Centre international de formation européenne

NICE BERLIN BRUXELLES ISTANBUL

DEFI Developing Finance

GLOSSARY OF COUNTRY RISK, DEBT CRISIS, AND DEBT RESTRUCTURING NEGOTIATIONS

(AN EXTENDED GLOSSARY IS AVAILABLE IN BOUCHET & ALII:
« COUNTRY RISK IN AN AGE OF GLOBALIZATION », PALGRAVE-MACMILLAN)

CIFE SEMINAR 2026-27

MICHEL-HENRY BOUCHET

1

1

1. **Acceleration Clause**: a clause providing that the entire principal of a note (or a loan) shall become immediately due and payable in the event of default.
2. **Advance payment**: money received by a supplier in advance of shipment or fabrication.
3. **Arbitration**: A process to settle a legal dispute in which the third party (the arbitrator) acts much like a judge, but in an out-of-court and less formal setting and does not actively participate in the discussions.
4. **Aval**: an endorsement on a bill guaranteeing payment.
5. **Bilateral loans**: loans from governments and their agencies (including central banks), loans from autonomous bodies, and direct loans from official export credit agencies.

2

6. **Bond, Zero-Coupon**: a bond which pays neither principal nor interest until maturity. It merely states the face payment which is due at maturity and is sold at a discount which reflects the timing of payments (i.e., face value of the discounted value of the future bullet payment at maturity).

7. **Breach of contract**: Loss resulting from government termination of contracts without compensation for existing investments in a product or service.

8. **Bridge Loan**: used in the context of managing a country's debt profile, it is short-term financing provided to a debtor country--usually by the monetary authorities of industrial countries in conjunction with other central banks, governments, multilateral institutions and commercial banks--to supplement the country's foreign reserves prior to finalizing adjustment programs and concerted lending packages. This short-term advance is made pending receipts of funds by the borrower.

3

9. **Bullet Maturity**: one-time payment of principal at maturity.

10. **Capitalization, Interest**: an arrangement by which interest due is added to the principal of the loan and converted into a capital liability, effectively deferring payment beyond the original schedule.

4

11. **Co-financing**: a mechanism by which creditors provide project loans in parallel with loans granted by multilateral agencies such as the World Bank. Such "co-financiers" receive the benefit of the multilateral agencies' evaluation of the project and can share in certain benefits resulting from the special relationship between the debtor country and the multilateral agencies. In principle, cross-default clauses prevent debtors from defaulting on amounts owed to co-financiers without defaulting on the official institutions.

12. **Collateral:** guarantee (mortgage, deposit, commodity…)

5

13. **Commodity-Linked Bonds**: bonds whose value depends on the foreign price of a specified export commodity of the debtor country In the debt workout process, these bonds usually link debt service payments to the price of the exported commodity. Alternatively, warrants may be attached to lower the cost of financing.

14. **Commodity-linked payments**: Traditionally, the interest and/or principal repayments are denominated in units of a particular commodity. In such cases, the amount the bondholder receives depends on the price of the commodity at the time of payment. Payments have been denominated in nominal terms, but the payee has the option of buying or selling certain amounts of the commodity at the specified prices on predetermined dates.

6

15. **Contingent Lending Agreements/Facilities**: agreements or facilities which establish a linkage between additional financing and specific, pre-defined trigger mechanisms.

16. **Cross-Default Provision**: a legal wrinkle which allows one creditor to declare default and exercise its remedies against the borrower in cases where other loans of the borrower have been suspended, terminated, accelerated or declared in default by other creditors.

17. **Cross-subsidization:** the risk that money given up by one group of creditors be used to pay another group (ex. Zambia in end-2021).

17 bis. **Currency Redenomination**: switching of loans denominated in one currency into the currency of the creditor country or into a currency that more closely matches the structure of the country's income receipts. (The mechanism is intended to bring about a better match between the currency mix of debt service payments and the currency composition of export receipts).

7

18. **Debt Defeasance**: it involves extinguishing debt through the provision of a financial asset (zero-coupon or other financial instrument) to be held in a trust account as collateral against the principal of the debt. The face value and maturity of the collateral instrument are designed to match those of the debt being defeased so that the proceeds of the collateral instrument at maturity may be used to fully repay the principal in a single balloon payment. Since the principal of the debt is secured, the debt service obligations of the debtor are reduced to the payment of interest.
19. **Debt Service** is the sum of principal repayments and interest payments actually made.
20. **Disbursements**: drawings on loan commitments by the borrower during the year.

8

21. **Escrow Account**: special account in local or foreign currency, established on behalf of the debtor country in a domestic or in a foreign bank, in which deposits are made by the debtor periodically. Such account ensures creditors that debt payments will be made on time as a portion of the debtor's revenues are set aside for this purpose.
22. **Equity-linked bonds**: convertible bonds or bonds with equity warrants (amounted to $64 billion in 1997, and $32 billion in 1998).
23. **Equity-linked bonds**: convertible bonds or bonds with equity warrants (amounted to $64 billion in 1997, and $32 billion in 1998).

9

24. **Eurobonds:** long-term financial instruments issued by MNCs or country governments, and denominated in a currency other than that of the country of placement. Eurobonds are underwritten by a multinational syndicate of investment banks and simultaneously placed in many countries. They are issued in bearer form, and coupon payments are made yearly. The US$ accounts for about 70% of eurobonds. Liquidity in the secondary market is monitored by Euro-clear.

25. **Euro-commercial paper:** short-term euronotes issues by companies.

10

26. **Eurocredits:** medium to long-term loans denominated in euro-currencies (> 1 year).

27. **Exceptional Financing**: a special "below the line" category in the IMF Balance of Payments used to accomodate transactions undertaken on behalf of the monetary authorities to compensate for any overall imbalance.

28. **Fiduciary Fund** (or Trust Fund): fund in which assets are safeguarded and whose stream of interest income is used to fund a specific project.

11

29. **Free Rider**: individual banks may refuse to participate in a bailout loan with the international banking community, thereby not matching their expected share of the concerted loan package. Similarly, small-exposure banks might refuse joining debt reduction operations while requiring full payments on their claims. Such "free riders" would then see the value of their lending portfolios rise as other banks write down a country's debt.

30. **FRNs**: medium-term CDs where the interest is fixed as a percentage above six-month LIBOR. Negotiable and transferable securities with flexible interest rate, fixed interest periods, and issued in pre-determined and uniform amounts.

12

31. **Goodwill Clause**: a statement in Paris Club agreements which would allow the creditors in question to extend the life of a stated rescheduling arrangement, but which is not legally binding. Creditors agree to consider further debt relief after the expiration of the consolidation period, and a commitment to meet at the end of three to four years to consider the matter of the stock of debt.

32. **Guarantee**: a written promise by one party to be liable for a specific obligation of a second party in the event that the second party does not fulfill its financial obligation.

13

33. **IMF purchases:** Total drawings on the general resources account of the IMF during the year specified, excluding drawings in the reserve tranche.
34. **IMF repurchases**: Total repayments of outstanding drawings from the general resources account during the year specified, excluding repayments due in the reserve tranche.
35. **Interbank Lines**: short-term working capital extended between banks to cover short-term claims on a revolving basis .Such claims are generally not included in rescheduling.
36. **Interest in arrears on long-term debt**: defined as interest payment due but not paid, on previously agreed tenor.

14

37. **Interest payments:** are the amounts of interest paid in foreign currency, goods, or services in the year specified.

38. **Interest Rate Switching**: selection of a new basis for interest calculations on an existing loan. The options may include LIBOR, a domestic rate, the prime rate or a fixed rate, to which a margin is added.

39. **Interest Retiming**: changing the frequency of interest payments, essentially allowing a debtor to defer one or more interest payments. Retiming boils down to short-term interest rescheduling in that it permits a debtor country to stretch out interest payments.

15

40. **Loans from multilateral organizations**: Loans and credits from the World Bank, regional development banks, and other multilateral and intergovernmental agencies. Excluded are loans from funds administered by an international organization on behalf of a single donor government; these are classified as loans from governments.

41. **Long-term external debt**: debt that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services.

16

42. **Mandatory repayment clause**: a standard clause in loan agreements between debtor countries and commercial bank creditors. It stipulates certain circumstances under which repayment is accelerated. The debtor, by being obligated to prepay any one creditor, must repay all lenders on a pro rata basis. In the context of rescheduling agreements and new money loans to rescheduling countries, the provision is intended to neutralize "free rider" banks which do not participate in debt restructuring and new money agreements. Further, the clause does not apply to non-rescheduled and post cut-off date claims but only to the "reschedulable" portion of the debt.

43. **Mandatory repayment terms:** In that regard, debt conversion and debt buyback transactions amount to payment prior to contractually defined maturity. The provision applies across the universe of public sector borrowers so that a voluntary prepayment of one or more credits by one borrower would trigger mandatory prepayment not only by that borrower but also by the other public sector borrowers.

17

44. **Negative Pledge clause**: negative pledge provisions deal with the granting of security interests by a debtor country over its assets to its creditors. In the case of a debt refinancing agreement, the debtor country agrees with the banks not to provide any other group of creditors with security interest on the country's reserves, exports of goods, and public sector companies' assets. The objective of such a clause is to prevent a situation where a debtor would allocate significant assets to other creditors, thereby effectively subordinating the unsecured bank credits.

18

45. **Net flows on debts** (or net lending or net disbursements): are disbursements minus principal repayments.

46. **Net resource flows** (long term): sum of net resource flows on long-term debt (excluding IMF) plus non-debt-creating flows.

47. **Net transfers on debt**: net flows minus interest payments (or disbursements minus total debt service payments).

48. **New Money Bonds**: bonds issued by debtor countries in exchange for additional financing. Such instruments are usually more senior and tradable than old claims.

49. **Non-debt creating flows**: net foreign direct investment, portfolio equity flows, and official grants (excluding technical cooperation). Grants for technical cooperation are shown as a memorandum item.

50. **Note-issuance facility** (NIF): a medium-term legally-binding commitment under which a borrower can issue a short-term paper in its own name, underwritten by banks which are committed either to purchase any notes the borrower is unable to sell, or to provide credit.

51. **Off-balance sheet activities**: bank activities, often fee-based, that do not involve booking assets or taking deposits. (insurance, swaps, forwards, LCs, advisory assistance, M&As…).
52. **On-Lending**: the process by which funds borrowed by one party are made available to a third party, with the agreement of the creditor. Typically, the funds are recorded as a deposit in the central bank .However, the creditor and the contractual borrower (often the central bank itself) agree to make the loan proceeds available to a third party within the country in local currency equivalent.
53. **Optional prepayment provision**: the optional prepayment provision permits the borrower to prepay all or part of the loan provided it prepays all lenders under the agreement on a pro rata basis

54. **Pari-passu clause**: clause inserted in lending and restructuring agreements that provides for a strict equality of treatment among various categories of debts and various families of creditors.
55. **Prepayment clause**: the prepayment clause is a standard clause in loan agreements between a debtor and a creditor bank. In its various forms, it can provide the debtor with the opportunity to accelerate repayment of the loan on a voluntary basis and/or provide for acceleration of repayment due to changes in laws affecting the creditor. In rescheduling agreements, the clause is intended to prevent the obligor to grant a preferential repayment schedule to other banks which have not signed the convention and which would be paid ahead of normal maturity terms.

56. **Principal in arrears on long-term debt**: principal repayment due but not paid, on a cumulative basis.
57. **Principal repayments**: the amounts of principal (amortization) paid in foreign currency, goods, or services in the year specified.
58. **Private nonguaranteed external debt**: external obligation of a private debtor that is not guaranteed for repayment by a public entity.
59. **Public debt**: external obligation of a public debtor , including the national government, a political subdivision (or an agency of either)

23

60. **Publicly guaranteed debt**: external obligation of a private debtor that is guaranteed for repayment by a public entity.
61. **Refinancing**: provision of new money to cover obligations on existing loans in part or in full.
62. **Reinsurance**: The process of a risk insurance provider issuing a guarantee with other providers in order to reduce exposure by spreading the risk among the institutions involved
63. **Relending**: an operation in which the external debt repaid by one debtor is lent to another entity in the debtor economy. The second debtor may repay prior to the definitive repayment date and the foreign creditor may relend again to a third debtor within the debtor country. In practice, relending has occurred when the original borrower had the domestic currency to repay its debt (at the going exchange rate) but the Central Bank was not able or willing to provide the foreign exchange.

24

64. **Rescheduling**: re-timing of the principal due on a loan. Usually, Paris Club debt agreements include interest rescheduling in place of new money.

65. **Revolving Underwriting Facility** (RUF): medium-term facility on which the borrower can draw at any time of its life, usually certificates of deposits (CDs) or short-term promissory notes.

25

66. **Sharing Provisions**: a legal covenant in commercial bank agreements which specifies that debt service payments are to be made through the agent bank for allocation on a pro rata basis to all creditor banks. Further, payments received or recovered by any one lender must be shared on a pro rata basis with all co-creditors under the loan agreement. Thus, no one lender may be placed in a more favorable position than its co-lenders with respect to payments received and/or recovered.

67. **Short-term external debt**: debt that has an original maturity of one year or less. Available data permit no distinction between public and private nonguaranteed short-term debt. (data sources: OECD/BIS and World Bank)

26

68. **Spread, Interest Rate**: usually expressed in percentage points over and above a reference rate such as LIBOR or the prime rate in the country of the creditor. The spread added to the reference rate constitutes the interest rate applicable to the loan.

69. **Stand-by Credit**: a commitment to lend up to a specified amount for a specific period, to be used only in a certain contingency (commitment fee paid on the unused portion of a facility).

27

70. **Subrogation Rights**: in contracts of indemnity, they allow the insurer to take over the rights of the assured against any third party who is responsible for a loss in respect of which the insurer has made a claim payment.
71. **Suppliers Credit**: export finance which is available to a supplier of items as distinct from credits to the foreign purchasers under buyer's credit.
72. **Tenor**: The term of a loan or a risk insurance contract
73. **Term deposits and CDs**: negotiable instruments that can be traded on the secondary market. Because of higher liquidity, CDs pay lower interest rate (<about 10 basis point: a basis point is 0,01%). Very popular with company treasurers, because of low risk and high flexibility.

28

74. **Total debt service due**: contractual debt service payments on total long-term and short-term debt (public and publicly guaranteed and private nonguaranteed) and the use of IMF credit.
75. **Total debt service paid** (TDS): debt service payments on total long-term debt (public and publicly guaranteed and private nonguaranteed), use of IMF credit, and interest on short-term debt.
76. **Total debt stock**: sum of public and publicly guaranteed long-term debt, private nonguaranteed long-term debt, the use of IMF credit, and short-term liabilities.

77. **Unallocated Loan-loss Reserves**: value of anticipated future charge-offs on the existing loan portfolio that cannot yet be identified with any particular asset.

78. **Value Recovery Clause**: clause included in some commercial bank debt restructuring agreements that entitle creditor banks to recover a larger portion of their loans, subject to a specific condition related with a better-than-expected performance of the debtor country. It is usually associated with the international price of a good or a basket of goods exported by the debtor country, or to its real GDP growth rate. (ex. Greece)

79. **Value recovery Clause (Greece)** refers to the **GDP-linked warrants (securities)** issued by the Hellenic Republic during its massive 2012 sovereign debt restructuring. These instruments acted as a "value recovery mechanism" for private creditors who swallowed a major "haircut" (writedown) on their original Greek government bonds.

The clause legally tied payouts to Greece's economic rebound, stipulating that if the country's GDP and annual growth rate surpassed specific, predetermined thresholds, investors would receive supplemental cash payments.

These warrants became the center of a major international legal battle that concluded in **May 2026**:

The Trigger: As Greece's economy recovered over the years, the country's GDP neared the thresholds required to activate massive payouts to investors. To mitigate this future liability, the Greek government exercised a contractual call option in April 2025 to buy back all €62 billion of the outstanding 2042 warrants.

The Conflict: Greece offered a call price of **just over 25 cents on the euro** (€252.28 per 1,000 warrants). A major group of institutional creditors, represented by trustee Wilmington Trust, sued the government. They argued the warrants were highly undervalued, illiquid, and that Greece had incorrectly calculated the market price.

In May 2026, the English High Court ruled entirely in favor of Greece (*Hellenic Republic v Wilmington Trust*). The judge validated that Greece had correctly, lawfully, and mechanically calculated the call price under the strict text of the 2012 contract using data from the Bank of Greece's Electronic Secondary Securities Market

31

80. **Vulture Funds** are private financial institutions that purchase distressed debt at deep discounts, refuse to participate in restructuring, and pursue full value of the debt often at face value plus interest, arrears and penalties through litigation, if necessary. The funds buy risky debt instruments at highly discounted prices in the secondary market and benefits by taking legal action against the issuers for debt recovery. Vulture fund portfolio managers seek investments offering very high potential returns due to their high risk of default (Argentina, Zambia…)

81. **Waiver**: voluntary relinquishment of a legal right as provided for in the loan agreement for the duration of a specified time period or an indefinite period.

32

82. Warrant: options which permit the holder to buy stock for a stated price, thereby providing a capital gain if the price of the stock rises. Bonds that are issued with warrants, like convertibles, carry lower coupon rates than straight bonds.

83. Write-off debt: removal from the creditor's balance sheet of obligations due from a debtor. While this presents a "clean" balance sheet for the creditor bank, it need not mean that the creditor is abandoning claims against the debtor. "Vulture" funds can still sue the debtor and demand full payments

33