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Debt Relief by Private Creditors: Lessons from the Brady Plan

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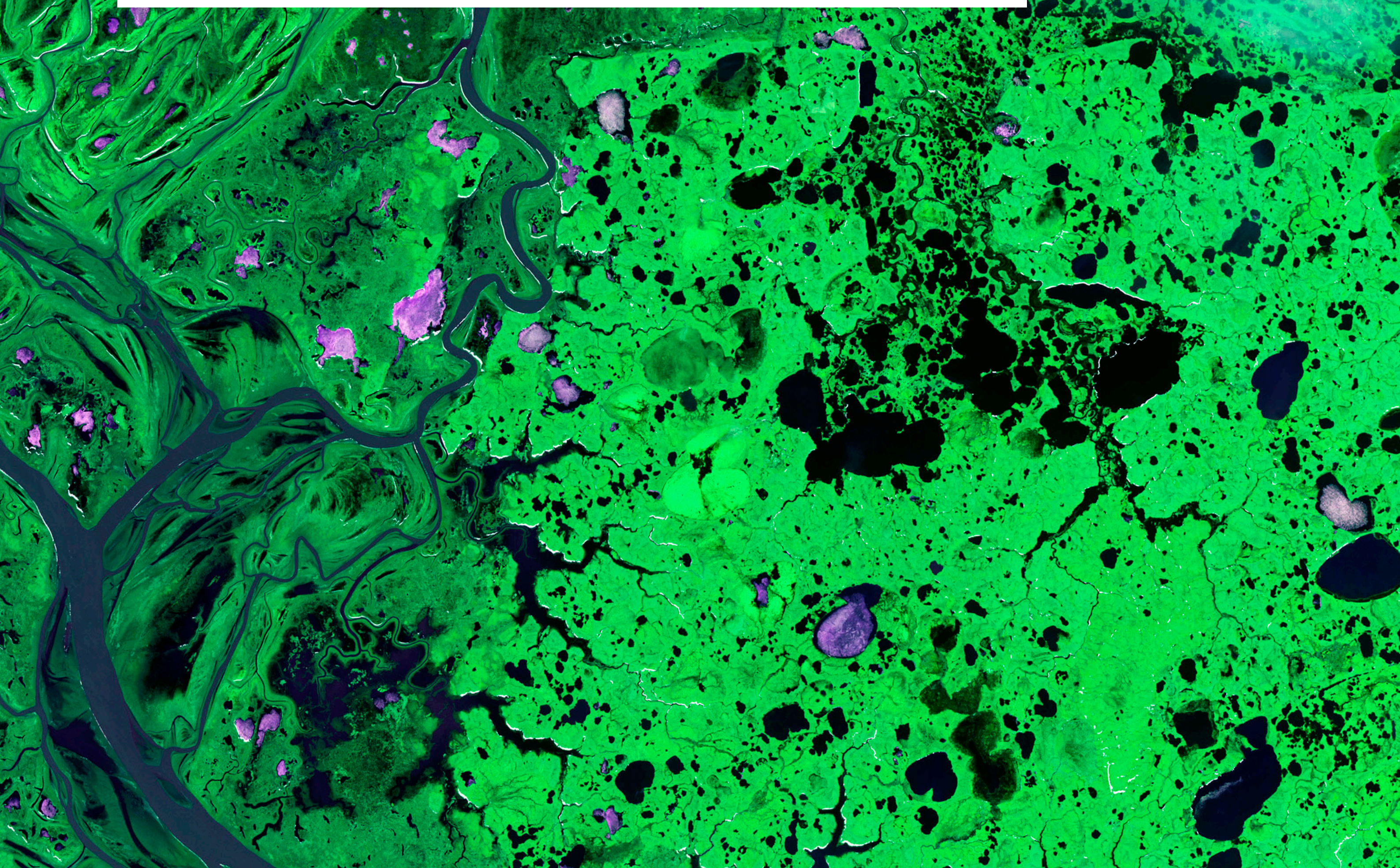

Debt Relief by Private Creditors: Lessons from the Brady Plan

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Abbreviations

ECLAC	Economic Commission for Latin America and the Caribbean
IFI	international financial institution
IMF	International Monetary Fund
UK	United Kingdom
US	United States
VRR	value recovery right

Disclaimer: This background paper is a content contribution to the discussions of the Debt Relief for Green and Inclusive Recovery Project. The views expressed are those of the authors alone and do not reflect the views of the Debt Relief for Green and Inclusive Recovery Project: Heinrich-Böll-Stiftung, the Center for Sustainable Finance (SOAS, University of London), or the Global Development Policy Center (Boston University). Corresponding author: Stephany Griffith-Jones.

Abstract

This paper reviews the main features of and experiences with the Brady Plan, which in 1989 laid the foundation for the restructuring of the sovereign debt of mainly Latin American countries. It argues that the combination of credit enhancement for restructured debt, moral suasion, and tax as well as regulatory relief to encourage private creditors to participate in debt restructurings may provide a template for addressing today's sovereign debt problems.

Keywords: Sovereign debt restructuring, debt crisis, Brady bonds.

JEL classification: F34, H63, F33.

1 Introduction

As a result of the COVID-19 shock, and the rather high levels of debt that already existed before COVID, many countries in the Global South – both emerging and developing – are facing a new debt crisis, which could severely disrupt their development and threaten the achievement of United Nations' Sustainable Development Goals.

Against this backdrop, this paper reviews the experiences during the resolution of the Latin American debt crisis and seeks to extract relevant lessons from the Brady Plan, which in 1989 laid the foundation for the restructuring of the sovereign debt of mainly Latin American countries. The combination of credit enhancement for restructured debt on the one hand, and moral suasion and tax relief on the other hand, proved to be successful in convincing private creditors to participate in debt restructurings in the late 1980s and early 1990s. When adjusted to current circumstances, a similar approach may provide the solution to addressing today's sovereign debt problems.

The paper is structured as follows: Section 2 provides the historical context to the Brady Plan, Section 3 examines the central features of the Brady Plan, and Section 4 concludes by extracting the main lessons and implications for private creditor debt relief for today.

Graffiti on a brick stone wall

2 A brief history of the context in which the Brady Plan evolved

The Latin American debt crisis of the 1980s – and the way it was managed – led to a «lost decade for development» in the Latin America region, as debtors initially tended to service high levels of debt, sacrificing their economies' growth, investment, and jobs in order to do so.[1] One of the most dramatic indicators of this lost decade to development was that Latin America's GDP per capita is estimated to have fallen from 1981 to 1990 by 7% (Stallings, 2014), reversing a period of previous rapid growth.

This was linked to large negative net transfers on the capital accounts of Latin American countries, as new inflows were far lower than the very high amounts required for debt servicing, which obliged countries to restrict imports, given their inability to increase exports rapidly.

However, as time passed, and particularly since 1985, Latin American debtor governments became increasingly unwilling to sacrifice their economic development in order to service their debts. They became increasingly determined to have their own approaches to how the debt crisis should be managed, and they were even willing to take unilateral actions, such as halting their debt servicing, for example Peru in 1985 and Brazil in 1987.

This was linked to several factors, such as: a) deterioration of the international economy, which led to a fall in commodity prices as well as a further slowing of new private net lending to the region, and b) diminishing tolerance for continued stagnation in most Latin American economies and pervasive negative net transfers due to far more democratic governments in the region; these governments had more international legitimacy, but above all – as opposed to the authoritarian countries – due to the electoral process, they had to respond directly to the opinions and need of the public rather than those of their creditors (see Griffith-Jones, 1988). After the debt crisis started in 1982, different approaches were adopted by creditor governments. In 1985, then United States (US) Treasury Secretary, James Baker, attempted a new approach that emphasised the need for renewed growth in the debtor countries and relied on commercial banks and the international financial institutions (IFIs) (especially the International Monetary Fund (IMF) and the World Bank) to increase their lending to achieve this higher growth. Named the Baker Plan, this approach was broadly perceived as not being successful in achieving growth recovery. A new US Administration and a new US Secretary of the Treasury, Nicholas Brady, presented a new

1 For analysis of the causes and impacts of the Latin American debt crisis, see for example Griffith-Jones and Sunkel (1986), ECLAC (1990), and Ocampo (2014).

approach to debt management that became known as the Brady Plan, which included much needed debt reduction and debt service reduction.

It should be mentioned that an additional element for the willingness of the US and other countries with major private bank creditors to facilitate debt relief was that the major banks had managed to make sufficient provisions against future losses – that is, against loss of part of the principal owed to them as well as not receiving prompt interest payments on their Latin American debt – as well as strengthening their capital ratios. This made the private international financial system – and particularly the banking systems of the US, Europe, and Japan – far less vulnerable in 1989 than in 1982 to a more radical approach regarding debt relief for the major Latin American debtors. Large-scale debt relief had initially been seen as possibly threatening the solvency of the major banks in the developed economies, including in the US. Thus, the significant provisioning that the private banks had done in the 1982-88 period facilitated their ability – and the willingness of the creditor governments – to grant some debt relief (Griffith-Jones, 1988). Of course, it was the debtor countries and their people who suffered due to the management of the debt problem being implemented in this asymmetric way, and because the debt relief, when it came, was clearly too late to prevent a lost decade of development.

Before turning to the Brady Plan, we will mention an early attempt at creating debt relief mechanisms that offered a precedent for the Brady Plan itself. Indeed, at the end of 1987, a plan was announced to securitise up to US$20 billion in private bank loans to Mexico. The plan was to convert them into so-called Aztec bonds that had the principal guaranteed; this applied only to debt still held by the original lenders, which was one of the factors that limited the scale of the operation. Its significance was that this mechanism was the forerunner to the Brady Plan.

The Aztec bonds were issued in March 1988 to creditor commercial banks in exchange for debt owed to them by the Mexican government. The commercial creditors reduced debt by 30% in exchange for an Aztec guaranteed bond with a maturity of 20 years and a variable interest rate of LIBOR plus 1%. The principal was paid back when the debt expired, and this payment was guaranteed by the purchase (by the Mexican government) of a zero 20-year coupon bond issued by the US Treasury that was deposited in the US Federal Reserve. Even though the interest rate on these bonds was higher than that on the original debt they replaced, given the fairly significant reduction in the payment of the principal, there was a net reduction in the net interest payments during the life of the bonds (Bustillo and Veloso, 2013). Even though the scale and impact on debt service payments was ultimately disappointing (Devlin, 1990), the significance of this transaction was that the US government for the first time accepted that there could be a reduction in the level of debt, which it had strongly been resisting since 1982 till then (Bustillo and Veloso, 2013).

3 The Brady Plan

As pointed out above, by mid-1988 there was an emerging consensus that the international debt strategy needed a major shift in focus that would introduce a more balanced approach to support the still faltering debtor countries, which had suffered many negative impacts regarding their development due to the debt crisis.

In 1988, interesting proposals were made by Japan and France to revitalise the strategy through comprehensive and direct public support of debt and debt service reduction. However, it was the recently appointed Secretary of the Treasury, Nicholas Brady, who took the decisive initiative. Brady's proposal, which was announced in March 1989 and became known later as the Brady Plan, emerged as the new framework for dealing with the commercial bank debt of developing – mainly Latin American – countries. Paris Club debt, which was far smaller, was being dealt with in parallel.

3.1 Central features of the Brady Plan

In a nutshell, the Brady Plan envisaged that over-indebted sovereigns could exchange their commercial bank loans – with a «haircut» (debt relief) – for bonds backed by US Treasuries. One of the encouraging aspects of the Brady Plan was its promise to correct some of the asymmetries in the effects of the international debt management strategy. The Brady Plan proposed to stimulate policy reform and growth in debtor countries through voluntary case-by-case debt and debt service reduction in respect of obligations to the commercial banks.

As mentioned above, the admission of the need for debt reduction is not an entirely new development, as it was already featured in the Aztec bonds introduced in 1988. The real novelty of the Brady Plan was its willingness to decisively strengthen and accelerate the debt reduction process through explicit public financial and institutional support. On the one hand, and crucially, Secretary Brady proposed that the IMF, the World Bank, and creditor governments should lend resources to the debtor countries to help them finance significant reductions in debt. On the other, he suggested that governments should review legal, regulatory, accounting, and tax codes in order to reduce disincentives for the banks participating in such debt reduction. Finally, the Brady Plan also envisaged a more flexible IMF policy on financing assurances. This would allow the IMF, when circumstances merited it, to disburse its resources for adjustment programmes, even if the debtor country may not have concluded negotiations with commercial banks for a rescheduling/debt reduction/new money package.

In a very short period of time, the Brady initiative moved from conceptual design to concrete action, which illustrates a point that is relevant for today – once there is a clear political will on the part of creditor governments, action on debt relief can quickly follow. First, US$30 billion in public funds were committed in 1989 to support debt buybacks, or, mainly, guarantees on debt-for-bond exchanges. The sources were US$12 billion from the IMF, US$12 billion from the World Bank, and US$6 billion from the Japanese government.

Second, creditor governments such as the United Kingdom (UK), France, Japan, and the US made announcements in 1989 about regulations on accounting, banking supervision, and taxation that could improve the bankers' response to debtor countries' debt reduction proposals. For instance, in early 1989, the US Treasury Department abolished some tax advantages for realising losses on foreign loans and indicated that these advantages may be further reduced in the future (Saunders, 1989 as cited in Vásquez, 1996). Also, at their Paris Economic Summit in July 1998, the G7 group of industrialised countries released a declaration requesting that «banks should increasingly focus on voluntary, market-based debt and debt-service reduction operations, as a complement to new lending» (G7, 1989, para. 31).

Third, in the same year, the IMF's Executive Board developed a more flexible attitude on financing assurances by disbursing loans to Argentina, Ecuador, Mexico, and Venezuela before these countries reached agreement with the banks on how to manage their debt servicing problems.

By late 1989, three countries – Mexico, the Philippines, and Costa Rica – had signed agreements in principle with their bank Steering Committees (including the major creditor banks, which had grouped together at the beginning of the debt crisis) to implement Brady-style debt packages. In January 1990, Mexico completed implementation of its agreement (less than a year after the Brady Plan was announced (ECLAC, 1990).

The final outcome was that 17 countries – of which 10 from Latin America, including most of the major debtors of Mexico, Brazil, Argentina, Peru, and Venezuela, as well as Bolivia, Costa Rica, Dominican Republic, Ecuador, Panama, and Uruguay – had Brady deals. Table 1 provides details for the dates of agreement and percentages of debt forgiveness achieved. Countries outside the Latin America region that got Brady deals included Bulgaria, Jordan, Nigeria, the Philippines, and Poland. Brady debt agreements totalled around US$150 billion, which was estimated to represent around 35% to 45% of debt reduction levels (Griffith-Jones, 2013).

An important side effect of the Brady Plan was the creation of Brady bonds, for which a secondary market developed and which later facilitated significant access by Latin American and other debtor countries to the bond market for new borrowing (Ocampo, 2014). There may be interesting implications for dealing with today's debt problem.

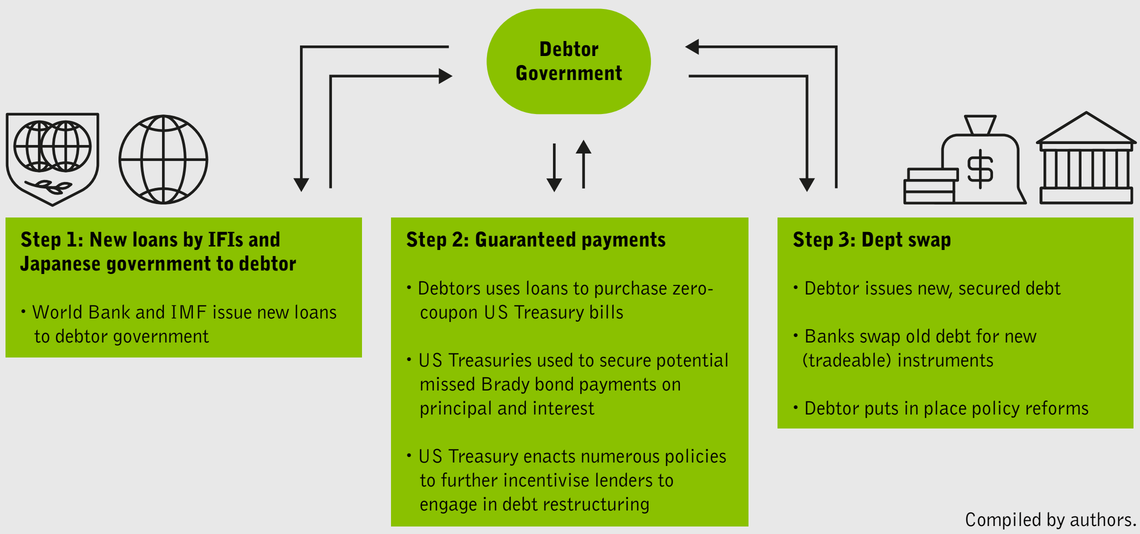
Table 1: Brady debt agreements with commercial banks by Latin American and Caribbean countries

Country	Date of agreement	Debt forgiveness (%)
Mexico	1990	35
Costa Rica	1990	n.a.
Venezuela	1990	30
Uruguay	1991	n.a.
Argentina	1993	35
Brazil	1994	35
Dominican Republic	1994	35
Ecuador	1995	45
Panama	1996	45
Peru	1996	45

Source: Bustillo and Veloso (2013)

To summarise, Brady bonds were government obligations issued by a debtor country after it negotiated with its creditor banks to restructure loans that were no longer performing. The creditor banks exchanged the non-performing syndicated bank loans for various Brady bonds offered by the debtor government. At the conclusion of these negotiations, the creditor banks were given various Brady bond structures from which to choose. Once issued, the Brady bonds began trading in the secondary market. Brady bonds were structured in a variety of ways. Early Brady agreements included a fixed- and floating-rate bond, with principal collateralised by US Treasury zero-coupon bonds and cash collateral representing a set number of future interest payments (rolling interest guarantee). The US Treasury zero-coupon bonds, though owned by the debtor country, were held by the Federal Reserve of New York in most cases. The Brady scheme is summarised in Figure 1.

Figure 1: Brady scheme in a nutshell



Compiled by authors.

Later, Brady agreements included a wider array of bond options and structures, including fixed-rate, floating-rate, and step-up coupons, bullet or amortising principal, and collateralised and non-collateralised principal and interest payments. Not all types of Brady bonds were collateralised, and no Brady bond was guaranteed by the US government. Interestingly, even though the Brady Plan was a US government initiative and US Treasury zero-coupon bonds were used as guarantees, no loans were provided directly by the US government – unlike the Japanese government, which provided US$6 billion in loans – though indirectly the US contributed via the IMF and the World Bank, where the US was (and still is) the biggest shareholder.

There were additional features in several of the Brady deals, including some sweeteners such as value recovery rights (VRRs). VRRs linked payments of Brady bonds to the debtor country's economic conditions or terms of trade. If these improved, creditors would receive additional debt service payments. As noted by the IMF (2017), state-contingent payments were offered only in an upside scenario, typically with a limit on additional payments, either through a payment cap or a buyback option.

3.2 The Mexican Brady deal

The first deal that was completed under the Brady Plan was with Mexico. This was said to be the «cookie-cutter» for later deals (Fuerbringer, 1989). It provides detailed insights into the way Brady deals worked. The fundamentals of this first Brady deal consisted of three options from which the nearly 500 creditor banks could choose. Under the first option, banks could exchange existing debt for new bonds at a 35% reduction; under the second, the exchange is for bonds with the same principal amount but bearing a fixed interest rate of 6.25% or its equivalent in other currencies (significantly lower than the interest rate on the previous debt). In both cases, the final maturity of the debt was extended from 20 years – with seven years of grace – to a single payment in 30 years, thus eliminating the pressure put on the economy by annual amortisations. The third option consisted of providing new loans from 1989 to 1992 in an amount equal to 25% of a bank's existing loans that were not committed to either of the first two options.

Special funds from the World Bank (US$2.06 billion), the IMF (US$1.64 billion), the government of Japan (US$ 2.05 billion), plus a direct commitment by Mexico (US$1.29 billion) from its own foreign exchange reserves were destined to guarantee the payment of the principal of the new bonds as well as a rolling 18 months of interest, thus improving the credit quality of the bonds. With a part of these funds, Mexico committed to purchasing zero-coupon bonds from the US Treasury (and from other countries) that constituted an asset of Mexico and which – reinvested at a rate of 7.9% per year for 30 years – would grow to an amount that was sufficient to fully cover the principal payments on the new bonds at the end of the period. The remainder of the funds, which, again, also constituted an asset of Mexico, were destined to the guarantee of interest payments. Consequently, according to then Mexican Finance Minister, Pedro Aspe (1990), these resources did not imply an additional net cost, nor did they represent net indebtedness, since they generated interest in favour of Mexico roughly equal to their expense by virtue of being invested.

The distribution selected by the banks regarding the US$48.5 billion level of eligible debt for this transaction was as follows (Aspe, 1990): 41% of the total was channelled to the reduction of the principal; 47% to interest rate reduction; and the remaining amount of 12% was the base for new lending. The banks' choices had the following consequences: First, the exchange of debt for bonds bearing a 35% discount led to a reduction in nominal debt by approximately US$7 billion. Second, about US$22.5 billion in debt was subject to a fixed rate of 6.25% instead of the 9% to 10% that Mexico had been paying. This is equivalent economically, according to Aspe (1990), to a further reduction in the nominal stock of debt of around US$7.75 billion. Expressed in another manner, making interest payments below current rates was the same as those payments resulting from reducing the debt by US$7.75 billion and paying market rates. Thirdly, with regard to new money, the banks' choices meant that Mexico received around US$1.5 billion in additional credits between 1990 and 1992.

Box 1: Benefits for Mexico from the Brady deal with commercial banks

1. *External debt reduced by US$14.6 billion: US$6.8 billion through principal reduction; US$7.7 billion through implicit principal reduction due to a lower interest rate.*
2. *Annual interest payments reduced by US$1.6 billion on average between 1990 and 1994.*
3. *US$1.5 billion in new money received between 1990 and 1992.*
4. *Annual principal payments of US$2.1 billion over the period between 1990 and 1994 were deferred to 30 years. The debt was to be paid for at maturity through the acquisition of zero-coupon bonds.*
5. *Annual net external transfers were estimated to have been reduced by US$4 billion on average between 1990 and 1994.*

Source: Aspe (1990)

3.3 Supporting measures: Moral suasion and tax relief

A major catalyst behind the initial Brady Plan agreements, especially with Mexico, was the very strong moral suasion applied to the banks by the creditor governments and the IMF. With regard to the question of financing assurances, IMF pressure was explicit. Indeed, early in 1989, the IMF's Managing Director publicly made it clear to the commercial banks that the IMF was prepared to make financial disbursements for programmes with major debtors before financing assurances were in place. As the Managing Director stated: «This means that, when justified, the Fund must be prepared to give up one prerogative that the international community had come to accept: namely, to withhold making its first disbursement until all other financing conditions are in place. In the future, we will be prepared to proceed differently. In order to help generate confidence, we stand ready, when the situation warrants, to be the first party to disburse financing» (ECLAC, 1990).

The US government also put unusually strong pressure on the banks to reach the agreement with Mexico. The US Federal Reserve reportedly hinted to domestic banks that, should they fail to embrace the spirit of the Brady Plan, it could result in them being forced to increase their reserves. Meanwhile, senior authorities in the US Treasury and Federal Reserve took the unusual initiative of «inviting» top-level negotiators of the banks (including the Chairmen of two major US lending institutions) to Washington, DC, to negotiate a debt reduction agreement with the Mexican economic authorities (ECLAC, 1990).

As for tax and regulatory incentives, it is important to stress that one important difference between the changes we discuss below and some other actions included in the Brady Plan discussed above (such as providing loans to fund guarantees) is that the former do not imply additional financial resources from creditor governments or IFIs (Griffith-Jones, 1991); on the contrary, as shall be explained below, the taxation proposals may imply higher tax revenues for creditor governments. This shows that credit enhancement may not be enough, and that other complementary measures seem necessary to get commercial creditors to accept and implement debt reduction.

Several favourable tax and regulatory developments took place in the wake of the Brady Plan announcements (ECLAC, 1990):

1. United Kingdom. In August 1989, regulatory authorities ruled that the discounted Mexican bond option would not initially require provisioning for losses, whereas the fixed-rate bonds and new loans would. Thus, there was a clear incentive for UK banks to participate in the debt reduction exercise.

2. United States. In September 1989, regulators indicated that banks would not have to automatically write-down to market value the debtor country loans restructured under the Brady Plan. In effect, debt-for-bond swaps in which the principal or interest was reduced would be treated as modifications of existing loan contracts. This ruling effectively made participation in bond exchanges less onerous for the banks and thereby encouraged debt and debt service reduction.

3. Japan. In October 1989, the Ministry of Finance ruled that Japanese banks would be entitled to tax benefits for losses incurred by participating in the Mexican government's bond exchange.

4. France. French authorities ruled that par bonds would not require a write-down of assets, nor would they require provisioning if kept in the bank's investment account. Likewise, tax liabilities on loan loss reserves in excess of those required by debt reduction could be paid over the life of the restructured debt.

There was a discussion in the UK and internationally about the tax treatment of provisioning and debt reduction, which could provide far clearer incentives to European and Canadian banks to participate in debt/debt service relief schemes in the context of the Brady Plan (Bouchet and Hay, 1989). It was proposed (Griffith-Jones, 1991) that tax relief should be given in the UK at the time of provisioning to encourage provisioning against future losses due to debt reduction. However, these tax concessions would only be maintained if, within a limited time period (e.g. three years), the commercial bank accepted debt or debt service relief that was at least equivalent to the amount of provisioning being accepted for tax concessions.

If a deal was agreed within the context of the Brady Plan for a particular country within the period of three years, the bank would maintain tax relief only if it participated in the debt or debt service relief exercise (or made equivalent contributions), and the tax relief would only be maintained for the proportion of the effective debt/debt service relief granted (this and the following paragraphs are based on Griffith-Jones, 1991). In cases where banks made donations of debt to charities (with the proceeds to be used for development spending – particularly for social and/or environmental purposes – in the debtor countries) in the framework of an agreement between the bank, the charity, and the debtor government, the additional tax relief due would also be immediately and permanently granted. It was argued that this policy would imply no additional cost to the taxpayers of the creditor nations; on the contrary, it could result in a higher tax payment if the banks did not agree to as high a debt/debt service relief as they provisioned against.

This course of action on tax policy was seen as being clearly consistent with both the letter and the spirit of the Brady Plan. Tax incentives for debt or debt service relief would discourage individual banks from free-riding and, perhaps more importantly, encourage debt agreements to involve more significant levels of debt relief than would otherwise take place. The then British Chancellor of the Exchequer, John Major, took a fairly small but very positive step in the direction of using tax incentives to encourage debt reduction in his 1990 budget. He proposed to change the timing of tax relief given to banks, granting immediate tax relief only if the debt relief was granted to the borrowing country; in all other cases, additional tax relief was given, but in tranches of annual instalments of 5% of the debt. The measures (approved by the British Parliament) had two important positive aspects. First, they significantly clarified tax treatment of the provisioning of debt relief. Second, they provided somewhat more preferential tax treatment – in terms of timing – when there was actual debt/debt service reduction. The then British Shadow Chancellor, John Smith, went further and put forward a proposal, similar to the above, that implied that «tax concessions for banks should only be maintained if the bank agreed to participate in debt reduction packages negotiated as part of the Brady Plan» (Smith, as quoted in Griffith-Jones, 1991, p. 173).

As Gerald Corrigan (1990), then President of the Federal Reserve Bank of New York, explained: For US banks, taxes paid were generally not reduced when provisions or reserves were established. However, as actual charge-offs occurred (e.g. debt reduction was granted), taxes could be reduced, providing the opportunity to replenish the reserve without additional charges against net income. The purpose of this tax adjustment to the reserve coverage ratio was to make reserve ratios for US banks more comparable with international practices. The measure of reserve coverage could also take account of the present value of any collateral or interest guarantees emerging from Mexican-type swaps of loans for new debt instruments carrying such collateral or guarantees, so long as the new bonds are serviced in an orderly fashion and the guarantees are intact. Furthermore, in circumstances in which reserves for individual banks are judged to be at acceptable levels, additional reserves need not be automatically established in connection with fresh credits that are extended to the debtor countries in connection with internationally supported financing programmes.

Man fixing railroad tracks. Mexico.

4 Conclusions: Main lessons and implications for private creditor debt relief today for green and inclusive growth

What can the experiences from the Latin American debt crisis, its management, and especially the Brady Plan teach us about designing debt relief by private creditors in the wake of the COVID-19 crisis? In the following, we suggest eight lessons.

First, if debt relief, where it is necessary, is delayed too long, it can cause massive damage to debtor countries' economies and seriously undermine the possibility of green and inclusive development.

Second, governments where private creditors are based are far more likely to support and coax them to grant debt relief, if and when the solvency of their financial system is not threatened. This is why creditor governments in the 1980s waited to support debt relief until their banks had significant provisions against losses. In the case of today's debt crises (particularly for LICs and LMICs), the scale of the debt – and needed debt relief – is small in proportion to the total assets, for example of institutional investors (Truman, 2020). Though debt restructuring could have some limited damaging effects on investors' balance sheets in the short term, debt relief would not have a major impact on the financial system as a whole, nor even on the large majority of these investors.

Third, it is desirable to have innovative instruments on the way to significant debt relief. The Aztec bonds, actually promoted by the Mexican government, provided such a useful precedent.

Fourth, key elements of the Brady Plan provide several valuable suggestions on how debt relief could be granted today:

1. Explicit public and institutional support on a significant scale; the IMF, World Bank, and some creditor governments provided loans to the debtor governments, which were used to get guarantees/enhancements via the purchase of zero-coupon Treasury bills, which backed the new Brady bonds issued. In the «cookie-cutter» Mexican case, these Treasury bills guaranteed 100% of the principal (whose payment was significantly postponed) and 18 months of rolling interest payments. Similar guarantees could be issued today, most appropriately by the World Bank and the International Development Association.
2. The IMF introduced a flexible policy of disbursing loans linked to the performance of macroeconomic and structural reforms, even if the debtor government had not concluded its negotiations for debt relief with the private creditors. In today's case,

the link could be to policies and programmes associated with accelerating greener and more inclusive growth.

3. There were changes to regulatory and tax treatments as well as moral suasion by creditor governments, which encouraged/coaxed private creditors to grant debt relief, and to do it on a sufficient scale. These had no financial cost or commitment of resources, unlike in point i) above. It is important that credit enhancement – although very valuable to achieve debt reduction by private creditors – may not be enough on its own, and complementary measures may be needed. It was interesting that private debt donations for social and environmental spending were given favourable tax and regulatory treatment.

Fifth, after the Brady Plan was announced, the implementation of the debt relief was quite swift. For example, a then senior debt negotiator reported that changes to regulations that encouraged and facilitated debt relief, which they had been proposing for years, were made in days. This shows that, where there is a political will, there is a way!

Sixth, the creation of Brady bonds, which were widely traded in the secondary markets, significantly facilitated future access by the debtor governments to the bond markets. This happened quite soon after debt relief was granted and Brady bonds were issued, as countries were seen as being more creditworthy and the instrument made countries better known in those markets.

Seventh, it was interesting that for the Brady Plan – even though it was a US government initiative and US Treasury bonds were used as credit enhancement or guarantees for the new Brady bonds – the US government itself did not directly provide any loans for their purchase.

Eighth, the creditor banks were given options with the Mexican deals and others. In the Mexican case, there were three: debt relief on the principal owed, a reduction in the interest payments to be made on the same level of the debt, and new money (lending) committed by the creditor banks in the coming years. Such an approach gave flexibility to creditor banks to choose the option that suited their individual situations best as well as the regulatory and tax rules of their countries. Again, this more flexible menu approach – including the option of new money – seems relevant today.

Overall, the Brady Plan offers important lessons for sovereign debt relief in the context of the debt crisis that is currently unfolding in the Global South. Clearly, the Brady Plan cannot be applied one-to-one to today's situation, but the combination of credit enhancement for restructured debt, moral suasion, and tax and regulatory relief to encourage private creditors to participate in debt restructurings may indeed provide a template for addressing today's sovereign debt problems.

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