

Policy Conclusions Abstract

While the cost to the global taxpayer should not be a cause of concern, the potential subsidy involved in defaults or debt write downs (as with the HIPC initiative) may be significant at the recipient country level. This opens up the risk of a serious moral hazard problem. Is it possible to reduce this moral hazard? The paper examines a number of recent proposals and concludes that the most efficient tool is to impose *ex ante* conditionality, as is the case of the most recent IMF facility, the Contingent Credit Line (CCL).