Initiative for Policy Dialogue Roundtable of experts on Sovereign Debt

Columbia University GSB, April 3, 2023

Room: *Kravis Hall 1080*

Rules: No press, Chatham house rules

The Covid-19 pandemic has resulted in sharp increases in public debt across the globe. Rising public debt levels of Emerging Markets and Developing Countries (EMDCs) are particularly worrying, with debt vulnerabilities being high in absolute terms and relative to pre-pandemic levels. The United Nations (UN) reports that around 60% of least developed and other low-income countries are at a high risk of debt distress or are already in debt distress. Meanwhile, the International Monetary Fund (IMF) estimates that seven emerging markets face a debt crisis probability of 40% or higher – compared to just two before the pandemic – and a further 45 countries face a probability of 20% or higher, compared to 30 before the pandemic. While Covid-19 was first and foremost a global health crisis, its economic fallout is uneven and has disproportionately affected EMDCs.

The war shock - with its economic effects, including the increase in food and energy prices, supply chains disruptions and capital flow reversals, has further increased EMDCs sensitivity to external shocks. This, in turn, makes it even more challenging for EMDCs to roll over their debt.

So far, Advanced Economy's (AEs) monetary policy response to counter inflation has been centered on central bank interest rates hikes. This response from AE's central banks, together with quantitative tightening, has resulted in the tightening of financial conditions worldwide, with reduced liquidity, increases in borrowing costs, and added pressure on international reserves. The dollar's appreciation also puts more pressure on EMDCs' balance sheets. Approximately half of all cross-border loans and international debt securities are denominated in US dollars. The IMF has warned that despite some progress made by EMDC's in the issuance of debt in their own currencies, their private corporate sectors continue to be heavily indebted in dollar-denominated debt. Thus, a stronger dollar aggravates debt sustainability problems for a number of EMDCs.

Given the current levels of debt distress among EMDCs, a significant number of debt restructurings can be expected. However, there is a serious concern that the existing restructuring "system" may not be up to the challenge. While the restructuring of bank or corporate debt is guided by the existence of a predictable legal and institutional framework, the sovereign debt restructuring process is a composite of practices and conventions that have evolved over the years. Given both the evolution of capital markets and the emergence of new official bilateral creditors, these practices and conventions - which were already considered as creating a "too little, too late" problem - are under considerable stress. Reforms to date – including the Common Framework – have failed to address a number of key issues. Recognizing the urgency of this problem, the IMF and the World Bank have convened a Global Sovereign Debt Roundtable, which will seek to reach agreement on how the "rules of the road" for sovereign debt restructurings can be improved.

This event was supported in part through grants from the Open Society Foundations and the Hewlett Foundation.

In that context, the roundtable of experts – reflecting the views of a broad cross section of stakeholders- will meet at Columbia University Graduate School of Business to discuss both the key deficiencies of the existing framework and possible avenues for reform. To ensure candor, the event will be closed to the public and Chatham House Rules will apply.

The stakes are high. The events of the last three years have had a deeply negative impact on progress to attain the Sustainable Development Goals (SDGs). In addition to reversing progress in global development, history also reminds us of the deeply polarizing political consequences that debt sustainability problems can have worldwide.

Organizing committee

Laura Carvalho (University of Sao Paulo and OSF)
Martin Guzman (Columbia University and University of La Plata)
Sean Hagan (Georgetown Law and Peterson Institute)
Joseph Stiglitz (Columbia University)

9:00am	Registration & Breakfast
9:15-10:00am	Session 1: An Overview of the Global Debt Situation Chair: Martin Guzman
10:15-11:45am	Session 2: Debt Sustainability: Substance and Process Chair: Martin Guzman

The Debt Sustainability Assessment performed by the IMF is consequential: it has significant influence on both (a) whether and when a restructuring will take place and (b) the amount of debt relief that is needed. This session will examine the adequacy of the existing methodology, the consistency of its application and the scope for other stakeholders to provide input into the process.

12:00-12:00pm	Lunch session: The Restructuring Process: debtor-creditor negotiations, intercreditor coordination and seniority. Chair: Sean Hagan

This session will assess the extent to which the effectiveness of the existing sovereign debt restructuring process is undermined by concerns regarding intercreditor equity and bargaining asymmetries. Among other things, we will examine the justification – and perimeter – for the various categories of creditors: multilaterals (including MDBs), official bilateral claims, foreign-currency debt held by private bondholders, and domestic-currency debt. A key area of focus will be the design and application of IMF policies, which play a critical role in guiding the processes for restoring debt sustainability.

2:15-3:30pm	Session 4: International Architecture for Sovereign Debt Restructuring, Contractual provisions and broader reform proposals Chair: Joe Stiglitz

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To date, the international community has had to rely on contractual provisions as a means of addressing a range of issues, including collective action issues. This session will discuss the adequacy and limitations of this framework and, in that context, the potential for more ambitious legislative reform. Separately, this session will include two proposals that may hold some promise: (a) the use of state contingent debt provisions in the context of restructurings and (b) the use of credit enhancements – drawing on the Brady approach – as a means of facilitating the restructuring process.

3:30pm Wrap-up
Chaired by Martin Guzman and Sean Hagan

4:10pm Public Lecture organized by SIPA's course "Sovereign Debt and Power Dynamics"; with Lee Buchheit and Joe Stiglitz
Moderated by Martin Guzman

Location: Kravis Hall 1090

6.30pm Speakers Dinner (by invitation only)

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