Facilitating International Adjustment through Timely Debt Resolution

Panel discussion at the margins of the 2012 Tokyo Annual Meetings of the International Monetary Fund and the World Bank Group

Organized by

The Financing for Development Office, Department of Economic and Social Affairs, United Nations
and
The Centre for International Governance Innovation (CIGI), Canada

Friday, 12 October 2012, 11:00 a.m.–1:00 p.m.
Tokyo International Forum, Room D1
5-1 Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-0005

This panel of policy makers, private sector representatives and academics will focus on the need to ensure timely, effective international adjustment in a manner consistent with sustained global growth and continued adherence to the system of open, dynamic international trade and payments constructed over the past 65 years.

The global financial and economic crisis has underscored the need for exchange rate and fiscal adjustment as well as measures to enhance labour market flexibility. The panel's starting point, however, is the recognition that, in a world of capital account liberalization, effective, timely external adjustment entails the possibility of sovereign debt restructuring.

This issue is central to the role of the International Monetary Fund (IMF) in assisting its members strike a judicious balance between financing and adjustment. The danger is that, faced with the prospect of draconian fiscal adjustment or disorderly default, governments will prevaricate, increasing the eventual costs of adjustment to debtor government citizens as painful but necessary adjustments are deferred. Private creditors, whose asset values will deteriorate through the subordination of their claims, may also be made worse off. In this situation, the IMF experiences a potential loss of credibility and legitimacy, as its members are ultimately required to undertake painful adjustments that are inconsistent with basic mandate.

The panel will explore the calculus of economic and political factors influencing debt default decisions to assess the extent to which voluntary or statutory rules-based approaches can contribute to an orderly, timely framework for the restructuring of claims that reduces costs to debtors and private creditors alike. Key questions