DEBT RELIEF WITH CHINESE CHARACTERISTICS

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WHY A STUDY OF CHINESE DEBT RELIEF?

• Scale of Chinese lending in debt distressed countries
• Multiple Misconceptions
• Pre-COVID-19
Chinese Loan Commitments to Africa 2000-2018

Source: SAIS-CARI Data
Total Chinese loan commitments, 2000-2018 as % of GNI vs. External debt as % of GNI

Source: CARI, World Bank IDS, World Bank, IMF
Note: Algeria, Eritrea, Equatorial Guinea, Libya, Namibia, Seychelles, Sudan, South Sudan not included because debt or GNI statistics are unavailable
Note: The risk of debt distress is from the DSA publication, which only includes PRGT eligible countries, April 30, 2020
China and Debt Distress: Media Misconceptions

Benign China

• Debt write-offs are common; China is a “free-money machine” (Forbes)
• “Chinese debt can easily be renegotiated, restructured, or refinanced” (Guardian)

Malign China

• “Chinese loans require refinancing every couple years” (NYT)
• “China has offered relief but …demanded control of prized state assets such as ports or mines” (Bloomberg)
• Kenya assets risk seizure by Chinese (Moody’s)
CHINESE DEBT RELIEF IN AFRICA DATABASE:

What do the numbers tell us?
Chinese Debt Relief in Africa, 1980-2019

- First Chinese loan: 1960

- **1980-2000**: Multiple restructurings, some debt-equity swaps in 1990s

- **2000-2019 Debt Cancellations**: >$3.4 billion, 94 cases

- **2000-2019 Debt Restructuring**: key to separate debt restructuring from debt cancellations
Debt Cancellations, 2000-2019

• >$3.4 billion from 2000-2019
• 328 loans cancelled from 2000-2012 (official figure)
• 94 cases in 40 Countries 2000-2019
  • Average of $30 million cancelled per case; cases can include multiple loans
• Almost exclusively Zero Interest Loans (ZILs)
Zero Interest Loans (ZILs) and ZILs as Percentage of China’s Total Loan Commitments to Africa

Source: SAIS-CARI Data,
Chinese Debt Cancellations for Africa by Year (US$ millions)

Source: SAIS-CARI Data
Debt restructuring & refinancing 2000-2019

• $15 billion
  • 16 Cases of Restructuring, 1 of Refinancing

• At least 26 loans worth $15 billion for at least 20 projects
  • $7.5 billion restructured, $7.5 billion refinanced

• At least 11 Cases with maturity extension, at least 4 cases with interest rate reductions
## Debt Restructuring cases show a wide range of treatments

<table>
<thead>
<tr>
<th>Treatment</th>
<th>Reprofiling of debt service payments within original maturity</th>
<th>Short Maturity Extensions (e.g. 3-7 years)</th>
<th>Longer Maturity Extensions (e.g. 10-20 Years)</th>
<th>Maturity Extension and Interest Rate Reduction</th>
<th>Specific Details Unknown</th>
</tr>
</thead>
</table>

Source: SAIS-CARI Data
Angola Refinancing

- 2010-2014: Angolan oil SOE Sonangol borrows $7.5B from CDB, $2.5B from ICBC
- 2015: Angolan president requests restructuring

Former President of Angola, Jose Eduardo Dos Santos meets Xi Jinping in Johannesburg, 2015
Source: Club of Mozambique

- Dec. 2015: Angola opens $15 billion line of credit with the China Development Bank (CDB)
- 2016: Angola contributes US$ 10 billion from CDB credit line as capital to Sonangol, most of which used to prepay Sonangol’s debt to CDB

Chinese Loan Commitments to Angola, 2007-2017

Source: SAIS-CARI, WB commodity price data
ROC Restructuring

- 2000-2017: ROC signs US$ 5 billion of loan commitments with China for 34 projects, including roads, water, and electricity projects
- 2017: ROC in debt distress, debt-to-GDP ratio of 120%, announces restructuring negotiations
- 2018: ROC reschedules US$ 115.8 million of arrears from Chinese contractor CMEC
- 2019: ROC reschedules US$ 1.6 billion of outstanding debt on 8 loans with China Eximbank

Chinese built National Route 1, concessioned to Chinese-French-ROC consortium in 2019

Source: Insight Success

Chinese Loan Commitments to ROC, 2006-2017

- 2018: ROC reschedules US$ 115.8 million of arrears from Chinese contractor CMEC
- 2019: ROC reschedules US$ 1.6 billion of outstanding debt on 8 loans with China Eximbank

Source: SAIS-CARI, WB commodity price data
CHINA AND THE PARIS CLUB
Paris Club Evolution

- **1956-1988** - Classic terms: non-concessional rescheduling. No debt relief in NPV terms
- **1988** – Toronto terms – NPV debt reduction allowed: 33.3%
- **1996** – Naples terms: 67% & HIPC begins; bilateral reduction up to 80%; multilateral debt reduction
- **2005** – MDRI: multilateral debt cancellation

China Evolution

- **1975-2000**: rescheduling maturities, mainly interest-free govt. loans (IFLs)
- **2000-2019**: begin regularly announced write-offs of accumulated arrears of IFLs, for HIPC/LDCs
- **2000-2019**: maturity rescheduled for some Eximbank & company loans, occasional interest rate reduction
- **2020**: joins G-20 for debt moratorium
## Differences between China and Paris Club

<table>
<thead>
<tr>
<th>Paris Club</th>
<th>China</th>
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<tbody>
<tr>
<td>• Coordination with other creditors, intra-creditor transparency</td>
<td>• No coordination; no transparency</td>
</tr>
<tr>
<td>• Punitive penalties on arrears</td>
<td>• No evidence of penalties on arrears</td>
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<td>• Requires IMF program</td>
<td>• Does not require IMF program, but it might help</td>
</tr>
<tr>
<td>• Debt write-offs started only when Paris Club could “afford” it, politically and financially</td>
<td>• Started debt write-offs in 2000 but only for interest-free loans</td>
</tr>
<tr>
<td>• Debt treatment for entire portfolio</td>
<td>• Debt treatment loan by loan</td>
</tr>
</tbody>
</table>
Questions about the G-20 DSSI Pledge

- Which Chinese loans? Which Chinese creditors?
- President Xi Jinping speech, June 17, 2020 China-Africa COVID-19 meeting
  - Cancel debt for interest-free loans maturing in 2020
  - Will implement DSSI for bilateral official loans
    - Probably concessional loans, preferential export buyer’s credits
  - “Will encourage Chinese financial institutions to hold friendly consultations with African countries according to market principles to work out arrangements for commercial loans with sovereign guarantees”
Findings: Chinese debt relief in Africa

• No asset seizures
• No debt cancellation except for interest-free loans
• Multiple creditors, separate negotiations (no “China, Inc.”)
• No evidence of penalties on arrears, unlike Paris Club
• Normally, cancellation and restructuring are done loan-by-loan, not on the entire debt portfolio (this may be changing)
• G-20 pledge will not cover commercial loans with sovereign guarantee