

**CIFE** Centre international de formation européenne  
100 BERLIN BOULEVARD STRASBOURG

# FROM COUNTRY RISK, TO FINANCIAL CRISIS AND DEBT NEGOTIATIONS!

CIFE SEMINAR NICE MAY 6-8, 2020  
**MICHEL-HENRY BOUCHET**  
MH BOUCHET@skema - CIFE 2020

**Hello CIFE STUDENTS HELP!**  
I need to know asap the international bank debt of two countries:  
**Argentina & Spain**

MH BOUCHET@skema - CIFE 2020

## What about country debt data?

Bank for International Settlements

International Monetary Fund

Organization for Economic Cooperation and Development

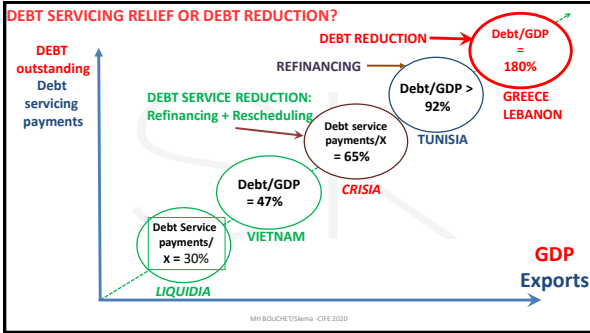
Statistical Data and Metadata exchange

World Bank Group

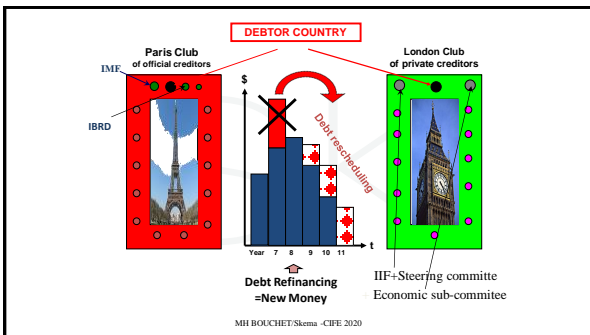
Joint External Debt Hub **JEDH**

MH BOUCHET@skema - CIFE 2020

	Data are in millions				Data are in millions			
	2019Q1	2019Q2	2019Q3	2019Q4	2019Q1	2019Q2	2019Q3	2019Q4
<b>ARGENTINA</b>					<b>SPAIN</b>			
A1. Loans and other credits (Debt of)					A1. Loans and other credits (Debt of)			
01. Cross border loans, by BIS reporting banks	26,180	21,791	23,624	22,181	28,019	238,827	230,363	238,028
02. .../w/ nonbanks	17,293	16,499	20,981	19,152	65,427	62,594	68,822	77,791
03. Official bilateral loans, total	-	-	-	-	-	-	-	-
04. .../w/ aid loans	-	-	-	-	-	-	-	-
05. .../w/ other	-	-	-	-	-	-	-	-
06. Multilateral loans, total	16,276	16,211	22,979	47,030	0	0	0	0
07. .../w/ IMF	0	0	14,809	28,115	0	0	0	0
08. .../w/ other institutions	16,276	16,211	18,169	18,917	-	-	-	-
09. Inward export credits, borne by us	24,149	23,161	21,161	22,887	68,938	61,756	61,756	68,979
10. .../w/ short term	2,048	7,316	7,316	6,619	62,379	64,637	64,637	62,146
11. SDR allocations	2,827	2,841	2,918	2,899	2,824	4,111	3,977	3,840
A2. Loans and other credits (Debt due within a year)					A2. Loans and other credits (Debt due within a year)			
12. Liabilities to BIS banks (cons.), short term	16,784	17,310	16,122	16,889	138,142	127,187	124,889	127,011
13. Multilateral loans, IMF, short term	0	0	420	546	988	-	-	-
B1. Debt securities (All maturities)	-	81,467	-	-	-	-	-	-
B2. Debt securities held by nonresidents	-	81,467	-	-	-	-	-	-
B3. Debt securities (short term, original maturity)	-	-	-	-	-	-	-	-
B4. Debt securities held by nonresidents	-	-	-	-	-	-	-	-
B5. Debt securities (short term, original maturity)	-	-	-	-	-	-	-	-
C. Supplementary information on debt (liabilities)					C. Supplementary information on debt (liabilities)			
15. Debt securities held by nonresidents	-	8,882	-	-	-	-	-	-
16. International debt securities, all maturities	128,464	126,074	124,172	123,365	122,716	681,951	626,162	620,790
17. .../w/ issued by nonbanks	128,888	122,788	121,918	121,089	128,886	492,792	379,790	388,761
18. International debt securities, short term	4,189	6,882	6,374	6,825	6,268	69,464	62,627	68,261
19. .../w/ issued by nonbanks	4,189	6,882	6,374	6,825	4,777	49,427	37,089	33,564
20. Paris Club claims (ODA)	-	-	-	-	-	-	-	-
21. Paris Club claims (non ODA)	-	-	-	-	-	-	-	-
22. Liabilities to BIS banks, locational, total	24,790	26,000	28,202	24,797	28,289	487,471	420,753	414,249
23. Liabilities to BIS banks, consolidated, total	28,723	27,776	30,266	27,284	30,289	296,292	268,833	266,407
D. Memorandum Items selected foreign assets								
24. International reserves (excluding gold)	18,191	19,268	48,252	51,064	42,713	68,369	67,713	67,230
25. .../w/ IMF holdings	3,086	3,065	3,796	4,364	3,222	4,164	3,938	3,834
26. Official development assistance	-	-	-	-	-	-	-	-



- ### WHO'S WHO?
- Five main groups of private and official creditors:
1. The IFIs: IMF and World Bank + RDBs
  2. The **Paris Club** of OECD governments
  3. Private suppliers: trade debt
  4. The **London Club** of international banks
  5. Institutional investors (pension and investment funds, hedge funds): Eurobond holders
- MH BOUCHET/Skema - CIFE 2020



### THE PARIS CLUB

#### KEY NUMBERS

Total amount of agreements	433
Total amount of debtor countries	90
Total amount of debt	583 Billion \$
Total amount of countries in "Classic Terms"	60
Total amount of countries in "Houston Terms"	21
Total amount of countries in "Naples Terms"	36
Total amount of countries in "Cologne Terms"	33

MH BOUCHET/Skema - CIFE 2020

### PARIS CLUB DEBT RESTRUCTURING

- ▶ **Official bilateral debt (government to government)** is renegotiated under the auspices of the Paris Club since 1956
  - ▶ Since then, the 21 Paris Club creditors have reached 433 agreements concerning 90 debtor countries.
  - ▶ Total amount of debt covered = **\$583 billion**
  - ▶ Only official debt + officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank...)
  - ▶ Total claims on EMCs end-2017: \$310 billion
- 10 times meetings/year, for negotiation sessions or to discuss the situation of the external debt of debtor countries or debt related methodological issues (sometimes with the IIF)
  - Russia joined in 1997 and Brazil in end-2016, as sizeable lender in African countries such as Nigeria, Angola and Mozambique.

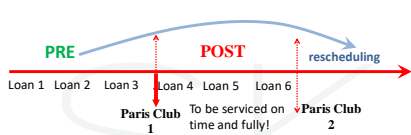
MH BOUCHET/Skema - CFE 2020

### PARIS CLUB: 7 DEBT RESTRUCTURING GUIDELINES

1. Consensus
2. Comparability of treatment
3. Solidarity among creditors with on-going information exchanges
4. Case by case treatment of debt crisis
5. Conditionality based on IMF adjustment program and monitoring
6. No restructuring of « post-cut off date » debt so as to preserve access to new financing
7. Secretariat provided by French Treasury

MH BOUCHET/Skema - CFE 2020

### PRE AND POST CUT-OFF DATE DEBT?



- ▶ Time + Money = To preserve new money and market access, only **pre cut-off date** debt is eligible to debt relief negotiations through rescheduling, refinancing, debt conversion and debt reduction

MH BOUCHET/Skema - CFE 2020

### TOTAL DEBT OUTSTANDING OF ARGENTINA

Table1 Joint BIS-IMF-OECD-World Bank Statistics on External Debt (mil. US\$)				
	2017Q1	2017Q2	2017Q3	2017Q4
Data are in millions				
A1. Loans and other credits (Excl. off)				
01. Cross-border loans, by BIS reporting banks	11,819	12,124	18,862	18,282
02. ... off to nonbanks	18,680	18,819	14,272	18,668
03. Official bilateral loans, total	-	-	-	-
04. ... off to off	-	-	-	-
05. ... off to other	-	-	-	-
06. Multilateral loans, total	17,887	17,887	17,422	18,893
07. ... off to IMF	0	0	0	0
08. ... off to other institutions	17,887	17,887	17,422	18,893
09. Unsecured export credits, Hermes Union	21,201	21,410	22,782	24,149
10. ... off to short term	4,247	5,118	6,079	7,040
11. IIFB subscriptions	2,741	2,811	2,886	2,877
A2. Loans and other credits (Debt due within a year)				
12. Liabilities to BIS banks, excl. short term	12,117	11,129	14,438	17,878
13. Multilateral loans, IMF, short term	0	0	0	0
B1. Debt securities (All maturities)				
14. Debt securities held by nonresidents	-	68,028	-	-
15. Debt securities held by residents	-	2,841	-	-
C. Supplementary information on debt (liabilities)				
16. International debt securities, all maturities	102,842	126,879	128,776	140,208
17. ... off to nonbanks	100,408	124,870	126,280	140,828
18. International debt securities, short term	2,281	2,480	2,482	4,208
19. ... off to nonbanks	2,247	2,445	2,372	4,168
20. Paris Club claims (ODA)	-	-	-	-
21. Paris Club claims (non ODA)	-	-	-	-
22. Liabilities to BIS banks, locational, total	18,802	17,644	22,117	24,480
23. Liabilities to BIS banks, consolidated, total	18,221	18,952	24,049	26,122
24. International reserves (excluding gold)	48,873	46,482	47,422	53,281
25. ... off to BIS holdings	2,422	2,484	2,822	2,542
26. Portfolio investment assets	28,491	-	-	-
27. Gross border deposits with BIS rep. banks	28,294	21,814	22,812	23,268
28. ... off to BIS holdings	18,402	17,882	22,812	23,408

MH BOUCHET/Skema - CFE 2020



The  
London Club  
of debt restructuring

MH BOUCHET/Skema - CIFE 2020

**WHAT IS THE « LONDON CLUB »?**

- ▶ Since the 1970s, countries facing default have used the London Club process to restructure sovereign debt owed to banks.
- ▶ The London Club has evolved as an ad hoc forum for restructuring negotiations.
- ▶ Each London Club is formed at the initiative of the **debtor country** and is dissolved when a restructuring agreement is signed.
- ▶ Ad hoc London Club "Advisory Committees" are chaired by a leading financial bank.
- ▶ The IIF plays a key role in London Club meetings:  
BOP and debt analysis!

MH BOUCHET/Skema - CIFE 2020



**WHAT IS THE IIF?**

- ▶ The Institute of International Finance, Inc. (IIF), is the world's only global association of financial institutions.
- ▶ Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- ▶ Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and investment management firms. Among the Institute's Associate members are MNCs, trading companies, ECAs, and multilateral agencies.
- ▶ The Institute has **> 450 members** headquartered **> 70 countries**.

MH BOUCHET/Skema - CIFE 2020

**MENU-BASED DEBT RESTRUCTURING  
THE BRADY PLAN AND BEYOND**



MH BOUCHET/Skema - CIFE 2020

**IS THERE LIFE AFTER ARREARS AND DEBT DEFAULT?**

Bank loans may be delinquent on their repayments or in default of the loan entirely = **Loss for the bank on expected income**

**Arrears + Default = Accounting losses in banking portfolios**

**Loan-loss reserves (provisions against NPLs)**

In the event of a default, no loss in cash flows= the bank will use the amount set aside to cover the loss. The provision is tax deductible and can be used in the bank's capital (Bâle III)



MH BOUCHET/Skema - CIFE 2020

**THE BRADY PLAN OF DEBT RESTRUCTURING**



MH BOUCHET/Skema - CIFE 2020

**THE 1989-2019 PROCESS OF LONDON CLUB DEBT RESTRUCTURING**

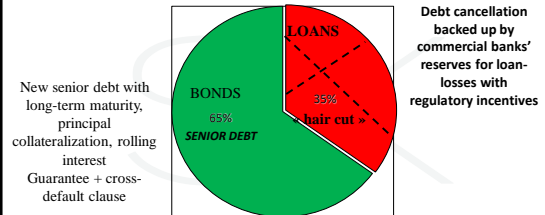
- ▶ London Club banks grant debt relief to debtor nations, in some proportion of secondary market discount through interest or debt stock reduction
- ▶ Accounting and regulatory incentives (loan-loss provisioning)
- ▶ Shift to specific purpose financing and voluntary lending
- ▶ Debtor countries adopt tough macroeconomic adjustment programs under the monitoring of the IMF/WB (SALS)
- ▶ Current account financing + Reserve build-up
- ▶ Objective: back to market-access for EMCs or to grants for low-income countries

**Means and Tools**

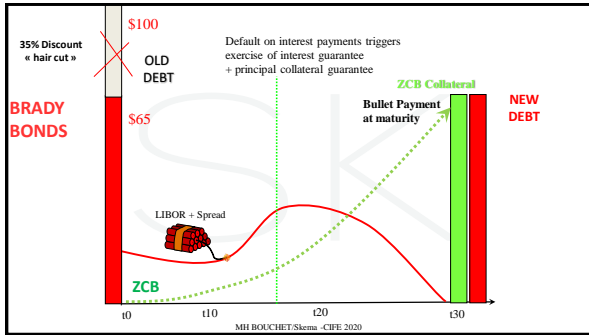
- ▶ Defaulted sovereign London Club debt to be exchanged for easily tradeable **Brady bonds** guaranteed by 30-year zero-coupon US Treasury bonds which the defaulting nation purchases with its reserves and official financing support (IFIs + Paris Club)
- ▶ Principal guarantee + x semi-annual interest payments, whose guarantee is rolled over
- ▶ **Bullet repayment** (e.g., 30 years)
- ▶ **Cross-default clause**
- ▶ **Debt conversion clauses**

MH BOUCHET/Skema - CIFE 2020

**THE BRADY PLAN IN ACTION**



MH BOUCHET/Skema - CIFE 2020



### Types of Brady Bonds

- ▶ **Buybacks at discount**
- ▶ **Par Bonds** *Maturity:* Registered 30 year bullet issued at par *Coupon:* Fixed rate semi-annual below market coupon *Guarantee:* Rolling interest guarantees from 12 to 18 months. Principal collateralized by U.S. Treasury zero-coupon bonds
- ▶ **Discount Bonds (DB)** *Maturity:* Registered 30 year bullet amortization issued at discount *Coupon:* Floating rate semi-annual LIBOR *Guarantee:* Rolling interest guarantees from 12 to 18 months.
- ▶ **Front Loaded Interest Reduction Bonds (FLIRB)** *Maturity:* Bearer 15 to 20 year semi-annual bond. Bond has amortization feature in which a set proportion of bonds are redeemed semi-annually. *Coupon:* LIBOR market rate until maturity. *Guarantee:* Rolling interest guarantees generally of 12 months available only the first 5 or 6 years.

MH BOUCHET/Stema - CFE 2020

### TYPES OF BRADY BONDS

- ▶ **Debt Conversion Bonds (DCB)** *Maturity:* Bearer bonds maturing between 15-20 years. Bonds issued at par. *Coupon:* Amortizing semi-annual LIBOR market rate. *Guarantee:* No collateral is provided
- ▶ **New Money Bonds (NMB)** *Maturity:* Bearer bonds maturing 15-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
- ▶ **Past Due Interest (PDI)** *Maturity:* Bearer bonds maturing 10-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
- ▶ **Capitalization Bonds (C-Bonds)** Issued in 1994 by Brazil's Brady plan. *Maturity:* Registered 20 year amortizing bonds initially offered at par. *Coupon:* Fixed below market coupon rate stepping up to 8% during the first 6 years and holding until maturity. Both capitalized interest and principal payments are made after a 10 year grace period.

MH BOUCHET/Stema - CFE 2020

### VIETNAM = LONDON CLUB DEBT RESTRUCTURING

- Brady debt restructuring (12/97)=
- ▶  $(P= 335 \text{ million}) + (PDI= 515) \text{ interest arrears}$   
= \$850 million
  - ▶ 30-year bonds with 50% discount + par bonds + buyback at 44%

**Paris Club Debt Restructuring 12/1993:**  
**LONDON Terms = 54% debt reduction**

MH BOUCHET/Stema - CFE 2020

**LEGAL CLAUSES AND CONVENANTS  
IN DEBT RESTRUCTURING NEGOTIATIONS**

- ▶ Waiver on negative pledge clause: it prevents a borrower from pledging any assets if doing so would jeopardize the lender's security : risk of subordination with regard to a senior status lender!
- ▶ It ensures **financial equality** and democracy in a community of creditors
- ▶ In Brady deals, the Paris Club, the IMF and the World Bank **waive the clause**

MH BOUCHET/Sumo - CPE 2020

**SNAPSHOT AT VIETNAM'S GOVERNMENT SECURITIES**

Issuer	Coupon	Maturity	Series	Rtg	Freq	Mtq	Type	Contry	Cur	Ask	Px
1) VIETNAM (REP OF)	6.875	01/15/16	REGS	B+	S/A	BULLET	VN	USD		106.2500	
2) VIETNAM (REP OF)	6.875	01/15/16	144A	B+	S/A	BULLET	VN	USD		106.2500	
3) VIETNAM-PDI	VAR	03/12/16	US	NR	S/A	SINKABLE	VN	USD		N.A.	
4) VIETNAM-PDI	VAR	03/12/16	18VR	NR	S/A	SINKABLE	VN	USD		88.0000	
5) VIETNAM (REP OF)	6.750	01/29/20	REGS	B+	S/A	BULLET	VN	USD		101.5000	
6) VIETNAM (REP OF)	6.750	01/29/20	144A	B+	S/A	BULLET	VN	USD		102.2500	
7) VIETNAM-PAR	4.000	03/12/28	US	NR	S/A	CALL/SINK	VN	USD		N.A.	
8) VIETNAM-PAR	4.000	03/12/28	30VR	B+	S/A	CALL/SINK	VN	USD		75.0000	
9) VIETNAM-DISC	FLOAT	03/13/28	30VR	B+	S/A	BULLET	VN	USD		84.0000	
10) VIETNAM-DISC	FLOAT	03/13/28	US	NR	S/A	CALL/SINK	VN	USD		N.A.	
11) VIETNAM-DM LOAN	0.000	12/29/49	DM	NR	S/A	CALL/SINK	VN	DEM		N.A.	
12) VIETNAM-US\$ LOAN	0.000	12/29/49	US\$	NR	S/A	CALL/SINK	VN	USD		N.A.	

MH BOUCHET/Sumo - CPE 2020

**VIETNAM'S 30-YEAR BRADY BOND 1998-2028**

VIETNAM Float 03/13/28 \$187,500 +.000 86,500 / 88,500 45,499 / 33,510	
VIETNAM Float 03/13/28 Com	Settings
BOND DESCRIPTION	
ISSUER INFORMATION	
Name	SOCIALIST REP OF VIETNAM
Industry	Sovereigns
SECURITY INFORMATION	
Alt Iss	Euro-Dollar
Country	VN
Currency	USD
Rank	Secured
Series	30YR
Coupon	2.250000
Type	Floating
Formula	S/A US LIBOR +81.2500
Day Cnt	ACT/360
Less Price	
Maturity	03/13/2028
ISSUANCE & TRADING	
Issued/Out	24,552.00 (4) / 24,552.00 (4)
Min Piece/Increment	1,000.00 / 1,000.00
Par Amount	3,000.00
Book Runner	LUXEMBOURG
Exchange	LUXEMBOURG
CPN RATE-6MO US\$ LIBOR +81.25BP	PRIN SEC'D BY U.S. 30YR ZERO'S 6MO ROLLING INT
DTM	

Floating-rate US\$ Brady bond, with principal repayment secured by 30-year zero-coupon US\$ bond collateral + rolling interest payment guarantee

MH BOUCHET/Sumo - CPE 2020

**THE GREEK 2011-13 MENU-BASED « BRADY DEBT RESTRUCTURING » = 65% « HAIR CUT »**

1. Par Bond Exchange into a 30 year instrument (4% coupon)
  2. Par Bond with refinancing of rolling-over maturing Greek government bonds over 30 years
  3. Discount Bond Exchange into a 30 year instrument with 20% discount and 5% coupon
  4. Discount Bond Exchange into a 15 year instrument with 5,9% coupon
  5. Buyback at 35% price (65% discount) of London Club debt (11/2012)
- ▶ For instruments 1, 2 and 3 the principal is fully collateralized by 30 year zero coupon AAA Bonds.  
▶ For instrument 4, the principal is partially collateralized through funds held in an escrow account.

Calculation: IIF & <http://www.voxeu.org/index.php?q=node/6818>

MH BOUCHET/Sumo - CPE 2020

CHALLENGES OF THE GREEK DEBT RESTRUCTURING WORKOUT 2011-20

- ▶ 1. *Pari passu*: Private investors insist that government bail-out lenders would be treated the same way as the private sector, to lessen the risk of another cut in their payouts down the line
- ▶ 2. New bonds issued to private investors as part of the hair cut to be governed by London rather than Greek law
- ▶ 3. Threat of free riders and legal actions: VEGA Hedge Fund

MH BOUCHET/Skema - CIFE 2020

MARKET PRICE OF RISK: YIELD ON GREECE'S 10-YEAR BONDS 2009-2010

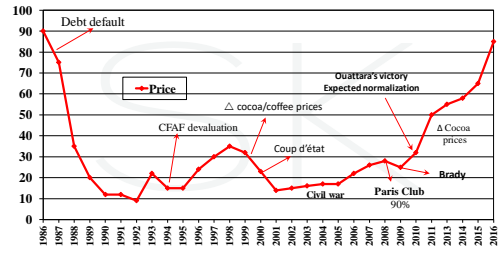


IVORY COAST'S BANK DEBT RESTRUCTURING SAGA

- 03/1998 - Ivory Coast issued six bonds totalling \$2.4 billion under the Brady scheme in a restructuring of outstanding external commercial debt.
- 09/2000 - Default on the bonds, following a coup in 1999.
- 03/2009 - The IMF and the World Bank declared Ivory Coast eligible for debt relief under the HIPC (highly indebted poor countries) initiative.
- 03/2009 - Paris Club agreement leading to immediate cancellation of \$845 million in debt (80% debt relief)
- 04/2010 - Debt exchange of the defaulted Brady bonds, replacing the old bonds with a \$2.3 billion bond due 2032, with semi-annual coupon payments and 6-year grace period (2016): discount of 20 percent on the exchangeable debt.
- 11/2010 - Presidential run-off ballot : Gbagbo is declared winner = civil war
- 12/2010 - World Bank freezes funding
- 12/2010 - Ivory Coast does not make \$29 million coupon payment on \$2.3 billion bond. Failure to pay = "event of default"

MH BOUCHET/Skema - CIFE 2020

IVORY COAST'S SECONDARY MARKET DEBT PRICE (IN % OF FACE VALUE)



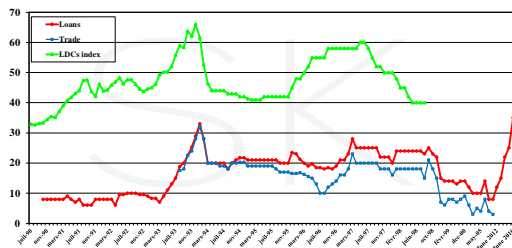
### UKRAINE'S DEBT RESTRUCTURING 09/2015

- ▶ 20% write off on \$18 billion of bonds, condition for the IMF to press ahead with 4-year \$40 billion package
- ▶ Main creditors: PTG Pactual, T Rowe Price, TCW, Franklin Templeton...
- ▶ Inclusion of GDP-linked instrument
- ▶ Between 2021-40 investors will receive up to 40% of the value of economic growth > 4%

### BRADY BONDS PRICES AFTER RESTRUCTURING NEGOTIATIONS

▶ Arg Par	48.000	50.000
▶ Arg FRB	41.000	42.000
▶ Arg '27	31.000	33.000
▶ Brz C	75.250	75.437
▶ Brz '27	72.750	73.000
▶ Bul IAB	85.000	85.500
▶ Mex Par	93.000	93.250
▶ Pol Par	75.250	76.250
▶ Rus '28	107.750	108.000
▶ Ven DCB	78.250	78.750
▶ Vie Par	44.000	45.000

### SECONDARY MARKET PRICES OF CUBA'S LONDON CLUB DEBT (1990-2017 in percent of face value)



MH BOUCHET/Skema - CIFE 2020

### HYPER-EXOTIC DEBT PRICES

- |  |                  |
|--|------------------|
| ▶ Myanmar 20%  | ▶ Irak Bonds 90% |
| ▶ Cambodia 20%   | ▶ Libya 25-35%   |
| ▶ Mongolia 22%   | ▶ Syria 6-11%    |
| ▶ North Korea 10%  | ▶ Yemen 30%      |
| ▶ Argentina (2033 bonds)= 62% following ruling by NY court in 11/2012) | ▶ Angola 60%     |
| ▶ Cuba Loans 10-35%  | ▶ Ethiopia 60%   |
| ▶ Cuba Trade 15%   | ▶ Senegal 35%    |
| ▶ Albania 36%  | ▶ Sudan 11-14%   |
| ▶ Bosnia 36%   | ▶ Uganda 14-16%  |
| ▶ Serbia 44%   | ▶ Zimbabwe 1-4%  |

MH BOUCHET/Skema - CIFE 2020

### EMCS SECONDARY MARKET DEBT PRICES

COUNTRY / ISSUE	Low Price	High Price	COUNTRY / ISSUE	Low Price	High Price
<b>Africa Hyper-Exotics</b>			<b>Eastern Europe Hyper-Exotics</b>		
Angola / Trade	50.000%	55.000%	Azerbaijan / Trade	18.000%	23.000%
Angola / Loans	55.000%	59.000%	Bosnia / Trade	36.000%	41.000%
Cameroon / Trade (non-HPC)	14.000%	20.000%	Georgia / Trade	11.000%	15.000%
Congo / Trade (non-HPC)	22.000%	24.000%	Serbia / Trade	44.000%	54.000%
DR Congo / Loans/Trade (non-HPC)	14.000%	20.000%	Turkmenistan / Trade	23.000%	33.000%
Ghana / Trade (non-HPC)	78.000%	82.000%	Ukraine / Trade	18.000%	25.000%
Kenya / Trade	39.000%	49.000%	Uzbekistan/Trade	20.000%	24.000%
Mozambique / Trade (non-HPC)	20.000%	26.000%	<b>Global East Hyper-Exotics</b>		
Senegal / Loans/Trade (non-HPC)	12.000%	16.000%	Egypt/Trade	45.000%	75.000%
Sudan / Loans (non-HPC)	11.000%	14.000%	Iraq / Paris Club	84.000%	89.000%
Tanzania / Loans, Trade (non-HPC)	10.000%	13.000%	Iraq / Bonds	91.000%	92.000%
Uganda / Trade (non-HPC)	14.000%	16.000%	Libya / Trade	25.000%	35.000%
Zambia / Loans, Trade (non-HPC)	13.000%	20.000%	Syria / Trade	6.000%	11.000%
Zimbabwe / Trade	1.000%	4.000%	<b>Asia Hyper-Exotics</b>		
<b>Latin America &amp; Caribbean Hyper-Exotics</b>			Hongkong / Trade	22.000%	30.000%
Cuba / Trade	2.000%	4.000%	North Korea / Loans, Certificates	9.000%	12.000%
Cuba / Loans	5.000%	10.000%			
Suriname / Loans, Trade	14.000%	18.000%			

MH BOUCHET/Skema - CIFE 2020

**Weak Liquidity:**  
 Angola, Nicaragua, Cameroon, Albania, Congo, Tanzania, Zaire (Rep. Democr.), Zambia, Iraq, North Korea

**Limited Liquidity:**  
 Cuba, Egypt, Jordan, Madagascar, Panama, Jamaica, Ivory Coast, Senegal

**Moderate Liquidity:**  
 Nigeria, Morocco, Costa Rica, Bulgaria, Peru, Russia, Vietnam

**Good Liquidity**  
 Brady Bonds + Eurobonds= Argentina, Brazil, Ecuador, Mexico, Philippines, Poland, Venezuela. South Africa, Turkey

MH BOUCHET/Skema - CIFE 2020

EMTA

401 Lexington Avenue  
 Suite 5904  
 New York, NY 100174  
 646 676 4293

Contact: Jonathan Murro  
 EMTA  
[jmurro@emta.org](mailto:jmurro@emta.org)

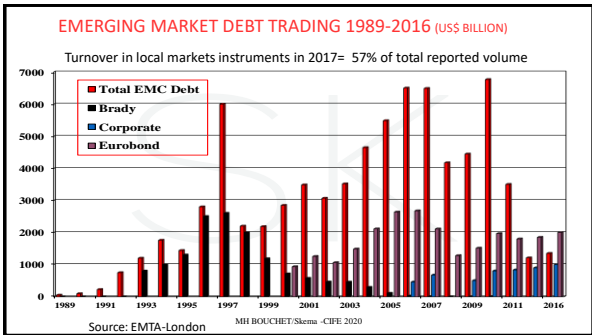
For Immediate Release

EMTA SURVEY:  
 QUARTERLY EMERGING MARKETS DEBT TRADING  
 AT US\$1.132 TRILLION

Volumes Decline 17% on Year-on-Year Basis

NEW YORK, September 19, 2017—Emerging Markets debt trading volumes stood at US\$1.132 trillion in the second quarter of 2017, according to a report released today by EMTA, the trade association for the Emerging Markets debt trading and investment industry. This compares with US\$1.257 trillion reported for the second quarter of 2016, a 17% decrease, and down 14% from US\$1.323 trillion reported in the first quarter.

MH BOUCHET/Skema - CIFE 2020



#### WHO'S WHO IN HIGHLY DISCOUNTED AND EXOTIC DEBT TRADING?

1. **Trading:** FH International (Eric Herman), Omni Bridgeway (Amsterdam, Geneva, Singapore, London, Guernesey), MarketAxess, Société Générale, BNP, Lazard Brothers
2. **Holdout creditors** and « *vulture funds* »: hedge funds that seek to enforce contractual claims against distressed sovereign debtors through litigation: they buy defaulted government debts on the cheap and refuse to join in a restructuring, "holding out" for a better deal and sue for the full amount (*pari passu clauses* promise equal treatment of creditors preventing EMCs from paying its restructured bondholders but not hedge funds: i.e., borrower's promise to ensure that the obligations will always rank equally in right of payment)
3. Key players: NML Capital (Argentina), Paul E. Singer's Elliott Capital Management (Argentina), Aurelius Capital Management (Argentina's 2001 \$132 billion default, Peru), Franklin Templeton, BlueMountain Capital, Stone Lion Capital, Monarch Alternative Capital, Canyon Capital, First Tree Partners, Marathon Asset Management (Puerto Rico, Greece), Dart (Brazil), Greylock Capital (Venezuela).

MH BOUCHET/Stama - CIFE 2020

#### DEBT COLLECTION, ASSET TRACING AND DEBT TRADING



### Debt Recovery

Debt recovery/collection:

- "Softball" Consensual Debt Collection: through amicable means
- "Hardball" – non consensual debt collection: through legal means
- "Passing the ball" to investor: sale of the debt

MH BOUCHET/Stama - CIFE 2020

#### Recovery case: National Bank of Ukraine

1. Summons to pay to National Bank of Ukraine. No full payment followed
2. Concerted attachments were effectuated in France, Germany, Luxembourg and The Netherlands.
3. Assets attached > amount owed
4. Main legal proceedings initiated.
5. National Bank of Ukraine forced to the negotiating table to reach an amicable settlement.
6. A settlement agreement was signed between the creditor and the National Bank of Ukraine for the amount of USD 13 million (i.e. full principal amount plus overdue interest).

MH BOUCHET/Stama - CIFE 2020

#### Recovery Case: Zimbabwe

Country	: Zimbabwe
Lender	: West European Bank
Borrower	: Ministry of Health and Ministry of Finance
Principal	: EUR 25 million, maturity 1993-2000
Award	: No

Solution: Asset tracing and subsequent attachments in various western jurisdictions

Negotiation started soon after attachments were made.

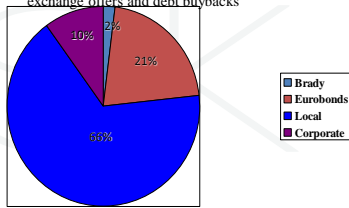
Recovery within one year :

- approx. EUR 10 million +
- for the remainder: restructuring agreement with improved conditions

MH BOUCHET/Stama - CIFE 2020

**TRADING VOLUME BY INSTRUMENT TURNOVER**

Brady transactions which accounted for 50% of debt trading in the mid-1990s have shrunk due to early redemption, exchange offers and debt buybacks



MH BOUCHET/Skema - CIFE 2020

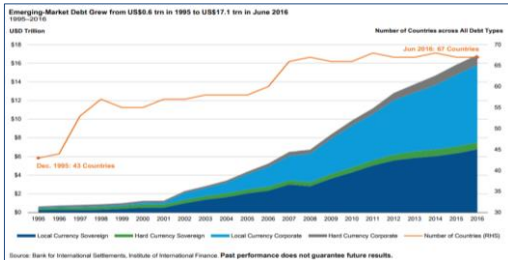
**THE EVOLVING STRUCTURE IN THE SECONDARY DEBT MARKET**

**MARKET SHARE COMPARISON**

	2005	1997
Eurobonds	48%	23%
Local Instruments	47%	25%
Options and Warrants	2%	6%
Brady Bonds	2%	41%
Loans	>1%	5%

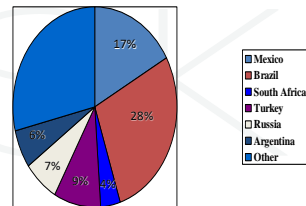
Source: EMTA

**EMERGING MARKET LOCAL CURRENCY BONDS 1995-2017**



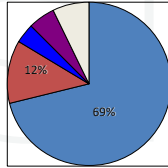
MH BOUCHET/Skema - CIFE 2020

**TRADING VOLUME BY COUNTRY (EMTA)**



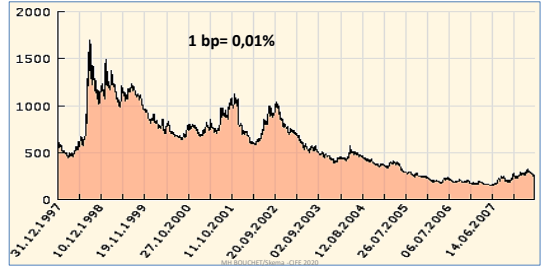
MH BOUCHET/Skema - CIFE 2020

### TRADING VOLUME BY REGION



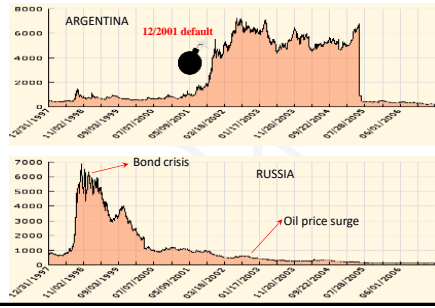
MH BOUCHET/Skema - CIFE 2020

### ASIAN + RUSSIA + ARGENTINA CRISES EMERGING MARKET BOND SPREAD INDEX 1997-2008



MH BOUCHET/Skema - CIFE 2020

### ARGENTINA'S AND RUSSIA'S SHRINKING SPREADS 1997-2008



**RISK CONTAMINATION =  
BRAZIL AND PERU 5-YEAR CDS  
PRICES:  
THE GLOBAL SPILL-OVER  
EFFECT  
2006-2012**



MH BOUCHET/Skema - CIFE 2020

### CDS IN 2016-20?

**Riskiest debtors by credit default swap spreads**

- Venezuela 4,478
- Nigeria 590
- Greece 1,035
- Finland 1,033

Nigeria CDS spread of 590 bp implies that it costs \$590,000/year to insure \$10 million worth of debt

MH BOUCHET/Skema -CFE 2020

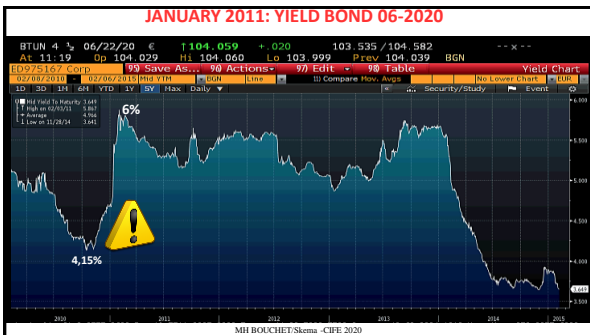
### CDS SPREADS AS EARLY COUNTRY-RISK WARNING INDICATORS (EUROMONEY COUNTRY RISK SCORES)

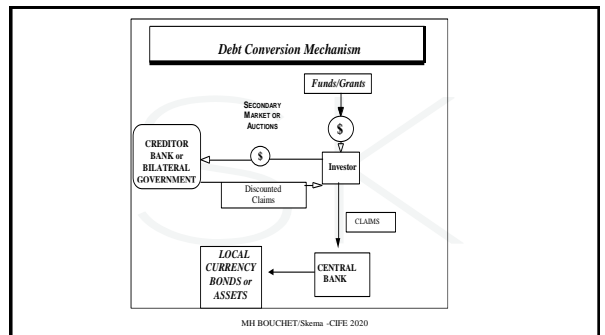
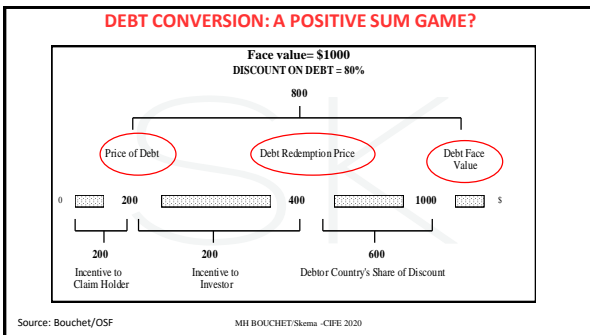
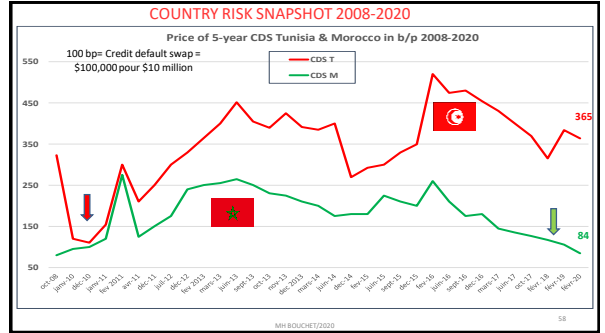
ECR scores (x-axis: out of 100) vs CDS spreads (y-axis: log scale)

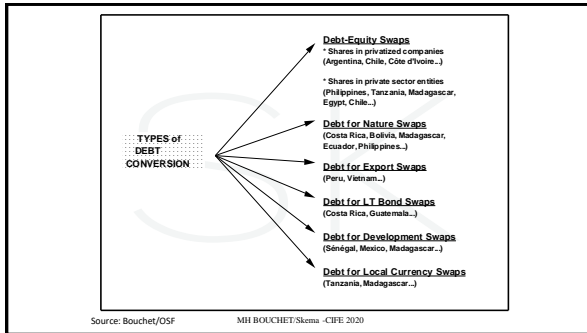
ECR government finance scores (x-axis: out of 10) vs CDS spreads (y-axis: log scale)

CDS spread of 200 bp implies that it costs \$200,000/year to insure \$10 million worth of debt

MH BOUCHET/Skema -CFE 2020







## CORPORATE DEBT SWAP TRANSACTIONS

- ▶ 04/2001: South Korea's largest builder HEC (Hyundai Engineering & Constr.) makes a debt swap with its creditors to reduce debt ratios from **1240 % to 250%**, by issuing new shares and bonds to creditors as a part of the rescue package after Hyundai reported losses >US\$2.2 billion that wiped out its equity capital!

MH BOUCHET/Skema - CIFE 2020

## POSITIVE SUM GAME!

- ▶ Debtor: debt cancellation with local currency payments while stimulating foreign direct investment and enhancing the role of private sector activity in the local economy (privatization)
- ▶ Creditor: cleaning up of portfolio with upfront cash payment while accounting losses get absorbed by loan-loss reserves
- ▶ Investor: access to local currency at a discounted exchange rate that boils down to an investment subsidy, thereby mitigating the overall country risk and the specific project risk

MH BOUCHET/Skema - CIFE 2020