Options for Debt Restructuring

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Bail-Outs vs Bail-Ins: For Creditors

	Bail Out	Bail-in "Burden Sharing"
IMF & Multilateral Approach	• If liquidity crisis, not solvency crisis • Contagion & other risk considerations – countries available for bailout without burden sharing condition	• If insolvent, incumbent to burden share – and as soon as possible • Avoid serial failed programs
Country Approach	• Politically often the most interesting option • But are you better off in the long term by kicking the can down the road?	• Need to manage reputational issues: Best if done only when forced to by IFIs

If you need to "burden share" – next problems:
How much, when, and process management…….

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How Much: Example Burden Sharing Options

Strength	Burden Sharing	Example	Execution Considerations	Example NPV Savings*
None	Full Bail Out in Cash	Cash provided by IFIs	• Risk born by IFI lenders; market lenders are subordinated and have higher long term risk, even if in short term bonds trade up from reduced default risk.	0%
Medium / Light	Debt Extension 3 – 5 Years at Current Coupon 1:1; no Haircut	Uruguay 2003	• Bondholders may receive full recovery – hence best for future market access • Interesting as potential quick action – avoids letting any creditors "out of the system"	15%
Medium / Strong	Debt Extension 3 – 5 Years and Cut Coupon 20 – 40% 1:1; no Haircut	Jamaica, Ukraine, Pakistan	• Cost born by investors – generally allows trade up in bond price from depressed level if in context of credible additional support from multi-laterals	25%
Maximum	Haircut of principal and/or massive maturity extension (10 – 30 years)	Greece, Argentina, Ecuador	• Substantially damaging for investor base • Long period before market access normalizes.	50% - 75%

* NPV Savings calculations are often highly model dependent. Complex interplay with future funding cost assumptions in long horizon analyses

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The Analysis and Politics of Burden Sharing Can Get Deeply Confusing

- The basic case of requiring burden sharing when needed is straightforward. If it is economically required – do it, and quickly. Everyone is better off – including creditors
- The complex cases – such as the Eurozone – is when you have tremendous interplay between the isolated "NPV" model savings of burden sharing vs potential long term increased borrowing cost of having lost market confidence. Cost savings in Greece – and massive cost to the rest of the Eurozone – was the Greek messy default worth it on a system wide basis?
- Politics at IFIs, bilateral, multilateral lenders. Treatment of an individual country may sometimes be influenced by what is going in other countries – they may be driven by precedent worries rather than your unique circumstances.
- Usually the creditors are foreign creditors and the losses are born outside of the country (75% of Argentina and Greek creditors, for example). What do you gain if the holders of the debt are largely local financial institutions? – is the restructuring a zero sum game when knock on economic effects are taken into account?

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Managing a Burden Sharing Process

- The conflict of admitting you need help & requirements to continue interim funding
- Legal risks and constraints
- Economic analysis of the real long term costs and benefits
- Maximizing fairness of process in a fundamentally unfair/painful process - How to share the burden of the burden sharing among the market constituents
- Safely managing any creditor consultations
- Maximize benefit of any unique assets (i.e. real estate, special features)
- Managing the IMF and other IFIs through the process
- Getting the best possible advisors
- Creating your own confidential team
- Dealing with the stress!

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