Timothy Adams
President and CEO

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Nirmala Sitharaman
Minister of Finance
India

Kristalina Georgieva
Managing Director
International Monetary Fund

David Malpass
President
World Bank Group

Dear Minister Sitharaman, Managing Director Georgieva and President Malpass:

Ahead of the 2023 Spring Meetings of the IMF and World Bank Group, global policymakers and regulators are increasingly focused on risks to growth and financial stability. Among these are acute debt strains in certain low-income and developing economies, fueled by higher borrowing costs, inflationary pressures, and—in some cases—weak domestic policy frameworks that have contributed to high government debt levels and concerns about the ability of borrowing countries to service debt.

Against this backdrop, the launch of the new Global Sovereign Debt Roundtable (GSDR) by the G20, IMF and World Bank is a novel and very welcome initiative. Bringing together official bilateral creditors, borrowing countries and private creditors will help build agreement on principles for efficient debt restructuring—which in turn will support access to international capital markets. The IIF is honored to participate in this important endeavor and offers the following perspectives on behalf of our global membership.

Key messages:

1. **Reference the market-based *Principles***: In developing guidelines for efficient debt restructuring, clear reference should be made to the existing *Principles for Stable Capital Flows and Fair Debt Restructuring*, negotiated by a collaborative working group comprising both official and private creditors as well as borrowing countries. The *Principles* were first supported by the G20 in 2004 and have since been widely utilized. Substantially revised and updated in 2022 to incorporate lessons learned from recent debt restructurings as well as environmental, social and governance considerations, the *Principles* cover key issues raised in the GSDR including debt transparency and timely flow of information between debtors and creditors; close debtor-creditor dialogue and cooperation to help avoid debt restructuring; and guidelines for orderly debt restructuring based on good faith negotiations and fair treatment of all stakeholders.

2. **Encourage early adoption of adjustment and reform programs:** The *Principles* offer a number of recommendations on crisis prevention. Acknowledging that unsustainable monetary and fiscal arrangements bear primary responsibility for many

ongoing debt distress episodes, early engagement and negotiation with the IMF/World Bank on financed arrangements should be encouraged at the first signs of crisis.

3. **Substantially improve the debt restructuring toolkit**: If the Common Framework is to be used as the basis for efficient and timely sovereign debt restructuring, all GSDR members should agree on best practices on process and timelines—including around cutoff dates and potential deadlines for financing assurances—while maintaining the flexibility needed for a case-by-case approach. As achieving timely coordination among official bilateral creditors has been a particular challenge, there should be a clear timetable for this process, and a clear designation of official sector representatives. If official creditor coordination is not completed within this time frame, other gap-filling mechanisms (including the unlocking of additional official financial assistance with appropriate safeguards) should nevertheless be pursued, and debtors should be allowed to proceed with negotiations with private creditors. This would help expedite restructuring, provide greater certainty and support a timely return to market access for debtor countries.

4. **Set guidelines for defining the debt perimeter for potential restructuring**: The GSDR should also agree on guidelines for how to define the debt perimeter—in particular, whether and when to include sovereign debt instruments governed by domestic law. Further work could be usefully undertaken in analyzing the consequences of domestic debt treatment or restructuring, including implications for the domestic banking system. Guardrails on future debt incurrence should be considered in the context of restructured debt documentation.

5. **Clarify comparability of treatment**: The GSDR should recommend clear guidelines on comparability of treatment. While there is no perfect solution to determining equitable treatment across all creditors, more precise definitions and guidelines would encourage timely and broad creditor participation, expediting sovereign debt restructuring A forum to develop such guidelines, e.g. a workshop open to all GSDR members, would be helpful in taking this work forward.

6. **Ensure early and regular information-sharing and transparency**, notably on the progress of negotiations among official bilateral creditors as well as a country's economic reforms, prospects and debt stock (where we welcome efforts to enhance the quality and accessibility of the World Bank International Debt Statistics). Early information-sharing on key parameters of the IMF/World Bank Debt Sustainability Analysis (DSA) would be tremendously helpful; disclosure of material DSA elements after a Staff Level Agreement is reached (but before Board approval), could significantly speed the restructuring process. Debt transparency is fundamental to debt sustainability and to efficient debt restructuring, as noted in the IIF Voluntary Principles for Debt Transparency. We would underscore that greater transparency from sovereign borrowers and official creditors is essential and would enable greater debt transparency from private creditors.

7. **Recognition of preferred creditor status**: As highlighted in the 2022 revision of the *Principles for Stable Capital Flows and Fair Debt Restructuring*, de facto Preferred Creditor Status for the IMF and many major MDBs has been accepted in debt workouts on the basis that such institutions provide new lending in support of the debtor adjustment program objectives designed to facilitate the resolution of any balance of payments problems—without restructuring the loans made by such institutions.

As the Principals of the Global Sovereign Debt Roundtable consider recommendations on how to improve the sovereign debt architecture, we trust these private sector perspectives will be helpful. Beyond the current topics being reviewed by the GSDR, some of our members suggest future consideration be given to broader strategic debt policy initiatives for the world's poorest countries. We believe that market-based solutions, developed collaboratively, offer the best chance of successful long-term outcomes to the challenging debt sustainability problems ahead. We look forward to continued productive engagement in the work of the GSDR, with the support of established IIF fora including the Group of Trustees of the *Principles for Stable Capital Flows and Fair Debt Restructuring*, the Principles Consultative Group and the IIF Committee on Sovereign Risk Management.

Sincerely,