

Sovereign Domestic Debt Restructuring: Handle with Care

Discussion:

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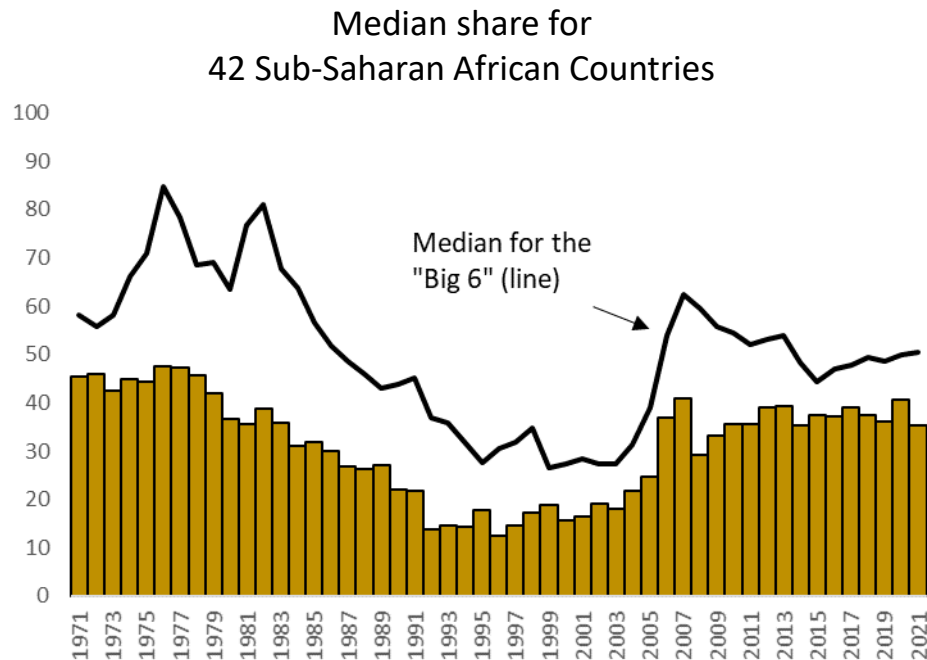
Roadmap of remarks

- Why the topic and the paper are **REALLY** important and timely.
- Defining domestic debt in the modern era (easier said than done)
- Revisiting the episodes: Rethinking “how *domestic* was domestic”
- The road ahead: Filling in our knowledge gaps (the paper and everyone else).

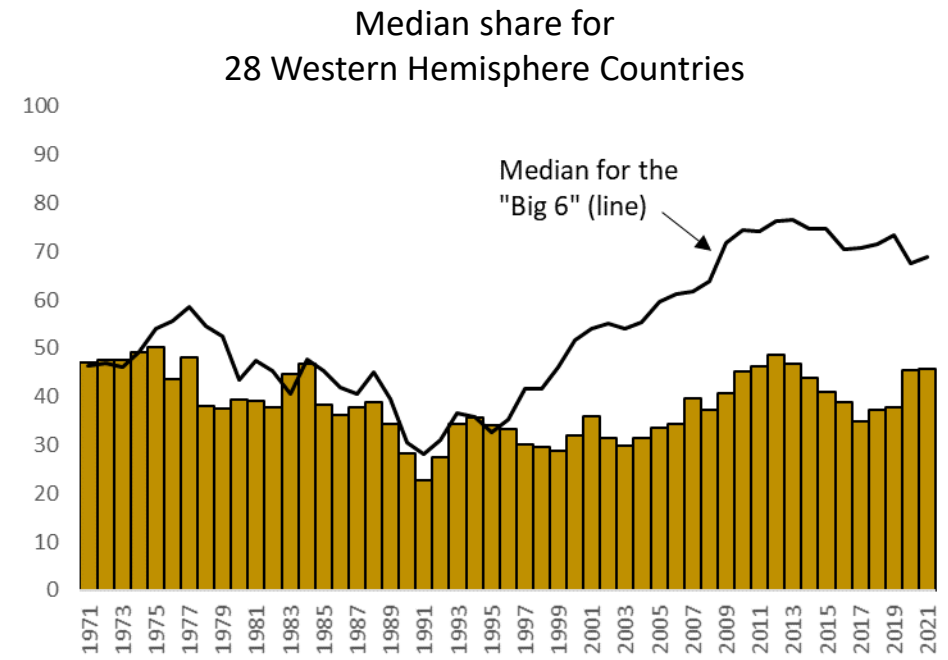
Central Government Debt: Sub-Saharan Africa and Western Hemisphere, 1971-2021

Share of domestic debt as a percent of total debt

Domestic debt is not “new” but it is increasingly important for many countries—especially because debt levels (domestic and external) have risen markedly in recent years (see following figures).



Note: Deliberately kept the scale at 0-100% to highlight that external debt is still extremely important especially for many smaller EMDEs. Big six are Nigeria, South Africa, Ethiopia, Kenya, Ghana and Ivory Coast.

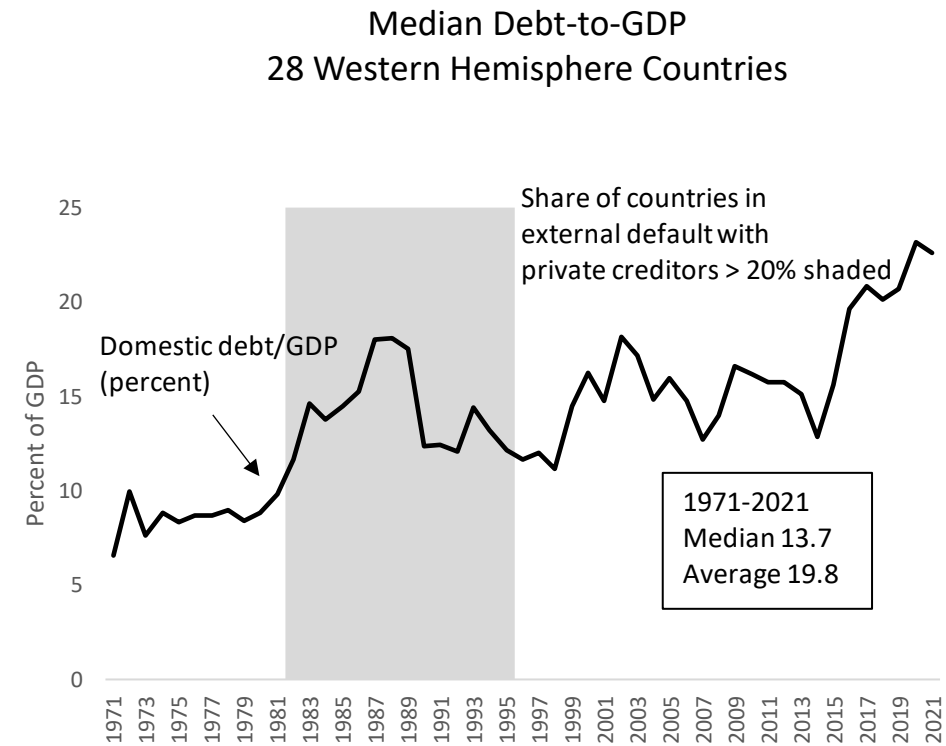
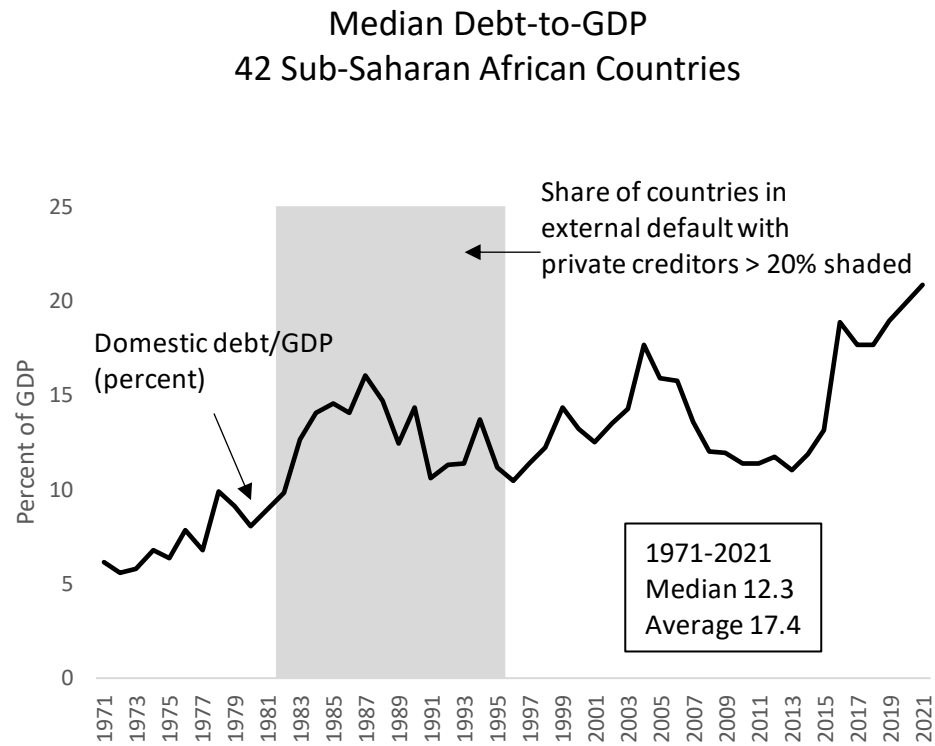


Note: The Big six are Argentina, Brazil, Chile, Colombia, Mexico, and Peru

Domestic central government debt as a percent of GDP:

Sub-Saharan Africa and Western Hemisphere, 1971-2021

***The 2014-2021 debt surge in two stages:
(1) The commodity price crash of 2012-2015
(2) The pandemic crash of 2020-2021.***



Sources: Barrot (2022), International Financial Statistics (IMF), Reinhart and Rogoff (2009), World Economic Outlook (IMF), and author's calculations.

Defining “domestic debt” is critical and not trivial: In the modern era lines have been blurred.

Era	Legal (governing law and jurisdiction of issue)	Residency of creditor	Currency denomination
1800-1990 (with few exceptions)	Domestic law	Domestic creditors	Domestic currency
Modern	Domestic law	Domestic and foreign	Domestic and foreign currency

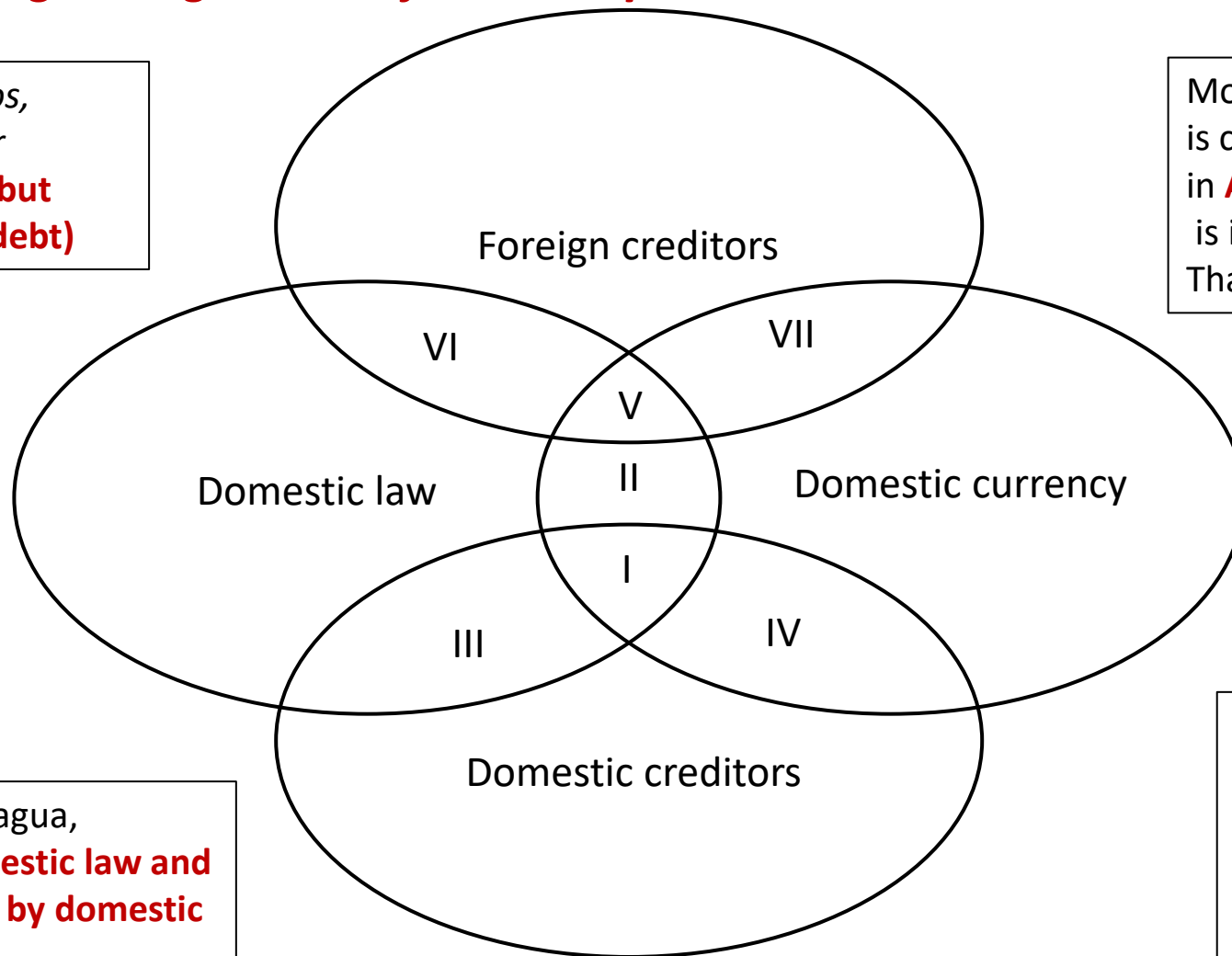
Debts recorded in countries’ treasuries do not have common standards on the definition of “domestic”. Furthermore, for many the definition changed over time. The World Bank Debt Reporting System (external debt), 1970-present is based on ownership. The League of Nations, IMF, UN, and Reinhart and Rogoff (2009), followed the hybrid definition used in country reports. Pre-1990s hybrid measures posed no problem in distinguishing domestic from external but that is not the case, especially in the past two decades.

Varieties of domestic debt restructuring in an era of blurred definitions

(I am ignoring here defaults on **pure external debt** around these cases)

Mexican *Tesobonos*,
1994-1995 (a near
default): **Area VI (but
foreign currency debt)**

Most of Brazil's debt (not in restructuring)
is currently
in **Area I**--but a non-trivial share
is in **Area V**. Ditto for Mexico,
Thailand and many others.



Pre-1990s (mostly), Nicaragua,
2008: **Area I** --(most domestic law and
currency debt is still held by domestic
creditors)

Argentina, 2002 *pezoization*:
Area III, (but FC debt)

Jamaica, 2010: Mostly in **Area I**
But also in **Areas III and VI**
Greece 2011 and 2012: Mostly
Areas I and V (for eurozone
creditors); but also in **Area VI**
Cyprus 2013: Similar to Greece,
with different shares.

The road ahead: Filling in knowledge gaps

- **Data gaps I:** Largest (but improving) on ownership dimension CFA zone is an example—and domestic debt issuance has skyrocketed there. Who holds the debt is critical for assessing the economic impacts of restructuring.
- **Data gaps II:** Time series on domestic arrears are scarce to non-existent (IMF, 2019 for Africa is a much-needed gap-filling effort); by contrast, external arrears are documented (1970-2020) in the World Bank's DRS database.
- **Hidden de jure domestic debt restructurings:** Regulatory changes impacting domestic banks and pension funds (see next two points).
- **Fully quantifying creditor losses (haircuts):** In the pure external restructurings (see Sturzenegger and Zettlemeyer, 2007, Cruces and Trebesch, 2013, Meyer, Reinhart, and Trebesch, 2022), these are quantified; progress is needed on the domestic front. Filling this gap addresses seniority and Comparability of Treatment (CoT) issues. Meyer (2021), who focuses on 1900-1980, is a pioneer in this regard.
- **The VERY BIG de facto versus de jure haircut problem:** Much more than contractual changes impact haircuts (inflation and financial repression for domestic creditors à la Reinhart and Sbrancia, 2015); currency crashes for external creditors, in the cases of LC debt.

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