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China's debt relief actions overseas: Patterns, interactions with other creditors, and macro implications

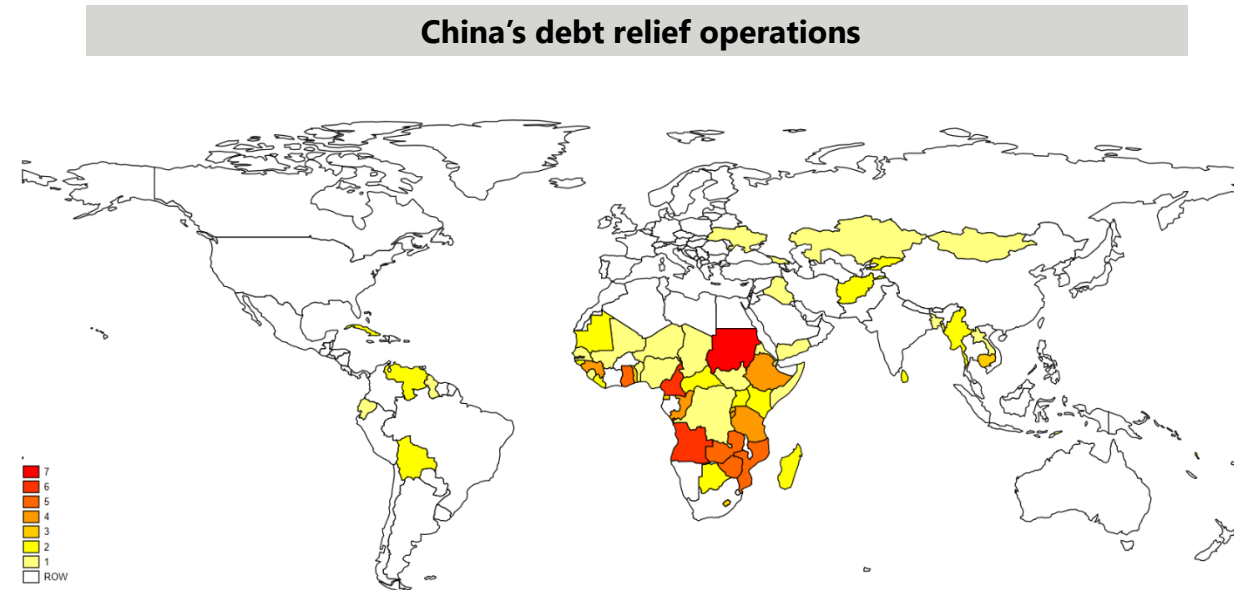
Gatien Bon (EconomiX – Université Paris Nanterre) & **Gong Cheng** (Bank for International Settlements)*

D-DebtCon 2020, China's Debt and Asia's Perspective on Sovereign Debt, 11 September 2020

** The views expressed in this presentation are our own and not necessarily those of the Bank for International Settlements and other institutions.*

Introduction

- Move from China as a sovereign lender to China as a debt relief provider
- Insight from recent case studies (Bon and Cheng (2020)) and a new database
- Aim to extract structured evidence on the patterns and macro impact of Chinese restructurings overseas with a focus on
 - Restructuring terms
 - Interactions between China and other creditors





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1. Data and stylised facts

A new database of China's debt relief actions in 2000-2019

Building blocs of our database

Bluhm, R, A Dreher, A Fuchs, B Parks, A Strange and M Tierney (2018): "Connective financing: Chinese infrastructure projects and the diffusion of economic activity in developing countries", AidData Working Paper 64.

95 events between 2000 and 2017

Hurley, J, S Morris and G Portelance (2018): "Examining the debt implications of the Belt and Road Initiative from a Policy Perspective", Center for Global Development Policy Paper 121

Kratz, A, A Feng and L Wright (2019): "New data on the 'debt trap' question", Rhodium Group

Extensive press research (Factiva, Debtwire, Google News)

Bon & Cheng (2020) database

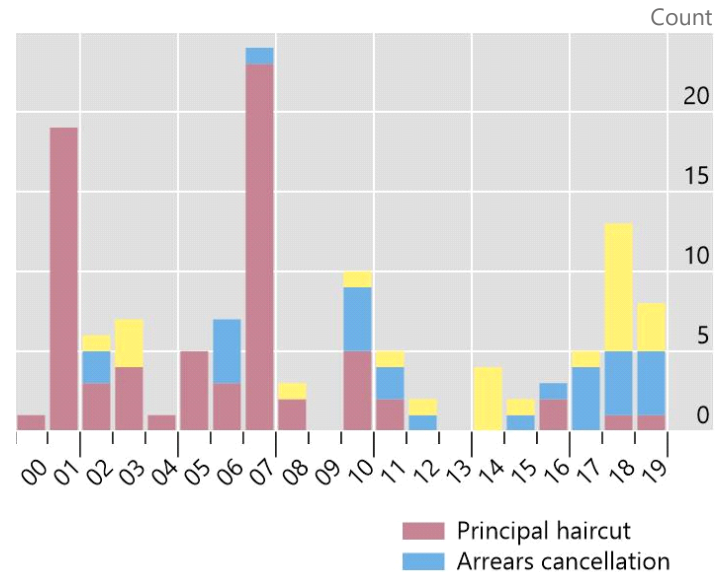
140 restructuring cases between 2000 and 2019 in 64 countries, 125 cases used for stylised facts and empirical analysis

Towards debt rescheduling in recent years

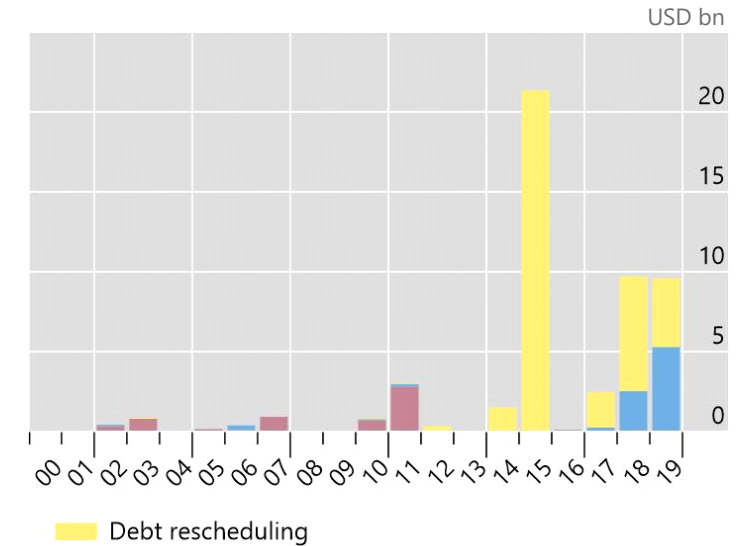
Evolution of different restructuring approaches

Graph 3

Occurrences



Total debt treated



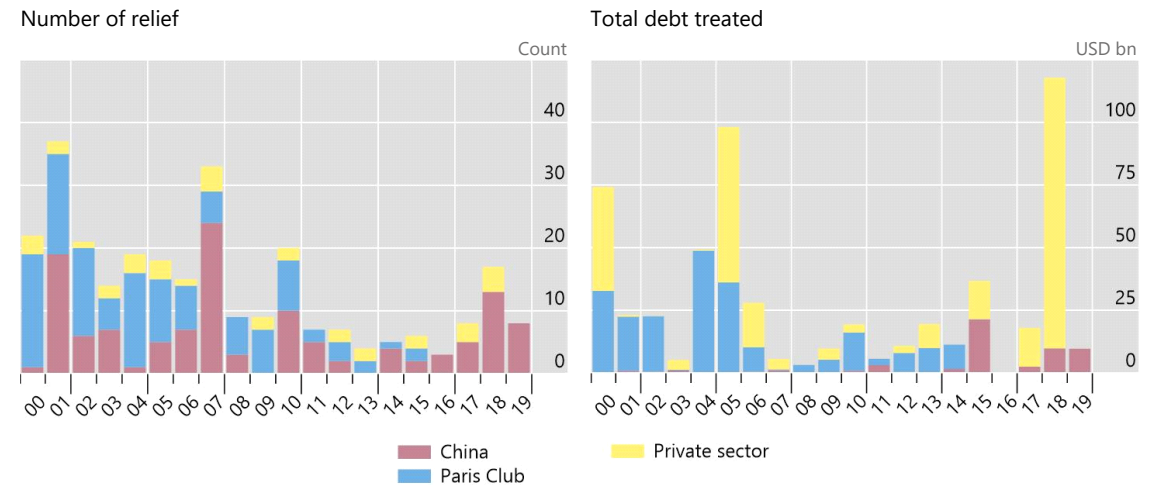
Source: authors' calculations.

Interactions between China and other creditors

- China's debt relief has been a complement with / substitute to that of the Paris Club in 2000-2019
- The size of Chinese restructurings has been dwarfed by other creditors' actions
- In a four-year window, 1/3 of Chinese restructurings were accompanied by a Paris Club treatment, with a principal haircut more likely
- The interactions between China and private creditor were less obvious

Interaction between China, Paris Club creditors and private creditors

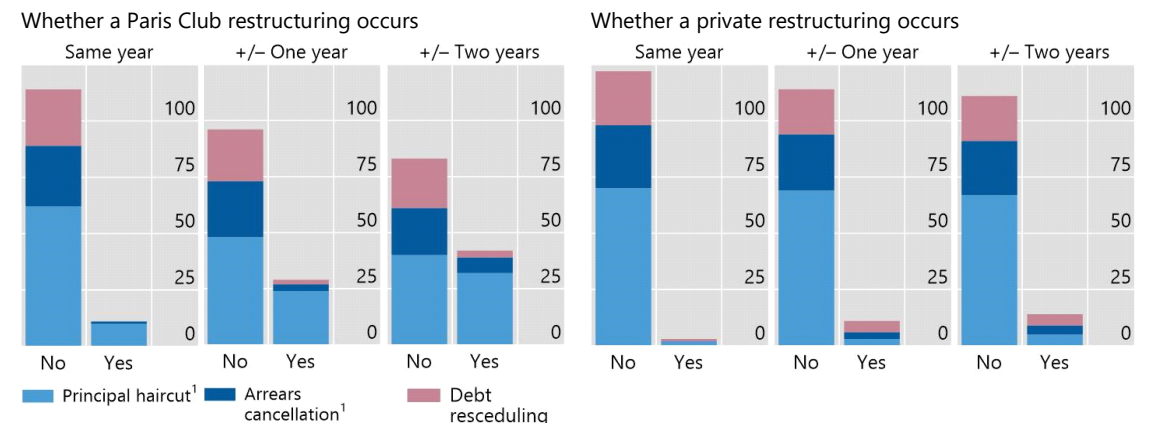
Graph 4



Occurrence of Paris Club and private restructurings around a Chinese debt relief

Count

Graph 5



Interactions with IMF programmes

- More than half of observations were accompanied by the start of an IMF programme in either the same year or one year after the restructuring
- Debt forgiveness was mostly associated with IMF PRGF
- IMF EFF was exclusively associated with debt rescheduling cases
- Countries with an IMF SBA registered the highest face-value reduction from China, on average 3.06% of GDP

Chinese debt restructurings and IMF financial assistance

Number of cases

Table 6

	Debt forgiveness		Debt rescheduling
	Principal haircut	Arrears cancellation	
Extended Credit Facility (ECF)	1	5	2
Extended Fund Facility (EFF)	0	0	6
Poverty Reduction and Growth Facility (PRGF)	34	4	2
Policy Support Instrument (PSI)	2	5	1
Stand-By Arrangement (SBA)	3	0	0
Total	40	14	11

Size of debt relief and IMF programmes¹

Table 7

	Total sample	with IMF	PRGF	ECF&EFF	SBA	PSI
Total debt treated (% GDP)	1.95 (4.320)	1.57 (3.323)	0.91 (1.044)	3.98 (5.826)	3.06 (4.847)	2.83 (6.104)
Face-value reduction (% GDP)	1.15 (3.217)	0.79 (1.368)	0.91 (1.046)	0.07 (0.168)	3.06 (4.847)	0.28 (0.216)
Observations	115	62	40	18	3	6

¹ Mean coefficients with standard deviation in parentheses. PRGF = Poverty Reduction and Growth Facility; ECF = Extended Credit Facility; EFF = Extended Fund Facility; SBA = Stand-By Arrangement; PSI = Policy Support Instrument.

Source: authors' calculations.



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2. Empirical strategy and results

Methodology – Local projection (Jordà 2005)

- We study causal effects of Chinese restructurings on recipient countries' economy

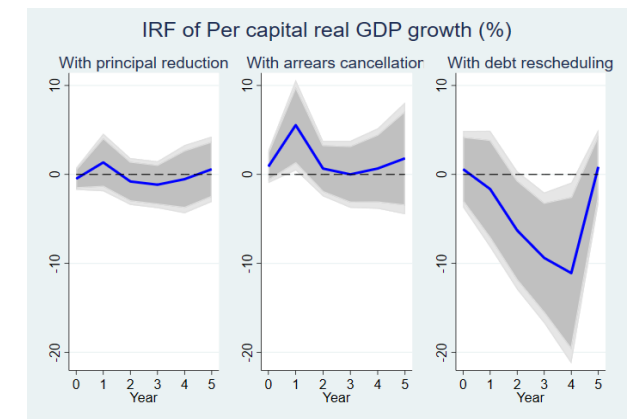
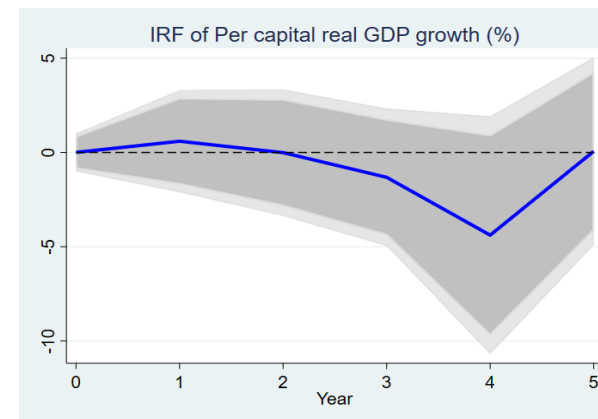
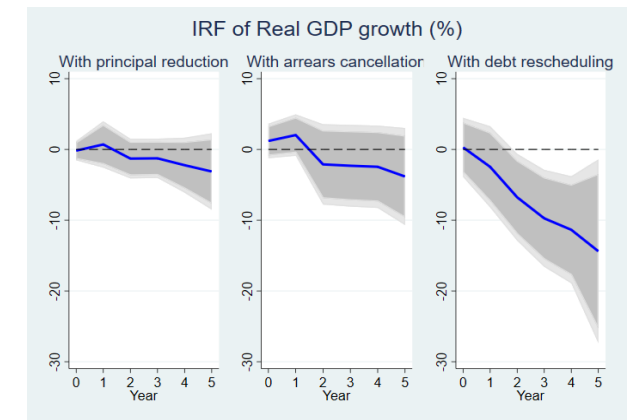
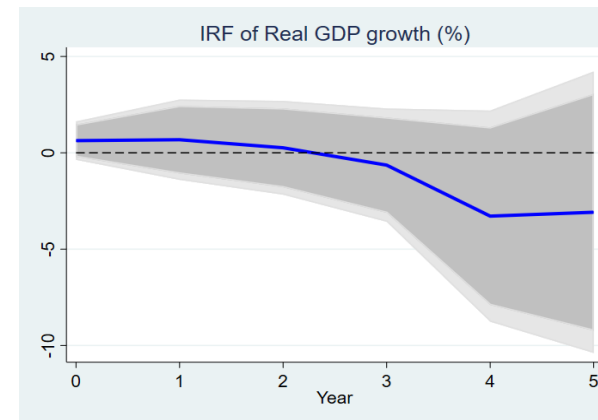
$$\Delta Y_{i,t+h}$$

$$= \alpha_{i,h} + \beta_h \mathit{China}_{i,t} + \Phi_h(L) \Delta Y_{i,t} + \Psi_h(L) X_{i,t} + \theta_h \mathit{IMF}_{i,t\pm s} + \eta_h \mathit{Paris}_{i,t\pm s} + \zeta_h \mathit{Private}_{i,t\pm s} + \mu_{i,t,h}$$

- h-step direct forecast controlling for dynamic feedback effects
 - $\Delta Y_{i,t+h}$ is the cumulative change in $Y_{i,t}$, since the shock up to time $t + h$; $\Phi_h(L)$ include two lags of the dependent variable
 - $\mathit{China}_{i,t}$ is the treatment effect for Chinese restructuring
- Testing the effects of different restructuring terms: principal haircut, arrears cancellation and debt rescheduling
- Dealing with endogeneity
 - Narrative approach – Reinhart and Trebesch (2016) and Cheng et al. (2018, 2019)
 - Empirical approach – Augmented Inverse Probability Weighting

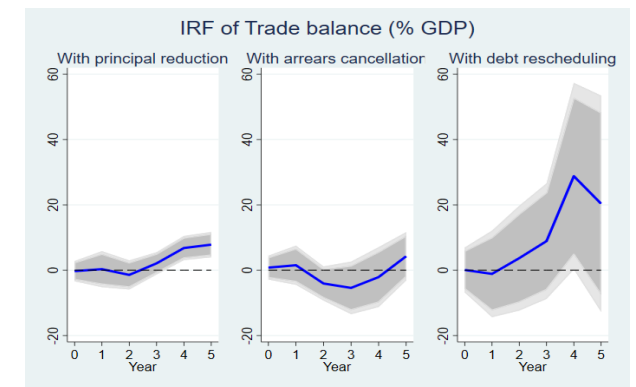
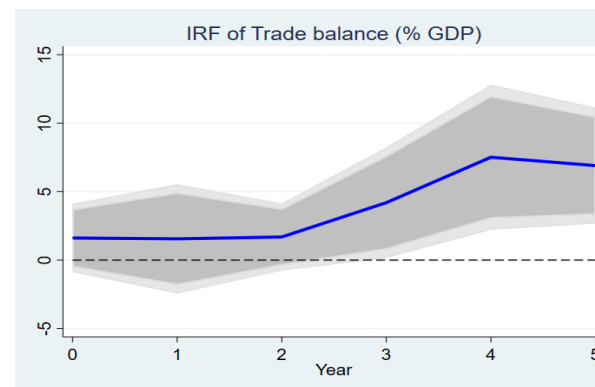
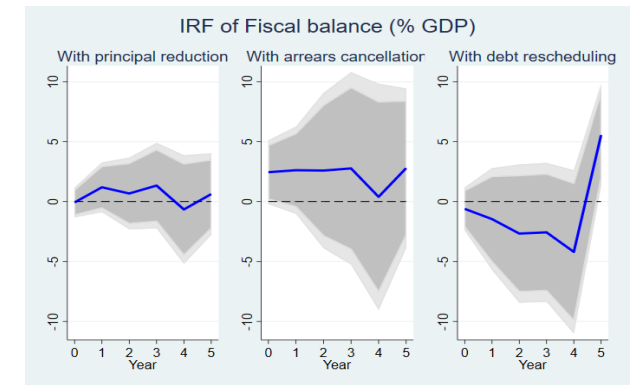
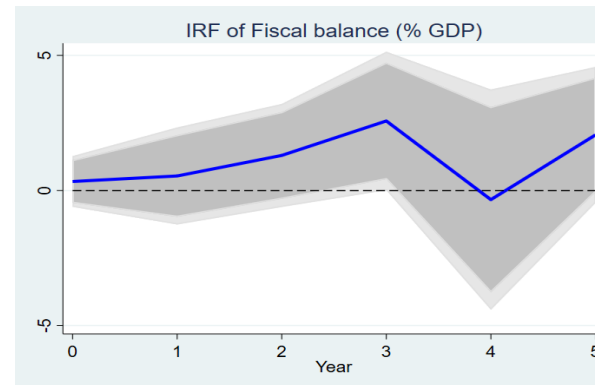
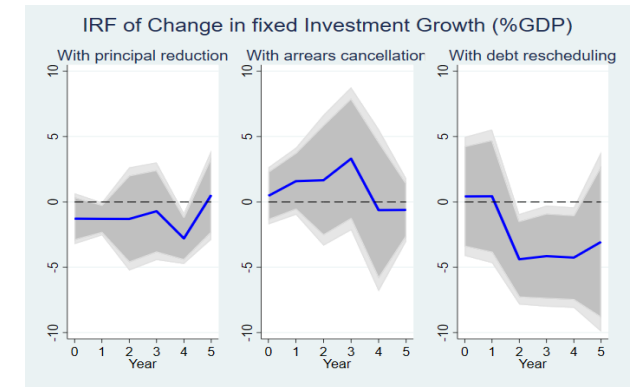
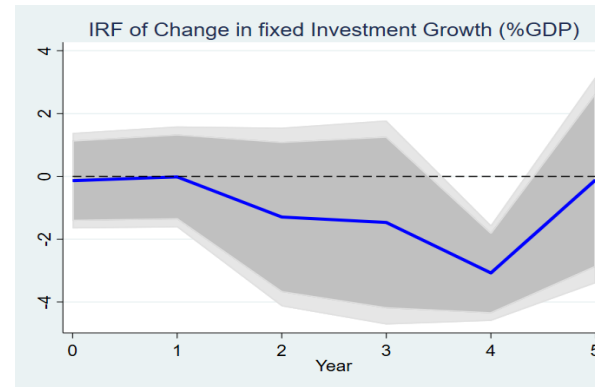
Growth prospects after a Chinese debt restructuring

- Both real GDP growth and per capita real GDP growth seem to deteriorate after a Chinese restructuring
- Faint and short-lived improvements in debt forgiveness cases
- Worst performance associated with debt rescheduling cases
- In a stark contrast with Reinhart and Trebesch (2016) and Cheng et al (2018, 2019)
- Sample too small? China's relief too limited?



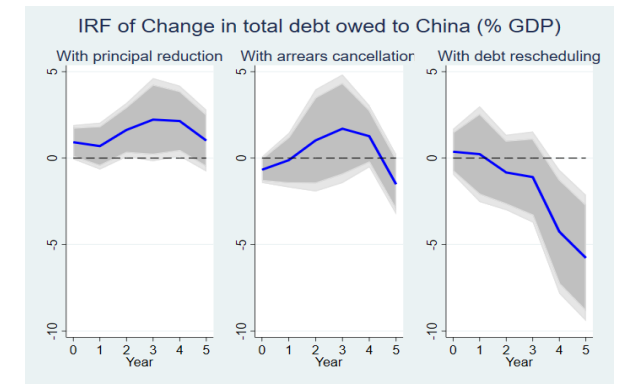
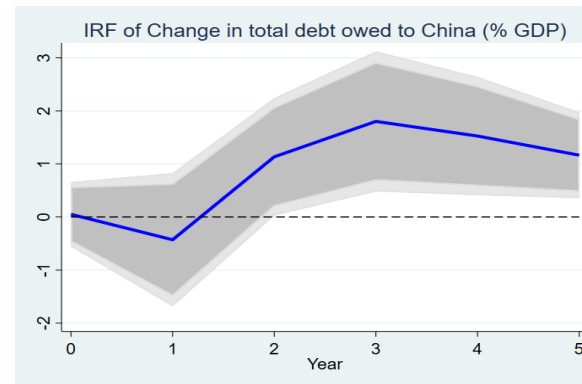
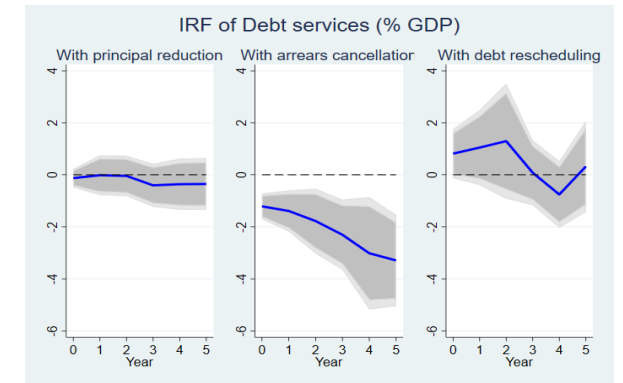
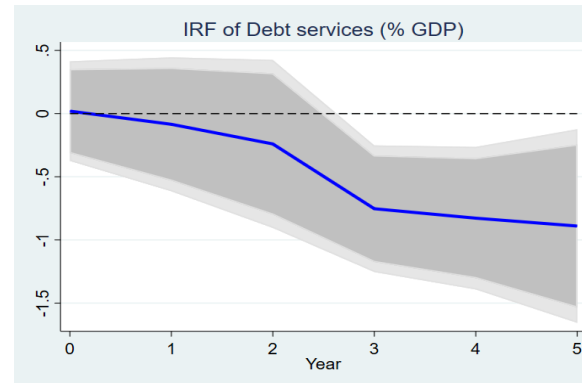
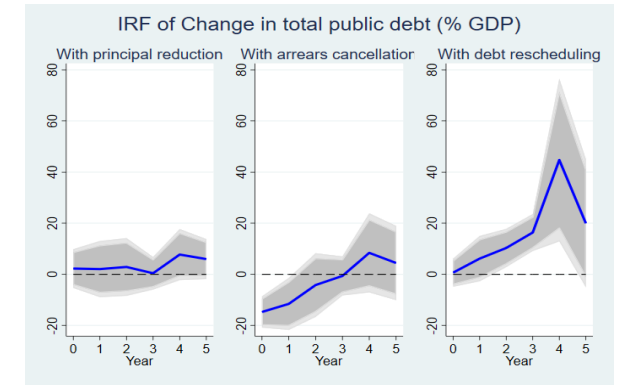
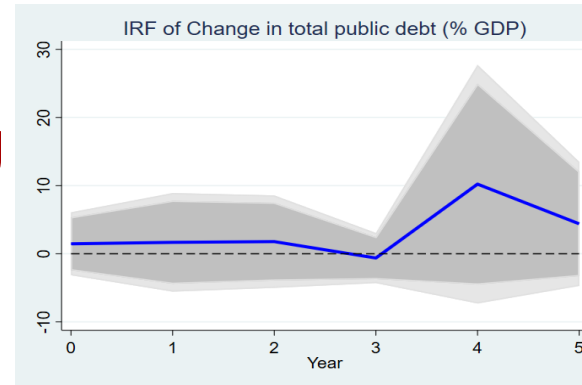
Macro channels of transmission

- Fixed capital investment tumbled, especially in debt rescheduling cases by 5% of GDP
- Fiscal tightening in debt forgiveness cases, with a surge in fiscal surplus for debt rescheduling cases in year 4
 - Related to IMF programme requirements?
- Trade balance improvements largely contributed to GDP growth
 - Imports and exports may react differently



Debt dynamics after the restructuring

- Are debt issues solved?
 - Debt stock and debt service reduced?
 - New financing still flowing in?
- Fall in debt stock and decrease in debt service costs for arrears cancellation cases
- Debt stock on the rise with high debt service costs for rescheduling cases
- China's credit still flows in for forgiveness cases but contracted by 5% for rescheduling cases (also more recent cases 2010-2019)





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Conclusion

Avenues for future studies

- Other possible macro channels of transmission?
 - Domestic consumption? Exchange rates?
- Further distinction between different Chinese lenders providing debt relief or new financing
 - Government vs policy banks vs. commercial banks
- Alternative methods to evaluate Chinese interventions?
 - Synthetic control method
- Digging into the rationale for debt relief initiatives?
 - Political motives vs economic motives?
- Future data improvement
 - More cases with the DSSI and subsequent initiatives?

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