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Debts ‘R’ us

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Alex Jurshevski’s debt-management firm is fixing the world one country at a time

Alex Jurshevski’s work was cut out for him when he arrived in Iceland in February 2010. As managing partner and one of the founders of Recovery Partners Ltd., a Toronto-based debt- management company, he had traveled across the Atlantic to advise the Icelandic government on its ongoing economic crisis. Iceland certainly needed somebody’s help. Two years earlier, Europe’s most isolated sovereign state had been ripped apart by a massive banking crisis, and despite a number of emergency loans it was under the gun to accept yet another bailout from the International Monetary Fund (IMF) or a package from some Nordic countries.

Jurshevski was convinced that more loans for Iceland would be its “kiss of death.” He believed the correct strategy was to bite the bullet and begin the painful process of restructuring. “It was obvious to us that Iceland’s government was being coerced into excepting bailouts,” Jurshevski recalls. “But why would they want to saddle their taxpayers with even more debt so that a bunch of foreign banks who made the mistake of buying its debt in the first place could be paid back in full? It didn’t make sense.”

As one of only “a handful of firms” around the world that specialize in sovereign debt, Recovery Partners has a strong track record helping corporations and governments reduce the cost and risk of their debt portfolio — a process Jurshevski calls a performance audit. Yet despite his vast experience, not everyone in the Icelandic parliament was sold on his argument: Gylfi Magnússon, Iceland’s former Minister of Economic Affairs, said in an interview at the time that not to accept loans from the IMF was the “stupidest idea” he had heard in a long time. But after more than a month of interviews with finance officials, central bankers and the media, other members of the government bought into Jurshevski’s point of view.

Iceland ultimately rejected the additional IMF loans, an outcome that seems to have paid off for Iceland, which is on its way to recovery, as well as for Jurshevski.

Indeed, Recovery Partners is in high demand around the world these days. In addition to helping Iceland, it has offered debt-management advice to Tajikistan and Bulgaria and over the past year has had preliminary talks with Portugal and Greece about helping them, too. The firm has also been in discussions with the IMF and Asian Development Bank about undertaking credit reviews of several other countries deemed to be potential trouble spots. And, as Europe’s debt crisis spreads further into Italy and Belgium, Jurshevski fully expects his workload to expand in the months ahead.

Jurshevski believes countries that have debt-to-GDP ratios above 100%, such as Greece and Italy, will have no choice but to eventually restructure their finances. According to him, there have been roughly 145 attempts at fiscal consolidation since the Second World War and of all those cases only New Zealand and Canada in the 1990s have been successful in reducing their debt-to-GDP ratio by more than 10%. “The evidence has always been against them and now the problem has grown, which means the eventual reckoning will be much uglier and much costlier than it needed to be," he says.

Established following the tech wreck in 2001, Recovery Partners initially focused on distressed companies that needed financing and help managing their operations as they got back on their feet. Soon after setting up shop, the company was hired by CIBC to build credit-risk and operational-risk models and also bring the bank into compliance with the requirements of Basel II, an international standard governing bank capital. From there, the company also helped transfer to investors the distressed loans that banks or near-banks were looking to divest from their portfolios. It wasn't until a few years later, at the start of the global financial crisis, that Jurshevski and his team decided to develop a sovereign-debt-management solution that could be sold to governments around the world.

In his earlier professional life, Jurshevski was a financial economist and securities trader who along the way also offered debt-management and liability advice to corporate and government clients. While at Bank of Montreal in the 1980s, he was involved in restructuring governments in Brazil, Costa Rica and Mexico, and in the early '90s at CIBC Wood Gundy he was intimate with Canada's debt issues. In 1993, he was hired by the government of New Zealand, whose economy had been on a downward trajectory since the late '80s and had developed huge credit problems, to fix its debt operations.

When Jurshevski showed up, New Zealand's economy was starting to turn around, but the debt office was a mess. "It wasn't set up like a business. One guy was trading long Japanese yen and on the other side of the room someone was shorting the yen against the dollar," he says. "Nobody was adding up the marbles, so it was a fertile ground to plant some seeds and watch them grow."

Over a period of three-and-a-half years, Jurshevski put together a debt-portfolio policy for the government that vastly improved its ability to predict future funding costs and overall credit exposure. In the process, New Zealand's once-feeble domestic bond market was jump-started, culminating in a $1-billion bond issue, which at the time was the largest of its kind ever by an Australasian borrower.

In many ways, the issues that plagued New Zealand are now evident across Europe's periphery, Jurshevski says. In particular, many struggling countries don't have appropriate people, processes or systems in place to properly manage debt portfolios that include hundreds of separate deals. "The problem is they don't know what they don't know," he says. "Most countries are willing to talk to us, but they also believe they don't really need us. Once the wheels start to come off, that will change."

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