

FROM COUNTRY RISK, TO FINANCIAL CRISIS AND DEBT NEGOTIATIONS

CIFE SEMINAR NICE MAY 6-8, 2020
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Hello CIFE STUDENTS HELP!
I need to know asap the international
bank debt of two countries:
Argentina & Spain



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What about country debt data?



Bank for
International
Settlements



International
Monetary Fund



Organization for
Economic
Cooperation and
Development



Statistical Data
and Metadata
eXchange



World Bank
Group

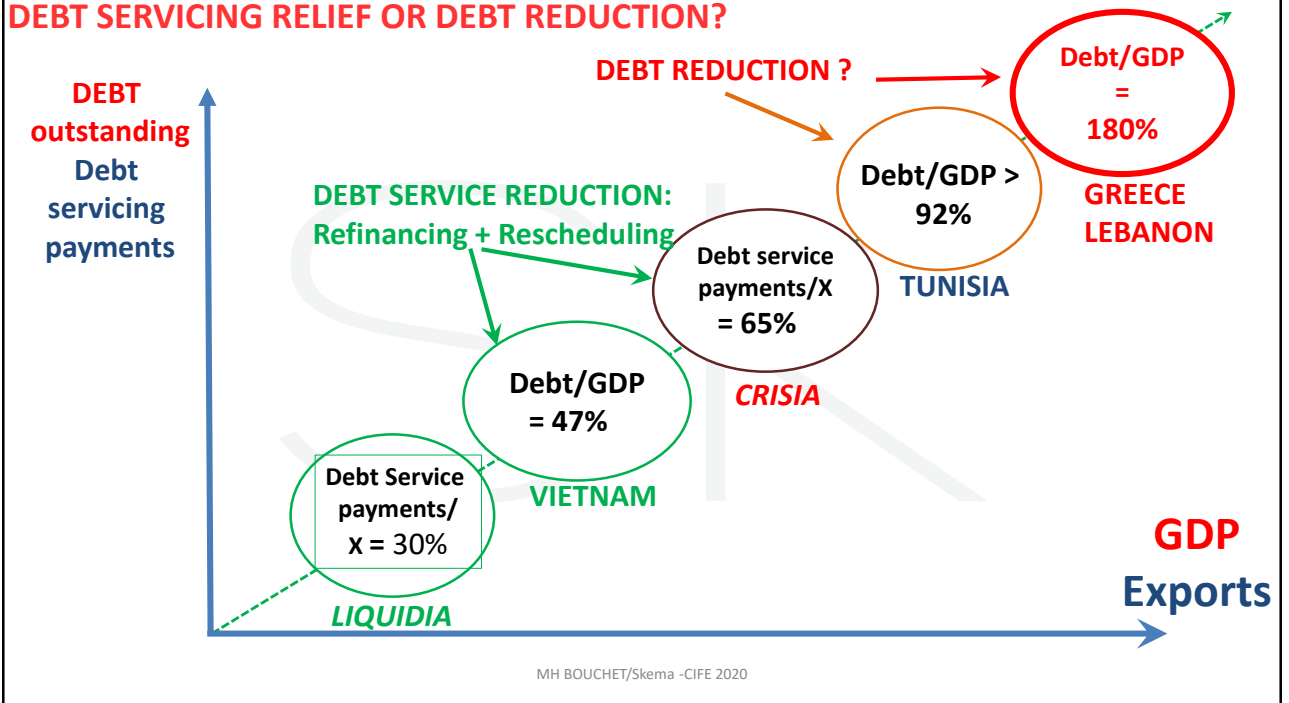
Joint External Debt Hub **JEDH**

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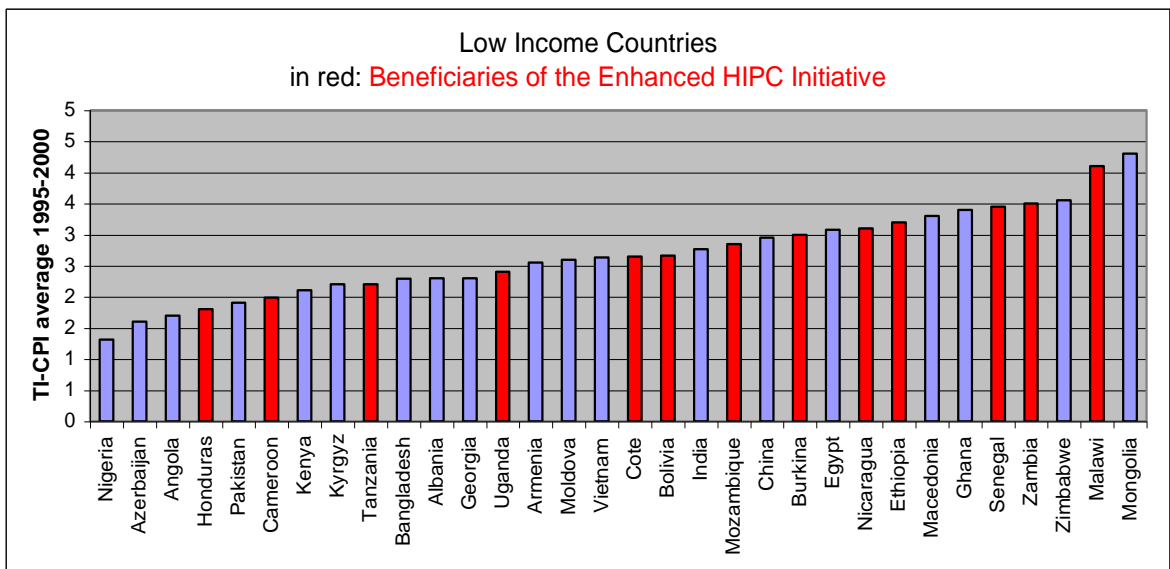
Data are in millions	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1
A1. Loans and other credits (Debt of)					
01_Cross-border loans, by BIS reporting banks	20,155	21,701	23,424	22,195	22,698
02_o/w to nonbanks	17,230	18,499	20,595	19,153	19,122
03_Official bilateral loans, total	..	..	..	..	..
04_o/w aid loans	..	..	..	..	..
05_o/w other	..	..	..	..	..
06_Multilateral loans, total	18,275	18,211	32,978	47,930	28,062
07_o/w IMF	0	0	14,809	28,113	28,062
08_o/w other institutions	18,275	18,211	18,169	19,817	..
09_Insured export credit, Berne Union	24,149	23,103	23,103	22,897	22,897
10_o/w short term	7,040	7,315	7,315	6,519	6,519
11_SDR allocations	2,937	2,841	2,818	2,809	2,804
A2. Loans and other credits (Debt due within a year)					
12_Liabilities to BIS banks (cons.), short term	16,764	17,310	16,122	16,659	18,347
13_Multilateral loans, IMF, short term	0	0	425	945	998
B1. Debt securities (All maturities)					
14_Debt securities held by nonresidents	..	81,457	..	..	..
B2. Debt securities (short term, original maturity)					
15_Debt securities held by nonresidents	..	9,892	..	..	..
C. Supplementary information on debt (liabilities)					
16_International debt securities, all maturities	129,404	125,274	124,172	123,355	122,776
17_o/w issued by nonbanks	126,806	122,788	121,918	121,069	120,566
18_International debt securities, short term	4,189	5,692	5,374	4,625	5,068
19_o/w issued by nonbanks	4,189	5,692	5,374	4,625	4,777
20_Paris Club claims (ODA)	..	..	..	434	..
21_Paris Club claims (non ODA)	..	..	..	3,354	..
22_Liabilities to BIS banks, locational, total	24,790	25,500	26,322	24,707	25,399
23_Liabilities to BIS banks, consolidated, total	26,722	27,778	26,069	27,296	29,280
D. Memorandum items: selected foreign assets					
24_International reserves (excluding gold)	59,691	59,268	46,532	63,964	63,775
25_o/w SDR holdings	2,595	3,805	3,730	4,354	3,322
26_Portfolio investment assets	..	28,716	..	..	..

Data are in millions	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1
A1. Loans and other credits (Debt of)					
01_Cross-border loans, by BIS reporting banks	264,010	235,827	230,055	238,535	239,419
02_o/w to nonbanks	66,427	62,294	66,982	77,781	74,538
03_Official bilateral loans, total	..	..	..	..	..
04_o/w aid loans	..	..	..	..	..
05_o/w other	..	..	..	..	..
06_Multilateral loans, total	0	0	0	0	0
07_o/w IMF	0	0	0	0	0
08_o/w other institutions	..	..	..	..	..
09_Insured export credit, Berne Union	68,939	61,790	61,790	68,879	68,879
10_o/w short term	62,278	54,637	54,637	62,146	62,146
11_SDR allocations	4,111	3,977	3,945	3,933	3,925
A2. Loans and other credits (Debt due within a year)					
12_Liabilities to BIS banks (cons.), short term	136,142	127,157	124,859	127,061	134,382
13_Multilateral loans, IMF, short term	..	..	..	..	..
B1. Debt securities (All maturities)					
14_Debt securities held by nonresidents	..	793,937	..	..	..
B2. Debt securities (short term, original maturity)					
15_Debt securities held by nonresidents	..	49,684	..	..	..
C. Supplementary information on debt (liabilities)					
16_International debt securities, all maturities	561,901	525,192	520,780	518,825	519,386
17_o/w issued by nonbanks	405,762	379,790	368,741	365,453	365,205
18_International debt securities, short term	66,464	55,327	49,251	62,746	61,060
19_o/w issued by nonbanks	40,427	37,498	29,379	33,544	46,408
20_Paris Club claims (ODA)	..	..	..	..	..
21_Paris Club claims (non ODA)	..	..	..	..	..
22_Liabilities to BIS banks, locational, total	457,471	420,753	414,349	421,867	434,802
23_Liabilities to BIS banks, consolidated, total	394,292	366,833	360,447	356,608	376,819
D. Memorandum items: selected foreign assets					
24_International reserves (excluding gold)	58,380	57,713	57,332	59,030	59,853
25_o/w SDR holdings	4,164	3,938	3,911	3,834	3,835
26_Portfolio investment assets	..	748,201	..	..	..

DEBT SERVICING RELIEF OR DEBT REDUCTION?



DOES GOOD GOVERNANCE PAY OFF? DEBT REDUCTION AND CORRUPTION

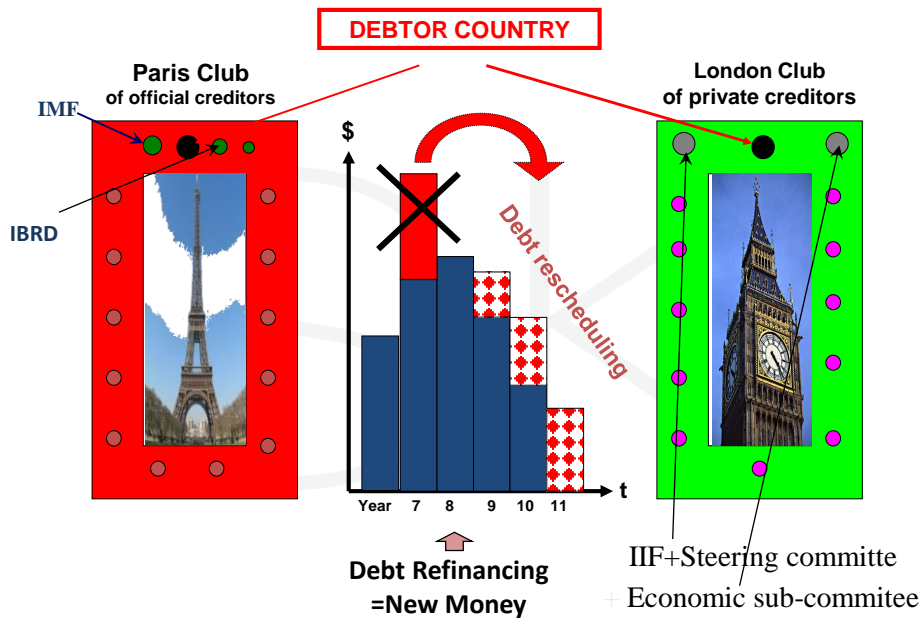


WHO's WHO?

Five main groups of private and official creditors:

1. The IFIs: IMF and World Bank + RDBs
2. The **Paris Club** of OECD governments
3. Private suppliers: trade debt
4. The **London Club** of international banks
5. Institutional investors (pension and investment funds, hedge funds): Eurobond holders

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THE PARIS CLUB

KEY NUMBERS

Total amount of agreements	433
Total amount of debtor countries	90
Total amount of debt	583 Billion \$
Total amount of countries in "Classic Terms"	60
Total amount of countries in "Houston Terms"	21
Total amount of countries in "Naples Terms"	36
Total amount of countries in "Cologne Terms"	33

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PARIS CLUB DEBT RESTRUCTURING

- ▶ **Official bilateral debt (government to government)** is renegotiated under the auspices of the Paris Club since 1956
- ▶ Since then, the 21 Paris Club creditors have reached 433 agreements concerning 90 debtor countries.
- ▶ Total amount of debt covered = **\$583 billion**
- ▶ Only official debt + officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank...)
- ▶ Total claims on EMCs: \$310 billion
- 10 times meetings/year, for negotiation sessions or to discuss the situation of the external debt of debtor countries or debt related methodological issues (sometimes with the IIF)
- Russia joined in 1997 and Brazil in end-2016, as sizeable lender in African countries such as Nigeria, Angola and Mozambique.

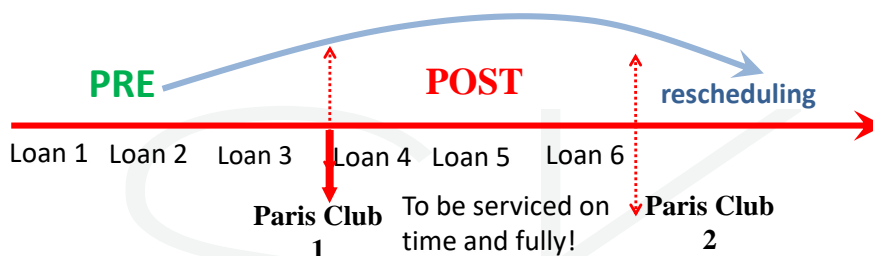
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PARIS CLUB: 7 DEBT RESTRUCTURING GUIDELINES

1. Consensus
2. Comparability of treatment
3. Solidarity among creditors with on-going information exchanges
4. Case by case treatment of debt crisis
5. Conditionality based on IMF adjustment program and monitoring
6. No restructuring of « post-cut off date » debt so as to preserve access to new financing
7. Secretariat provided by French Treasury

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PRE AND POST CUT-OFF DATE DEBT?



- Time + Money = To preserve new money and market access, only **pre cut-off date** debt is eligible to debt relief negotiations through rescheduling, refinancing, debt conversion and debt reduction

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The London Club of debt restructuring

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WHAT IS THE « LONDON CLUB »?

- ▶ Since the 1970s, countries facing default have used the London Club process to restructure sovereign debt owed to banks.
- ▶ The London Club has evolved as an ad hoc forum for restructuring negotiations.
- ▶ Each London Club is formed at the initiative of the **debtor country** and is dissolved when a restructuring agreement is signed.
- ▶ Ad hoc London Club "Advisory Committees" are chaired by a leading financial bank.
- ▶ The IIF plays a key role in London Club meetings:
BOP and debt analysis!



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WHAT IS THE IIF?

- ▶ The Institute of International Finance, Inc. (IIF), is the world's only global association of financial institutions.
- ▶ Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- ▶ Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and investment management firms. Among the Institute's Associate members are MNCs, trading companies, ECAs, and multilateral agencies.
- ▶ The Institute has > **450 members** headquartered > 70 countries.

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MENU-BASED DEBT RESTRUCTURING THE BRADY PLAN AND BEYOND



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IS THERE LIFE AFTER ARREARS AND DEBT DEFAULT?

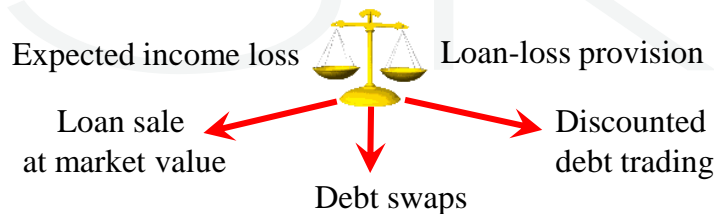
Bank loans may be delinquent on their repayments or in default of the loan entirely = **Loss for the bank on expected income**

Arrears + Default = Accounting losses in banking portfolios



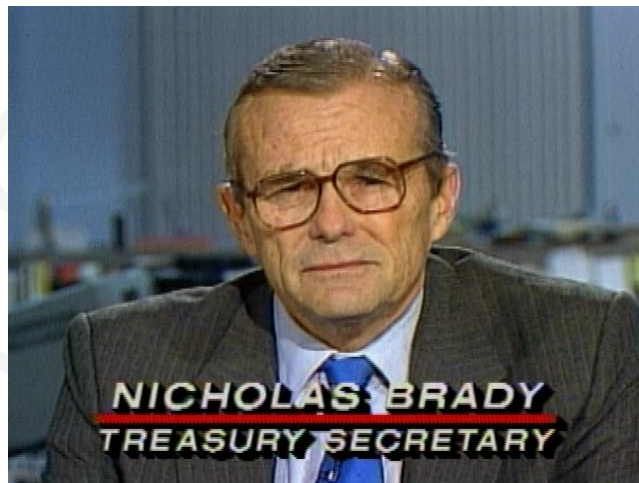
Loan-loss reserves (provisions against NPLs)

In the event of a default, no loss in cash flows=
the bank will use the amount set aside to cover the loss.
The provision is tax deductible and can be used in the bank's capital (Bâle III)



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THE BRADY PLAN OF DEBT RESTRUCTURING



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THE 1989-2019 PROCESS OF LONDON CLUB DEBT RESTRUCTURING

- ▶ **London Club banks** grant debt relief to debtor nations, in some proportion of secondary market discount through interest or debt stock reduction
- ▶ Accounting and regulatory incentives (loan-loss provisioning)
- ▶ Shift to specific purpose financing and voluntary lending
- ▶ **Debtor countries** adopt tough macroeconomic adjustment programs under the monitoring of the IMF/WB (SALs)
- ▶ Current account financing + Reserve build-up
- ▶ Objective: back to market-access for EMCs or to grants for low-income countries

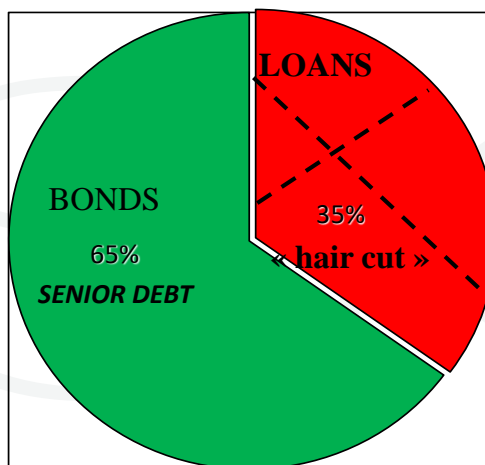
Means and Tools

- ▶ Defaulted sovereign London Club debt to be exchanged for easily tradeable **Brady bonds** guaranteed by 30-year zero-coupon US Treasury bonds which the defaulting nation purchases with its reserves and official financing support (IFIs + Paris Club)
- ▶ Principal guarantee + x semi-annual interest payments, whose guarantee is rolled over
- ▶ **Bullet repayment** (e.g., 30 years)
- ▶ **Cross-default clause**
- ▶ **Debt conversion clauses**

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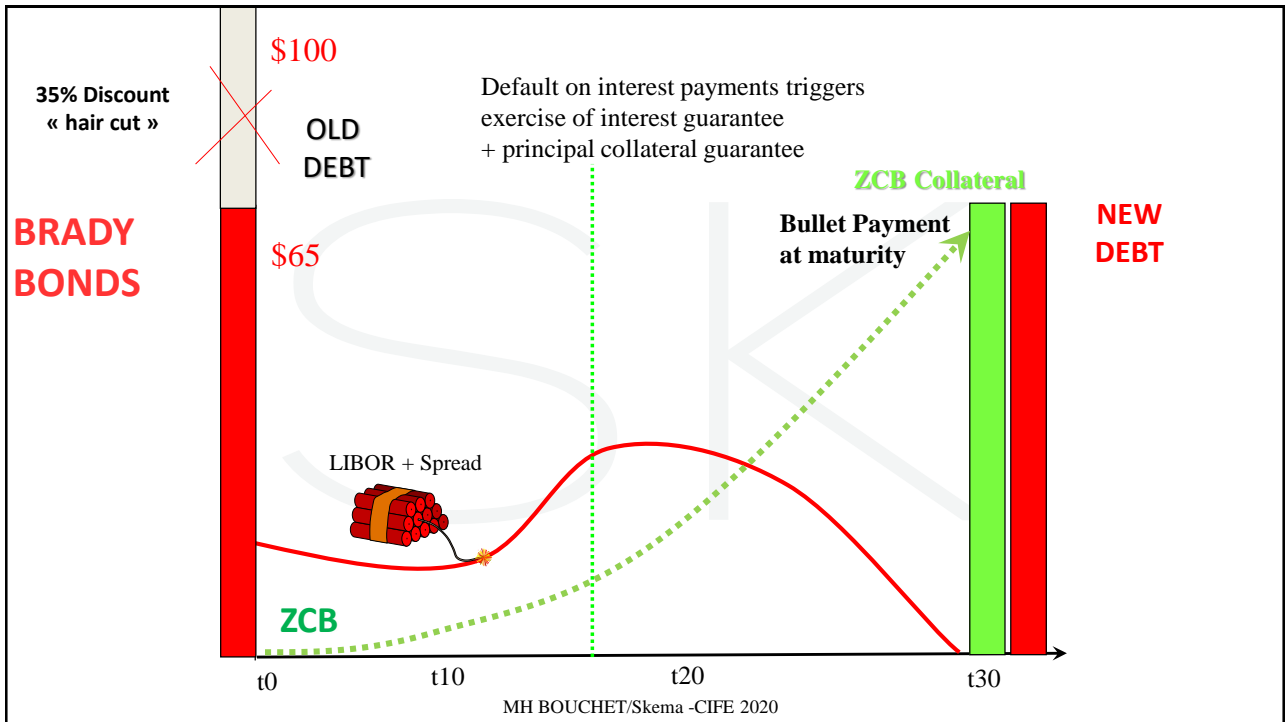
THE BRADY PLAN IN ACTION

New senior debt with long-term maturity, principal collateralization, rolling interest
Guarantee + cross-default clause



Debt cancellation backed up by commercial banks' reserves for loan-losses with regulatory incentives

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VIETNAM = LONDON CLUB DEBT RESTRUCTURING

- Brady debt restructuring (12/97)=
- ▶ (P= 335 million) + (PDI= 515) *interest arrears*
= **\$850 million**
 - ▶ 30-year bonds with 50% discount + par bonds + buyback at 44%

Paris Club Debt Restructuring 12/1993:
LONDON Terms = 54% debt reduction

LEGAL CLAUSES AND CONVENANTS IN DEBT RESTRUCTURING NEGOTIATIONS

- ▶ Waiver on negative pledge clause: it prevents a borrower from pledging any assets that would jeopardize the lender's security : risk of subordination with regard to a senior status lender!
- ▶ It ensures **financial equality** and democracy in a community of creditors
- ▶ In Brady deals, the Paris Club, the IMF and the World Bank **waive the clause**

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SNAPSHOT AT VIETNAM'S GOVERNMENT SECURITIES

VIETNAM (12 Found)		Cpn Type	All	Mty Type	All	Exclude	None		
Issuer	Coupon	Maturity	Series	Rtg	Freq	Mty Type	Cntry	Curr	Ask Px
1)VIETNAM (REP OF)	6.875	01/15/16	REGS	B+	S/A	BULLET	VN	USD	106.2500
2)VIETNAM (REP OF)	6.875	01/15/16	144A	B+	S/A	BULLET	VN	USD	106.2500
3)VIETNAM-PDI	VAR	03/12/16	US	NR	S/A	SINKABLE	VN	USD	N.A.
4)VIETNAM-PDI	VAR	03/12/16	18YR	NR	S/A	SINKABLE	VN	USD	88.0000
5)VIETNAM (REP OF)	6.750	01/29/20	REGS	B+	S/A	BULLET	VN	USD	101.5000
6)VIETNAM (REP OF)	6.750	01/29/20	144A	B+	S/A	BULLET	VN	USD	102.2500
7)VIETNAM-PAR	3.750	03/12/28	US	NR	S/A	CALL/SINK	VN	USD	N.A.
8)VIETNAM-PAR	4.000	03/12/28	30YR	B+	S/A	CALL/SINK	VN	USD	75.0000
9)VIETNAM-DISC	FLOAT	03/13/28	30YR	B+	S/A	BULLET	VN	USD	84.0000
10)VIETNAM-DISC	FLOAT	03/13/28	US	NR	S/A	BULLET	VN	USD	N.A.
11)VIETNAM-DM LOAN	0.000	12/29/49	DM	NR	S/A	CALL/SINK	VN	DEM	N.A.
12)VIETNAM-US\$ LOAN	0.000	12/29/49	US\$	NR	S/A	CALL/SINK	VN	USD	N.A.

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VIETNAM'S 30-YEAR BRADY BOND 1998-2028

Floating-rate US\$ Brady bond, with principal repayment secured by 30-year zero-coupon US\$ bond collateral + rolling interest payment guarantee

VIETNM Float 03/13/28		\$187.500	+.000	86.500 / 88.500	45.493 / 33.510
		At 17:18		-- X --	Source LCPR
VIETNM Float 03/13/28 Corp		Settings	Page 1/11		Security Description: Bond
			94 Notes	95 Buy	96 Sell
25 Bond Description		26 Issuer Description			
Pages		Issuer Information		Identifiers	
1) Bond Info		Name SOCIALIST REP OF VIETNAM		ID Number TT3299548	
2) Addtl Info		Industry Sovereigns		ISIN XS0085134574	
3) Covenants		Security Information		FIGI BBB00003G1D8	
4) Guarantors		Mkt Iss Euro-Dollar		Bond Ratings	
5) Bond Ratings		Brady		S&P BB-	
6) Identifiers		Country VN		Fitch BB-	
7) Exchanges		Currency USD		Composite BB-	
8) Inv Parties		Rank Secured			
9) Fees, Restrict		Series 30YR			
10) Schedules		Coupon 2.250000			
11) Coupons		Type Floating			
Quick Links		Formula S/A US LIBOR +81.2500			
12) ALLQ Pricing		Day Cnt ACT/360			
13) QFRD Quote Recap		Iss Price			
14) TDH Trade Hist		Maturity 03/13/2028			
15) CACS Corp Action		BULLET			
16) CF Prospectus		Iss Sprd			
17) CN Sec News		Calc Type (575)BRADY-FLT RIG YLD			
18) HDS Holders		Pricing Date 03/12/1998			
19) VPRD Underly Info		Interest Accrual Date 03/12/1998			
		1st Settle Date 03/12/1998			
		1st Coupon Date 09/14/1998			
		CPN RATE=6MO US\$LIBOR +81.25BP. PRIN SEC'D BY U.S. 30YR ZERO'S. 6MO ROLLING INT GTY.			
20) Send Bond					
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000					
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2017 Bloomberg Finance L.P.					
SN 319490 H437-646-0 10-Oct-17 17:41:40 CEST GMT+2:00					

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THE GREEK 2011-13 MENU-BASED « BRADY DEBT RESTRUCTURING » = 65% « HAIR CUT »

1. **Par Bond** Exchange into a 30 year instrument (4% coupon)
 2. **Par Bond** with refinancing of rolling-over maturing Greek government bonds over 30 years
 3. **Discount Bond** Exchange into a 30 year instrument with 20% discount and 5% coupon
 4. **Discount Bond** Exchange into a 15 year instrument with 5,9% coupon
 5. **Buyback** at 35% price (65% discount) of London Club debt (11/2012)
- ▶ For instruments, 1, 2 and 3 the principal is fully collateralized by 30 year zero coupon AAA Bonds.
 - ▶ For instrument 4, the principal is partially collateralized through funds held in an escrow account.

Calculation: IIF & <http://www.voxeu.org/index.php?q=node/6818>

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CHALLENGES OF THE GREEK DEBT RESTRUCTURING WORKOUT 2011-20

- ▶ 1. *Pari passu*: Private investors insist that government bail-out lenders would be treated the same way as the private sector, to lessen the risk of another cut in their payouts down the line
- ▶ 2. New bonds issued to private investors as part of the hair cut to be governed by London rather than Greek law
- ▶ 3. Threat of free riders and legal actions: VEGA Hedge Fund

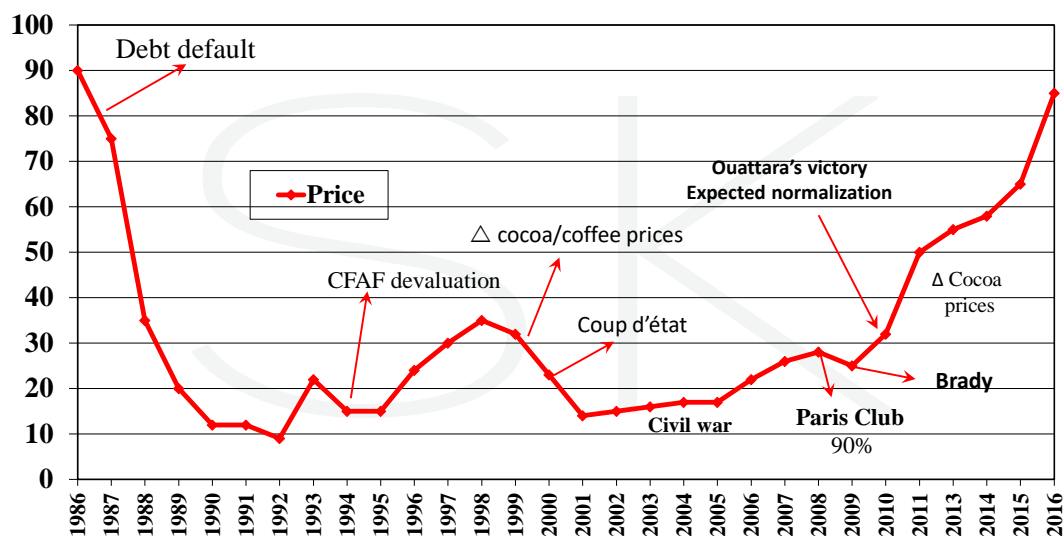
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IVORY COAST'S BANK DEBT RESTRUCTURING SAGA

- 03/1998 - Ivory Coast issued six bonds totalling \$2.4 billion under the Brady scheme in a restructuring of outstanding external commercial debt.
- 09/2000 - Default on the bonds, following a coup in 1999.
- 03/2009 - The IMF and the World Bank declared Ivory Coast eligible for debt relief under the HIPC (highly indebted poor countries) initiative.
- 03/2009 - Paris Club agreement leading to immediate cancellation of \$845 million in debt (**80% debt relief**)
- 04/2010 - **Debt exchange of the defaulted Brady bonds**, replacing the old bonds with a \$2.3 billion bond **due 2032**, with semi-annual coupon payments and 6-year grace period (2016): discount of 20 percent on the exchangeable debt.
- 11/2010 - Presidential run-off ballot : Gbagbo is declared winner = civil war
- 12/2010 - World Bank freezes funding
- 12/2010 - Ivory Coast does not make \$29 million coupon payment on \$2.3 billion bond. Failure to pay = "event of default"

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IVORY COAST'S SECONDARY MARKET DEBT PRICE (IN % OF FACE VALUE)



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UKRAINE'S DEBT RESTRUCTURING 09/2015

- ▶ 20% write off on \$18 billion of bonds, condition for the IMF to press ahead with 4-year \$40 billion package
- ▶ Main creditors: PTG Pactual, T Rowe Price, TCW, Franklin Templeton...
- ▶ Inclusion of GDP-linked instrument
- ▶ Between 2021-40 investors will receive up to 40% of the value of economic growth > 4%

HYPER-EXOTIC DEBT PRICES

- ▶ Myanmar 20%
- ▶ Cambodia 20%
- ▶ Mongolia 22%
- ▶ North Korea 10%

▶ Argentina (2033 bonds)= 62%
following ruling by NY court in 11/2012)

- ▶ Cuba Loans 10-35%
- ▶ Cuba Trade 15%
- ▶ Albania 36%
- ▶ Bosnia 36%
- ▶ Serbia 44%

- ▶ Irak Bonds 90%
- ▶ Libya 25-35%
- ▶ Syria 6-11%
- ▶ Yemen 30%

- ▶ Angola 60%
- ▶ Ethiopia 60%
- ▶ Senegal 35%
- ▶ Sudan 11-14%
- ▶ Uganda 14-16%
- ▶ Zimbabwe 1-4%



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Weak Liquidity:

Angola, Nicaragua, Cameroon, Albania, Congo, Tanzania, Zaire (Rep. Democr.), Zambia, Iraq, North Korea

Limited Liquidity:

Cuba, Egypt, Jordan, Madagascar, Panama, Jamaica, Ivory Coast, Senegal

Moderate Liquidity:

Nigeria, Morocco, Costa Rica, Bulgaria, Peru, Russia, Vietnam

Good Liquidity

Brady Bonds + Eurobonds= Argentina, Brazil, Ecuador, Mexico, Philippines, Poland, Venezuela. South Africa, Turkey

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CDS IN 2016-20?



Nigeria CDS spread of 590 bp implies that it costs \$590,000/year to insure \$10 million worth of debt

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JANUARY 2011: YIELD BOND 06-2020



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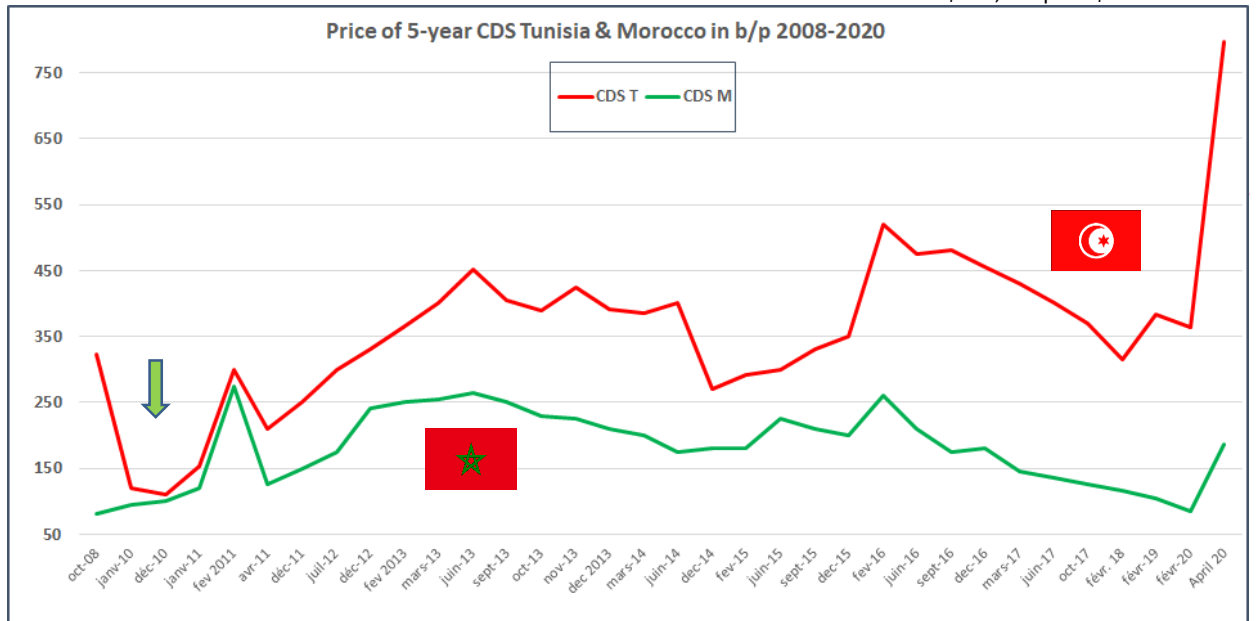
VOLATILITÉ DU YIELD SUR L'OBLIGATION SOUVERAINE DE LA TUNISIE 2025 \$1 MILLIARD



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COUNTRY RISK SNAPSHOT 2008-2020

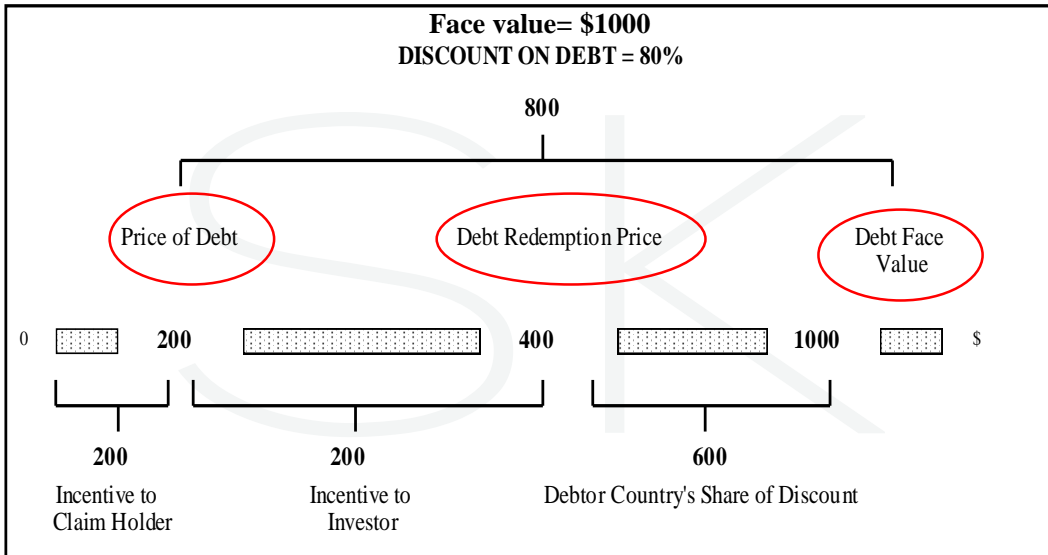
100 bp= Credit default swap =
\$100,000 pour \$10 million



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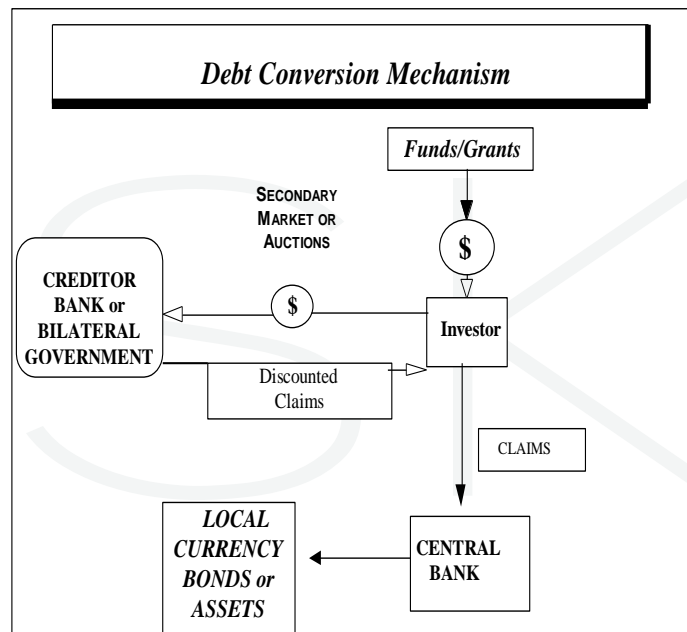
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DEBT CONVERSION: A POSITIVE SUM GAME?



Source: Bouchet/OSF

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**TYPES of
DEBT
CONVERSION**

Debt-Equity Swaps

* Shares in privatized companies
(Argentina, Chile, Côte d'Ivoire...)

* Shares in private sector entities
(Philippines, Tanzania, Madagascar,
Egypt, Chile...)

Debt for Nature Swaps

(Costa Rica, Bolivia, Madagascar,
Ecuador, Philippines...)

Debt for Export Swaps

(Peru, Vietnam...)

Debt for LT Bond Swaps

(Costa Rica, Guatemala...)

Debt for Development Swaps

(Sénégal, Mexico, Madagascar...)

Debt for Local Currency Swaps

(Tanzania, Madagascar...)

Source: Bouchet/OSF

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