Thank you very much for your draft background paper, which we found a very good start for the consultative process. Please find below some comments on some of the questions you have raised at the end of each chapter.

One remark, before we get into those questions is related to the introductory chapter, which raises issues with bilateral official and private claims on the sovereign, but ignores obligation towards multilateral creditors. This category however, needs to be part and parcel of any restructuring process, too. Multilateral claims have been restructured and in some cases cancelled under the HIPC/MDRI programs and also at present there are a few debtor countries in the global south, for which it seems clear that debt sustainability cannot be restored without considering multilateral debt, too. "Consideration" does, of course, not necessarily mean equal treatment. However, any "exempt creditor status" would undermine the quest for a comprehensive solution.

On the question for discussion, then:

(p.12)

- What are the potential costs and benefits of reforming the international debt architecture? In a globalized financial system, are sovereign debt crises inevitable and bound to be costly, or are there certain types of reforms that could reduce the frequency and costliness of such crises?

Yes, sovereign debt crises are inevitable. Any loan implies a risk, and where there is a risk, there may be a default and hence a sovereign debt crisis. This is, of course, no argument against improving control and oversight towards more responsible borrowing and lending (like f.i. the UNCTAD principles try to do). However, a comprehensive and rules-based crisis resolution mechanism needs to be in place regardless of those efforts.

- Are lenders and borrowers equally (or differentially) responsible for the buildup of unsustainable debt? What does that imply for burden-sharing in the resolution of sovereign debt crises?

1. The text's distinction in discussing debtor and creditor moral hazard is useful. While not denying that opportunistic debt restructurings have in the past been enforced by a few creditors, the essential problems that presently plague the international sovereign debt architecture are certainly not to be found in those few "rogue debtor" cases. Instead the notorious "too little relief too late and at unnecessarily high costs to good faith creditors" syndrome, that the introduction and chapter 3.1. try to address is the key driver of these problems. We do not think that "creditor moral hazard arises [only] from the record of IMF lending. While the fund's implicit bailout promise certainly is one reason for the mis-incentives to lend too much and too easily, it is not the only one. The wrong assumption that states never go bankrupt would distort proper lending practices even without the specific option of an IMF bailout.
2. Sovereign credit demand is in principle infinite, as governments could potentially invest ever more resources into the economic development of their countries. Therefore imposing discipline on the creditors, who allocate resources among the various sovereigns, is key to any more responsible borrowing and lending.

3. This contrasts with the distorted view on sovereign debt problems since the 1980s, which has identified the reckless borrowing and poor governance records of the time as the main drivers of the sovereign debt crisis. In reality, no Mobutu or any other dictator would have been able to squander the resources which plunged his country into over-indebtedness, had (mostly Western) lenders not been so keen to make those resources available. Those lenders would, of course, have been in a position to prevent the debt buildup - something that could obviously not be expected from an authoritarian kleptocrat, or for which successor government could and should be held responsible. The idea of the "joint responsibility of debtor and creditor" is therefore formally correct but misleading. As a correction to those fatal mis-perceptions of past debates, any new proposal should therefore rather emphasize the creditor moral hazard too much than to fail to acknowledge its key role in producing debt crises.

- How would you assess the pros and cons of the contractual and the statutory approaches respectively?

Most contractual instruments, which are presently being discussed are useful technical instruments to make a restructuring work more smoothly. The unfortunate side is that they are treated as an alternative to a comprehensive and statutory approach. This is about as absurd as presuming that corporate insolvency laws were expendable, if a few clauses could be added to standard loan contracts in any domestic context.

An "either contractual or statutory" is a therefore a false alternative.

- Ostensibly, the statutory and contractual approaches seek to do many of the same things (overcome collective action problems, prevent individual bondholders from pursuing litigation, facilitate agreement on restructuring terms amongst a (super) majority of bondholders). What, then, are the real substantive differences between these two approaches? Why is one seen as more ambitious and politically unrealistic?

This has to do with the political interest of important creditors to avoid a statutory mechanism at any cost. Moreover "statutory" is often equated to an international law making process. As the present paper demonstrates in some parts, such a process will at some time certainly be necessary, but does not have to stand at the beginning of a reform process. The label "more ambitious" is certainly warranted, while "politically unrealistic" is not, because reforms can also go the way from practice to law and not only the other way round.
Please find the key elements of a reformed process - comprehensiveness, impartiality in decision making, and impartiality in assessing the debtor's need for relief - in the FES/erlassjahr.de paper in Chapter 4.1.

I hope this is helpful and look forward to the further process.