



# The Paris Club and Official Bilateral Debt

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# The Paris Club and its operations

- Paris Club membership
- How does it operate
  - ✓ Meetings
  - ✓ Negotiations steps
- Main principles
- Debt treatments
  - ✓ Flow and stock treatment
  - ✓ Debt treatments granted



# Paris Club membership

## □ Permanent

- ✓ The 22 permanent members, mainly OECD countries, as well as Brazil, Russia and South Africa, have large exposure to other states
- ✓ Claims are held by the government or its institutions, especially export credit agencies. Total claims, excluding late interest, amounts to US\$301 billion of which half represents ODA claims.

## □ Ad hoc

- ✓ Other official creditors can also actively participate in negotiation sessions or in monthly "Tour d'Horizon" discussions, subject to the agreement of permanent members and of the debtor country
- ✓ Invited creditors act in good faith and abide by the Paris Club accepted practices

## □ Observers

- ✓ Observers attend negotiations but do not participate
- ✓ They are generally representatives of IFI's/MDBs or are permanent members with no claims



# How does it operate?

## □ Regular meetings

- ✓ There generally are 8 monthly meetings which take place in Paris. These consist of a "Tour d'Horizon" during which creditors discuss the external debt situation of debtor countries and may also cover methodological issues regarding the debt of developing countries and share data

## □ Negotiations

- ✓ A country is invited after it has reached agreement on an IMF program, and it has demonstrated that it is not able to meet its external debt obligations, that is, it has a financing gap that can be closed with a debt rescheduling or restructuring
- ✓ The twenty two permanent members of the Paris Club may participate in the negotiation meetings if they have claims towards the invited debtor country, or otherwise be observers
- ✓ Other official bilateral creditors, with claims against the debtor, may be invited to attend negotiation meetings on an ad-hoc basis, subject to the agreement of the members and debtor
- ✓ The debtor country is usually represented by the Minister of Finance, who heads a delegation comprising officials from the Ministry of Finance and the Central Bank



# Main principles

- ❑ **Solidarity:** members agree to act as a group in their dealings with a given debtor country
- ❑ **Consensus:** decisions must be accepted by all participating creditor countries
- ❑ **Information sharing:** members regularly share views and information with each other on the situation of debtor countries
- ❑ **Case-by-case:** decision are tailored based on country specific assessments
- ❑ **Conditionality:** negotiations take place only when debt relief is required, a country is implementing reforms, and has a demonstrated track record
- ❑ **Comparability of treatment:** restructuring agreements with non-Paris Club creditors will not provide for more favorable terms than in the Paris Club agreed minutes



# Critical steps in negotiation meetings

## □ Opening

- ✓ The delegation head makes a statement, including on the requested debt treatment, followed by statements from the IMF and WB, and perhaps other international institutions representatives. Creditor countries may request additional information or clarifications from the delegation

## □ Debt discussions

- ✓ The debtor delegation leaves the room while creditors discuss the proposed debt treatment
- ✓ The chairman present the creditors' proposed treatment to the debtor's delegation, who may request amendments to the proposal, the chairman will then convey this amended request to the creditors, who discuss it and consider a new proposal. This process continues until a common agreement between creditors and the debtor is reached
- ✓ After agreement is reached, a document called the Agreed Minutes, drafted by the Paris Club Secretariat and approved by the creditors and the debtor, formalizes the accord
- ✓ The delegation of the debtor country returns to the room and the Agreed Minutes are signed
- ✓ A mutually agreed press release is made available for publication



# Debt treatments

- ❑ Which types of debt are treated in the Paris Club?
- ✓ Debts issued or guaranteed by a **sovereign creditor** to a **sovereign borrower** including guaranteed by a sovereign debtor
- ✓ Debt owed by private sector borrowers to the Paris Club creditors **is generally not treated**
  - Except when the private party defaults on loans are guaranteed by the debtor government or
  - When defaults occur because of exchange restrictions on debt service as a result of low reserves
- ✓ Only medium- and long-term debts are generally treated, with debt with an original maturity of one year or less generally excluded
- ✓ There is an important distinction between **pre-cutoff-date and post-cutoff-date debt**. The Paris Club typically does not treat post-cutoff-date debt
  - There are exceptional cases when the cutoff date is far back and total eligible debt is too small to address the debt sustainability problem
- ✓ The Paris Club starts with not previously rescheduled debt (NPRD), and will include previously rescheduled debt (PRD) if necessary to close the financing gap.



# Debt treatments - Flow and stock

## □ Flow treatments

- ✓ Aim to close the debtor country's financing gap identified by the IMF in the program framework
- ✓ Paris Club agreements usually coincide with the IMF program period, and are intended to help cover a financing gap by debt rescheduling; this period is called the "consolidation period"
- ✓ Only maturities falling due to Paris Club creditors during this period are treated, but in some cases, arrears accumulated as of the start of the "consolidation period" are also treated

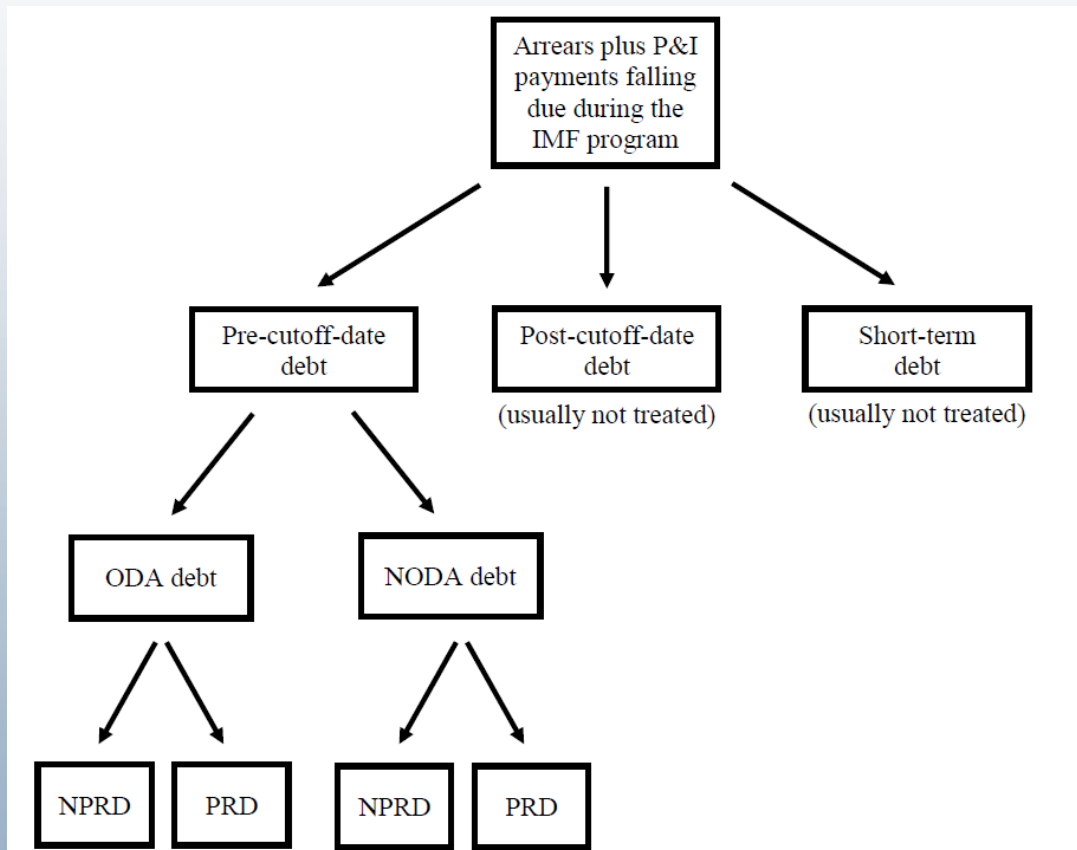
## □ Stock treatments

- ✓ These apply to the entire stock of debt to Paris Club creditors, with the aim of providing a final Paris Club treatment called an exit treatment
- ✓ Generally used in two cases:
  - Under the HIPC initiative, takes the form of a stock treatment granted at completion point
  - a case-by-case basis, generally referred to as the Evian approach, for countries that have a satisfactory track record with the Paris Club and the IMF and where there is sufficient confidence in the debtor country's ability to meet its obligations under the debt agreement





# Debt treatments





# Standard Debt treatments

## □ Standard terms of treatment

- ✓ **Classic terms:** case by case treatment where credits (including ODA) are rescheduled at appropriate market rate
- ✓ **Houston terms:** for highly-indebted lower-middle-income countries. Non-ODA debt rescheduled for 15 years and over at market rates and ODA for up to 20 years with 10 years grace on concessional rates
- ✓ **Naples terms:** for highly-indebted poor countries. Non-ODA debt cancelled to 67% of stock and ODA debt rescheduled at original or more favorable interest rate for 40 years with 16 years grace
- ✓ **Cologne terms:** for HIPC eligible countries. Non-ODA debt cancelled to 90% of stock or more and ODA debt rescheduled at original or more favorable interest rate for 40 years with 16 years grace

## □ Other terms had been defined in previous Paris Club treatments but are no longer used:

- ✓ Toronto terms: replaced by Naples terms; London terms: replaced by Naples terms; Lyon terms: replaced by Cologne terms



# Exceptional Debt Treatment

## □ Evian Approach

- ✓ Developed in 2003 to deal with non-HIPC countries, provides tailored debt restructuring taking into account debt sustainability considerations, granted only in case of imminent default, with the objective of ensuring long lasting debt sustainability
- ✓ The comprehensive debt treatment could take various forms depending on the results of the debt sustainability analysis: flow treatment, stock reprofiling, stock reduction
- ✓ Debt reduction, either through principal or NPV reduction, will continue to be considered only in exceptional cases
- ✓ A staged approach provides the Paris Club the opportunity to review after a certain time period, the necessity and the amount of debt reduction required
- ✓ To ensure that the debt treatment captures the relevant scope of the debt and to facilitate new bilateral lending, the adjustment of the "cut-off date" could be actively considered
- ✓ Countries that have benefited include, Iraq (2004), Nigeria (2006), Seychelles (2009) and Myanmar (2013)



# Exceptional Debt Treatment

## □ HIPC

- ✓ **Preliminary period:** a debtor country must establish a track record by implementing an adjustment programs supported by the IMF and the World Bank. It will receive preliminary debt relief under Naples terms
- ✓ **Decision point:** At the end of the preliminary period, in line with the debt sustainability analysis, the international community commits to provide sufficient assistance by the completion point for the country to achieve debt sustainability calculated at this time. The delivery of assistance committed by the Fund and Bank depends on satisfactory assurances of debt relief by other creditors
- ✓ **Interim period:** On a case-by-case basis, Paris Club creditors may provide interim relief to a debtor country making satisfactory performance on its appropriate IMF program between the decision point and the expected date for the completion point, through a flow treatment with a 90% debt reduction on commercial claims and a long-term rescheduling of the remaining 10% and of 100% of ODA claims (Cologne terms)
- ✓ **Completion point:** The remainder of the debt relief, defined at the decision point, is provided through a reduction in the stock of eligible debt, subject to fair burden sharing, with at least comparable debt treatments by other creditors



# Why Address the Debt Situation

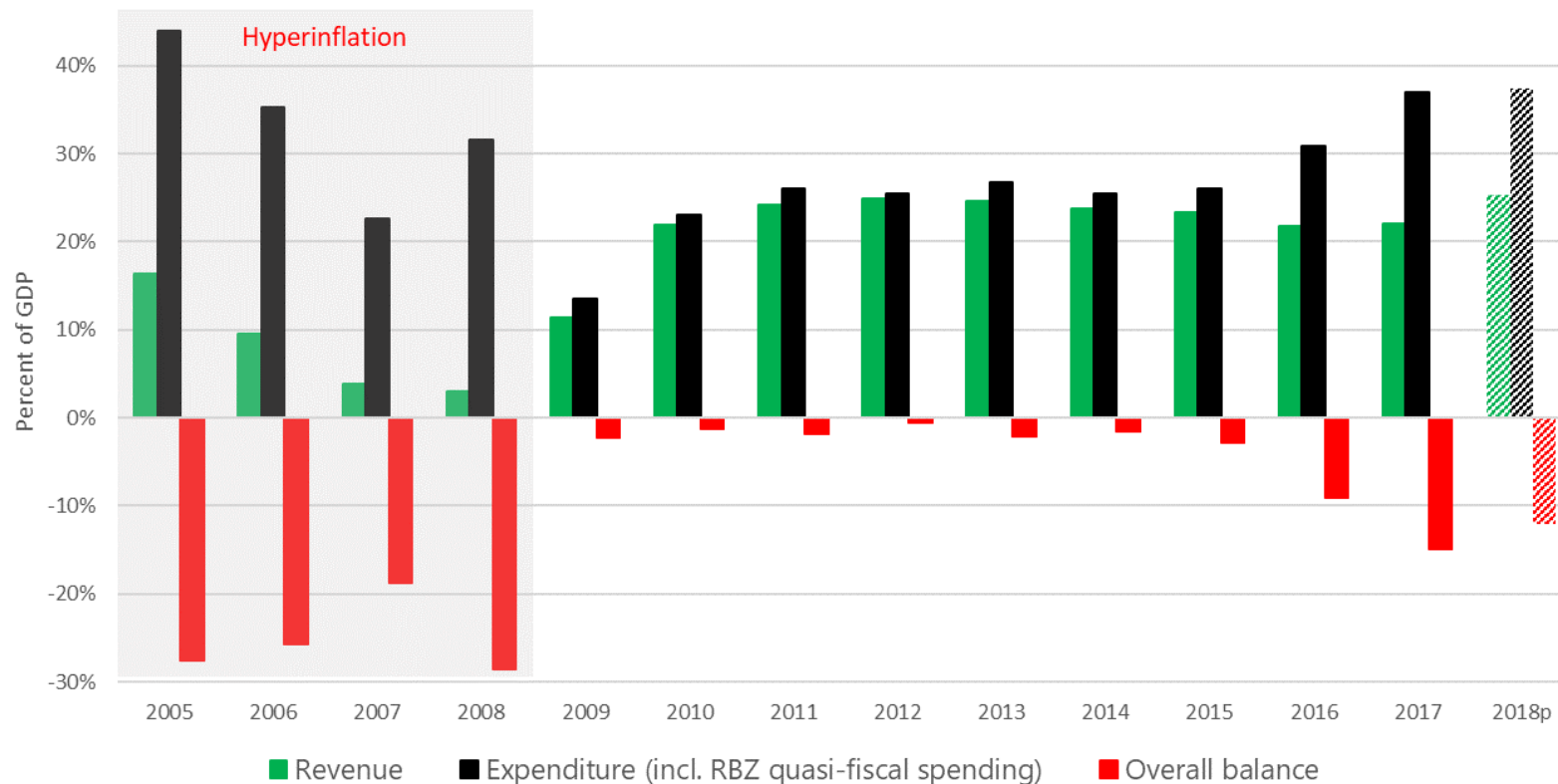
- ❑ Unlock new financing for Zimbabwe's socioeconomic and transformation agenda
- ❑ Improve the country's credit rating
- ❑ Attract investment and capital inflows
- ❑ Create fiscal space



# Large deficits have returned

## Zimbabwe: Fiscal Position

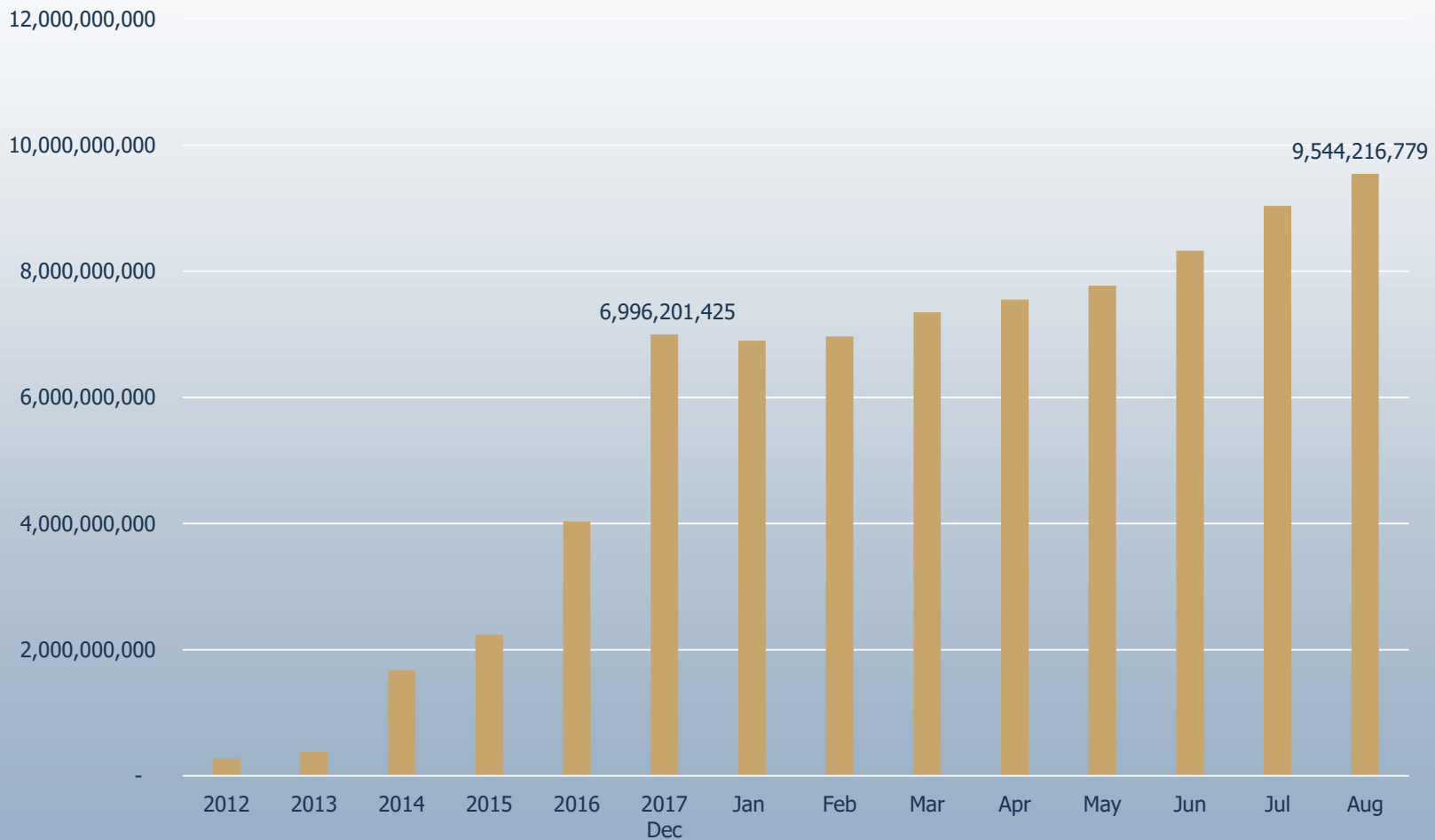
(percent of GDP)





# Domestic debt is rising

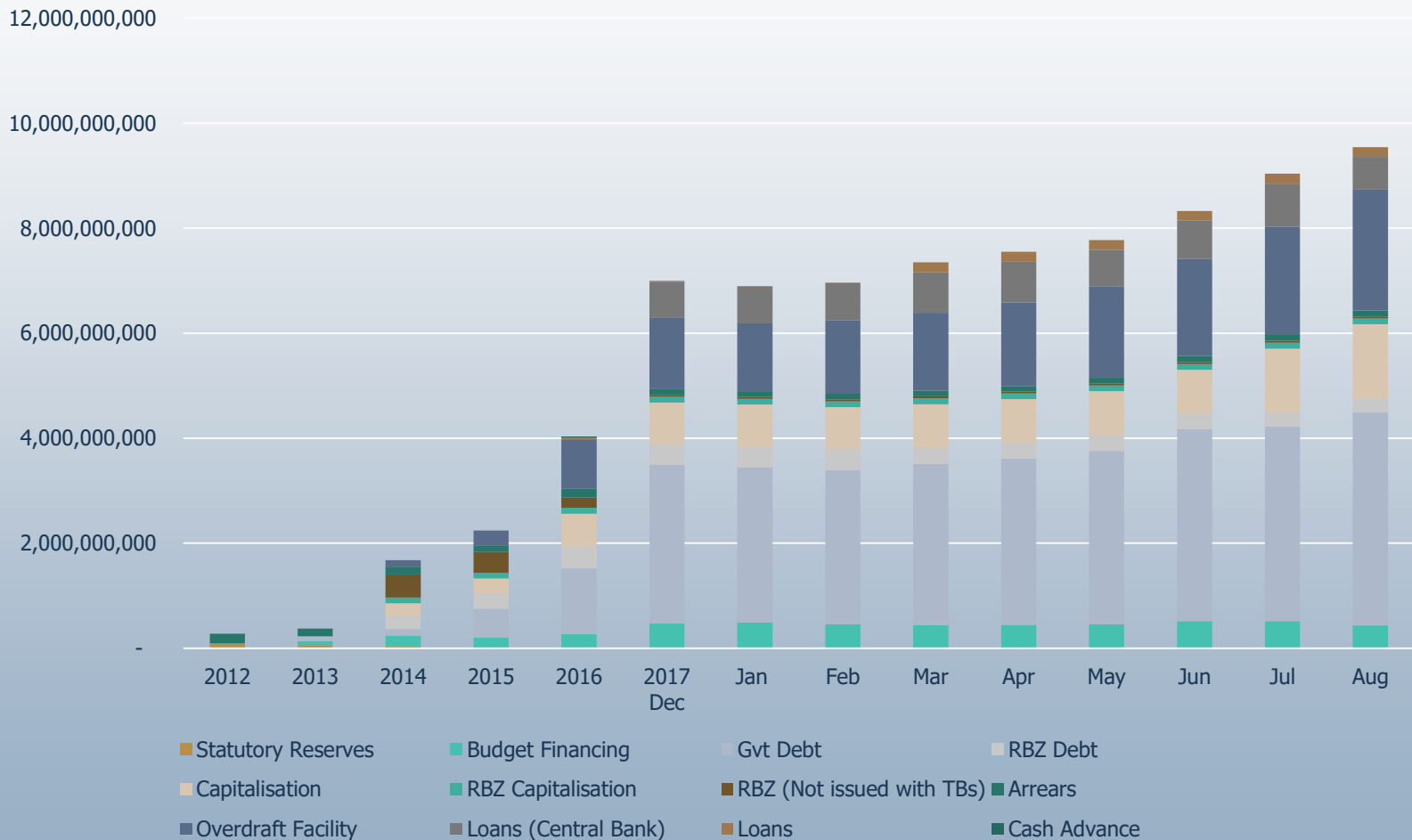
Domestic debt stock





# Total Debt is higher than simply government debt

Domestic debt components







# Zimbabwe is in debt distress

- External arrears continue to mount
  - \$2.1 billion to IFIs
  - \$3.3 billion to bilaterals
- New external financing is limited to
  - Non-Paris Club creditors
  - Gold export-backed loans
- Domestic debt is growing rapidly:
  - Debt stock skyrocketed from \$0.4 billion (2013) to over \$9 billion (2018E)

## Zimbabwe: Public and Publicly Guaranteed Debt

(USD millions; as of end-2017)

	DOD	Arrears	Total	% of GDP
<b>External Debt 1/</b>	<b>3,177</b>	<b>5,652</b>	<b>8,829</b>	<b>50%</b>
Bilateral Creditors	1,443	3,327	4,770	27%
Paris Club	240	2,990	3,230	18%
Non Paris Club	1,203	336	1,539	9%
Multilateral Creditors	1,060	2,262	3,322	19%
World Bank	246	1,174	1,420	8%
African Development Bank	37	641	678	4%
European Investment Bank	22	287	309	2%
Afreximbank	622	67	690	4%
Others	133	93	226	1%
Commercial Creditors	674	63	737	4%
<b>Domestic debt 2/</b>	<b>6,886</b>	<b>108</b>	<b>6,994</b>	<b>40%</b>
Government Bonds	4,785	-	4,785	27%
RBZ loans	2,049	-	2,049	12%
Domestic Arrears	-	108	108	1%
Other	52	-	52	0%
<b>Farmer's compensation 3/</b>			<b>2.4-10 USD billion</b>	<b>(13-57% GDP)</b>

Source: Zimbabwean authorities and IMF staff calculations

1/ External public and publicly-guaranteed debt, including RBZ and SOEs

2/ Unconsolidated domestic debt of the central government

3/ Contingent liability



# Traditional Debt Relief Mechanism

## **Paris Club**

Group of official bilateral creditors, mainly industrialized countries, organized to deal with problems with bilateral official debt

## **London Club**

Group of commercial creditors (largely banks) organized to deal with problems with commercial bank debt (Does not apply to the Zimbabwean context).

## **Middle-income countries**

Generally terms are non-concessional but relief is provided through extended maturities and grace periods

## **Low-income countries**

Rescheduling terms are concessional (both cash flow relief and NPV reduction)



# Paris Club Stages

- ❑ In all cases a strong link with economic performance and public debt management is needed
  
- ❑ **Stage 1:** First IMF arrangement and flow treatment from the Paris Club (one to three years according to past performance); establishment of a track record in program implementation and in paying Paris Club
  
- ❑ **Stage 2:** Second arrangement with the IMF and first phase of an exit treatment granted by the Paris Club
  
- ❑ **Stage 3:** Completion of the exit treatment based on the full implementation of the successor IMF program and a satisfactory payment record with the Paris Club



# Paris Club Cut-Off Date

- When a debtor country first meets with Paris Club creditors, a "cut-off date" is defined
- Credits granted after this cut-off date generally are not subject to future rescheduling
- The cut-off date is designed to protect credits granted by Paris Club creditors after a rescheduling
- The cut-off date therefore helps restore access to credit for debtor countries facing a liquidity crisis



# Dealing with Arrears

- ❑ Arrears need to be addressed before a Fund-supported program
- ❑ Two sets of policies at the Fund:
  - Arrears to official creditors
  - Arrears to private creditors
- ❑ Arrears are addressed through a number of ways
  - Specific requirements for the World Bank and the Paris Club, for example
- ❑ In general, best efforts are expected to be made with all creditors to normalize the situation

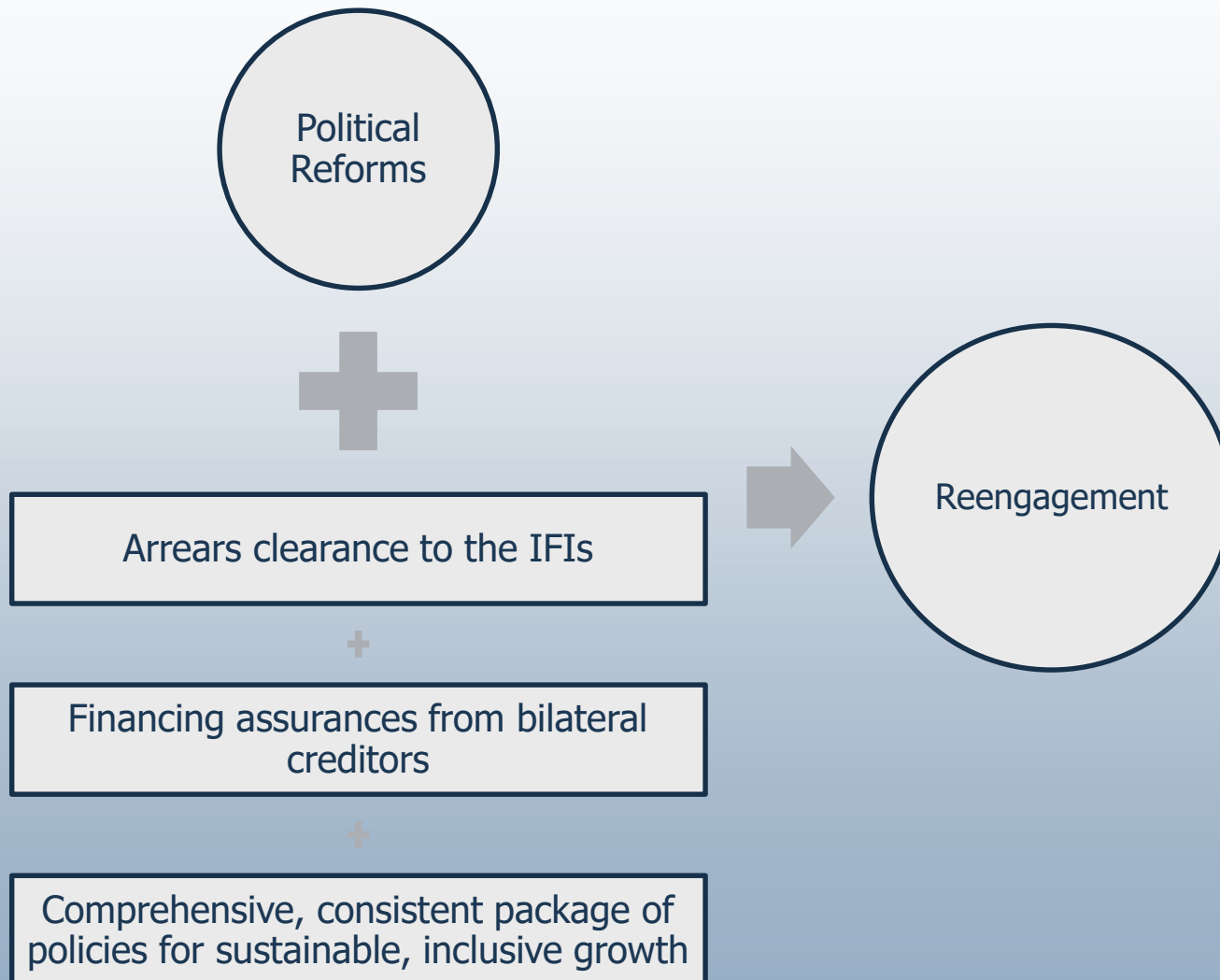


# Country experiences with the Paris Club

- ❑ Countries that have accessed debt relief from the Paris Club
  - Angola in 1989
  - Nigeria in 1986, 1989, 1991, 2000 and 2005
  - Zambia in 1983, 1984, 1986, 1990, 1992, 1996, 1999, 2002, and 2005
  - Malawi in 1982, 1983, 1988, 2001, and 2006
  
- ❑ African countries that have not had any agreements with the Paris Club
  - Zimbabwe
  - South Africa



# Conditions for IMF financial engagement





# Critical issues

- ❑ Timing of Fund engagement
- ❑ Type of financial arrangement
  - Amount, adjustment profile, ...
- ❑ Coordination with WB and IFIs
  - ❑ Arrears clearance, financing, structural reforms, ...
  
- ❑ A country has to request for HIPC BUT
  - It has to qualify and also be eligible for HIPC
  - An assessment has to be done by the IMF and WB to determine HIPC qualification and eligibility



**Thank you**