FT Series **Debt deadlock**

Opinion **Global Insight**

Beijing’s rise leaves Paris Club of creditors struggling to find forum

Breaking the debt deadlock will require China to adopt a more collegial approach

JONATHAN WHEATLEY

A vendor in Colombo, Sri Lanka: a possible IMF deal with the country could provide a precedent on transparency for the private sector © Thilina Kaluthotage/NurPhoto via Reuters

Jonathan Wheatley in London 13 HOURS AGO

The last time emerging markets faced a major debt crisis, in the 1990s, influential creditors, named after traditional centres of diplomacy and finance, could quickly gather in private to agree a solution.

These days, bringing together a more diverse group of lenders has proved a more cumbersome exercise.

The Paris Club's members are the mostly western nations that used to dominate bilateral lending. But their contributions are dwarfed by China, which now lends more to the world's poorest countries than all other bilateral creditors put together. The London Club of commercial banks has lost its relevance, with borrowers increasingly raising finance on bond markets.

These shifts have meant creditors' positions are far less aligned. As Anna Gelpern, a senior fellow at the Peterson Institute for International Economics, puts it, new entrants are "just not embedded" in the clubby set-up of the past.

What's replaced the clubs is a blame game, where critics accuse China of lending on terms that give it hidden advantage over other lenders. As its loans have soured, the country has become an alternative lender of last resort, challenging the IMF and stymying restructuring negotiations by trying to impose its own terms.

For those in default — such as Zambia, Sri Lanka, Ghana and others — the lack of an informal club has meant debt restructurings have been frustratingly slow, taking years in some cases. More sovereign issuers are likely to suffer a similar fate soon as higher global borrowing costs and weak growth push them into insolvency.

Finding the right approach to break the debt deadlock will be hard to achieve, analysts said, with much depending on Beijing.

In the past week, it has appeared to soften its opposition to collegiate action. It may even have dropped its insistence that multilateral development banks should join other creditors in writing down the value of their loans. That proposal, which would raise the funding costs of the World Bank and other development banks, is widely seen as a non-starter by economists and western governments.

Such a change in China's position, says Clemence Landers, senior fellow at the Center for Global Development think-tank, would be "an important and long-overdue breakthrough".

Debt deadlock

This is the final part of a series on why countries in economic distress are struggling to move forward

- Part 1: How China changed the game for countries in default
- Part 2: Ghana default puts domestic debt 'can of worms' in the spotlight
- Part 3: China hit by surge in Belt and Road bad loans
- Part 4: Beijing's rise leaves Paris Club of creditors struggling to find forum

The Group of 20 large economies — of which China is a member — has come up with a Common Framework. However, only four countries have signed up: Zambia, Chad, Ethiopia and Ghana. In part, that's because the framework obliges debtors to seek the same treatment from all creditors, including those in the private sector — something that many sovereigns are keen to avoid for fear of damaging their creditworthiness.

Bondholders, meanwhile, say they are being kept in the dark.

Kevin Daly, a director at Abrdn, an asset manager, says the IMF's assessment of a debtor country's needs should be shared with all creditors including bondholders from the start, and not only after bilateral creditors including China have reached a deal.

In Zambia, for example, he notes that, as creditors, bondholders are as big as Beijing. "We're trying to come up with ideas to speed things up but we lost months of lead time," he said. "Yet we're not the ones who lent recklessly on opaque terms."

Some say the recent leaking of the IMF's criteria for a deal in Sri Lanka offers a precedent for greater transparency for the private sector. That bondholders got sight of what to expect early on with no harm done to the negotiations reinforces the case for making it a habit.

Another way of speeding things along would be to substantially increase the funding available from multilateral development banks, enabling them to provide more grants or concessional loans, rather than outright debt relief, to countries in distress. Ways of doing this are under active discussion.

In what looks like an attempt to revive the clubby meetings of the past, the IMF, World Bank and G20 have tried to corral all creditors into a new initiative. The Global Sovereign Debt Roundtable met in Washington last week — with both China and members of the Paris Club participating in the talks, alongside private-sector representatives.

Little progress was made. Even with more creditors around the same table, effective action will be slow. But for now, with no other workable solutions on offer, borrowers and lenders hope the forum will be given a chance to succeed.