

Fiscal Alchemy: Crafting Markets from Crisis

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01

The Doom Loop





When Sovereign and Banks Collapse Together

The Terminal Phase of the "Doom Loop"

In a functioning state, fiscal policy mitigates bank risk through explicit guarantees. However, a crisis involving sovereign default and banking sector insolvency obliterates this model.

This is the "doom loop" in its terminal phase, where the sovereign and the banks are chained together in a downward spiral.



Mutual Hostage Dynamic

Sovereign failure vaporizes the treasury that backstops banks, while bank failures magnify fiscal holes.



Fiscal Policy as Accelerant

Classic bailout arithmetic is impossible; Government lacks fiscal space for bailouts while facing imminent default. Any new sovereign debt issuance accelerates currency flight and default.



Traditional Programs Fail

Failure is doomed due to lack of market access, dampening recovery prospects and creating uncertainty.





Fiscal Power Re-imagined

From Spender to Architect

With the spending channel sealed, the state's residual leverage is its unique capacity to legislate, regulate, and signal new rules of the game.

Legislate

Rewrite property rights and rank claims to create a new institutional scaffold.

Regulate

Create new legal entities insulated from legacy debt to attract private risk capital.

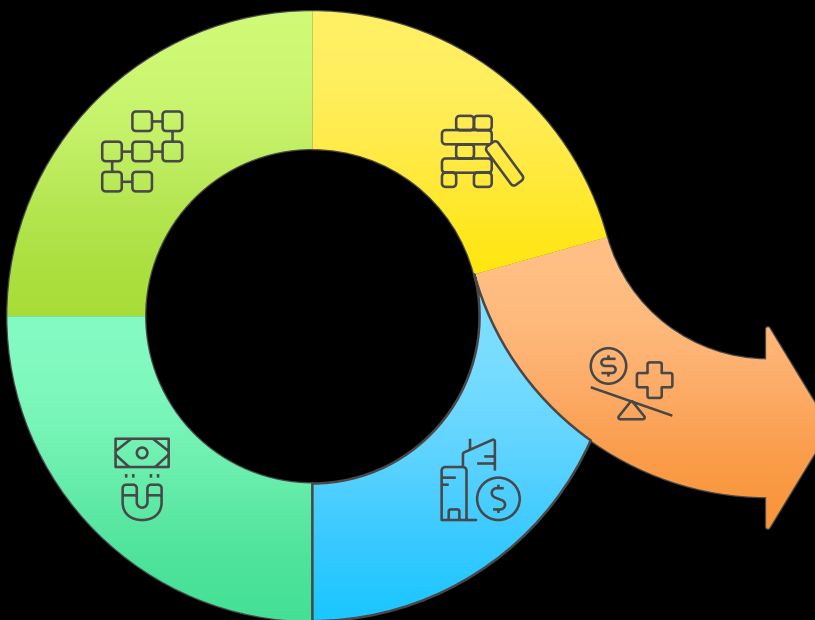
Signal

Credibly commit to new rules that reshape payoff structures and restore confidence.





NEXUS Framework Cycle



1

Redefine Fiscal Policy

Shift from spender to architect role

2

Attract Private Capital

Create mechanisms to draw investment

3

Break Doom Loop

Disrupt negative feedback cycles

4

Rebuild Stability

Restore systemic financial health

5

Avoid Debt/Inflation

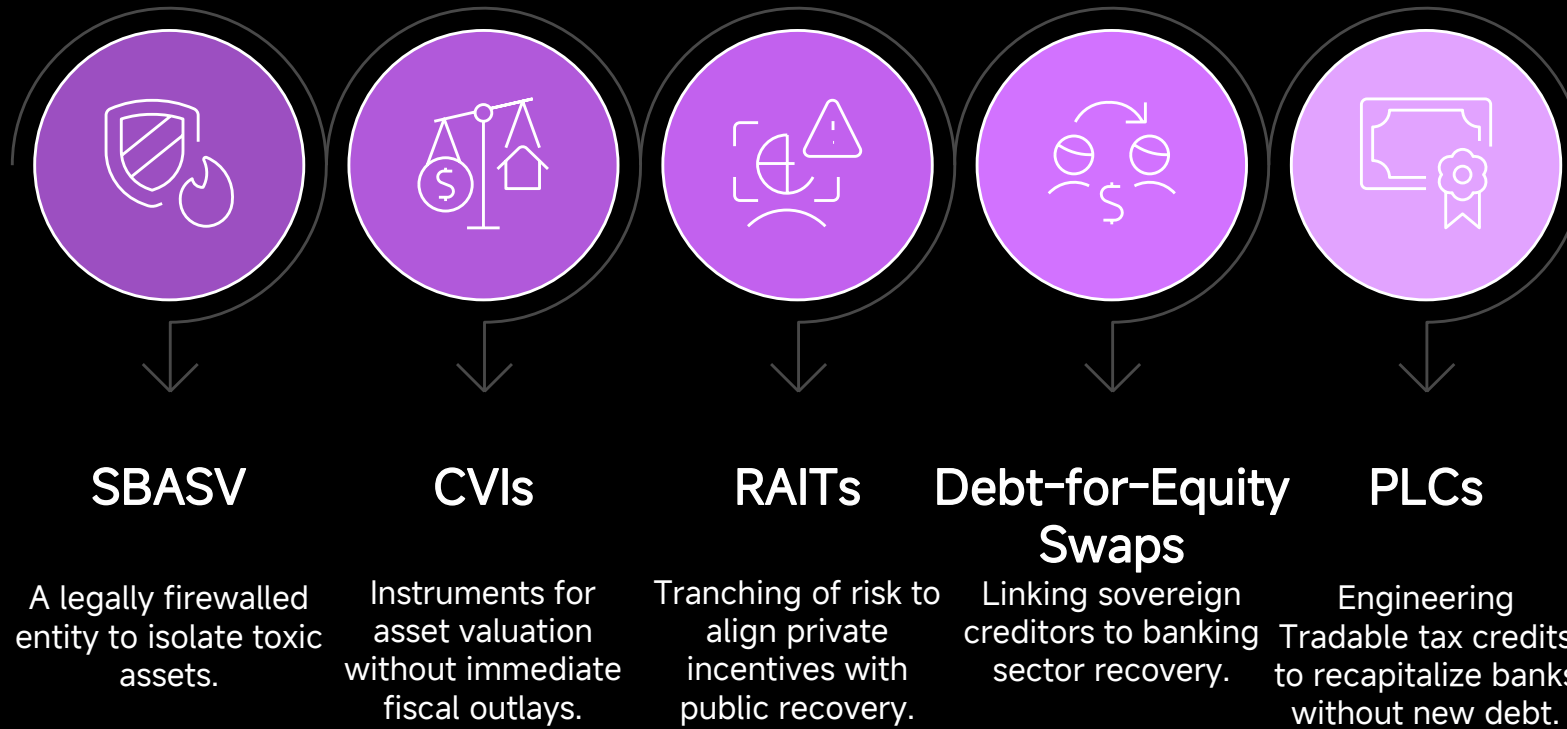
Maintain balance in financial metrics





Nexus Framework Resolution Tools

5 Core Innovations





The Core Paradigm Shift: Fiscal Policy as Market Architect

Comparing Traditional vs. NEXUS Fiscal Strategies



Taxpayer-funded
bailouts



Sovereign power
asset creation



Increases
sovereign debt



Offsets debt
with risk-sharing



Short-term
liquidity
injections



Long-term
structural reform



Fails in default
scenarios



Viable in
exhausted fiscal
space





Strategic Financial Stabilization

Why This Works



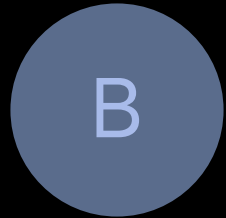
02

BAD-ASS Blueprint



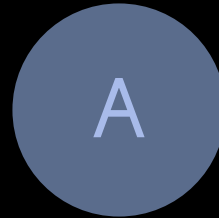
The BAD-ASS Framework

A Phased, Surgical Approach to Reboot the Financial System



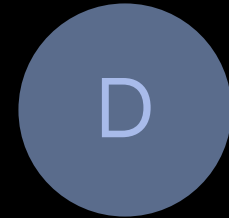
Bridge

Stop the Panic



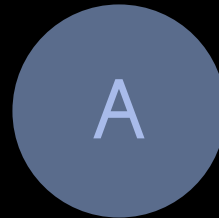
Assess

Price the Assets



Divest

Attract Capital



Attract

Lure Investors



Stabilize

Clean Banks Grow



Scale

Build Resilience



03

SBASV Anatomy






The SBASV: A Legal Firewall

Sovereign-Backed Asset Segregation Vehicle

A state-chartered entity, firewalled from the government's general budget and legacy debts, to shield it from existing sovereign creditors and prevent contagion.

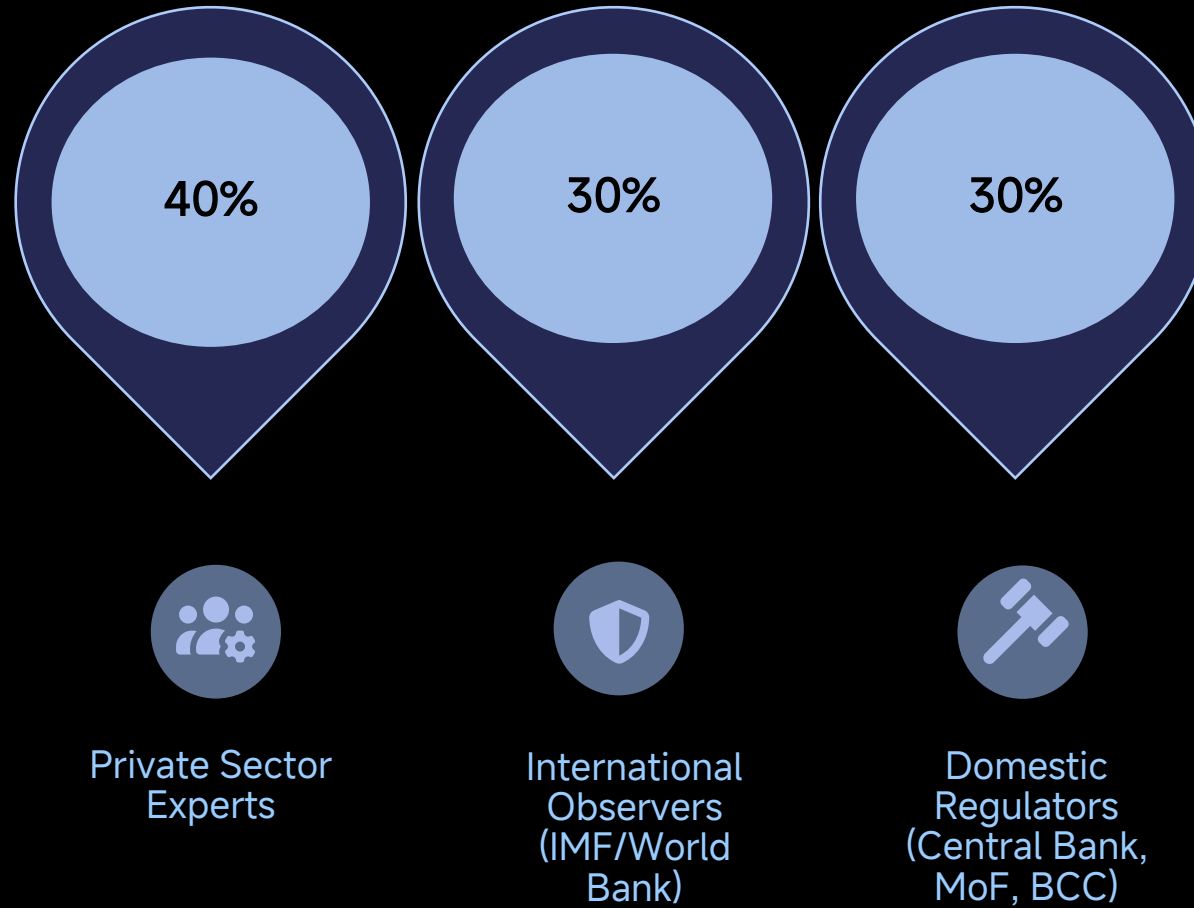
 **Bankruptcy-Remote**
A unique legal mandate to acquire, hold, and resolve impaired assets off-balance-sheet.

 **Independent Governance**
A board with a majority of private sector experts and non-voting observers from IMF/World Bank.





Independent Governance





Governance, Powers, and Credibility Triggers

Building Trust Through Institutional Design



Compelling Powers

Authority to force asset transfers, ring-fence cash flows, and issue certificates.
Temporary suspension of mark-to-market accounting
Super-seniority for SBASV instruments



Immutable Constraints

Cannot borrow from the central bank or guarantee sovereign debt, with hard-wired sunset clauses.



Transparency

Public reporting obligations and third-party oversight signal credibility to international capital.

Key differentiator: Unlike IMF's historical Sovereign Debt Restructuring Mechanism (SDRM) proposal concept, SBASV bonds are explicitly linked to banking sector recovery metrics, not just sovereign solvency.



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Phase 1: Bridge & Triage



Phase 1: Bridge & Triage

Halting Systemic Collapse in Months 1-4



Emergency Legislation

Financial Stability and Recovery Act:

A structural bill creating the SBASV and granting temporary regulatory forbearance to prevent immediate insolvency.



Swift, Data-Driven Triage Protocol

Category 1

Non-Viable: LCR < 30%, CET1 < 2%, NPLs > 60%. These banks are resolved, and viable deposits are transferred. **Shutter Operations**

Category 2

Zombies: CET1 2-4.5%, NPLs 40-60%. These are restructured, and their toxic assets are moved to the SBASV. **Restructure Viable Operations**

Category 3

Systemically important: "Too big to fail" but insolvent. CET1 4.5-6%, NPLs < 40%. They swap toxic assets for SBASV certificates. **Retain Core Operations**

Example:

A **Zombie** bank with \$10B in NPLs and \$2B in CET1 capital would transfer \$8B of toxic assets to SBASV, receiving SBASV Recovery Notes valued at \$8B (based on LEV). Its CET1 ratio jumps from 2% to 12% post-transfer.

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Phase 2: Assess & Divest





BAD-ASS Phase 2: Months 3-18

Clean Sheets Mandate

Strip toxic assets from bank balance sheets and price them transparently through market mechanisms (BV-based/LEV). This enables fresh lending, restores investor trust, and isolates legacy losses inside dedicated recovery vehicles.



Restore Trust



Enable Lending



Isolate Losses



End-State Vision & Key Performance Indicators



NPL Ratio < 5%

A significant reduction in non-performing loans/Assets to **stabilize** the banking sector.



Private ABS Returns

Restoration of a healthy, **private** asset-backed securities market.



Creditor Recovery > 50%

Achieving substantial recovery for creditors to maintain market **confidence** and avoid societal collapse.

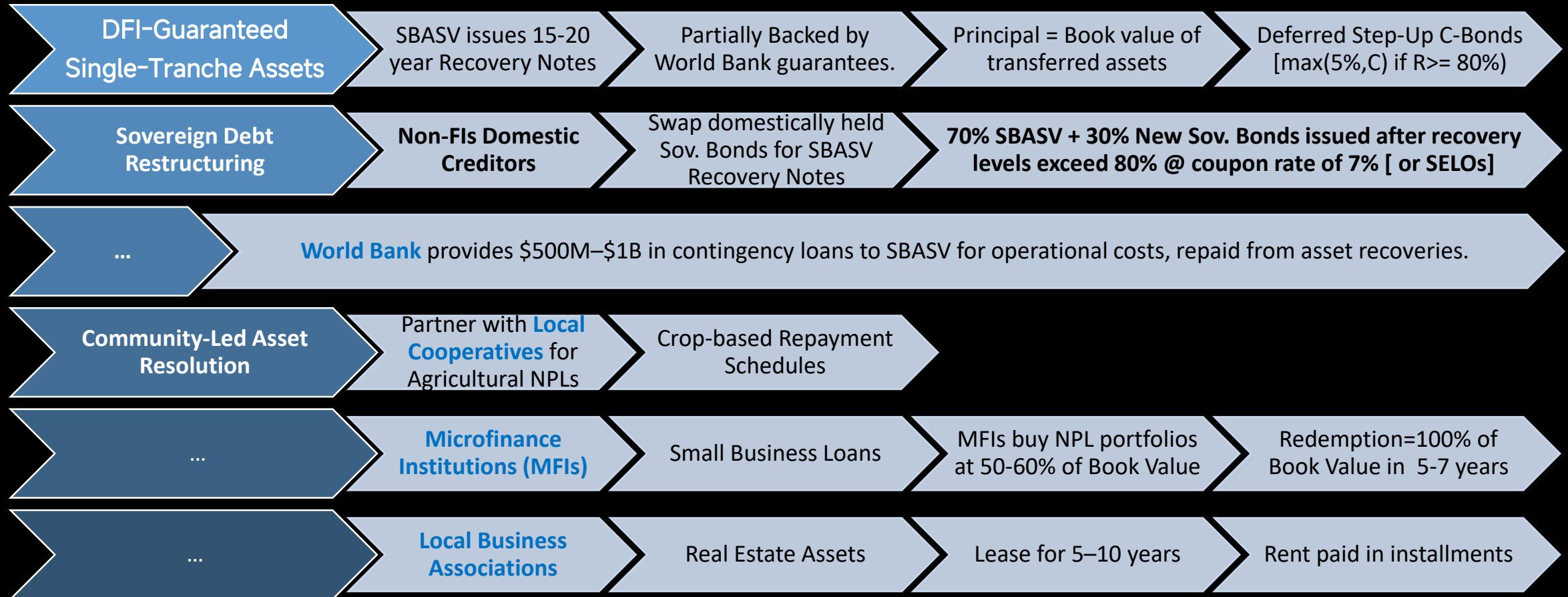
Success creates a self-sustaining secondary market for distressed credit and frees bank capital for productive sectors.



Book Value: The Core of Toxic Asset Valuation [Early Stages]



Key Adaptations for Less Developed Markets



Local partners understand community dynamics better than international funds; no need for complex legal structures.



Value Uplift: A Compelling Case for Creditors

Traditional Default



~10–20 cents
on the dollar

VS

SBASV Swap

Debt-for-Asset Swap



~56 cents
on the dollar

This demonstrates a quantifiable and significant upside from participating in the swap.

Use of Auctions

establishes market-based pricing for distressed assets, reducing "fire-sale" discounts.

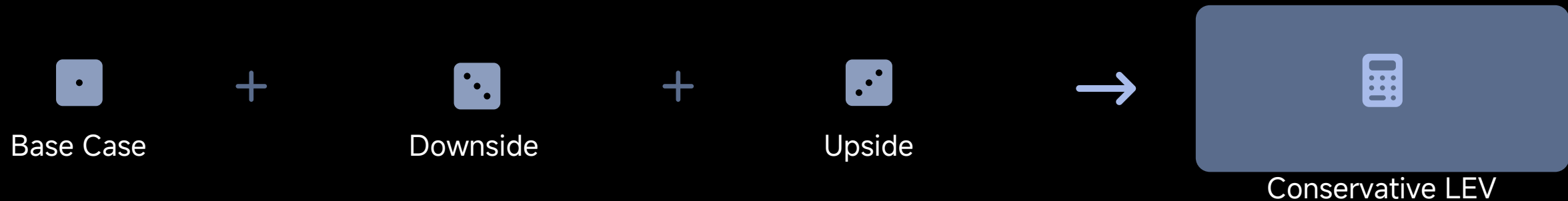
Evidence of Auction Usage

In Spain's SAREB bad bank, NPLs sold at 60–70% of book value vs. 30–40% in unstructured sales.



▶ LEV Model: The Core of Price Discovery [Later Stage Issuance]

A Monte-Carlo engine simulates paths of five macro-based scenarios to estimate long-term economic value (LEV), translating uncertain cash flows into a single conservative figure.

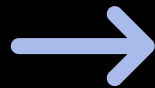


Creating Transparent, Market-Based Prices






Independent Valuation

Third-party valuers (IMF/WB/BCC/CMA) assign conservative, transparent recovery values to asset pools.



TRANSFER

Certificate Structure

-  Senior Certificates: Equal to transfer value, low-risk, first claim on cash flows.
-  Junior Certificates: Capture residual upside, aligning bank incentives with recovery.
-  The structure of Certificates should enable efficient asset reallocation from failing sectors to high-growth industries.



This conservative LEV anchors note issuance and shields banks from further markdown volatility.



Stitching Data Gaps

Without Creating Moral Hazard

The process converts opacity into tradable information, enabling secondary-market liquidity and reducing the discount attached to crisis assets.

Anonymous Data Pooling

Granular loan-level data is pooled to build benchmark curves while protecting borrower privacy.

Audit and Claw-back Clauses

Standardized templates and third-party audits limit manipulation and penalize misrepresentation.



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Phase 3: Divest & Attract



Phase 3: Divest & Attract

Issuing Certificates to Lure Private Capital

Objective: Restore credit flows, stabilize currency, and rebuild growth.

Bank Recapitalization via Priority Lending Certificates (PLCs)



Mechanism

PLCs are tradable instruments that offset corporate tax liabilities (e.g., \$0.50 PLC = \$0.50 tax credit).

A \$5B equity injection reduces net cost to \$2.5B (due to PLCs).



PLCs trade at 85–95% of face value on secondary markets, enabling upfront monetization.



Incentives for Investors



Tax Holidays

For domestic buyers to encourage local capital participation.

For every \$1 of new equity injected into banks, investors receive a PLC worth \$0.50.



Legal Reforms

Expedited bankruptcy proceedings to unlock collateral value.

07

Stabilize & Scale



Auction Design That Signals Market Revival

A Staggered Calendar to Build Momentum and Price Discovery

1

High-Certainty Pools

Smaller, high-quality asset pools are sold first to establish strong price references and build market confidence.

2

Riskier Portfolios

Larger, riskier portfolios follow, with partial SBASV co-investment to limit first-loss exposure for private buyers.

3

Market Validation

Real-time disclosure of bid-cover ratios validates the new rule-set and generates cash to redeem senior certificates.





Phase 4: Stabilize & Scale

Re-capitalising Clean Banks for Growth

As the SBASV redeems certificates, proceeds flow back to the banks, boosting CET1 ratios and freeing regulatory capital.



Credit Growth Resumes: Viable banks can re-enter SME and mortgage markets without sovereign guarantees.



Market Discipline: Growth is driven by private-price discovery, completing the pivot from a state backstop to a market-based system.



Monetary-Fiscal Coordination



Institution	Action
Central Bank	Launches Collateralized Liquidity Facility (CLF): Accepts SBASV Recovery Notes as collateral for liquidity operations.
IMF/World Bank	Provides technical assistance for fiscal anchor design and monitors SBASV governance.
Ministry of Finance	Legislates Fiscal Responsibility Law with: <ul style="list-style-type: none">• Primary surplus target of 1-1.5%, and 2% of GDP by Year 2027-2029 and 2030.

Final Note: Implementation requires political courage and international coordination. The IMF and World Bank must validate the SBASV governance structure, while domestic policymakers must commit to irreversible fiscal discipline. The alternative—uncontrolled default and systemic collapse—is not an option.





Locking In Resilience Before the Next Shock

Fiscal policy's enduring contribution is rule-making infrastructure, not balance-sheet size.



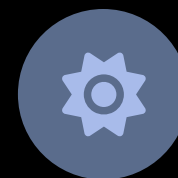
Permanent Resolution Fund

Financed by industry levies to handle future crises without taxpayer bailouts.



Dynamic Provisioning

Rules tied to credit cycles to build buffers during good times.



SBASV Sunset

The vehicle is dissolved once its job is done, transferring remaining assets to the private sector.





THANK YOU

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