# Talking Points

# CABRI Virtual Policy Dialogue

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## I. WHAT CAN AFRICAN COUNTRIES LEARN FROM RECENT SOVEREIGN DEBT RESTRUCTURINGS?

- Whilst each Sovereign clearly needs to focus on general long-term debt sustainability, the recent Covid-19 related crisis showed that there are times, when reprofiling and/or restructuring of current liabilities may be the only solution to provide release much needed funds and put a country once again on a long-term sustainable footing
- In the context of the COVID-19 crisis, the G20's Debt Service Suspension Initiative (DSSI) was a much welcome and well-intended measure, though in practise provided a relatively modest relief to African countries and brought along a series of unintended complications:
    - Initial uncertainty around the extent of the DSSI and lack of clear communication from the G20 caused stress in the EM debt markets and spread widening affecting both market-access and pricing of potential new financings
    - The DSSI triggered cross-default provisions with commercial creditors in the loan space requiring negotiation of waivers with each concerned creditor to resume disbursements
    - The resulting delays in disbursements have had a real cashflow impact and to some extent undermined the savings created by DSSI

- **Hence, African countries must weigh in the potential short-term benefits vs long- and medium-term costs of participating to such restructuring initiatives**
    - Such long-term costs include market access risk and the broader perceived credit risk of investors, which impacts the trading of bonds and potentially raises financing costs going forward
    - We understand the G20 Common Framework to be effectively "an update" of the Paris Club Process, which has become largely inadequate during recent years in Africa and the broader EM market, since the bulk of debt is now commercial rather than "official/bilateral", which was the case during the inception of the Paris Clubs
    - It is important to stress that even under the Common Framework, bilateral/partial agreements are still possible and should be sought when appropriate

  - The recent agreement between Angola and China on its oil-backed facilities is a good example of what can be done in this area, where long-term benefits of a "partial-reprofiling" are clearly more beneficial than outright, generic restructuring

- **Additionally, it is critical that countries communicate well and transparently on their intentions with respect to the extent of such restructurings as** miscommunication can have a significantly negative impact on secondary markets, market access and ratings
  - Countries should hence take special care in designing their communication strategy and establishing an active dialogue with investors

## II. WHAT LEGAL AND FINANCIAL FACTORS SHOULD PUBLIC DEBT MANAGERS CONSIDER BEFORE REQUESTING A RESTRUCTURING OPERATION?

Before requesting a restructuring operation, Public Debt Managers should consider the following:

- Any request for restructuring, re-profiling, rescheduling, moratorium, or change of terms, whether NPV neutral or not, is **typically captured by cross-default provisions of credit agreements** which are **standard in any legal documentation**
  - Cross-default and cross-acceleration provisions will mean that when a given threshold is reached payments under all debt facilities or debt instruments with similar provisions become accelerated and due immediately and **all respective disbursements are halted**
  - The potential implications of such clauses (disbursement delays and impact on potentially vital projects, lengthy negotiation of waivers with multiple creditors etc.) should be taken into account by the state before engaging in any restructuring

- **Volume and economic benefit of the operation**: are the potential gains from the restructuring worth the costs? (Cashflow benefit vs. impact on disbursements, market access and financing costs)

- Indeed, **consequences of a default are far reaching**, affect every part of the economy and society and have a long-standing negative impact on the country's economic and political reputation. More specifically, a default and the consequent loss of trust will:
    - Prevent access to capital markets, not just for the government, but also the country's government related and commercial entities, potentially for several years
    - Negatively affect the country's equity markets and prospects of attracting FDI and proceeding with privatizations and general economic reforms
    - Put pressure on the currency and level of central bank reserves, typically necessitating stringent capital controls
    - Cause a general drop in economic activity typically leading to pro-longed drop in GDP growth of several percent
    - Default and related economic hardship may lead to social unrest, halting economic and political reforms and have undesirable political consequences

- **In the case of African countries, a potential Sovereign default is likely to have more extreme consequences given** their relatively fragile socio-economic position

## III. HOW LONG DOES IT TAKE ON AVERAGE TO REGAIN MARKET ACCESS AFTER A RESTRUCTURING?

- The duration of the negative shock from a Sovereign default typically ranges between 3-10 years depending on the nature of the default and the specificities of the country's economic and political structure
    - Ukraine (2014) was able to return to the markets **within 3 years** but continues to struggle with market access 7 years later and relies heavily on international assistance. It is also embroiled in lengthy litigation with its bondholders, which is still continuing.
    - Greece (2015) has never really recovered, though socio-economic consequences are obscured by the EMU membership
    - Venezuela (2017) is still bearing the brunt of the default three years on