The International Monetary Fund as International Lender of Last Resort

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1 Introduction

Switzerland has been a member of the International Monetary Fund (IMF) for ten years now. This provides a suitable occasion to review the past decade. It has been a period of far-reaching change for the IMF. First, the IMF has deepened its involvement in the poorest countries of the world. Second, since the mid-1990s, it has been lending on a far greater scale than in the previous two decades. The result has been to widen the IMF's field of competence. It has become, as it were, an international lender of last resort. This, in turn, has led to an increase in moral hazard in particular. In other words, international creditors and borrowing countries have modified their behaviour by taking more risk. The aim of this paper is to show that the purpose of many of the measures adopted by the IMF in the past ten years has been to reduce this moral hazard.

In the 1990s, and especially in the second half of the decade, the level of financial assistance approved by the IMF rose rapidly. As of 30 April 2002, the total amounted to 87 billion Special Drawing Rights (SDRs), the equivalent of approximately CHF 174 billion. In 1994, before the financial crisis in Mexico, the total was just SDR 8 billion. Two years later, as that crisis peaked, the figure had risen to SDR 28 billion. Since 1998, total committed amounts has risen steadily in the face of a series of crises in Asia, Russia, Brazil, Argentina and Turkey.[1]

This expansion in credit was possible because the resources available to the IMF were increased. These consist of the IMF's capital and lines of credit that it can draw upon. In 1999, the IMF's capital was raised from SDR 146 billion to SDR 212 billion. However, this capital is not entirely available. The IMF may draw only on the quotas of countries without balance of payments difficulties. The credit lines available to the IMF were doubled from SDR 17 billion to SDR 34 billion in 1998.[2]

This expansion in credit was also made possible by changes in the principles governing the IMF's lending policy. They were triggered by the Mexican financial crisis of 1995 and the Korean crisis of 1997. After the Mexican crisis, the IMF adopted a policy allowing a quick and massive intervention in case a crisis erupted (Emergency Financing Mechanism). This policy was reinforced during the Korean crisis, at which time a new facility was created, the Supplemental Reserve Facility. This facility does not function like the traditional ones. IMF loans usually serve to catalyze a flow of private funds. They are not intended to fill in a significant part of the external financing gap. Accordingly, loans may be quite modest. The money is paid in tranches, depending on whether certain targets in the economic adjustment programme have been reached. By contrast, loans granted under the new facility are treated differently: the amounts of the loans are large and most of them are released immediately.

The increase in the financial resources of the IMF and the change in the principles governing its lending policy meet a need that has emerged as international capital flows have swelled. Although increased liberalization of capital movements has improved the distribution of financial resources, at the same time it has weakened the international financial system. Capital account crises can be fierce and assume enormous proportions, particularly if accompanied by the withdrawal of short-term funds.

There are many reasons why capital may be withdrawn or loans not rolled over, but the consequences are the same: the debtor country is unable to obtain any more funds from private sources. In these circumstances the debtor may apply to the IMF. The IMF finds itself in the role of a lender of last resort, which is the only institution able or willing to provide liquidity after all other sources of finance have dried up. In the same way in which the lender of last resort at the national level – usually the central bank – offers support to commercial banks facing large withdrawals of deposits, the IMF can provide assistance to a country facing an outflow of capital. Stanley Fischer in particular, the then First Deputy Managing Director of the IMF, supported this view, with some reservations however (Fischer, 1999). Reservations can be explained by the fact that the IMF has limited resources. Unlike a central bank, the IMF cannot create money. The amount of credit it can offer is limited by the resources at its disposal. Consequently, the IMF is a special kind of lender of last resort.

1 Cf. *IMF, Annual Report*.

2 There are two types of credit line: the General Arrangements to Borrow (GAB) totalling SDR 17 billion and the New Arrangements to Borrow (NAB) totalling SDR 34 billion. The NAB include the GAB. The GAB are financed by the most important industrialised countries (Belgium, Canada, France, Germany, Italy, the Netherlands, Sweden, Switzerland, the United States and the United Kingdom). The NAB are financed by these 11 countries plus several other industrialised and emerging market countries (Australia, Austria, Denmark, Finland, Hong Kong, Korea, Kuwait, Luxembourg, Malaysia, Norway, Saudi Arabia, Singapore, Spain and Thailand). (In the case of Switzerland, as in Germany, Sweden and Hong Kong, the central bank acts as the participating institution.)

The function of lender of last resort entails benefits, but its economic cost in the form of greater moral hazard is high. Moral hazard is the consequence of each and every insurance policy. Such a contract reduces the incentive to take steps to avoid situations that inevitably result in insurance claims. The easier it is to claim insurance benefits, the more risky the behaviour. Similarly, a national lender of last resort also provides a form of insurance: on the one hand, banks adopt riskier lending policies, which increases the probability that the lender of last resort will have to take action, and on the other hand depositors, i. e. banks' creditors, pay less attention to banks' risk quality.

The IMF faces the same problem at the international level. As lender of last resort, the guarantee that it implicitly provides for its members may induce them to neglect the risks attendant on running up excessive debts. On the other hand, it gives the creditors of the indebted countries a certain guarantee that even in the event of financial difficulties they will still get their money back. The consequence is an increase in international financial instability, and greater demand for the services of the international lender of last resort.

There is, however, a fundamental distinction between the insurance provided by the IMF and a standard insurance contract. Under the latter, the insurer transfers money to the insured to cover the loss. Once the transfer is completed, the insured is released from any further obligations. In the case of the IMF, the procedure after the first step is different. As described above, in the event of a loss (payment difficulty) there is first a transfer of money from the insurer (IMF) to the insured (debtor country). But the process does not end there. The transferred resources are not left in the hands of the debtor country: they enable it to service its debts, and thus pass to the creditor without delay. Nor is the debtor country released from all further obligations: it has to repay its debt to the IMF at a later date. In other words, the assistance provided by the IMF in its function as lender of last resort accrues not to the debtor country, but to its creditors.

The repayment of loans is linked to economic adjustments that involve a slowdown in growth which could at times be considerable. This does not affect all social strata equally. The cause of the excessive indebtedness may lie in the fact that the social groups responsible for the indebtedness are not identical with those that have to bear the costs of the economic adjustment associated with repaying the debt. Thus, drawing on the insurance offered by the IMF in the end means transferring money from the population of the debtor country to its creditors. Accordingly, this benefit does not involve the transfer of resources of the insurer (which is financed by the taxpayers of the rich countries) to the debtor country (Jeanne and Zettelmeyer, 2001).

Up to now, the debtor countries, with a few exceptions, have always repaid their debts to the IMF. This will not necessarily always be the case, however. If debtor countries were to stop repayments, the taxpayers of those countries that finance the IMF would have to shoulder the resulting losses. This aspect must also be considered in any assessment of the moral hazard induced by the IMF.

2 Recent IMF measures to deal with moral hazard

Recently, the IMF has launched a number of initiatives closely resembling certain measures that national lenders of last resort and national monetary authorities have taken to directly and indirectly counter moral hazard. The number and diversity of the measures demonstrates that there is no simple solution to the problem of moral hazard.[3] This is true not only at the national, but also at the international level.

The high price of the Supplemental Reserve Facility provides little deterrence

The classic solution for reducing moral hazard is to charge a high rate of interest for a last-resort credit. Thornton and Bagehot outlined this solution at the national level in the 19th century. Raising the price of a last-resort credit has the effect of curbing demand for the services of the lender of last resort, and hence of reducing moral hazard.

The IMF has created a facility that follows this principle, the Supplemental Reserve Facility, which offers loans at a high rate of interest. Although the IMF has made use of this facility, the demand for credit has not decreased. There are three reasons for this. First, the relatively strict conditions of the facility do not apply to all last-resort credits. Second, even in the case of loans on these conditions, the disadvantage in the form of higher credit costs is still far less serious than the negative consequences of no credit supply at all. Third, the deterrent effect on the demand for credit is also moderated by the fact that in the past the IMF has in certain circumstances approved the conversion of loans initially granted at a high rate of interest into loans at normal rates of interest. This has occurred when the debtor has not been able to pay back the first loan within the prescribed time limit. It is thus clear why the creation of this new, high-interest facility has hardly weakened demand for last-resort loans.

Constructive ambiguity is attractive, but unsuitable

To reduce moral hazard, the lender of last resort can leave the private sector in the dark about its intentions, i.e. not indicate whether it really is prepared to intervene in a crisis. Creditors faced with a potential loss will be more careful about extending loans. On the one hand, this strategy is ambiguous, as it is based on uncertainty about the actions of the lender of last resort; but on the other hand it is also constructive, because it reduces the probability that the lender of last resort will have to intervene.

The principles that the IMF applies at present to decide whether it will provide assistance in a crisis are based on constructive ambiguity. In this regard, two principles that the International Monetary and Finance Committee adopted at Prague in September 2000 are relevant:

1. official financing is limited;
2. IMF lending will depend on the chances of a country regaining access to the capital markets: if the prospects are good, an extraordinary loan is justified.

These two principles are the concrete expression of constructive ambiguity. According to the first principle, the IMF reaffirms its intention of making only modest contributions to help overcome possible balance of payments difficulties. The second principle, on the other hand, weakens this statement by allowing exceptions, without however going into greater detail about the circumstances that apply to such exceptional cases. Obviously, the appraisal of whether the prospects of regaining access to capital markets are good or not offers wide scope for interpretation.

3 Freixas *et al*. (1999) discuss in detail the various measures adopted by national lenders of last resort to reduce moral hazard.

The most serious weakness in a policy of constructive ambiguity is its lack of credibility. It is time inconsistent. Whereas ex ante the IMF can leave market participants in the dark about whether it will help a debtor country in difficulties, such an attitude is not optimal ex post. If the international community does not want to accept the risk of a systemic crisis, it will support a debtor country in difficulties. However, it should be mentioned at this point that in two recent cases the IMF declined financial support for an important member: Russia (1998) and Argentina (from the end of 2001). It cannot be said with certainty whether these two cases are sufficient confirmation that the IMF has been successful with its policy of constructive ambiguity or whether – in these two cases – no systemic risk actually existed under the conditions prevailing.

A policy of constructive ambiguity has a second disadvantage. It discriminates against small debtor countries, for they are not regarded as important enough to trigger a systemic crisis.

Contingent Credit Line is hardly credible

In addition, the IMF has created a Contingent Credit Line facility which allows member countries that fulfil certain conditions to obtain loans as needed on terms that are more favourable than those of the Supplemental Reserve Facility. Up to now, no country has applied for this facility. This is not surprising. A country that applies for it must fear that it will be seen as sending out a warning signal to the market, resulting in higher capital costs and possibly less access to capital. In the same vein, the IMF cannot reserve its resources solely for those countries that fulfil certain conditions – as proposed, for instance, in the report of the International Financial Institution Advisory Commission chaired by A. H. Meltzer (2000). This solution, too, is time inconsistent: it would not be optimal to refuse assistance to a country in danger of triggering systemic risk on the pretext that the country failed to fulfil certain conditions.

Prevention and transparency are necessary, but insufficient

Furthermore, the IMF has passed a package of measures intended to indirectly reduce moral hazard. For this purpose, it has considerably expanded its instruments of crisis prevention in recent years. It has developed a novel concept for analysing the financial sector that complements its traditional macroeconomic analyses. In addition, it has adopted more transparent methods of presenting the results of its analyses. As regards the financial sector analysis, the preventive measures have been implemented in three steps. In the first stage, the IMF or another specialised institution draws up a standard or a code against which the practices applied can be measured.[4] Then, the IMF assesses these practices and their observance in member countries at regular intervals. The assessments are carried out in a Financial Sector Assessment Program (FSAP). The IMF practices meta-prevention: it does not supervise itself, but makes recommendations to the supervisory authorities. Finally, the recommendations drawn up on the basis of this assessment are published in a report (Financial Sector Stability Assessment). The publication of the assessment results on the state of an economy and its financial system is intended to strengthen market discipline by inducing financial market actors to withdraw from countries with an excessive risk. The resulting transparency makes it possible to differentiate between good and bad risks.

Since the beginning of 2002, the IMF has also been assessing global financial stability at quarterly intervals (Global Financial Stability Report). These reports expand and replace the annual report on developments in international capital markets and also complement the semi-annual report on the global economy (World Economic Outlook).

Developments in the field of financial sector analysis show that the IMF has changed its traditional methods of work, which were concerned solely with surveillance of monetary and fiscal policies. This approach was suitable so long as countries' biggest balance of payments problem was due to imbalances in the current account, caused by monetary or fiscal disequilibrium. But now that balance of payments problems go beyond just the current account, this approach is inadequate (Chang and Velasco, 2001; Diamond and Rajan, 2001).

4 At present, the most important standards and codes cover the following areas: monetary and financial policy transparency, fiscal transparency, data dissemination, banking supervision, insurance supervision, securities regulation, payments systems, corporate governance, accounting, auditing, insolvency and creditor rights.

Preventive measures must be taken to identify situations that could cause balance of payments problems in good time. If a recommendation by the IMF triggers corrective measures, there is less likelihood that it will have to intervene as lender of last resort. This also indirectly reduces moral hazard. Besides this advantage, though, prevention has one great weakness. Each financial crisis has its peculiar characteristics. If these were always caused by a limited and known number of factors, it would be enough to establish the absence of these factors to completely exclude the emergence of a crisis. But this is not the case, because each crisis differs from every other. Consequently, even the most ingenious system of prevention would not be able to recognise all crises.

The objective of greater transparency is to enable market forces to exercise their disciplining function better and to sanction bad debtors by restricting credit before a situation becomes utterly hopeless. Transparency alone, however, will not achieve this goal. As they know that there is an institution prepared to act as a lender of last resort, private creditors see no reason to cut off credit to bad debtors. Withdrawal simply means lower earnings, because bad debtors pay a higher rate of interest than lower-risk debtors.

3 Involving the private sector

Involving the private sector in crisis management also indirectly reduces moral hazard. The objective is to convince creditors to extend payment deadlines or to waive part of the debt – in other words, to agree to a debt restructuring. Just as large IMF loans create moral hazard, so the involvement of private creditors diminishes this risk, because it reduces the involvement of the IMF. In these cases the private creditors themselves – and not the IMF – provide additional liquidity or, if necessary, waive part of the debt.

Unilateral suspension of debt service repayments also results in private sector involvement, but this amounts to coercion and provides only a costly, temporary breathing space: the sovereign debtor is cut off from the rest of the world, without any effect on its outstanding debts. Such an emergency measure goes beyond the scope of this paper.[5] If this solution is rejected, and assuming that the IMF neither can nor will stand by idly, the remaining choice is between the two alternatives mentioned above: the IMF assists countries in financial difficulties, or it convinces private creditors to step in. Whereas the first scenario creates moral hazard, the second does not.

The main difficulty in involving the private sector is the free-rider problem. As a group, creditors are naturally interested in agreeing to debt restructuring so as to avoid a default. But at the same time, it is also in the interest of each individual creditor that all the other creditors (but not he himself) should approve a debt restructuring: the more creditors renounce part of their claims, the higher the part of the claims available to the free rider. The consequence is that no creditor is prepared to agree to a debt restructuring. To overcome this hurdle it is necessary to convince all creditors that none of them can ride for free, unless the other creditors are prepared to continue without him. It must be made clear to them that absolutely nothing will happen if each acts on his own. Hence, the creditors' action must of necessity be coordinated. Each creditor must be sure that all the others are pulling in the same direction.

5 Suspension of debt service repayments by a private debtor leads to the opening of bankruptcy proceedings, possibly resulting in the liquidation of the debtor's assets and in the creditor receiving only a pro rata share of the existing net assets. However, this procedure is not possible in the case of a sovereign debtor, as no mechanism exists for opening bankruptcy proceedings against a sovereign debtor.

The greater the number of creditors involved, the more difficult coordination is. There are more bondholders than banks that can extend loans. Therefore it is more difficult to gather bondholders around one table or bring them together for a teleconference. Moreover, unlike banks, bondholders are usually unknown to the debtors. Furthermore, the more liquid the debt instruments are, the more complex the coordination. In a liquid market, creditors that do not want to participate in a debt restructuring can easily dispose of their securities.[6] Finally, coordination is also complicated if creditors have an increased awareness of the risks involved and state their loans in the balance sheet at market value rather than at face value. Provision against loans reduces the loss suffered in the event of debt restructuring. This weakens the negotiating position of the other creditors and diminishes the chances of successful coordination.

The involvement of the private sector can be achieved either through ad hoc procedures or through a sovereign debt restructuring mechanism.

Ad hoc procedures

The ad hoc coordination procedures currently applied or proposed depend mainly on the type of debt instrument involved. In the case of medium- and long-term bank loans, the leading creditor banks known as the London Club exercise the coordination function. They negotiate a debt restructuring agreement with the debtor, and then circulate it among the other creditor banks. The experience of the 1980s shows that it is not always easy to convince the other creditor banks to underwrite this agreement. Restructuring of short-term bank loans is much more seldom. In the case of Korea, the banks reached a consensus in 1998 under which each undertook not to reduce its credit line if all the other banks agreed to do the same. To ensure that the banks really did observe this agreement, the Federal Reserve (the US central bank) assumed responsibility for coordination. It organised teleconferences between the central banks of the countries whose banks had granted Korea loans. Each central bank then informed the banks in its country of the other banks' credit lines. In 2001, the IMF tried to set up a similar mechanism for Turkey, but in vain. The exchange of information did not prevent banks from reducing their commitments. With hindsight, it is less surprising that the coordination attempt for Turkey failed than that the coordination for Korea succeeded.

In the 19th and the first half of the 20th century, bondholders' committees assumed responsibility for rescheduling claims arising from bonds. Their solutions were similar to those for restructuring debts owed to banks. The committee of creditors appointed representatives who were entrusted with negotiating the debt restructuring. Given the large number of creditors, the process was very laborious and could take years. The debt restructuring negotiations in the inter-war period bear witness to this (Eichengreen and Portes, 1989).

Throughout the second half of the 20th century and until a few years ago, no bond debts at all were restructured. Bondholders' committees disbanded one after the other. Recently, the IMF has come out in favour of reintroducing these committees. As an alternative to forming committees, bond agreements could contain clauses that overcome the problem of coordinating numerous anonymous creditors. One type of clause would be needed to facilitate the appointment of representatives to negotiate the conditions of restructuring. A second type of clause would be needed to prevent a minority of creditors from blocking a restructuring agreement. Accordingly, these clauses would have to make it possible for the majority of creditors to accept a restructuring agreement negotiated by their representatives. The introduction of collective action clauses in the bond agreements of sovereign debtors was first proposed in 1996 by the Group of Ten after the Mexican financial crisis (Group of Ten, 1996).[7]

6 Securities of debtors in financial difficulties are sometimes bought by a particular category of investors. This group has specialised in buying securities whose market value is far below the nominal value (*vulture funds*). Their objective is to receive the full sum owed. These buyers add considerably to the complexity of restructuring.

7 Bonds with clauses that fulfil a similar function existed earlier (British style bonds). However, the practical significance of these clauses is unclear. Pakistan, which in 1999 rescheduled bonds issued under English law, did not make use of these bond clauses. Should this be seen as reluctance on the part of Pakistan, or are the clauses inadequate? This question cannot be answered unequivocally.

The main difficulty with both approaches – committees and clauses – is that they are not applied automatically. Neither debtors nor creditors can be compelled to use them. Creditors need to make a deliberate decision to form committees or to incorporate such clauses in bond contracts. Committees are formed or clauses introduced only if the creditors are interested in doing so – i.e. if they do not reduce the availability of credit from the IMF. As this is precisely what the IMF is trying to achieve, there is no incentive for the creditors to act. In other words, the private sector, expecting that the IMF will not run the risk of a systemic crisis, is not prepared to adopt measures that would facilitate its involvement in solving crises. The private sector expects that in the absence of such measures there is a greater likelihood that the IMF will intervene. Even if creditors agree one day to only issue bonds that incorporate such clauses, bond debt existing at that time, which did not contain such clauses, would still have to be taken into account. Even if this problem were completely solved, other debt instruments that did not contain such clauses might still cause difficulties. It thus remains uncertain whether the private sector will participate in solving crises through ad hoc approaches in general and more specifically through collective action clauses.

Sovereign debt restructuring mechanism

An alternative to these ad hoc approaches is to create a sovereign debt restructuring mechanism (SDRM) capable of coordinating the intervention of private creditors in crises. Krueger (2001 and 2002) has outlined the goals for such a mechanism:

1. to allow for a temporary stay on creditor litigation after a suspension of payments but before a restructuring agreement is reached;
2. to enable a qualified majority of creditors to bind a dissenting minority to the terms of a restructuring agreement;
3. to facilitate the provision of new money from private creditors during the period of the stay;
4. to protect creditor interests by giving them assurances that the debtor country will pursue economic policies enabling it to resume repayments of foreign debts and that it will negotiate the restructuring of these debts in good faith.

Such a mechanism at the international level corresponds to the procedures applied at the national level to bankrupt companies in the private sector or entities in the public sector (municipalities). The objectives of such proceedings are preventing overhasty sales of assets and, as a counterweight, establishing an environment in which the debtor's activities can be monitored. With one exception, the aforementioned goals are identical with the economic objectives that should ideally be applied in private bankruptcy proceedings, as described by Hart (1995). An efficient procedure has to maximise the value of the assets, primarily by preventing a precipitate sale of assets by rash creditors, and at the same time create conditions that facilitate a possible restructuring of the illiquid or insolvent company. This goal is formulated in the first and second points of the list above. An efficient procedure must ensure that the ranking of the debtors is maintained. This concern is addressed in the third point. Finally, the procedure must make it possible to mete out appropriate penalties to those responsible for the bankruptcy. This final condition is not fulfilled.

The creation of such a mechanism faces serious obstacles. There are two main difficulties. First, the conditions for dealing with the bankruptcy of a sovereign debtor have to enjoy global recognition. In other words, the procedure must be accepted by all jurisdictions. If this is not the case, bonds will simply be issued in countries that do not recognise these conditions. The same applies to bank debts which will be reported in the financial statements of companies domiciled in these countries. Second, this framework must ensure that the debtor does indeed pursue economic policies that put it in a position to resume repayment of foreign debt. In addition, the debtor must negotiate debt restructuring in good faith. In the case of violations it must be possible to apply sanctions. Because the debtor is a sovereign state, and the government bears responsibility for financial difficulties, it is not easy to find a solution that takes this criterion into account.

The implementation of this mechanism faces two further difficulties. It will be necessary to determine the institution – IMF, debtors or creditors – that can take the first step toward restructuring within this formal framework. In practice, such a procedure would only be opened if the IMF restricted access to its resources. Therefore, the determining factors for tapping IMF resources must receive particular attention. Second, an authority should be appointed to mediate in possible conflicts among the creditors or between debtors and creditors.

The question of creating a mechanism to deal with the bankruptcy of a sovereign debtor was raised after the Mexican crisis. At the time, the idea was rejected for various reasons (Group of Ten, 1996). It was thought that negotiations would be very difficult and time-consuming, because the goals and the philosophy of bankruptcy procedures vary considerably from country to country. The authorities responsible for economic policy cannot be supervised or replaced like the managers of a private company in domestic bankruptcy proceedings. It was thought that litigious creditors would not be a serious problem for the sovereign debtor and it would therefore not be necessary to protect the latter. Finally, it was also assumed that several of the objectives of such a mechanism could be achieved with more informal methods. Although the first two theses have proved to be correct, the last two have turned out to be wrong. Litigious creditors that went to court were able, for instance, to prevent Peru from normalising its relations with more cooperative creditors. The Asian financial crisis and in particular the way in which the IMF has dealt with the most recent crises in Argentina (up until autumn 2001) and Turkey have demonstrated the limits of current informal methods.

The difficulties described here must not be taken as an excuse to drop the idea of creating a sovereign debt restructuring mechanism. Talking openly about these difficulties rather constitutes a call to overcome them. Despite these difficulties, such a mechanism offers a sensible solution to the problem of creditor coordination. Coordination is necessary to ensure the participation of the private sector in crisis management, a participation that in turn is necessary to reduce the moral hazard caused by large IMF loans.[8]

8 Simply restricting IMF loans without a sovereign debt restructuring mechanism results either in activation of ad hoc procedures or in a unilateral suspension of debt servicing. Given the limited efficiency of these two methods, the IMF makes more resources available than necessary. The reduction of IMF loans goes hand in hand with a sovereign debt restructuring mechanism.

4 Concluding remarks

At the end of the 1990s, the IMF redefined its role. It increasingly acquired the characteristics of an international lender of last resort. The existence of last-resort lending has helped to weaken perceptions of the risk associated with international financing. To counter this increase in moral hazard, the IMF adopted a number of initiatives. It created a credit facility that allows it to extend large loans at a higher rate of interest. It has explicitly restricted access to official financing, while simultaneously reserving for itself the right to depart from this policy in exceptional circumstances. Furthermore, it has expanded its role in crisis prevention by widening its field of activity in the financial sector and giving greater transparency to the results of its analyses. However, it is evident that these measures or statements of intent do not go far enough in diminishing moral hazard. Rather, the way to achieve this goal appears to include private sector involvement, despite the difficulties involved in realising it.

At present, the international community and the IMF in particular are examining the questions of collective action clauses for sovereign bonds and a sovereign debt restructuring mechanism. Work is proceeding in both directions, and mainly for two reasons. First, there are too many difficulties that affect both strategies for either of them to be abandoned at this stage. Second, discussions on various levels about which strategy to choose revealed sharp differences of opinion among creditor countries, between the private sector and the public sector in the creditor countries, and between debtor countries and creditor countries. In view of these differences of opinion, the private sector is focusing on collective action clauses for sovereign bonds, while the IMF – without thereby neglecting the study of modalities of its involvement in the introduction of such clauses – is intensively studying a sovereign debt restructuring mechanism.

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