Guidance on Standstill Implementation

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1. For each country requiring emergency financial assistance to deal with Covid-19 related expenses (the “Recipient Country”), an international financial institution with preferred creditor status (the World Bank or a regional development bank) will open a credit facility (for each country, the “Credit Facility”), drawings under which will be used only to defray Covid-19 related expenses (“Eligible Expenses”).

2. The Credit Facility would incorporate measures to ensure that drawdowns are used only for Eligible Expenses and would provide for post-disbursement monitoring of those disbursements.

3. Both bilateral creditors and commercial creditors would be encouraged to reinvest interest payments falling due on their existing credits for the balance of 2020 in the Credit Facility for the Recipient Country concerned. Some amount (it does not have to be a large amount) of funding from one or more official sector institutions benefitting from a preferred creditor status would also be placed in the Credit Facility and commingled with all other funds in the Credit Facility. (The intention is to bring the Credit Facility within the “halo” of preferred creditor status.)

4. The financial terms of the Credit Facility would be concessional but the expectation is that all amounts lent under the Credit Facility would eventually be repaid.

5. To avoid outright payment defaults on existing debt instruments, each Recipient Country would continue to make interest payments on existing instruments covered by this arrangement but the participating creditors would agree in advance to reinvest an amount equal to those payments in the Credit Facility for the Recipient Country concerned.
6. For debt instruments in the form of bonds (where there can be hundreds or thousands of bondholders), the Recipient Country would be expected to seek the consent of bondholders to a modification of the instrument confirming that the deposit by the fiscal agent or trustee for the bond of 2020 interest payments into the Credit Facility (in the name of the trustee or fiscal agent) would constitute a full discharge and release of the Recipient Country’s obligations in respect of those interest payments. (Again, the objective is to avoid a payment default under the bond.)

7. In its public announcement of these arrangements, the G-20 could assist Recipient Countries, possibly by confirming that the Covid-19 pandemic has created for the Recipient Countries a state of “necessity” within the meaning of Article 25(1) of the Articles on State Responsibility promulgated by the International Law Commission.¹ (This could help Recipient Countries defend themselves against lawsuits from non-participating creditors).

8. We recognize that when the Covid-19 crisis begins to abate, an assessment of the longer term debt sustainability of a number of countries may be required. The arrangements discussed in this note are intended only to address the need for emergency funding for Covid-19 related expenses, not other measures that may eventually be required to restore debt sustainability for the countries concerned.

9. These arrangements should not cause excessive turmoil in the international capital markets or result in any significant damage to the credit reputations of the Recipient Countries for the reasons described below:

   a. The alternative to an orderly suspension of interest payments will, for many of the countries afflicted by this pandemic, be an outright default on existing debt

¹ Article 25(1) reads as follows:

Necessity may not be invoked by a State as a ground for precluding the wrongfulness of an act not in conformity with an international obligation of that State unless the act:
(a) is the only way for the State to safeguard an essential interest against a grave and imminent peril; and
(b) does not seriously impair an essential interest of the State or States towards which the obligation exists, or of the international community as a whole.
instruments. Investors are under no illusion about this. Widespread defaults will unsettle the international sovereign debt markets and could do considerable damage to the market valuations of the positions of institutional investors in those markets.

b. Prior research by some of the undersigned signatories to this letter demonstrates that market participants are perfectly aware that devastating external shocks occasionally occur and may affect a sovereign's ability to maintain normal debt service. Although the contracts rarely provide for these circumstances explicitly, they are a well understood and accepted implicit condition of lending to emerging market sovereign debtors.

c. As long as the investors believe that the triggering event is indeed rare and that the need for a suspension of normal debt servicing in light of that event is unavoidable (a "necessity", in the language of the legal doctrine referred to above), research shows that implementing an order suspension of payments can actually be beneficial to both the sovereign debtors and the creditors concerned.