

# What is at Stake?

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- (First, a disclaimer – these are my views as an academic, I’m no longer a policymaker.)
- Big win if can reduce need for, not just the speed of, restructurings:
  - Focus on disagreement over growth forecasts, which is fine
  - But also opportunity to provide valuable insurance to borrowers
- Past failures should motivate caution, but not rule out space for innovation
- Some valid concerns from official creditors, but need to avoid conflation with technical assessments of comparability of treatment (CoT)
- Value recovery instruments vs. state-contingent debt securities?

# Which Factors for CoT Assessment?

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1. CoT should be judged ex-ante, not ex-post
  - Compare with LCU bonds or inflation linkers
  - If politics can't sustain ex-post heterogeneity, that's not about CoT
2. NPV, weighted across scenarios, is most important (anything else?)
  - What about baseline? *Not relevant for home/auto insurance, why here?*
  - Do creditors need to agree on probability of each scenario? *No.*
  - What if IMF is too pessimistic? *"Mistake" hits the borrower when it can best handle it.*
3. I do not think we should add other ad hoc constraints
  - Symmetry. *Why? Again, not relevant for home/auto insurance, nor CRDCs.*
  - Caps. *For a given NPV, capping the upside means capping the downside. A bad trade!*
  - Moral Hazard. *Tiny, in my view. Compare with IMF. (Different from fraud/cheating.)*

# What Should Official Sector Do?

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1. I would encourage technical work on draft standardized contracts and joint engagement with credit rating agencies and index-inclusion decision makers. GSDR could do this. (I wish I pushed more forcefully for this when I was a policymaker.)
2. But even if no appetite to encourage use, official sector should remove ad hoc obstacles. If borrower and lender agree on a security, official sector should be conservative about further intervening.
3. Healthy to revisit mistakes. But unhelpful (and incorrect) to treat the concept as enabling a give-away to creditors (see wording of today's "issues for discussions" #2). Encourage design to maximize insurance value for borrower.
4. If there are constraints against use of VRIs/SCDIs, don't conflate with CoT. In some cases, push back on constraints (i.e. politics of ex-ante vs. ex-post).