Feedback from Chnara Mamatova, Kyrgyzstan

The paper provides several options for tackling the sovereign debt issue, specifically to avoid [endemic] crisis. In my humble opinion, none of the proposals seem to effectively resolve the moral hazard issue of the sovereign Governments in managing their debts. This means that whatever modality for restructuring is proposed, in the end it is a taxpayer who has to pay for the defaults/mistakes of its Government in debt management. Since there is no clear evidence internationally of percentages of defaults resulting from poor management versus defaults from force majeure, it is difficult to propose a uniform decision fitting all countries. In the first case or poor PFM, the Sovereign debt restructuring mechanism must propose built in mechanism of public finance accountability, in the latter more standard solutions of the IMF would be efficient enough.

Out of all the proposed solutions I am inclined to support the institutionally assigned solution whether it be the IMF as a lead institution dealing with the sovereign debt restructuring or the Sovereign Debt Forum (Paris and London Clubs). For the debt issue in general, international standards could be developed (by IMF or SDF), such as those existing in the Eurozone (not more than 60% to GDP) and all the countries subscribed to IMF and World Bank (member of the Paris Club) could be pushed to adhere to these standards. However, in any case the debt restructuring issues should be different depending on the type, such as paper-based debt (bonds, etc.) or multilateral debt (bilateral, World Bank, IMF or whatever loans). For the countries adhering to international standards the bond issues could be easy, and instead of issuing term bonds, the country could issue a “call” bond.

The callable bond will have no time pressure, thus if the Sovereign is in liquidity problems, it can decide not to call the bond, but still pay the interest. If the country’s performance is great it can call the bond in order to reduce the burden [since the 60% of debt to GDP limitation should be imposed, without which the market may not pick the bond up]. With these type of bonds the issue of creditor holdouts could be resolved, since there is no obligation by the Sovereign to buy it at a specified [may be difficult] time and hence no tension.

For the loan debts, the institution (IMF or SDF) may work out a country-specific debt restructuring mechanism.

Finally, I still think that in the first place to avoid debt restructuring problems, a mechanism for the Sovereign to avoid defaulting must be developed; this in the first place includes a civic engagement before getting into debt. In many countries, the citizens do not even know why the debt was created or they do not approve it. In the case they approve it, the mechanism for its efficient use [of attracted resources] is not developed, and therefore, the system may allow significant leakages or deviations [due to lack of efficient planning and risks assessment] from the stated objectives.

Comments for some parts of the paper:

I do not support the state-contingent debt restructuring solution that was mentioned in the research paper. This approach treats debt instruments as somewhat equity instruments, but only on the negative side. For example if GDP is not great, the bond-holder must accept a worsening of the default probability from initial
conditions; while if to be fair, the bond also has to address what happens if GDP is greater than was expected.

The Eurozone option is relatively easy to implement, but the geographical coverage is limited, and the experience shows that the crises are imported from everywhere, so this could be a start-up solution with potential expansion. However, in light of the political situation taking place, there could be resistance to the Eurozone solution.