

Paris Club

December 7, 2022

In news— Paris Club creditor nations have proposed a 10-year moratorium on Sri Lankan debt.

Key updates-

- Apart from 10-year moratorium, it has also proposed another 15 years of debt restructuring as a formula to resolve the Sri Lankan debt crisis.
- The Paris club has also **called upon the Global north and south to take a similar haircut in restructuring of Sri Lankan debt.**
- So far no official proposal has been made by Paris club to China or India.
- Earlier this year, **Sri Lanka had defaulted on its 51 billion dollar external debt** in the midst of spiralling political and economic crisis.
- **India has provided emergency aid to the tune of four billion dollars** to the Island nation to tide over its economic crisis in 2022.

What is Paris Club?

- The Paris club is a group of officials from 22 countries who find sustainable solutions for challenges faced by debtor countries.
- 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**, which is 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).

- It was **created gradually from 1956, when the first negotiation between Argentina and its public creditors took place in Paris.**
- It **treats public claims** (that is to say, those due by governments of debtor countries and by the private sector), guaranteed by the public sector to Paris Club members.
- A **similar process occurs for public debt held by private creditors in the London Club, which was organized in 1970 on the model of the Paris Club** as an informal group of commercial banks meet to renegotiate the debt they hold on sovereign debtors.
- Creditor countries meet ten times a year in Paris for *Tour d'Horizon* and negotiating sessions. To facilitate Paris Club operations, the **French Treasury provides a small secretariat**, and a senior official of the French Treasury is appointed chairman.
- Since 1956, the Paris Club has signed 433 agreements with 90 countries covering over US\$583 billion.

