

# FROM COUNTRY RISK, TO FINANCIAL CRISIS AND DEBT NEGOTIATIONS!

CIFE SEMINAR NICE APRIL 2021  
MICHEL-HENRY BOUCHET



MH BOUCHET/Seminar - CIFE 2021

## 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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Table 1 Joint BIS-IMF-OECD-World Bank Statistics on External Debt (mill. US\$)

2019Q3 2019Q4 2020Q1 2020Q2 2020Q3

**AUSTRIA**

**SPAIN**

	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
A1. Loans and other credits (Debt of)					
A1.1. Cross-border loans, by BIS reporting banks	70,449	73,364	76,174	71,249	73,209
A1.2. .../w/ to nonbanks	38,794	41,710	41,555	41,912	42,208
A1.3. Official bilateral loans, total	...	...	...	...	...
A1.4. .../w/ aid loans	...	...	...	...	...
A1.5. .../w/ other	...	...	...	...	...
A1.6. Multilateral loans, total	0	0	0	0	0
A1.7. .../w/ IMF	0	0	0	0	0
A1.8. .../w/ other institutions	...	...	...	...	...
A1.9. Issued export credits, Buenos Union	22,274	28,791	28,791	27,200	27,200
A1.10. .../w/ short term	21,851	28,341	28,341	26,802	26,802
A1.11. SDR allocations	2,387	2,451	2,370	2,388	2,444
A1.12. Loans and other credits (Debt due within a year)	38,817	38,728	41,965	37,369	38,208
A1.13. Liabilities to BIS banks (non-), short term	...	...	...	...	...
A1.14. Multilateral loans, IMF, short term	...	...	...	...	...
A1.15. Debt securities (all maturities)	...	...	...	...	...
A1.16. Debt securities held by nonresidents	...	...	...	...	...
A1.17. Debt securities (short term, original maturity)	...	...	...	...	...
A1.18. Debt securities held by nonresidents	...	...	...	...	...
A1.19. Debt securities (short term, original maturity)	...	...	...	...	...
A1.20. Debt securities held by nonresidents	...	...	...	...	...
A1.21. Debt securities (short term, original maturity)	...	...	...	...	...
A1.22. Debt securities held by nonresidents	...	...	...	...	...
A1.23. Debt securities (short term, original maturity)	...	...	...	...	...
A1.24. Debt securities held by nonresidents	...	...	...	...	...
A1.25. Debt securities (short term, original maturity)	...	...	...	...	...
A1.26. Debt securities held by nonresidents	...	...	...	...	...
A1.27. Debt securities (short term, original maturity)	...	...	...	...	...
A1.28. Debt securities held by nonresidents	...	...	...	...	...
A1.29. Debt securities (short term, original maturity)	...	...	...	...	...
A1.30. Debt securities held by nonresidents	...	...	...	...	...
A1.31. Debt securities (short term, original maturity)	...	...	...	...	...
A1.32. Debt securities held by nonresidents	...	...	...	...	...
A1.33. Debt securities (short term, original maturity)	...	...	...	...	...
A1.34. Debt securities held by nonresidents	...	...	...	...	...
A1.35. Debt securities (short term, original maturity)	...	...	...	...	...
A1.36. Debt securities held by nonresidents	...	...	...	...	...
A1.37. Debt securities (short term, original maturity)	...	...	...	...	...
A1.38. Debt securities held by nonresidents	...	...	...	...	...
A1.39. Debt securities (short term, original maturity)	...	...	...	...	...
A1.40. Debt securities held by nonresidents	...	...	...	...	...
A1.41. Debt securities (short term, original maturity)	...	...	...	...	...
A1.42. Debt securities held by nonresidents	...	...	...	...	...
A1.43. Debt securities (short term, original maturity)	...	...	...	...	...
A1.44. Debt securities held by nonresidents	...	...	...	...	...
A1.45. Debt securities (short term, original maturity)	...	...	...	...	...
A1.46. Debt securities held by nonresidents	...	...	...	...	...
A1.47. Debt securities (short term, original maturity)	...	...	...	...	...
A1.48. Debt securities held by nonresidents	...	...	...	...	...
A1.49. Debt securities (short term, original maturity)	...	...	...	...	...
A1.50. Debt securities held by nonresidents	...	...	...	...	...
A1.51. Debt securities (short term, original maturity)	...	...	...	...	...
A1.52. Debt securities held by nonresidents	...	...	...	...	...
A1.53. Debt securities (short term, original maturity)	...	...	...	...	...
A1.54. Debt securities held by nonresidents	...	...	...	...	...
A1.55. Debt securities (short term, original maturity)	...	...	...	...	...
A1.56. Debt securities held by nonresidents	...	...	...	...	...
A1.57. Debt securities (short term, original maturity)	...	...	...	...	...
A1.58. Debt securities held by nonresidents	...	...	...	...	...
A1.59. Debt securities (short term, original maturity)	...	...	...	...	...
A1.60. Debt securities held by nonresidents	...	...	...	...	...
A1.61. Debt securities (short term, original maturity)	...	...	...	...	...
A1.62. Debt securities held by nonresidents	...	...	...	...	...
A1.63. Debt securities (short term, original maturity)	...	...	...	...	...
A1.64. Debt securities held by nonresidents	...	...	...	...	...
A1.65. Debt securities (short term, original maturity)	...	...	...	...	...
A1.66. Debt securities held by nonresidents	...	...	...	...	...
A1.67. Debt securities (short term, original maturity)	...	...	...	...	...
A1.68. Debt securities held by nonresidents	...	...	...	...	...
A1.69. Debt securities (short term, original maturity)	...	...	...	...	...
A1.70. Debt securities held by nonresidents	...	...	...	...	...
A1.71. Debt securities (short term, original maturity)	...	...	...	...	...
A1.72. Debt securities held by nonresidents	...	...	...	...	...
A1.73. Debt securities (short term, original maturity)	...	...	...	...	...
A1.74. Debt securities held by nonresidents	...	...	...	...	...
A1.75. Debt securities (short term, original maturity)	...	...	...	...	...
A1.76. Debt securities held by nonresidents	...	...	...	...	...
A1.77. Debt securities (short term, original maturity)	...	...	...	...	...
A1.78. Debt securities held by nonresidents	...	...	...	...	...
A1.79. Debt securities (short term, original maturity)	...	...	...	...	...
A1.80. Debt securities held by nonresidents	...	...	...	...	...
A1.81. Debt securities (short term, original maturity)	...	...	...	...	...
A1.82. Debt securities held by nonresidents	...	...	...	...	...
A1.83. Debt securities (short term, original maturity)	...	...	...	...	...
A1.84. Debt securities held by nonresidents	...	...	...	...	...
A1.85. Debt securities (short term, original maturity)	...	...	...	...	...
A1.86. Debt securities held by nonresidents	...	...	...	...	...
A1.87. Debt securities (short term, original maturity)	...	...	...	...	...
A1.88. Debt securities held by nonresidents	...	...	...	...	...
A1.89. Debt securities (short term, original maturity)	...	...	...	...	...
A1.90. Debt securities held by nonresidents	...	...	...	...	...
A1.91. Debt securities (short term, original maturity)	...	...	...	...	...
A1.92. Debt securities held by nonresidents	...	...	...	...	...
A1.93. Debt securities (short term, original maturity)	...	...	...	...	...
A1.94. Debt securities held by nonresidents	...	...	...	...	...
A1.95. Debt securities (short term, original maturity)	...	...	...	...	...
A1.96. Debt securities held by nonresidents	...	...	...	...	...
A1.97. Debt securities (short term, original maturity)	...	...	...	...	...
A1.98. Debt securities held by nonresidents	...	...	...	...	...
A1.99. Debt securities (short term, original maturity)	...	...	...	...	...
A1.100. Debt securities held by nonresidents	...	...	...	...	...

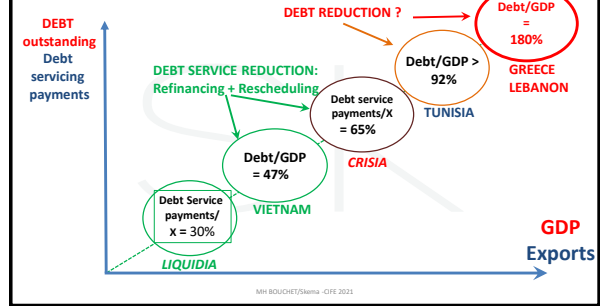
## PIECEMEAL APPROACH TO EXTERNAL DEBT ASSESSMENT ARGENTINA

Table1 Joint BIS-IMF-OECD-World Bank Statistics on External Debt (mill. US\$)

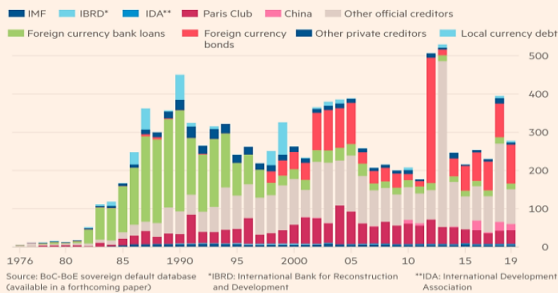
Data are in millions

	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
<b>A1. Loans and other credits (debt all)</b>					
01. Cross-border loans, by BIS reporting banks	18,851	18,919	18,917	17,142	15,878
02. ..._o/w to nonbanks	16,816	16,381	16,841	15,888	14,401
03. Official bilateral loans, total	—	—	—	—	—
04. ..._o/w aid loans	—	—	—	—	—
05. ..._o/w other	—	—	—	—	—
06. Multilateral loans, total	63,939	64,437	63,737	64,664	65,679
07. ..._o/w IMF	43,808	44,131	43,506	43,904	44,921
08. ..._o/w other institutions	20,431	20,306	20,181	20,760	20,757
09. Insured export credit, Barro Union	17,549	16,697	16,697	15,862	15,862
10. ..._o/w short term	6,132	4,284	4,284	2,990	2,990
11. ROR allocations	2,764	2,793	2,767	2,779	2,843
<b>A2. Loans and other credits (debt due within a year)</b>					
12. Liabilities to BIS banks (cons.), short term	14,748	14,159	11,892	8,619	8,204
13. Multilateral loans, IMF, short term	1,820	1,490	1,197	1,186	1,121
<b>B1. Debt securities (All maturities)</b>					
14. Debt securities held by nonresidents	—	48,390	—	—	—
<b>B2. Debt securities (short term, original maturity)</b>					
15. Debt securities held by nonresidents	—	860	—	—	—
<b>C. Supplementary information on debt (liabilities)</b>					
16. International debt securities, all maturities	112,182	112,846	111,806	112,280	108,627
17. ..._o/w issued by nonbanks	110,056	110,777	110,007	110,513	106,534
18. International debt securities, short term	8,230	6,002	7,722	14,811	10,274
19. ..._o/w issued by nonbanks	4,885	6,316	7,293	14,389	10,024
20. Paris Club claims (non ODA)	—	305	—	—	—
21. Paris Club claims (non ODA)	—	1,883	—	—	—
22. Liabilities to BIS banks, locational, total	22,376	21,380	21,344	19,883	18,878
23. Liabilities to BIS banks, consolidated, total	22,398	21,154	20,370	16,798	15,884
<b>D. Memorandum Items: selected foreign assets</b>					
24. International reserves (excluding gold)	45,784	42,193	40,634	39,707	37,628

## DEBT SERVING RELIEF OR DEBT REDUCTION?



Total sovereign debt in default by creditor (\$bn)

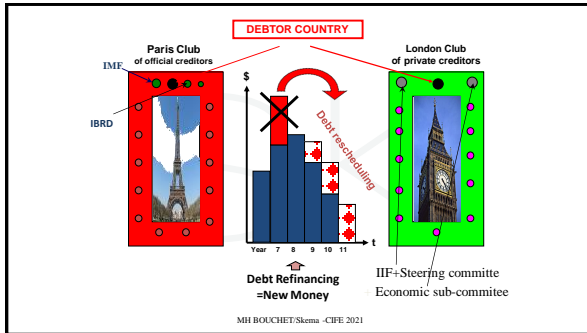


## WHO's WHO?

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 1956-2021

Total number of agreements	473
Total number of debtor countries	100
Total amount of debt	589 Billion \$
Total number of countries in "Classic Terms"	60
Total number of countries in "Houston Terms"	21
Total number of countries in "Naples Terms"	33
Total number of countries in "Cologne Terms"	36

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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 473 agreements concerning 90 debtor countries.
- Total amount of debt covered = **\$589 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. China??

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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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## TOTAL DEBT OUTSTANDING OF ARGENTINA

Paris Club's claims as of 31 December 2018, excluding late interest (in USD million)

ODA Official Development Assistance

NODA Non-Official

DEBTOR COUNTRIES	ODA claims	NODA claims	TOTAL
Algeria	24	139	163
Algeria	15	10	25
Algeria	285	1	286
Algeria	475	139	614
Algeria and Barbuda	105	183	288
Argentina	105	183	288

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Data are in millions					
	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
A1. Loans and other credits (debt at)					
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A1.3. Official bilateral loans, total	...	...	...	...	...
A1.4. ..._n/w aid loans	...	...	...	...	...
A1.5. ..._n/w other	...	...	...	...	...
A1.6. Multilateral loans, total	63,939	64,437	63,737	64,684	65,679
A1.7. ..._n/w IMF	43,909	44,121	43,556	43,904	44,921
A1.8. ..._n/w other institutions	20,451	20,306	20,181	20,780	20,759
A1.9. Insured export credits, theme Union	17,649	16,987	16,987	16,982	16,982
A1.10. ..._n/w short term	5,132	4,284	4,284	3,990	3,990
A1.11. Other allocations	2,744	2,793	2,787	2,779	2,849
A2. Loans and other credits (debt due within a year)					
A2.1. Liabilities to EIU banks (cross.), short term	14,748	14,189	11,992	8,619	8,308
A2.2. Multilateral loans, IMF, short term	1,000	1,490	1,197	1,196	1,121
A2.3. Debt securities (all maturities)	...	...	...	...	...
A2.4. Debt securities held by nonresidents	...	48,390	...	...	...
A2.5. Debt securities (short term, original maturity)	...	...	...	...	...
A2.6. Debt securities held by nonresidents	...	860	...	...	...
A3. Supplementary information on debt (liabilities)					
A3.1. International debt securities, all maturities	112,182	112,848	111,806	112,280	108,627
A3.2. ..._n/w issued by nonbanks	110,088	110,777	110,057	110,513	106,556
A3.3. International debt securities, short term	5,230	5,302	7,722	14,811	10,374
A3.4. ..._n/w issued by nonbanks	4,888	5,348	7,723	14,389	10,024
A3.5. Paris Club claims (ODA)	...	300	...	...	...
A3.6. Paris Club claims (non ODA)	...	1,863	...	...	...
A3.7. Liabilities to EIU banks, locational, total	22,376	27,390	21,344	18,883	18,979
A3.8. Liabilities to EIU banks, consolidated, total	23,959	25,154	20,370	16,790	15,884
B. Memorandum Items: selected foreign assets					
B.1. International reserves (excluding gold)	44,744	43,153	40,534	39,707	37,439

## 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 1989-2021 PROCESS OF LONDON CLUB DEBT RESTRUCTURING

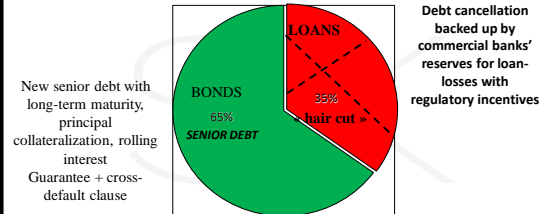
- ▶ **London Club banks** grant debt relief to debtor nations, in some proportion of secondary market discount through interest or debt stock reduction
- ▶ Accounting and regulatory incentives (loan-loss provisioning)
- ▶ Shift to specific purpose financing and voluntary lending
- ▶ **Debtor countries** 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

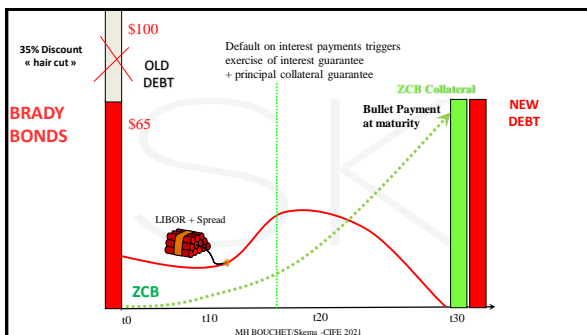
- ▶ Defaulted sovereign London Club debt to be exchanged for easily tradeable **Brady bonds** guaranteed by 30-year zero-coupon US Treasury bonds which the defaulting nation purchases with its reserves and official financing support (IFIs + Paris Club)
- ▶ Principal guarantee + x semi-annual interest 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



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### Types of Brady Bonds

- ▶ **Buybacks at discount**
- ▶ **Par Bonds Maturity:** Registered 30 year bullet issued at par *Coupon:* Fixed rate semi-annual below market coupon *Guarantee:* Rolling interest guarantees from 12 to 18 months. Principal collateralized by U.S. Treasury zero-coupon bonds
- ▶ **Discount Bonds (DB) Maturity:** Registered 30 year bullet amortization issued at discount *Coupon:* Floating rate semi-annual LIBOR *Guarantee:* Rolling interest guarantees from 12 to 18 months.
- ▶ **Front Loaded Interest Reduction Bonds (FLIRB) Maturity:** Bearer 15 to 20 year semi-annual bond. Bond has amortization feature in which a set proportion of bonds are redeemed semi-annually. *Coupon:* LIBOR market rate until maturity. *Guarantee:* Rolling interest guarantees generally of 12 months available only the first 5 or 6 years.

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### TYPES OF BRADY BONDS

- ▶ **Debt Conversion Bonds (DCB)** *Maturity:* Bearer bonds maturing between 15-20 years. Bonds issued at par. *Coupon:* Amortizing semi-annual LIBOR market rate. *Guarantee:* No collateral is provided
- ▶ **New Money Bonds (NMB)** *Maturity:* Bearer bonds maturing 15-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
- ▶ **Past Due Interest (PDI)** *Maturity:* Bearer bonds maturing 10-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
- ▶ **Capitalization Bonds (C-Bonds)** Issued in 1994 by Brazil's Brady plan. *Maturity:* Registered 20 year amortizing bonds initially offered at par. *Coupon:* Fixed below market coupon rate stepping up to 8% during the first 6 years and holding until maturity. Both capitalized interest and principal payments are made after a 10 year grace period.

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### VIETNAM = LONDON CLUB DEBT RESTRUCTURING

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

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

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### LEGAL CLAUSES AND CONVENANTS IN DEBT RESTRUCTURING NEGOTIATIONS

- ▶ Waiver on negative pledge clause: it prevents a borrower from pledging any assets if doing so 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

VIETNM (12 Fund)	Cm Type	RI1	Mty Type	RI1	Exclude	None				
Issuer	Coupon	Maturity	Series	Rtg	Freq	Mty Type	Country	Curr	Ask	Px
1)VIETNAM (REP OF)	6.875	01/15/16	REGS	B+	S/A	BULLE	VN	USD	106.2500	
2)VIETNAM (REP OF)	6.875	01/15/16	144A	B+	S/A	BULLE	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	18WR	NR	S/A	SINKABLE	VN	USD	88.0000	
5)VIETNAM (REP OF)	6.750	01/29/20	REGS	B+	S/A	BULLE	VN	USD	101.5000	
6)VIETNAM (REP OF)	6.750	01/29/20	144A	B+	S/A	BULLE	VN	USD	102.2500	
7)VIETNAM-PAR	3.750	03/12/20	US	NR	S/A	CALL/SINK	VN	USD	N.A.	
8)VIETNAM-PAR	4.000	03/12/20	30WR	B+	S/A	CALL/SINK	VN	USD	75.0000	
9)VIETNAM-DISC	FLOAT	03/13/20	30WR	B+	S/A	BULLE	VN	USD	84.0000	
10)VIETNAM-DISC	FLOAT	03/13/20	US	NR	S/A	BULLE	VN	USD	N.A.	
11)VIETNAM-FMT 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

VIETNAM Float 03/13/28 \$187,500		At 12:18		Source LCPN	
VIETNAM Down 03/13/28 Comp		Settings		Pair U/I	
Bond Description		Issuer Information		Security Description: Bond	
<b>Issuer Information</b> Name: SOCIALIST REP OF VIETNAM Industry: Sovereigns Mkt Loc: Euro-Dollar Country: VN Rank: Secured Coupon: 2.250000 Formula: S/A US LIBOR +81.2500 Day Cot: ACT/250 Maturity: 03/13/2028 Iss Price:		<b>Identifiers</b> ID Number: TT329548 ISIN: XS085134534 FIGI: BBG000076108 <b>Bond Ratings</b> S&P: BB- Fitch: BB- Composite: BB- <b>Issuance &amp; Trading</b> Aggregated Amount: Issued/Out USD: 24,552.00 (M) / USD: 24,552.00 (M) <b>Min Piece/Increment</b> 1,000.00 / 1,000.00 <b>Par Amount</b> 1,000.00 <b>Book Runner</b> LUXEMBOURG <b>Exchange</b> LUXEMBOURG <b>CPN RATE: 6MO US\$ LIBOR +81.25BP. PRIN SEC'D BY U.S. 30YR ZERO'S. 6MO ROLLING INT</b> CTV		<b>Interest Accrual Date</b> 03/13/1998 <b>1st Settle Date</b> 03/12/1998 <b>1st Coupon Date</b> 09/24/1998 <b>CPN RATE: 6MO US\$ LIBOR +81.25BP. PRIN SEC'D BY U.S. 30YR ZERO'S. 6MO ROLLING INT</b> CTV	

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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.voweu.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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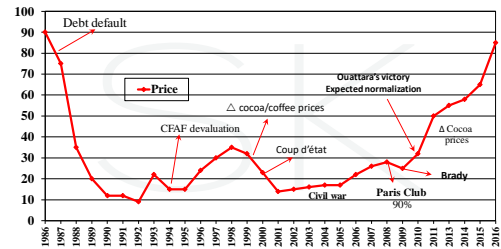


### IVORY COAST'S BANK DEBT RESTRUCTURING SAGA

- 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%

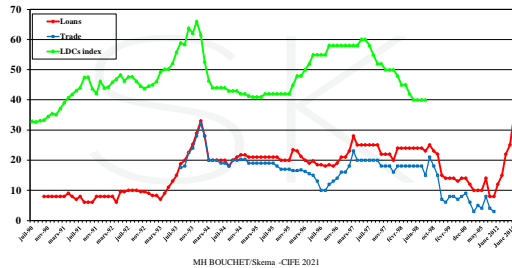
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### BRADY BONDS PRICES AFTER RESTRUCTURING NEGOTIATIONS

▶ <a href="#">Arg Par</a>	48.000	50.000
▶ <a href="#">Arg FRB</a>	41.000	42.000
▶ <a href="#">Arg '27</a>	31.000	33.000
▶ <a href="#">Brz C</a>	75.250	75.437
▶ <a href="#">Brz '27</a>	72.750	73.000
▶ <a href="#">Bul IAB</a>	85.000	85.500
▶ <a href="#">Mex Par</a>	93.000	93.250
▶ <a href="#">Pol Par</a>	75.250	76.250
▶ <a href="#">Rus '28</a>	107.750	108.000
▶ <a href="#">Ven DCB</a>	78.250	78.750
▶ <a href="#">Vie Par</a>	44.000	45.000

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### SECONDARY MARKET PRICES OF CUBA'S LONDON CLUB DEBT (1990-2017 in percent of face value)



### 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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### EMCS SECONDARY MARKET DEBT PRICES

COUNTRY / ISSUE			Loan Price	High Price	COUNTRY / ISSUE			Loan Price	High Price
Africa Hyper-Exotics					Eastern Europe Hyper-Exotics				
Angola / Trade			50.000%	55.000%	Azerbaijan / Trade			18.000%	23.000%
Angola / Loans			55.000%	59.000%	Bosnia / Trade			36.000%	41.000%
Cameroon / Trade (non-HIPC)			14.000%	20.000%	Georgia / Trade			11.000%	15.000%
Congo / Trade (non-HIPC)			22.000%	26.000%	Serbia / Trade			44.000%	54.000%
DR Congo / Loans, Trade (non-HIPC)			16.000%	20.000%	Turkmenistan / Trade			23.000%	33.000%
Ghana / Trade (non-HIPC)			78.000%	82.000%	Ukraine / Trade			18.000%	25.000%
Kenya / Trade			39.000%	49.000%	Uzbekistan / Trade			20.000%	24.000%
Mozambique / Trade (non-HIPC)			30.000%	26.000%	Middle East Hyper-Exotics				
Senegal / Loans, Trade (non-HIPC)			12.000%	16.000%	Egypt / Trade			45.000%	75.000%
Sudan / Loans (non-HIPC)			11.000%	14.000%	Iraq / Paris Club			84.000%	89.000%
Tanzania / Loans, Trade (non-HIPC)			10.000%	13.000%	Iraq / Bonds			91.000%	92.000%
Uganda / Trade (non-HIPC)			14.000%	16.000%	Libya / Trade			25.000%	35.000%
Zambia / Loans, Trade (non-HIPC)			13.000%	20.000%	Syria / Trade			6.000%	11.000%
Zimbabwe / Trade			1.000%	4.000%	Asia Hyper-Exotics				
Latin America & Caribbean Hyper-Exotics					Asia Hyper-Exotics				
Cuba / Trade			2.000%	4.000%	Philippines / Trade			22.000%	30.000%
Cuba / Loans			5.000%	10.000%	North Korea / Loans, Certificates			9.000%	12.000%
Suriname / Loans, Trade			14.000%	18.000%					

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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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**Debt trading and EMTA**

EMT  
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A

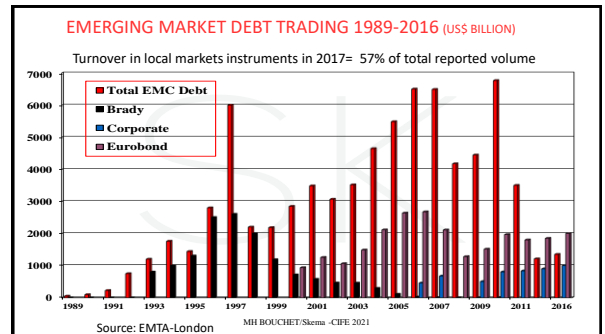
For Immediate Release

**EMTA SURVEY:  
QUARTERLY EMERGING MARKETS DEBT TRADING  
AT US\$1.132 TRILLION**

Volumes Decline 17% on Year-on-Year Basis

**NEW YORK, September 19, 2017**—Emerging Markets debt trading volumes stood at US\$1.132 trillion in the second quarter of 2017, according to a report released today by EMTA, the trade association for the Emerging Markets debt trading and investment industry. This compares with US\$1.357 trillion reported for the second quarter of 2016, a 17% decrease, and down 14% from US\$1.323 trillion reported in the first quarter.

Source: EMTA-London  
MH BOUCHET/Sleema - CIFE 2021



**WHO'S WHO IN HIGHLY DISCOUNTED AND EXOTIC DEBT TRADING?**

- Trading:** FH International (Eric Herman), Omni Bridgeway (Amsterdam, Geneva, Singapore, London, Guernsey), MarketAxess, Société Générale, BNP, Lazard Brothers
- Holdout creditors and « vulture funds »:** hedge funds that seek to enforce contractual claims against distressed sovereign debtors through litigation: they buy defaulted government debts on the cheap and refuse to join in a restructuring, "holding out" for a better deal and sue for the full amount (*pari passu clauses* promise equal treatment of creditors preventing EMCs from paying its restructured bondholders but not hedge funds: i.e., borrower's promise to ensure that the obligations will always rank equally in right of payment)
- Key players:** NML Capital (Argentina), Paul E. Singer's Elliott Capital Management (Argentina), Aurelius Capital Management (Argentina's 2001 \$132 billion default, Peru), Franklin Templeton, BlueMountain Capital, Stone Lion Capital, Monarch Alternative Capital, Canyon Capital, First Tree Partners, Marathon Asset Management (Puerto Rico, Greece), Dart (Brazil), Greylock Capital (Venezuela).

Source: EMTA-London  
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**DEBT COLLECTION, ASSET TRACING AND DEBT TRADING**

**Omni Bridgeway**

**Debt Recovery**

Debt recovery/collection:

- "Softball" Consensual Debt Collection: through amicable means
- "Hardball" – non consensual debt collection: through legal means
- "Passing the ball" to investor: sale of the debt

Source: EMTA-London  
MH BOUCHET/Sleema - CIFE 2021



### Recovery case: National Bank of Ukraine

1. Summons to pay to National Bank of Ukraine. No full payment followed
2. Concerted attachments were effectuated in France, Germany, Luxembourg and The Netherlands.
3. Assets attached > amount owed
4. Main legal proceedings initiated.
5. National Bank of Ukraine forced to the negotiating table to reach an amicable settlement.
6. A settlement agreement was signed between the creditor and the National Bank of Ukraine for the amount of USD 13 million (i.e. full principal amount *plus* overdue interest).

MH BOUCHET/Skema - CFE 2021



### Recovery Case: Zimbabwe

Country : Zimbabwe  
 Lender : West European Bank  
 Borrower : Ministry of Health and Ministry of Finance  
 Principal : EUR 25 million, maturity 1993-2000  
 Award : No

Solution: Asset tracing and subsequent attachments in various western jurisdictions

Negotiation started soon after attachments were made.

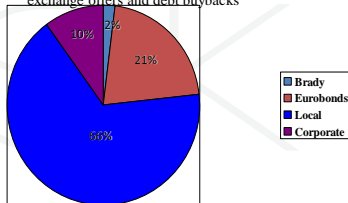
Recovery within one year :

- approx. EUR 10 million +
- for the remainder: restructuring agreement with improved conditions

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### TRADING VOLUME BY INSTRUMENT TURNOVER

Bradys transactions which accounted for 50% of debt trading in the mid-1990s have shrunk due to early redemption, exchange offers and debt buybacks



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### THE EVOLVING STRUCTURE IN THE SECONDARY DEBT MARKET

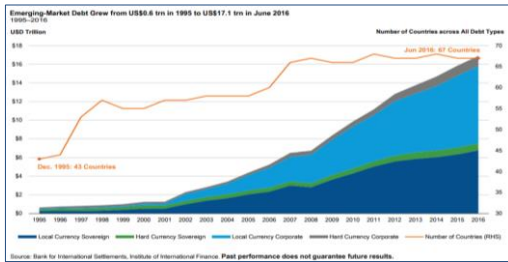
#### MARKET SHARE COMPARISON

	2005	1997
Eurobonds	48%	23%
Local Instruments	47%	25%
Options and Warrants	2%	6%
Brady Bonds	2%	41%
Loans	>1%	5%

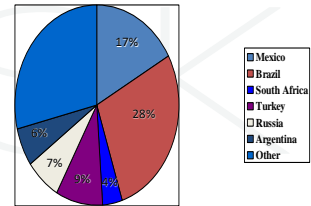
Source: EMTA

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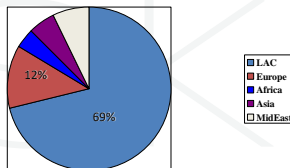
## EMERGING MARKET LOCAL CURRENCY BONDS 1995-2017



## TRADING VOLUME BY COUNTRY (EMTA)

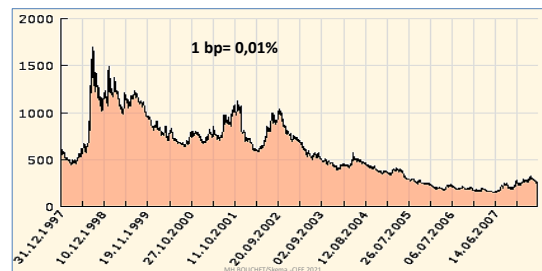


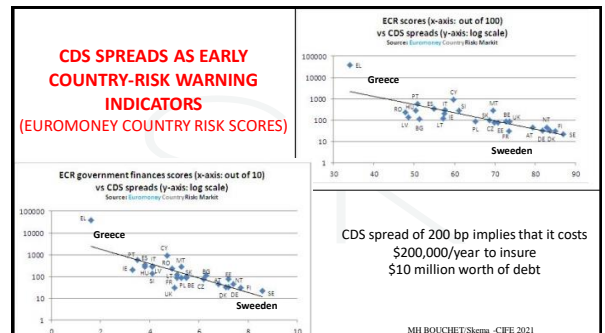
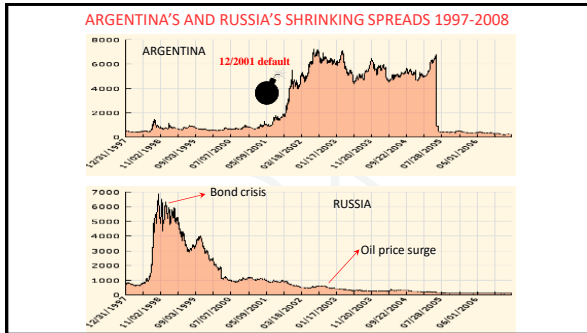
## TRADING VOLUME BY REGION

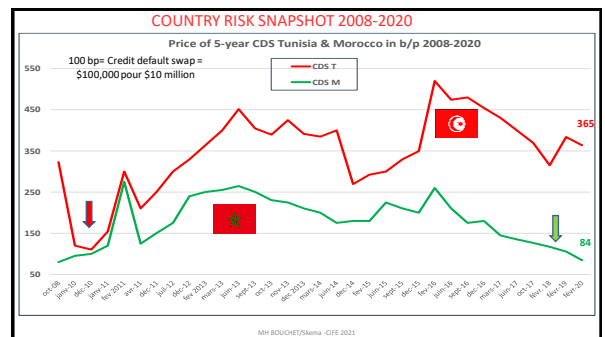


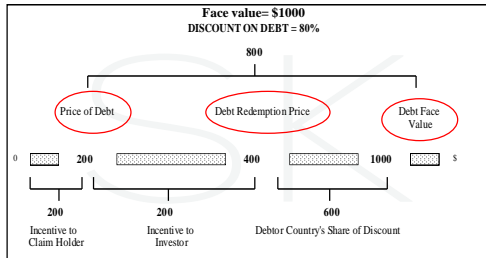
ASIAN + RUSSIA + ARGENTINA CRISES

EMERGING MARKET BOND SPREAD INDEX 1997-2008



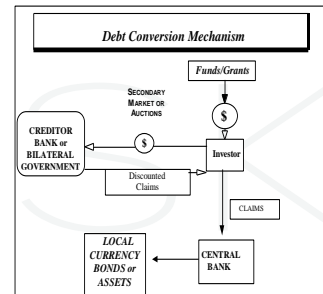




**DEBT CONVERSION: A POSITIVE SUM GAME?**

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 (Senegal, Mexico, Madagascar...)
- Debt for Local Currency Swaps (Tanzania, Madagascar...)

Source: Bouchet/OSF

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**CORPORATE DEBT SWAP TRANSACTIONS**

- 04/2001: South Korea's largest builder HEC (Hyundai Engineering & Constr.) makes a debt swap with its creditors to reduce debt ratios from **1240 % to 250%**, by issuing new shares and bonds to creditors as a part of the rescue package after Hyundai reported losses >US\$2.2 billion that wiped out its equity capital!

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**POSITIVE SUM GAME!**

- ▶ Debtor: debt cancellation with local currency payments while stimulating foreign direct investment and enhancing the role of private sector activity in the local economy (privatization)
- ▶ Creditor: cleaning up of portfolio with upfront cash payment while accounting losses get absorbed by loan-loss reserves
- ▶ Investor: access to local currency at a discounted exchange rate that boils down to an investment subsidy, thereby mitigating the overall country risk and the specific project risk

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