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September 16, 2005

**Statement by Mr. Torres and Mr. Costa on Progress Report on Crisis Resolution  
(Preliminary)**

**Executive Board Meeting 05/80  
September 16, 2005**

1. We thank the staff for updating the different crisis resolution issues that are of interest to the Fund. We welcome the progress made in particular with respect to the recent sovereign debt restructuring cases of which the Argentine one is possibly the most relevant due to the legal complexities and magnitudes involved.
2. As regards the creditors that voluntarily decided not to participate in the debt exchange, we would like to reiterate that the Argentine authorities intend to address this issue, as called for by the April 2005 IMFC Communiqué, in the context of a new Fund program. We would also like to point out that the statement on paragraph 15 of the report on the Argentina's recent debt restructuring seems to us to be rather obvious and somehow misleading at the same time. It states the obvious in saying that the rating agencies have continued to maintain the default rating on bonds not tendered in the exchange. What else could rating agencies do? It is somehow misleading in adding that this happens "even as they raised the credit risk ceilings on Argentina", as the new rating applies to the new bonds, which have no direct connections with those that remained in the hands of the hold-outs. The confusion is compounded by the sentence's ending with a reference to "the potential actions by litigating creditors to attach assets". We believe the whole last sentence of paragraph 15 should be eliminated or rewritten.
3. We welcome the several successful cases of recent debt restructuring mentioned in the progress report. It appears from the results that formalizing the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets in the directions mentioned in the crisis resolution report, as reflected by the three tiers of the proposed implementation process of paragraph 9, was, in fact, not needed. Countries' authorities, in consultation with their creditors and with the assistance of financial advisors, were able to arrive at mutually convenient outcomes. In any event, if something is missing in the current international financial architecture this is not a set of general principles that are unable to contemplate the important characteristics of individual cases but a formal procedure such as the one envisaged by the

SDRM where precise rights and responsibilities for all parties involved would be clearly established, including inter alia, the process of determining creditor's representation.

4. As to the efforts that have purportedly been made by the Institute of International Finance (IIF) to broaden the consensus of the principles among emerging market issuers (referred to in paragraph 8 of the report) we would like to underscore that the Argentine authorities have not been approached by the IIF, despite the fact that they had to deal with the most difficult and large debt workout in history.
5. The continuous progress in the inclusion of CACs in international sovereign bonds is encouraging, in particular the fact that the outstanding stock of emerging market sovereign bonds that include CACs has increased 22 percentage points since end-2002, and has now surpassed the 50 percent mark. For all practical purposes, the market has fully accepted the introduction of CACs in sovereigns bonds, without this having had any observable impact on the level of returns being demanded. Thus, the staff's task of promoting the inclusion of CACs across the Fund's membership in the context of the use of Fund resources and Article IV consultations is becoming increasingly easier.
6. On progress under the Evian Approach and other Paris Club issues, we welcome that the new framework for debt buybacks has become operational, having already benefited several countries, in particular Poland which has bought back all of its Paris Club debt. Perú has already bought back, in turn, half of its debt with the Paris Club. Even though the prepayment has been in all cases at par value, substituting high-cost debt by a lower-cost one entails clear financial benefits for these countries. In the case of Russia, which has also benefited from this scheme, it is not a low cost-debt what they used to cancel Paris Club obligations but the unremunerated OSF reserves, making the financial benefit even more evident.
7. The report also provides summaries of two issues discussed by the Board related to the orderly resolution of financial crises. Regarding the determinant and prospects for regaining market access, we agree on the importance of the circumstances underpinning the loss of market access, the commitment to undertake corrective actions once the access was lost and the role the Fund can play through the provision of policy advice and financial assistance in helping countries to regain market access..
8. Finally, regarding the summary of the management of systemic banking crises in the context of sovereign debt restructuring, we would like to highlight that several of the crisis containment measures listed in the report as well as the policy measures to address the issue of undercapitalized or insolvent banks have been successfully implemented in the case of Argentina, as evidenced by the rapid recovery of private sector confidence in the banking system that took place in the aftermath of a most serious crisis.