

Restructuring Domestic Sovereign Debt: An Analytical Illustration

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WP/23/24

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**2023
FEB**



IMF Working Paper
Monetary and Capital Markets Department

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Prepared by David A. Grigorian*

Authorized for distribution by Thordur Jonasson
February 2023

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ABSTRACT: Sovereign domestic debt restructurings have become more common in recent years and touched upon a growing share of total public debt. This paper offers a simple framework for policymakers to think about the decision whether to restructure domestic sovereign debt as part of an effort to reduce overall public indebtedness. It also highlights a rather wide range of technical, legal, and operational issues a sovereign may face while restructuring domestic debt. As expected, factors such as debt reduction required to achieve sustainability, fiscal savings from a restructuring, and economic costs of a restructuring are key inputs into the decision making regarding a restructuring, but so are factors such as the composition of debt, financial stability costs, and crisis preparedness, all of which are discussed in the paper.

RECOMMENDED CITATION: Grigorian, David A., 2023. “Restructuring Domestic Sovereign Debt: An Analytical Illustration,” IMF Working Paper 23/24, Washington, DC.

JEL Classification Numbers:	H63, F34
Keywords:	Domestic debt restructuring, sovereign debt, net debt relief
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* I would like to thank Arindam Roy, Trevor Lessard, Tamon Asonuma, Sebastian Grund—my fellow co-authors of the IMF (2021) report—Minke Gort, Jerzy Jiang, Michael Papaioannou, Eriko Togo, and Romain Veyrune for their comments. The remaining errors are my own.

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Glossary

AM	Advance Market
BIT	Bilateral Investment Treaty
BOJ	Bank of Jamaica
CB	Central Bank
CAC	Collective Action Clause
CAR	Capital-to-asset Ratio
DDR	Domestic Debt Restructuring
DRT	Debt Relief Target
DSA	Debt Sustainability Analysis
ECB	European Central Bank
EDR	External Debt Restructuring
EMDE	Emerging Markets and Developing Economy
FRC	Financial Regulatory Council
FSSF	Financial Sector Support Fund
FV	Face Value
FTA	Free Trade Agreement
GOJ	Government of Jamaica
ICSID	International Centre for Settlement of Investment Disputes
IFI	International Financial Institution
JDX	Jamaica's Sovereign Debt Exchange
NBFI	Non-bank Financial Institution
NDR	Net Debt Relief
NPV	Net Present Value
RLC	DDR Laffer Curve
SOE	State-owned Enterprise
OMT	Outright Monetary Transaction