

International Monetary Fund



Traditional Debt Relief Mechanisms

Harare - November and December 2014; and April and May 2015

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Outline

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- Traditional debt relief mechanisms
 - ◆ Paris Club
 - ◆ London Club
- Dealing with arrears
- Steps toward normalization
- Some examples of Paris Club treatments



Why Address the Debt Situation

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



Traditional Debt Relief Mechanisms

● 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



Paris Club History

- The Paris Club is an informal group of official creditors
 - ◆ Its role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries
- The origin of the Paris Club dates back to 1956 when Argentina agreed to meet its public creditors in Paris
- Since then, the Paris Club has reached 430 agreements with 90 different debtor countries worth \$583 billion



Paris Club Treatments

- As debtor countries undertake reforms to stabilize and restore their macroeconomic and financial situation, Paris Club creditors provide an appropriate debt treatment
- Paris Club creditors provide debt treatments to debtor countries in the form of rescheduling:
 - ◆ Debt relief by postponement
 - ◆ Or, in the case of concessional rescheduling, reduction in debt service obligations during a defined period (flow treatment)
 - ◆ Or as of a set date (stock treatment)



Paris Club Operational Issues

- Creditors meet in a multilateral framework with a debtor country in difficulty and agree on the terms of a rescheduling that are reflected in the “Agreed Minute”
- On the basis of the Agreed Minute, the debtor country negotiates bilateral agreements with each creditor countries
- Terms vary depending on the individual country case



Paris Club Principles

- **Consensus:** All decisions must be accepted by all participating creditor countries
- **Solidarity among creditors:** No creditor will seek better treatment from a debtor country than is available to other creditors
- **Conditionality:** The Paris Club will only reschedule debt if the debtor country is pursuing an economic adjustment program supported by the IMF
- **Comparability of treatment:** No debtor country should ever accept terms from a creditor that are less favorable than that outlined the Agreed Minute
- **Case-by-case action:** A Paris Club decision on a treatment will be based on a country's individual circumstances



Paris Club Rescheduling Terms

● ***Middle-income countries:***

- ◆ Generally terms are nonconcessional 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 Evian Approach

- The Evian Approach:
 - ◆ Takes into account debt sustainability, to adapt its response to the financial situation of the debtor countries
 - ◆ Make a contribution to the current efforts to make the resolution of crises more orderly, timely and predictable
- Is granted only in case of imminent default and is not considered by debtor countries as an alternative to more expensive sources of financing
- Provides debtor countries with a debt treatment that reflects their financial needs and the objective of ensuring long lasting debt sustainability



Paris Club Evian Approach

- Based on debt sustainability in coordination with the IMF
- If unsustainable, creditors would participate in a comprehensive debt treatment
- But:
 - ◆ Commitment to policies that will secure an exit from the Paris Club in the framework of their IMF arrangements, and who will seek comparable treatment from their other external creditors, including the private sector
 - ◆ Decided on a case-by-case basis



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 Evian Terms

- No standard terms under the Evian Approach
 - ◆ Paris Club creditors will tailor the treatment to the individual debtor's financial situation
 - ◆ For that purpose, they will draw on a wide range of options used in the past, or to be developed under the Evian approach
- The comprehensive debt treatment could take various forms depending on the results of the debt sustainability analysis: flow treatment, stock re-profiling, stock reduction
- Debt reduction, either through principal or NPV reduction, will continue to be considered only in exceptional cases and when the need is clearly demonstrated in the debt sustainability analysis



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



The London Club

- An informal association of commercial creditors (mainly banks)
- London Club creditors convene (not necessarily in London) to negotiate debt rescheduling at the request of a debtor country
- The composition of the creditor committee is ad hoc, depending on the debtor country



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



Dealing with Arrears

- Arrears to the Fund could be addressed, for example, through a bridge loan to a new Fund-supported program
 - ◆ But the necessary financing has to be identified
- ***Moreover:***
 - ◆ Creditors will expect equal treatment from Zimbabwe in terms of servicing debt in advance of any debt relief
 - ◆ Actual debt service following arrears clearance (and debt relief) could be higher than at present



Steps toward Normalization

- Continued satisfactory implementation of the SMP to rebuild a track record of
 - ◆ Sound macroeconomic policies
 - ◆ Capacity to implement key structural reforms, which creditors consider provide an adequate basis to proceed
- A decision by the Fund Executive Board that Zimbabwe has strengthened its cooperation in terms of both policies and payments; this could be done as part of an SMP review
- Develop a strategy for reducing poverty



Steps toward Normalization

- Full clearance of arrears to the PRGT
- Decision by the Fund Executive Board to lift all remaining remedial measures
- Restoration of PRGT eligibility
- A clear indication by the World Bank and African Development Bank that a credible plan is in place to resolve the outstanding arrears; this is key at this point in time
- Securing financing assurances from both multilaterals and bilaterals to fill the balance of payments gap
 - ◆ In the case of the AfDB, this would imply a plan similar to the World Bank
 - ◆ In the case of the Paris Club, this would require informal indication of their willingness to entertain a request for a debt treatment



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



For More Information

- Debt relief

- <http://www.imf.org/external/ns/search.aspx?NewQuery=debt+relief&submit.x=0&submit.y=0>

- Debt sustainability

- <http://www.imf.org/dsa>

- Paris Club

- <http://www.clubdeparis.org/en/>



Thank you!