. The massive amounts of sovereign debt amassed by most countries necessitates careful management at present and in the post-Covid-19 era, both at the local and the global levels, to avoid international capital-flow disruptions and consequent negative growth implications, especially for weaker LICs/Developing/EM economies.

This paper presents the backdrop of some of the main sovereign debt restructurings that occurred since the arrival of Covid-19. In this context, first, it briefly discusses the central role of the DSA in the prevailing IMF sovereign debt restructuring framework. Then, it highlights the main elements of the frameworks used in the determination of LIC and Market Access countries' debt sustainability, respectively, and outlines the debt relief initiatives developed by the G20 as a response to Covid-19 economic impacts. These are the (i) DSSI, which allows eligible LIC debtors to suspend external debt payments and re-channel the freed financial resources to mitigate the health, economic and social impact of the Covid-19 virus, and (ii) the subsequent Common Framework, which aims to offer LICs a transparent level playing field through which to restructure or reduce unsustainable debt obligations. Although private sector creditors have not been eager to participate in these recent G20 debt relief initiatives, the unprecedent fiscal stimulus packages employed by LICs/ developing / EMs to deal with the direct pandemic costs and bolster their economies are increasingly raising investors' concerns regarding the sustainability of these countries' debts. Lastly, the paper analyses the causes, processes and outcomes of the sovereign debt restructurings since the beginning of 2021, examines some shared features and draws some lessons from the recently observed restructurings.

The paper is organized as follows: section II presents the IMF's debt-sustainability-analysis framework for LICs and market access countries within the prevailing IMF sovereign debt restructuring framework, section III discusses the global debt relief initiatives for LICs during the Covid-19 era, section IV outlines some sovereign debt restructuring episodes in the Covid-19 era, section V offers some views on common characteristics, section VI provides lessons learned, and section VII concludes.

II. The IMF's DSA Framework for LIC and Market-Access Countries

This section briefly presents the main elements of the frameworks used in the determination of LIC and Market Access countries' debt sustainability in the context of the prevailing IMF sovereign debt restructuring framework.

Low Income Country-Debt Sustainability Framework (*LIC-DSF*)

During 2010-2020, the number of LICs in debt distress has more than doubled, following closely the trend in LICs' public debt as a percent of GDP. To assess LICs' public and external debt sustainability and vulnerabilities, the IMF-WB developed in 2005 the LIC-DSF tool, which was reviewed in 2017. The tool primarily aims to be used by LICs dependent on concessional financing, with the DSA outcome being used to help inform borrowing decisions (as input to Debt Limit Policy), macroeconomic surveillance, and policy actions that could prevent sovereign debt restructurings.[1,2] For accurate assessment of public debt vulnerabilities and potential risks of debt distress, the DSA should be based on the total external and domestic public and publicly-guaranteed debt (i.e., of the central government, central bank, state and local governments, state-owned enterprises, social security funds, and other debt guaranteed by the public sector).

The LIC-DSF uses one template for the external debt DSA and for the public sector debt DSA, focusing on public and publicly-guaranteed debt. The external DSA examines public and publicly-guaranteed external debt plus private external non-guaranteed debt to assess a country's external risk of debt distress, while an external risk rating is determined on the basis of the public and publicly-guaranteed external debt. The public DSA examines public and publicly-guaranteed external debt (the external risk rating) and domestic public debt to assess the overall risk of debt distress. The analysis compares public and publicly-guaranteed debt indicators to policy-dependent thresholds, with

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1. A loan is typically considered concessional if the grant element exceeds 35 percent, with Grant Element $= 100 \times$ (Nominal Value $-$ Present Value) / Nominal Value, where the Nominal Value of a loan is the amount borrowed today and its Present Value is the total service paid on the loan expressed in today's terms.

2. See IMF, 2014a, 2014b, 2015a, 2015b.

the analysis focusing on the Present Value (PV) of debt under baseline and standard alternative scenarios.

Under the LIC-DSF, a DSA entails the following process: [3]

Using (i) baseline macroeconomic and debt projections that are scrutinized by realism tools and (ii) a Composite Indicator (CI) that aims to assess a LIC's debt-carrying capacity, a standardized forward-looking analysis of the debt and debt service dynamics determines the LIC's classification as strong, medium, or weak, based on established thresholds.[4] Such classification and standardized and tailored stress tests determine the LIC's "mechanical risk of external debt distress." This feeds into a "judgement enhanced guidance," which is informed by domestic debt and market financing modules to better describe debt vulnerabilities. In turn, this guidance feeds into the "final external and overall public risk of debt distress" assessment, which categorizes countries into low, moderate, high and in debt distress. For additional granularity across countries within the moderate risk category, a corresponding module is used.

In terms of mechanics, the DSF uses separately-produced macroeconomic projections and, based on them, calculates trajectories of main debt-burden indicators, which are compared with relevant debt-burden thresholds.

The Debt-Burden Indicators and Debt-Burden Thresholds under the LIC-DSF are:

1. External Debt-Burden Indicators, which feed into the "mechanical risk rating"

Solvency

- Present Value of Public and Publicly-guaranteed external debt to GDP
- Present Value of Public and Publicly-guaranteed external debt to Exports

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3. IMF 2017, 2018a, 2018b and 2021c, http://www.imf.org/external/pubs/ft/dsa/lic.aspx and http://www.worldbank.org/en/topic/debt/brief/dsf .

4. A LIC's debt-carrying capacity is determined by 5 years of historical data and 5 years of country-specific and global projections. The CI is a weighted average of a LIC's Country Policy and Institutional Assessment (CPIA) score computed by the World Bank, the country's growth, reserves, remittances, and world growth. The CPIA rates International Development Association (IDA) eligible countries against a set of 16 criteria, grouped in four clusters: (i) economic management, (ii) structural policies, (iii) policies for social inclusion and equity, and (iv) public sector management and institutions.

TABLE 1. Debt Burden Thresholds and Benchmarks Under the DSF

	PV of external debt (in percent of)		External debt service (in percent of)		PV of total public debt (in percent of)
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

Liquidity

- Public and Publicly-guaranteed external debt service to GDP
- Public and Publicly-guaranteed external debt service to Revenues

2. Total Public Debt Burden Indicators

Solvency

- Present Value of total Public and Publicly-guaranteed debt to GDP, which feeds into the "mechanical risk rating"
- Present Value of total Public and Publicly-guaranteed debt to Revenues

Liquidity

- Total Public and Publicly-guaranteed debt service to Revenues

While the trajectories of the debt-burden indicators span the DSA period, debt-burden thresholds are determined by the DSF. The comparison of the debt-burden trajectories to the relevant debt-burden thresholds determines possible threshold breaches, which cause the "mechanical external risk rating" to worsen.

Stress tests help identify the sensitivity of projected debt-burden indicators to changes in assumptions, with typical stress tests being (i) standardized (automatically applied), (ii) tailored (calibrated, adapted to country-specific circumstances), and (iii) fully customized (ad hoc) shock scenarios. Stress tests inform the calculation of the mechanical risk signal -- when a test leads to a breach of the relevant debt-burden threshold, the signal will shift from, e.g., low to moderate.

The assessment of external debt-burden indicators in relation to thresholds mirrors the ability of a LIC to service a certain level of external debt. The DSF classifies countries into three debt-carrying capacity categories – strong, medium, and weak (Table 1). Consistent with these categories, the DSF establishes thresholds and benchmarks for each of the five debt-burden indicators that feed into the "mechanical external risk rating."

TABLE 2. MAC DSA Risk-Based Approach

Risk-based approach	Public Debt-to-GDP		Public GFN-to-GDP		Exceptional access
	EM	AE	EM	AE	
Lower scrutiny country	< 50%	< 60%	< 10%	< 15%	No
Higher scrutiny country	or, >50%	or, > 60%	or, > 10%	or, > 15%	or, Yes

On the basis of these thresholds and benchmarks, DSAs include an assessment of the risk of external and overall debt distress based on four categories: low risk (when there are no breaches of thresholds), moderate risk (when thresholds are breached in risk scenarios), high risk (when thresholds are breached in the baseline scenario), and in debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

Thus, the macro-framework (baseline and stress test scenarios) determines the debt-burden indicators under these scenarios. These indicators, relative to the above thresholds/benchmarks, determine a "mechanical external risk rating." Note that both solvency and liquidity indicators are needed to assess debt sustainability, with shock scenarios helping identify vulnerabilities. The LIC-DSF template (dsatemp.xlsm) generates output tables and charts that depict the debt and debt-service dynamics under the baseline scenario and summarize the results of standardized alternative scenarios and stress tests.

Market Access Countries-Debt Sustainability Analysis (MAC-DSF) Framework

The MAC DSA is used to assess debt sustainability of countries that have market access, playing a key role in the Fund's core functions of surveillance and lending to these countries. In surveillance, this framework helps identify such a country's vulnerability to sovereign stress and steer the country away from such stress. In IMF-supported programs, which often take place after the stress has already developed, the DSA helps determine if sovereign stress can be resolved via a combination of IMF financing and economic reforms, or if measures such as sovereign debt restructuring are needed to deliver medium-term debt sustainability. The MAC-DSA framework is also used in developing IMF conditionality and informing the need for debt relief in

TABLE 3. Heat Map: Stress Tests - Risks to Debt Level and Gross Financing Needs and Debt Profile

Debt level	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile	Market Perception	External Financing Requirements	Change in the Short-term Debt	Public Debt held by Non-Residents	Foreign Exchange Debt

debt restructuring operations undertaken in the context of IMF-supported programs.

In general, a country's public debt can be considered sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible. By debt stabilization is meant that level of debt that is consistent with an acceptably low rollover risk and with preserving growth at a satisfactory level. In the MAC DSA context, debt sustainability assessments span (i) solvency, when the sovereign is assessed to be able to service its debt in the short-, medium-, and long-run without renegotiation or defaulting, (ii) liquidity, when the level and composition of debt is assessed to be consistent with an acceptably low rollover risk, and (iii) plausible adjustment, when the sovereign is assessed not to need policy adjustments that are not viable from an economic and political perspective.

Since its introduction in 2002, the MAC DSA framework has been reviewed in 2003, 2005, and 2011–13. The 2011–13 review introduced key features, including a risk-based approach through distinction between high and low scrutiny countries, standardization of writeup and publication requirements, realism tools to guard against optimistic economic assumptions and projections, a heatmap summarizing debt vulnerabilities, and debt fan charts to give a sense of the uncertainty around the projected path of the debt-to-GDP ratio. From conventional debt analysis, the debt-to-GDP dynamics are primarily driven by changes in the real GDP growth, the primary balance, the effective real interest rate, and the exchange rate. Finally, used benchmarks derive from early warning models.

Under the MAC-DSA, DSA's risk-based approach allows the analysis of country-specific vulnerabilities.[5] First, it entails (i) the baseline calculation of the public debt-to-GDP and comparison of whether it exceeds 50 percent or 60 percent for Emerging Markets (EM) and Advanced Economies (AE), respectively, (ii) the baseline calculation of the public gross financing needs (GFN)-to-GDP and comparison of whether it exceeds 10 percent or 15 percent for Emerging Markets (EM) and Advanced Economies (AE), respectively, and (iii) the determination of whether or not the country in question is considered as an exceptional access to IMF resources case. If all (i), (ii), and (iii) do not hold, then the country is judged as a lower scrutiny case,

5. See IMF (2013), http://www.imf.org/external/pubs/ft/dsa/mac.aspx).

while if any of (i), (II), and (iii) holds, then the country is judged as a higher scrutiny case (Table 2).

For lower scrutiny cases, the risk-based outlook involves Basic DSA plus, where relevant, customized scenarios and contingent liabilities analysis, while for higher scrutiny it involves Basic DSA plus realism of baseline assumptions, risks to debt level, gross financing needs, and profile of debt along with a heat map, stochastic simulations of debt paths and DSA write-up.

The Basic DSA–1 includes actual data projections for debt, economic and market Indicators, as follows:

Debt Indicators

- Nominal Gross Public Debt
- Nominal Gross Public Debt (% of GDP)
- Public Gross Financing Needs
- Public Gross Financing Needs (% of GDP)

Economic Indicators

- Real GDP growth (%)
- Primary balance (% of GDP)
- Inflation (GDP deflator (%)
- Nominal GDP growth (%)
- Effective interest rate (%)

Market Indicators

- Sovereign Spreads
- EMBIG (bps)
- 5-year CDS (bps)
- Foreign and Local Debt Ratings from:
  Moody's
  S&P
  Fitch

Basic DSA–2 includes actual data and projections for the Composition of Public Debt, as follows:

Composition of Public Debt

- By maturity (% of GDP): Short-term, Medium- and Long-term
- By currency (% of GDP): Local and Foreign currency denominated

Alternative Scenarios

- Nominal Gross Public Debt (% of GDP)
- Public Gross Financing Needs (% of GDP)

TABLE 4. Heat Map: Debt Burden Benchmarks–Debt Level and Gross Financing Needs

Debt Burden Benchmarks (%)	Public Debt-to-GDP	Public GFN-to-GDP
EMs	70	15
AEs	85	20

TABLE 5. Assessment of Risk Level of MAC Countries

Risk level	Baseline above benchmark?	Stress test above benchmark?
High	Yes	Yes
Moderate	No	Yes
Low	No	No

Then, a heat map is generated based on stress tests of the debt level and gross financing needs under real GDP growth, primary balance, real interest rate, exchange rate, contingent liability shocks and based on debt profile (Table 3).

Based on the calculated baseline and stress test debt-to-GDP and gross financing needs-to-GDP and the corresponding debt burden benchmarks (Table 4), the risk level of market access countries is assessed as in Table 5.

Further, the indicators of debt profile vulnerabilities are analyzed against set risk assessment benchmarks to further distinguish lower from higher scrutiny countries (Table 6).

Finally, stochastic simulations of debt paths (fan charts) provide the evolution of predictive densities of gross nominal public debt (in percent of GDP).

Based on the baseline and stress test analyses, along with the heat maps, additional indicators and fan charts, the DSA write-up is prepared. In essence, the write-up discusses the key assumptions of the baseline, including their realism, presents the overall assessment of debt sustainability risks, and highlights vulnerabilities and country specific circumstances that mitigate or amplify risks.

The MAC-DSA framework will transition into the MAC-SRDSF at the end of 2021 to beginning of 2022.

MAC-SRDSF Framework

On February 3, 2021, the IMF announced that its Executive Board reviewed on January 14, 2021 the IMF Debt sustainability Framework

TABLE 6. Indicators of Debt Profile Vulnerabilities vs. Risk Assessment Benchmarks

Indicators for additional analysis	AEs	EMs
3-year cumulative primary balance adjustment (in % of GDP)	2	2
Coefficient of variation of growth	1	1
Bond yield spreads or EMBI global spreads (bps)	600	600
External financing requirements (in % of GDP)	25	15
Public debt held by non-residents (in % of GDP)	45	45
Public debt in foreign currency (share of total)	n.a.	60
Annual change in the share of short-term public debt at original maturity	1.5	1.0

for Market Access Countries (MAC DSA) (IMF, 2021a and 2021b). The review revealed scope for improvement of the MAC DSA framework's ability to identify/predict sovereign stress risk with greater accuracy and to better align it with the IMF's lending framework, which aims to be achieved by replacing the existing approach with a new methodology.

The new framework will be renamed "Sovereign Risk and Debt Sustainability Framework for Market Access Countries" (MAC SRDSF) and intends to include a broader and more consistent debt coverage, a longer projection horizon, new tools at multiple horizons based on superior analytical methods that account for countries' structural characteristics, and enhanced transparency in the bottom-line assessments, including the exercise of judgment. The new tools will support probabilistic debt sustainability assessments, as required by the Fund's lending framework, with the MAC SRDSF framework being expected to be operationalized at end-2021 or first quarter of 2022.

With regards to debt data, the MAC SRDSF framework adopts the application of the existing definition of debt sustainability and uses General Government (GG) debt, defined per GFSM 2014 classification, as the default institutional coverage. However, this could be a challenge, as two-fifths of EMs currently report data for the central government only. Further, it incorporates public sector liquid financial assets as a mitigating factor, while the risk based approach under which central bank liabilities and/or SOE contingent liabilities would need to be included in the debt perimeter. This information intends to enhance transparency on debt data used in assessing public debt sustainability.

The proposed reforms under the updated MAC SRDSF aim to improve the framework's capacity to predict sovereign stress, align it with the three-zone sustainability assessment required under the exceptional access framework, and enhance the communication of the DSA results. Accordingly, the new framework uses the expanded realism toolkit for baseline projections and tools to assess sovereign risks at three horizons: short, medium, and long term. The use of the proposed new tools intends to produce the probabilistic debt sustainability assessments required in IMF-supported programs and evaluate the consistency of restructuring targets with restoring sustainability in debt restructuring cases.

In this context, the need to adequately account for the impact of climate change on sovereign risk and debt sustainability should be stressed. Also, the existing realism toolkit to cover exchange rate analysis, especially for pegged regimes, has been expanded. Further, the use of perceptions-based third-party indicators to build the institutional quality variable used in the short- and medium-term models is addressed by leaving adequate room for judgment and by comparing with results using alternative indicators of institutional quality that are not perceptions-based.

With regard to transparency of debt sustainability assessments, a sovereign risk analysis is generally prepared in both program and surveillance settings. In a program situation, IMF staff reports should contain the full range of risk-of-sovereign-stress outputs for the medium and long term (but not for the near term), as well as an overall risk assessment. In surveillance and precautionary arrangement cases, full disclosure of sovereign risk analysis to the IMF Board would be expected, but limited disclosure (omitting the near-term risk signal and assessment) to the public. The requirement of full disclosure to the public would be reevaluated after one year from the implementation of the new MAC SRDSF framework. However, unintended consequences from potential market sensitivities of full disclosure of sovereign risk analysis should be assessed, especially in case of moving to full disclosure to the public immediately.

Sustainability assessments would be required for arrangements involving the IMF General Resources Account resources (including precautionary arrangements), as well as for the Policy Coordination Instrument. While sustainability assessments are generally optional in surveillance cases, preparing a sustainability assessment in surveillance cases with high risk of sovereign stress is required, with the results disclosed to the IMF Executive Board but not to the public, although public disclosure can be required even for such cases. With respect to program cases, (i) the current practice by which a three-zone assessment is included in IMF staff reports in exceptional access cases, but not in normal access cases, will be maintained; (ii) full disclosure (to the IMF Executive Board and the public) of three-zone assessments in both normal and exceptional access cases would be required; and (iii) disclosure to the IMF Executive Board of three-zone assessments in both normal and exceptional access cases, and to the public only in exceptional access cases, would be required, with experience assessed at the end of a 12-month period from the introduction of the new framework.

In the context of precautionary arrangements, sovereign risk assessments need to be informed by the baseline scenario, while sustainability assessments would be informed both by the baseline and, when appropriate, by an adverse (full drawing) scenario. The latter would be appropriate in exceptional access cases (excluding Flexible Credit Line cases), if shocks triggering a drawing are not adequately captured by the medium-term tools, or when reviewers have doubts about the realism of the baseline that cannot be resolved through discussions with the country team, although it is expected that the appropriate use of the new realism tools should resolve any such doubts.

In view of the new MAC SRDSF, the General Theorist (2021) has commented that this update is a missed opportunity by the IMF to address the shortcomings of the Greece (2010-12) and Argentina (2018-20) programs, but considers the proposed consolidation with the central bank a positive aspect. Specifically, the following problems are identified: (a) the definition of sustainability (para 6, p.6), i.e., "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," repeats the definition agreed in 2013 and does not reflect the i<g debate, namely how debt should be judged in secular stagnation; (b) a single sustainability template for all market-access economies but LICs is not sensible; (c) the public debt sustainability does not take into account the prospects for the external goods and service balance in the presence of

external debt, which has been a fundamental failing in the design of the recent Greece and Argentina programs.

In particular, the third deficiency is considered a major one since the government external debt is not serviced with primary fiscal balances (surpluses) but by the external goods and service balances (surpluses) that are generated by the private sector. Bearing in mind the assumptions of the Greece (2010) and Argentina (2018) programs, each factored in substantial primary fiscal but much smaller external balance adjustment. Specifically, the external share in Greece's pre-crisis debt was about three-quarters of total debt, implying that the majority of the primary fiscal surplus required an external counterpart, while in Argentina it was about half. Each of these programs failed and ultimately resulted in a debt restructuring. In this connection, it should be noted that the original IMF DSA proposal in 2002 considered public and external debt simultaneously.

The next section presents two major global debt-relief initiatives for LICs, developed by the G20 as a response to the harsh economic consequences and consequent debt-servicing difficulties faced by LICs as a result of the Covid-19 pandemic. In the past, other debt-relief initiatives had been undertaken, including the Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative, launched by the IMF and the World Bank in 1996, which aimed to ensure that no poor country faces a debt burden it cannot manage and the Multilateral Debt Relief Initiative (MDRI), which was developed in 2005 as a supplement to the HIPC Initiative to help accelerate progress toward the United Nations Sustainable Development Goals (SDGs) (IMF, 2021f).[6]

III. Global Debt-Relief Initiatives for LICs during the Covid-19 Era

G20 Debt Service Suspension Initiative (DSSI)

The Covid-19 pandemic and the employed containment measures have

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6. Since 1996, the international financial community, including multilateral organizations and governments, have worked together to lower to sustainable levels the external debt burdens of the most HIPC. Until end-March 2021, debt reduction packages under the HIPC Initiative have been approved for 37 countries, 31 of them in Africa, providing US$76 billion in debt-service relief over time (IMF, 2021f).

significant adverse economic effects on most LICs, bringing a number of them to high risk of debt distress and their debt servicing capacity to a total collapse. To support LICs' Covid-19 related expenditures and help with their overall crisis mitigation efforts, the G20 Finance Ministers endorsed on April 15, 2020 the G20 DSSI, which offered LICs temporary debt relief from official creditors (suspension of external debt payments) for the period May to December 2020 and encouraged them to request equal treatment (on comparable terms) from the private sector -- the DSSI became effective on May 1, 2020 (G20, 2020a, The World Bank, 2020, IMF and WBG, 2020a). Given the prolonged nature of the pandemic and the continuing financing pressures on LICs, the G20 agreed in November 2020 on an addendum to the April 2020 term sheet that extended the DSSI debt relief through June 30, 2021.

Under the DSSI, there were 73 eligible-for-relief countries (72 active IDA borrowing countries as of FY20 and Angola), more than half of them being in debt distress or at high risk (The World Bank, 2021). With regards to encouraging the private sector's participation, the IIF released an addendum to the terms of reference to facilitate voluntary private sector involvement in DSSI through June 30, 2021. Since the DSSI took effect on May 1, 2020, 43 countries had benefitted from an estimated US$5.7 billion in temporary suspension of debt-service payments to their official bilateral creditors, accounting for more than 75 percent of eligible official bilateral debt service under the DSSI in 2020 (The World Bank, 2021). Further, as of mid-February 2021, the IMF had provided over US$105 billion in new financing to 85 countries and debt service relief for LICs (see also footnote 2).

For a more effective implementation of the G20 DSSI to address debt burdens (IMF and WBG, 2020b), (i) application procedures could have been developed for DSSI-requesting countries in relation to their dealings with official bilateral and private sector creditors. In particular, these procedures could have covered specific reporting on public debt stocks and flows (including guaranteed and collateralized debt) in a timely and transparent manner, disclosure requirements for debtors and creditors on DSA assumptions and the terms of reschedulings and/or face-value cut restructurings of eligible debt, and handling of credit rating decisions. Also, (ii) guiding principles could have been formulated for sovereign debt resolution that could have been instrumental for DSSI adoption. For example, in cases of unsustainable debt, guidelines for early identification of insolvent situations could help facilitate an efficient and comprehensive debt resolution, which involves the private sector, for restoring debt sustainability and avoiding multiple and protracted debt reschedulings/restructurings.

The G20 DSSI was recognized as a first meaningful attempt to address LICs' debt problems in view of the global shock. For example, Senegal's President Macky Sall found it as "a much-needed initiative by the G20," benefiting LIC African countries by freeing up vital resources from the delay in debt-interest payments. However, he noted that it was not enough given the extensive damages caused by the pandemic.

G20 Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI) (G20 CF)

In their November 13, 2020 meeting, the G20 Finance Ministers and Central Bank Governors endorsed the G20 Common Framework for Debt Treatments beyond the DSSI (G20 CF) (G20, 2020b). Along with the G20, the Paris Club and China (non-Paris Club member) endorsed the G20 CF restructuring plan for LICs aiming to facilitate timely and orderly debt treatments for DSSI-eligible countries with broad creditor participation. The scheme encourages G20 governments and China to provide debt relief to LICs, as part of a wider debt relief program that includes the private sector. In essence, use of the CF entails provision of debt relief by official bilateral creditors and requires that the debtor seeks debt treatment by private creditors comparable with that provided by official creditors. Such private sector relief, however, might lead to downgrades and in turn could hurt the country's access to the international capital markets.

The G20 statement on the G20 CF indicates that debt treatments should involve debt service reprofiling to help countries facing large financing needs, and deeper relief where debt burdens have become unsustainable. Thus, debt treatments will not typically involve debt write-offs or cancellation, unless deemed necessary. The focus will instead be on some combination of lowering coupons and lengthening grace periods and maturities. The extent of debt treatment and IMF-supported program required for each eligible country will be based on the outcome of its own IMF Debt Sustainability Analysis (DSA), where the adequacy and transparency of public debt data are of essence. This implies that private creditors may also be required to defer or negotiate down external debt. However, any material changes of contract terms for private creditors, including the lowering of coupons or the extension of maturities, would establish a debt-distressed case and be consistent with the definition of default (credit event) and in turn lead to a credit-rating downgrade.

The IMF has maintained that the debt relief granted by official lenders to LICs under the G20 CF should be shared equally among all lenders. In particular, it is stressed that one of the main pillars of this plan is to ensure broad participation of creditors, comparability of treatment, and fair burden-sharing by lenders (Bloomberg, 2021a). On February 10, 2021, Emmanuel Moulin, Chair of the Paris Club, said that a debt treatment under the CF will require private creditors to extend debt relief at least as important as the one provided by official bilateral creditors. Also, any treatment will be adapted to the circumstances of the debtor country and would not necessarily require a reduction in the principal value of the debt. Thus, debt relief provided by private creditors for LICs under the CF will be applied on a case-by-case basis and could involve non-debt face-value cut restructurings.

Further, different views have been expressed with regards to the market access and credit rating implications from using the G20 Common Framework. Executive Secretary of the United Nations Economic Commission for Africa (UNECA), Vera Songwe, said on February 11, 2021 that the economic destruction brought by the pandemic will probably lead more African countries to seek debt relief through the Common Framework (already Chad, Ethiopia, and Zambia have requested use of this framework). This is inevitable as countries made most vulnerable by the crisis would need the fiscal respite provided by the G20 debt restructuring plan to deal with their immediate social and economic priorities. Also, Ms. Songwe said that the use of the Common Framework should not imply loss of market access, as Ivory Coast tapped twice the international bond market after seeking debt-service suspension under the DSSI in June 2020.

Interestingly, on the same day that Ms. Songwe made the above remarks, Fitch's Jan Friederich said that countries applying for debt relief under the G20 Common Framework would likely be downgraded (as Ethiopia, on February 10, 2021). He added that the only reason for a country under these circumstances not to be downgraded is for Fitch to be confident that private sector creditors holding the bonds that credit ratings apply to will not be affected, which seems unlikely in most debt-strained cases. Therefore, although the G20 Common Framework has not been applied yet, credit rating agencies point out that the explicit call of the mechanism for comparable treatment for private sector creditors raises the risk of a default event.

Fears of credit rating downgrades when the G20 Common Framework is applied were also expressed by World Bank Chief Economist Carmen Reinhart on February 23, 2021, leading her to state that such fears will deter LICs from taking advantage of the debt relief offered under the Common Framework. This would be especially the case of countries that expect to access private capital markets. However, if some LICs continue to find themselves in debt distress and in need of debt relief, these countries will have no other option but to apply for a debt treatment through the Common Framework, irrespective of the downgrade prospects. Further, such endeavor would be worthwhile if the ensuing debt relief is adequately sufficient, given that private sector creditors in addition to official creditors would have to be involved.

It should be noted that the CF was devised as a flexible restructuring tool for reducing DSSI-eligible LICs' sovereign debt, which could be applied to individual LICs with both liquidity needs and solvency problems (unsustainable debt). In this sense, the application of the CF on a case-by-case basis goes beyond and replaces the more standardized DSSI. For debtor LICs with liquidity needs, restructurings of their debts through consensual (market friendly) liability management operations (e.g., extension of liabilities, reduction of coupon rates, granting of grace periods) can be achieved by these LICs requesting, first, from the IMF, a CF debt treatment and, second, from the private sector, its involvement in the debt treatment. As a reminder, a CF treatment allows for the reduction of a LIC's official bilateral debt owed to PC and G20 non-PC members and presumes application of the comparability of treatment principle for the private sector at terms at least as favorable as those offered by the official sector.

However, private sector creditors have expressed concerns about the implementation process of the CF, the monitoring of the comparability of treatment across creditors, and the enforcement of the debt transparency requirement. Especially, there has been considerable apprehension about the allowance of LICs with sustainable debt to apply for CF treatment and the potential extraction of principal debt relief from private creditors by LIC debtors that they do not really need it, thus creating significant moral hazard issues. Private creditors have also emphasized that this treatment is not consistent with past experience, as evidenced by the majority of PC debt treatments.

Further, creditors have questioned whether the CF would provide equal burden sharing, as debtor countries alone are delegated to define the perimeter of debt to be restructured. Clearly, if debtors can arbitrarily exclude certain creditor groups, the burden would be unequally distributed among creditors. As such, debt perimeter issues may hinder the restructuring process and thus become a detriment in restoring debt sustainability and quickly advancing negotiations on an IMF-supported program. Thus, the major challenge in achieving an efficient debt restructuring under the CF is to ensure a credible process towards reaching agreement with the private sector.

Until the CF is more broadly applied and operationalized by relevant stakeholders, particularly with regards to the requirement for private sector participation and comparable treatment, its usefulness as a practical restructuring plan would be difficult to assess. It should be noted that sovereign ratings depend on a country's borrowing performance from the private sector, while official bilateral debt relief does not constitute a default, although it can point to increasing credit stress (debt distress). In this context, involvement of the private sector when applying the CF would likely result in default ratings.

In addition, within the context of Paris Club agreements, comparable treatment requirements are not always enforced and the scope of debt included can vary. The Paris Club states that the requirement for comparable treatment by other creditors can be waived in some circumstances, including when the Paris Club debt represents only a small proportion of the country's debt burden. In particular, if the Paris Club claims are small relative to private debt, it would be difficult to assume that private sector creditors would accept the Paris Club determining debt-relief terms for them, through the comparability of treatment provision.

Other Initiatives

Various other multilateral and developed countries' initiatives have been undertaken with regards to reducing LIC debt. For example, the EU reportedly called the G20 in the week of February 22, 2021 to state its openness to discussing options to reduce financial pressures faced by LICs, as specified in the IMF and the World Bank analysis of LICs' external financing needs in coming years. Also, on March 3, 2021, the IMF announced an aid package for Africa of US$500 billion. Further, the US Treasury Secretary Yellen reportedly met on March 16, 2021 with religious leaders and NGO groups on LIC debt relief, in particular for Africa.

However, to advance any LIC debt relief efforts, LICs have among other things to credibly commit to debt transparency. This is a prerequisite for creating trust among creditors and reassuring donors to continue their engagement with LICs. In this regard, Akinwumi Adesina, president of the African Development Bank Group, has stated that governance reforms, including with regards to data transparency, should be “the right focus for putting Africa on a sustainable debt path and forestalling any need for a future debt relief.”

IV. Sovereign Debt Restructurings in the Covid-19 Era

Some notable recent sovereign debt restructurings, default events, and debt distress cases are presented below. We should state from the outset that all the information referenced below for the status of individual restructurings and default/debt distress cases is based on public sources.
Argentina

On August 31, 2020, Argentina announced its agreement with major private creditors to restructure its sovereign debt, calming market concerns about a disorderly default. The government gained wide backing from creditors, allowing Argentina to exchange 99 percent of the bonds involved in a USD 65 billion restructuring. After months of strenuous but engaging negotiations, amid the COVID-19 pandemic, bondholders reportedly tendered 93.55 percent of the eligible bonds in the exchange, which with CACs allowed a 99 percent creditor participation in the deal. The deal helped Argentina to avoid its ninth sovereign default and get a respite from its recessionary path of the third year in row (with a 9.9 percent contraction in 2020).

When the deadline for the deal closed on August 27, 2020, the prospects for a high creditor support were high following the in-principle agreement of the government with the main three creditor groups/committees on August 4, 2020. The deal, along with a separate restructuring of local-law US dollar debt, are expected to bring debt relief of USD 37.7 billion over the period 2020-2030 and help reduce average interest payments on foreign-law bonds to 3 percent from 7 percent. The restructuring gave investors about 54.8 cents on the dollar (Hovos, 2020). In the successful deal, the government is credited with making a realistic, acceptable offer to creditors, helping to easily clear the CAC threshold on most of the bonds. The triggering of CACs was instrumental in bringing hesitant creditors on board, thus discouraging wide holdouts and avoiding costly litigation. The 1 percent of bonds that did not meet the CAC thresholds of support for a restructuring highlights the fact that there are some holdouts on individual bonds, but their small size should not pose any major resolution issues.

Further, the government has mentioned in a statement that it had excluded certain bond series, including the USD Par 2038 Bonds II and III and the Euro Par 2038 Bonds II and III, following the invitation results. It should be mentioned that although the bonds being restructured had CACs, which means that the government needed a certain level of support to restructure them, not all bonds had the same CAC voting requirements. Older 2005 indenture bonds required a combined 85 percent of creditor support, with 66.66 percent of support needed on each individual series. Nevertheless, the strong support of creditors and small number of holdouts in the 2020 deal stands in contrast to Argentina's 2005 debt restructuring, where creditors holding around a quarter of bonds rejected a deal, leading to over a decade of acrimonious legal encounters.

After the August 2020 deal, the two main outstanding problems were the renegotiation of a new program with the IMF, to replace the invalid USD 57 billion facility agreed in 2018, and the handling of provisional debt amid various smaller regional restructurings. At the time, the Economy Minister Martin Guzman said that a new IMF program was unlikely before March 2021 and that the government planned to send a 2021 budget bill to Congress in mod-September 2020, which would include a forecast for a primary fiscal deficit of around 4.5 percent for 2021. Evidently, the challenge is to implement the necessary policies over the coming years to make this deal a sustainable solution.

With regards to a new IMF program, the target date for an agreement has been pushed forward, with no firm date being contemplated as of end-April 2021. While the Argentine authorities had stated on February 8, 2021 that they aimed to reach an agreement with the IMF by May 2021, which had been characterized by IMF Western Hemisphere Director Alejandro Werner as "an ambitious date," President Alberto Fernandez said on March 1, 2021 that Argentina did not want to rush into a new deal with the IMF, raising market concerns that the previously set date for an agreement will be missed. He also mentioned that Argentina would launch judicial action to investigate the previous administration's agreement with the IMF, which he had previously criticized for worsening debt levels.

With the IMF relationship continuing to be fuzzy, market speculation of another default surfaced on March 3, 2021, driving bond prices close to 30 cents to the US dollar. On March 10, 2021, unconfirmed reports stated that while the IMF prefers to reach an agreement with Argentina on its US$45 billion loan as soon as possible, it also sees some benefit in delaying a deal after the country's midterm election in October 2021, especially since the IMF-authorities' discussions on a possible program had produced little progress six months after they began (Bloomberg, 2021b). In particular, it was highlighted that Argentina could take more ownership and make bigger policy commitments once the election pressure is over.

On March 28, 2021, President Fernandez reiterated that Argentina's USD 44 billion loan (of the originally contracted USD 57 billion) from the IMF "is unpayable with the current terms" and that his government is looking "how to negotiate with the Fund to obtain the best advantages." He also mentioned that Argentina is not able to pay the IMF USD 3.5 billion and the Paris Club USD 2.5 billion in 2021, and the IMF USD 18 billion in 2022, and USD 19 billion in 2023. In this context, he stressed that "The idea is not to not pay but rather to obtain an agreement that will allow us to sustain our economic plan of development and growth, and without forgetting the 40 percent of the population below the poverty line." Economy Minister Guzman met an IMF team in Washington in the week of March 22, 2021, with an IMF staff statement being issued on March 25, 2021 affirming that the two sides had "made progress in defining some key principles that could underpin an economic program to address Argentina's near- and medium-term challenges" and that they had reached " a common understanding of the need for macroeconomic sustainability and for safeguarding the post-COVID-19 recovery underway."

Ecuador

During January 1, 2018 and January, 30 2020, Ecuador's sovereign bonds traded firmly, mostly between 80 cents and 100 cents to the US dollar, declining afterwards to close to 20 cents to the US dollar at end-March 2020. Ecuador confirmed its first Covid-19 case at end-October 2019, causing a brief decline of bond prices to around 70 cents. However, as the Covid-19 situation deteriorated after January 2020, Ecuador became unable to service its debt and asked and won overwhelming support from bondholders on 4-month coupon delay, while its bond prices continued their decline. As Brent crude hit 17-year low in end-March 2020, Ecuador's bond prices tanked to 20 cents to the US dollar. In the months after April 1, 2020, bond prices rallied, reaching 50. 69 cents to the US dollar on August 3, 2020, helped by a US judge's decision on July 31, 2020 to allow the debt offer to proceed (see below).

Ecuador won the support of enough bondholders to restructure US$17.4 billion in international debt, almost a third of its total foreign obligations. Creditors holding more than 95 percent of the bonds backed the government restructuring proposals, far beyond the 67 percent and 75 percent thresholds required for CACs enactment. The government faced a challenge when 2 creditors, Greenwich, Connecticut-based hedge fund Contrarian Capital Management LLC, and Boston-based GMO, asked US District Judge Valerie Caproni in Manhattan to block the restructuring, calling Ecuador's tactics "coercive in the extreme," with Ms. Caproni denying that request on July 31, 2020. The Finance Ministry extended the deadline for creditors to participate in the debt offer until August 7, 2020. The deal involved the exchange of 10 existing dollar notes and bonds maturing between 2022 and 2030 for 3 new bonds due I 2030, 2035 and 2040. Under the new terms, interest payments would resume at the beginning of 2021, while the earliest principal would come due in January 2026. The price of the 2028 bond (Ecuador bond due January 23, 2028) traded at 50.69 cents to the US dollar on August 3, 2020.

Ecuador completed its sovereign debt restructuring with the delivery of bonds to its creditors on August 31, 2020. The restructuring plan agreed on August 3, 2020 envisaged a reduction by more than US$1.5 billion in Ecuador's US$17.4 billion debt to be restructured, out of a total outstanding debt of almost US$ 59 billion or about 60 percent of GDP. According to a Finance Ministry statement, under the Ecuadoran restructure, approximately 98.5 percent of the remaining amount was exchanged for the 3 new bonds totaling US$15.5634 billion. Also, the interest rate was reduced from 9.2 percent to 5.3 percent, while the grace period was increased from 2 to 5 years and the repayment program was extended from 6 to 12.5 years. Further, the bondholders that signed the deal would receive a 4th bond corresponding to the interest accumulated between March and August 2020, worth more than US$1 billion. The price of the 2040 bond traded at 58 cents on the US dollar September 1, 2020, declining thereafter.

Meanwhile, Ecuador had reached a preliminary agreement with the IMF in the last week of August 2020 that increased a support plan for structural reform from US$4.2 billion to US$6.5 billion. The IMF agreement intended also to help Ecuador cope with the then prevailing sharp drops in the price of crude oil, its main export, and the large economic slowdown due to the pandemic (with the IMF forecasting at the time a fall of its GDP by 11 percent in 2020). In this connection, the consensual deal with the three creditors' committees was also expected to allow Ecuador to maintain access to international financial markets and focus on reactivating the economy, generating employment and social protection.

On February 8, 2021, President Lenin Moreno, who leaves office on May 24, 2021, criticized the Banco Central de Ecuador's lack of independence, noting that the bank loaned the central government money to finance spending under former President Rafael Correa. As a consequence, Ecuador's government introduced a bill to the National Assembly that would bar the country's central bank from using its international reserves to finance public spending, with the National Assembly approving it. Further, the win of Guillermo Lasso in the April 11, 2021 presidential election alleviated bondholders' concerns of renegotiation of the IMF loan, which had been proposed by his presidential opponent, and led restructured bonds to rally on the election news, with the 2030, 2035 and 2040 dollar bonds registering their highest levels since the September 2020 restructuring (specifically, the USD 3.7 billion of 2030 bonds rose almost 15 cents to 74 cents on the dollar).

In its third default (2020) over the past two decades, Ecuador was able to successfully restructure its debt fairly quickly (in a few months), supported by generally good faith negotiations with its creditors, the use of CACs in navigating its creditors and the government's good relations with the IMF. Ecuador's request to postpone US$800 million in coupon payments was conditional on thrashing out the beginnings of a new deal with the IMF. Over 90 percent of bondholders agreed to the pause and then to a restructuring when the time was up. Going forward, it is important that the austerity measures agreed as part of the USD 6.5 billion financing agreement with the IMF be implemented for attaining fiscal sustainability and overall sustainable growth.

Ethiopia

Ethiopia's government and government-guaranteed external debt stood at US$25 billion at end-June 2020 (Fiscal Year 2020), with US$3.3

billion being private sector debt and the rest being official multilateral and bilateral debt. The public external debt owed to private creditors included an outstanding US$1 billion Eurobond (around 1 percent of GDP) due in December 2024, with minimal annual debt service of US$66 million until maturity, and US$2.3 billion government-guaranteed debt owed to foreign commercial banks and suppliers. Further, other non-government-guaranteed State-Owned Enterprises (SOE) debt to private creditors, relating to Ethio Telecom and Ethiopian Airlines, amounted to US$3.3 billion, which is a potential contingent liability. The overall government debt-to-GDP ratio is 31.5 percent (with the general government budget deficit at 2.8 percent), while the total SOE debt-to-GDP is 25.6 percent.

The country has experienced persistent current account deficits, low foreign exchange reserves, and rising external debt repayments, which present risks to external debt sustainability. The current account deficit registered 4.1 percent of GDP at end-June 2020, maintaining the downward trend of the previous five years, and forecast by market analysts to stay around 4 percent in the next one to two years. Ethiopia's external financing requirements, at more than US$5 billion on average in the period 2021-2022, including federal government and SOE amortization, are considered as high relative to foreign exchange reserves, which are forecast to remain at around US$3 billion. Reserves were estimated to cover only around two months of current external payments at end-December 2020. Although the exchange rate depreciated in 2020, it is still assessed to be overvalued, with the parallel market rate being weaker. Ethiopia's external finances are the main factor behind its intention to use the G20 Common Framework.

Further, Ethiopia had agreed with the IMF in late 2019 a three-year arrangement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF), aiming at achieving a moderate risk for external debt distress including through additional reprofiling of bilateral loans by the first review of the program and at reducing inflation rates (from over 20 percent) through monetary policy reforms that include government financing via market-based T-bill auctions and out of direct advances from the National Bank of Ethiopia. In its August 2020 first review, the IMF judged Ethiopia at high risk of external debt distress, with the application of the LIC-DSF indicating breaches of the thresholds on external debt service/exports and the present value of external debt/exports. The IMF's press release on the review acknowledged that overall good performance had been achieved and that financial support from Ethiopia's international partners is needed through debt reprofiling. In effect, to improve its performance on DSA indicators, Ethiopia has to substantially increase its exports, difficult under the present Covid-era circumstances, and/or reduce debt service costs, with the intended reprofiling not having been undertaken yet. The Common Framework provides an opportunity for the authorities to proceed with a reprofiling.

After the government's announcement on January 29, 2021 that it had applied for the use of debt relief under the G20 Common Framework, Fitch downgraded Ethiopia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to CCC, from B, on February 10, 2021. The focus of Ethiopia's engagement with the Common Framework is expected to be on official bilateral debt, as reprofiling of this will have the biggest impact on overall debt sustainability. Nevertheless, the terms of the Common Framework create the risk that private sector creditors will also be negatively affected. This risk of Ethiopia's one outstanding Eurobond and other commercial debt needing to be restructured, potentially representing a distressed debt exchange, was the rationale for Fitch's downgrade. The sharp drop in Ethiopia's credit rating sent its sovereign US dollar bonds sharply lower. On February 11, 2021, in an effort to calm restructuring fears, the authorities announced that Ethiopia will approach private creditors only as a last resort. Meanwhile, Minister for Finance Eyob Tekalign Tolina has also said that the government has not decided yet how Eurobond holders will be treated, but promised a market-friendly solution to guarantee access to markets in coming years.

Subsequently, on February 12, 2021, the S&P Global Ratings downgraded Ethiopia's long-term foreign and local currency sovereign credit rating to B- from B on potential debt restructuring. The S&P said that the economic effects of the Covid-19 pandemic have slowed Ethiopia's economic activity and, in its view, "exacerbated by the effects of the Covid-19 pandemic, Ethiopia's structurally weak external balance sheet has deteriorated." In this connection, Ethiopia's public debt repayment needs were estimated at about US$5.5 billion over 2021-2024, including the US$1 billion Eurobond due in 2024.

Continuing political uncertainty also played a role in Ethiopia's downgrades and tumbling of external bond prices. Prime Minister Abiy Ahmed had delayed the August 2020 elections until May or June 2021 due to the Covid-19 outbreak. Meanwhile, the war launched against the northern region of Tigray in November 2020, along with ongoing regional and ethnic tensions elsewhere in Ethiopia, further complicate the political landscape and make even more difficult any forecasts on the upcoming electoral outcome, contributing to the evolving tumultuous environment. Such turmoil could also have adverse effects on international donor relations, as evidenced by the suspension of some EU flows in December 2020.

On February 23, 2021, it was announced that the IMF reached a staff-level agreement with Ethiopia's government, supporting its plan to treat the sovereign debt under the Common Framework. In particular, the IMF staff statement stressed that "to strengthen debt sustainability, the authorities aim to lower the risk of debt distress rating to moderate by reprofiling debt service obligations" and "[i]n this context, the Fund welcomes Ethiopia's request for debt treatment under the G20 Common Framework." The associated program envisions economic growth of 2 percent in 2020-21 and 8.7 percent in the following fiscal year, a modest fiscal expansion to accommodate the humanitarian assistance and reconstruction needs in 2020-21, and an enhancement of domestic revenue mobilization.

As Ethiopia is the first case of applying the CF, the sovereign debt restructuring process (especially the sequence in restructuring the different creditor-type claims, i.e., whether official sector – Paris Club and non-Paris Club members – debt is restructured first and private sector debt follows, or vice versa) and the sovereign debt restructuring outcome (especially the parameters of the restructuring, including NPV haircuts and/or maturity extensions, interest rate changes, and grace period concessions) are of particular importance for future applicant countries. As Ethiopia was considered to have only liquidity, and not solvency, problems when it applied for CF treatment, creditors have been skeptical about the scope and objective of its application. In consequence, market analysts had started speculating that the 10-year bond will be termed out with lower coupons, driving bond prices lower and nurturing solvency concerns.

In early April 2021, the IMF and the World Bank concluded in a preliminary sustainability assessment that Ethiopia's debt is sustainable, i.e., the country has liquidity needs, thus enabling it to proceed with reprofiling (rescheduling) its external-loan payments under the CF to ease its debt-distress risk by the end of the IMF-supported program. This assessment will also help inform Ethiopia's creditor committee of Eurobond holders, which has not yet met, to decide on the type and extent of debt relief. Finally, following the announcement of the debt sustainability assessment, yields on the 2024 Eurobonds fell 18 basis points on April 15, 2021, a two-month low.

V. Common Characteristics

A common characteristic in all restructurings during the Covid-19 era has been an excessive sovereign debt build up in the respective countries in the pre-Covid-19 period. In most of these cases, bilateral debt accumulation, to a large extent to China, played a big role in such build up. Amid these developments, China's Finance Minister Liu Kun announced on November 20, 2020 that Chinese lenders had deferred US$2.1 billion in debt payments for 23 low-income countries and called for setting up a multilateral debt-relief facility to ease low-income countries' debt burden amid the Covid-19 pandemic. In particular, China's official creditors, China International Development Cooperation Agency and the Export-Import Bank of China, suspended US$1.353 billion, and the considered commercial lender, China Development Bank, suspended US$748 million in payments.

However, according to the World Bank, China's November 2020 deferral was less than a third of an estimated US$7.2 billion owed to Chinese lenders by low-income countries that were eligible for a payment moratorium between May and December 2020. In this regard, the President of the World Bank, David Malpass, publicly called on China to offer more relief as the world's largest official creditor. As discussed, the G20, which includes China, agreed in April 2020 to temporarily suspend debt payments from 73 of the world's low-income countries for the rest of 2020, while in October 2020 the G20 extended the debt relief until at least the first half of 2021 and agreed on a Common Framework to rework the debt of those countries suffering the most from the effects of the pandemic.

Further, China's extension of credit abroad, mostly to low-income and developing/Emerging market (EM) economies, was evidently done without the appropriate transparency and due diligence neither from its official and private lending entities nor from the borrowing countries, e.g., keeping adequate recording and reporting of lending transactions and undertaking thorough debt sustainability analyses (DSAs) of borrowers. However, similar criticism may be extended to private sector lenders' DSA assessments when they provided loans and/or bonded debt to a number LICs and developing EM countries. It should be recognized that, to a large extent, such DSAs failed to point out to emerging debt distress situations from overborrowing, independent of external risks/shocks. This lack of proper DSAs exposed more intensely these debtor countries to the adversities of the Covid-19 crisis.

In particular, many debt-overburdened LICs/developing/EM economies without sound macroeconomic policies and suitable debt management strategies to cope with external risks/shocks, like keeping adequate cash/liquidity buffer stocks, had started showing signs of inability to service their debts before the advent of Covid-19. The spread of the pandemic caused their domestic economies to crumble, with their internal productions collapsing, mainly their exportable natural resources, and international commodity prices to fall sharply, leading to drastic declines in government revenues. At the same time, stimulus packages led government expenditures to skyrocket, thus leaving huge fiscal deficits and very little ability to service their debts. As a consequence, many of these countries faced pervasive debt distress risks and some eventual sovereign debt restructurings.

Under these circumstances, as mentioned before, official creditors belonging to Paris Club agreed to provide debt relief to LICs, in the form of standstills (non-payment of debt services) at least up to June 2021. The fact that China is not a Paris Club member, but only a G20 member, combined with the lack of full transparency in Chinese debt data, created uncertainty to private creditors with regards to whether China will request preferential treatment or follow suit with the extended G20 terms. This uncertainty prevented private creditors to proceed with swift sovereign debt resolutions, with adverse implications for affected countries' populations (e.g., further lack of food-stuff, medicines, oil, etc), increases in prices, sharp deteriorations of exchange rates and consequent increases in their debt levels and debt service payments, making living conditions to deteriorate quickly and poverty rates to increase.

VI. Lessons Learned

The accumulation of sovereign debt beyond certain levels (in percent of GDP) should be a source of concern for authorities, as markets and credit rating agencies tend to be alerted if implicit debt thresholds (typically lower for low-income and developing/EM countries and higher for developed/advanced market economies) are crossed. However, during periods of external or internal shocks, the threshold of acceptable or tolerable levels of debt tends to be more flexible. For example, during the current period of Covid-19, the IMF Managing Director Kristalina Georgieva referring to the overall debt level in Latin America that had reached 79 percent of GDP at the end of 2020, up 10 percentage points from a year ago, said that Latin American countries should now focus more on expanding the conditions for growth rather than reducing their debt levels (Reuters, 2021).

If a country's sovereign debt is judged to be unsustainable, a prompt acceptance of the adverse conditions by the authorities and their call for help from the IMF are considered critical factors for effectively addressing a debt-distressed situation. Frequent assessment of a country's debt sustainability, both of countries that depend on concessional financing and those with access to financial markets, is imperative for averting debt restructurings or detecting early emerging debt crises to allow preemptive actions on unsustainable debts. In case that a restructuring is needed, a well-designed IMF-supported program that envisions appropriate fiscal consolidation measures and structural reforms has proven to facilitate a better economic and social adjustment during and after the restructuring workout.

The inclusion of CACs in bond contracts has helped in the high participation of creditors in bond restructurings, with almost non-existent holdout creditors in recent restructurings, and quick debt resolution processes. To that end, the formation of representative creditor committees, along with their swift recognition by respective country authorities, appear to have helped expedite the negotiations between authorities and creditors, thus contributing to more efficient and consequently less costly restructuring outcomes (in terms of time of negotiations, litigation expenses, sizes of haircuts and NPV losses for creditors, and time of market exclusion for debtor countries).

Further, the formation of creditor committees and their recognition by the governments of the restructuring countries seemed to have served them well. In recent sovereign debt restructurings, we have seen the prompt formation of creditor committees, often across holdings of similar instruments. The respective governments have also tended to recognize such committees rather quickly on the expectation that such a move helps in an efficient debt resolution. In general, creditors' committees holding more than 25 percent of all or each of outstanding bonds tended to be recognized as representative by the relevant authorities (due to CACs-related considerations, as a 25 percent threshold is needed to establish a blocking minority under the single limb CACs in a typical 75 percent majority rule bonded-debt contract). Obviously, this percent may differ depending on the threshold needed to form a blocking minority in the exercise of CACs in a specific bonded-debt resolution. In the recognition process of a creditors' committee, other considerations, such as the verification of holdings, NDA issues, and the borrower's explicit and/or implicit obligations, play also important roles.

With regards to the obligations of the debtor from recognizing a creditors' committee, the following three are among the most prominent. The debtor has to be engaged in "good-faith negotiations," including sharing specific data and the timing of sharing these data. Also, recognition entails acceptance of the costs associated with the functioning of the creditors' committee, to be paid either through existing bond contract provisions or through negotiated payments to the creditors' committee for its legal and financial advisors' expenses. Further, the debtor/sovereign is obligated to treat creditors equitably to the extent possible (comparability of treatment provision). In this context, if a creditors' committee has been formed with over 25 percent representation and the debtor does not recognize it or refuses to engage with creditors, then this debtor cannot be considered that it acts in good-faith.

Finally, the issue of debt data transparency is of paramount importance in the management of sovereign debt portfolio risks, public DSAs and debt treatments, especially with regards to verification of debt sources and differentiation between official and private sector creditors for debt perimeter matters in restructurings. Also, of particular importance are collateralized debt, collateralized repos and USD-denominated debt held by non-residents. In general, debt data transparency entails accurate, timely, and easily accessible fiscal- and debt-related information to investors/creditors. This is essential for effective communications and maintenance of good investor/market relations, especially for the quick restoration of market access in case of defaults / restructurings. In this endeavor, adoption of a Sovereign Asset Liability Management (SALM) approach by countries in monitoring the riskiness of integrated sovereign balance sheets would provide a comprehensive framework in identifying, measuring and managing emerging sovereign liability risks, especially for countries that have undertaken reschedulings / restructurings.

VII. Concluding Remarks

During the Covid-19 era, most of the LICs and developing/EM countries that faced debt distress had initially to deal with ways to ease the emergent liquidity problems and debt repayment burdens. International initiatives, such as the G20 DSSI and G20 Common Framework, were instrumental in alleviating these pressures for many of these countries. However, as the global economic perils of the pandemic continue, the international financial community needs to build on the relevant debt-resolution experiences so far and develop a comprehensive plan for establishing a responsible global borrowing-lending framework and a debt-resolution mechanism that effectively ensure debt sustainability and overall financial stability.

Thus, going forward, a multi-pronged approach should be followed for efficiently resolving debt unsustainable situations and preventing the emergence of new ones. This approach should consist of the development of:

(1) a viable new debt resolution framework, with clear objectives, procedures and structure, involving (a) the international community, such as the G7, G20, and the G24, (b) International Financial Institutions, such as the IMF and the World Bank that have extended credit to many countries and have been instrumental in the assessment of their debt sustainability, as well as the InterAmerican Development Bank, Regional Development Banks, and the United Nations Conference on Trade and Development, (c) The Paris Club, which has played a vital role in the resolution of official claims, (d) the Institute for International Finance (IIF), which represents private sector creditors, including commercial banks, institutional investors, hedge funds and other investment entities, (e) Credit Rating Agencies, as they provide assessments of the creditworthiness of borrowing countries, and (f) financial and legal experts, both academics and practitioners/market analysts;

(2) a framework for responsible borrowing by debtor countries and responsible lending by creditors/investors, with clear principles, policy guidelines and good practices, aiming to prevent to the extent possible the development of debt distressed situations (UNCTAD, 2010, UNCTAD, 2012, Buchheit and Gulati, 2010, Block-Lieb and Weidemaier, 2019). To that end, DSAs should be contacted frequently and each time that a country is contracting new debt, sovereign debt portfolio risk assessments should be performed regularly, and public debt management principles and strategies should be applied systematically (IMF, 2014, Jonasson and Papaioannou, 2018);

(3) a pool of funds, equally contributed by all countries, e.g., according to the IMF quota distribution, and the private sector, to be used as

emergency funding in default and market-loss cases. These funds will be appropriated through provisions in the new debt resolution framework and be used independently of any IMF funding relating to a possible IMF deal; and

(4) an international arrangement for mandatory involvement of official lenders in urgent relief efforts or programs on debt payments, especially of lenders with big individual loan positions, e.g., more than one-fourth in a country's total sovereign loans, and irrespective of whether they are Paris Club or non-Paris Club members.

Finally, it should be stressed that credible policies and sustainable growth strategies should form the foundation of economic adjustment programs, preferably IMF-supported programs, that typically accompany sovereign debt restructurings. Such programs ensure quick re-establishment of international investor confidence in the restructuring countries, prompt restoration of creditworthiness, and swift return to a sustainable growth trajectory. Attainment of robust long-term economic growth performance, based on prudent fiscal and monetary policies, guarantees resilience to external shocks and thus serves as a main deterrent to future restructurings.

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