



## Paris Club

**For Prelims:** Paris Club, International Monetary Fund, Sri Lanka Economic Crisis, Organisation for Economic Co-operation and Development (OECD)

**For Mains:** India's Position on Bilateral Negotiation with Sri Lanka, India's Neighborhood First Policy.

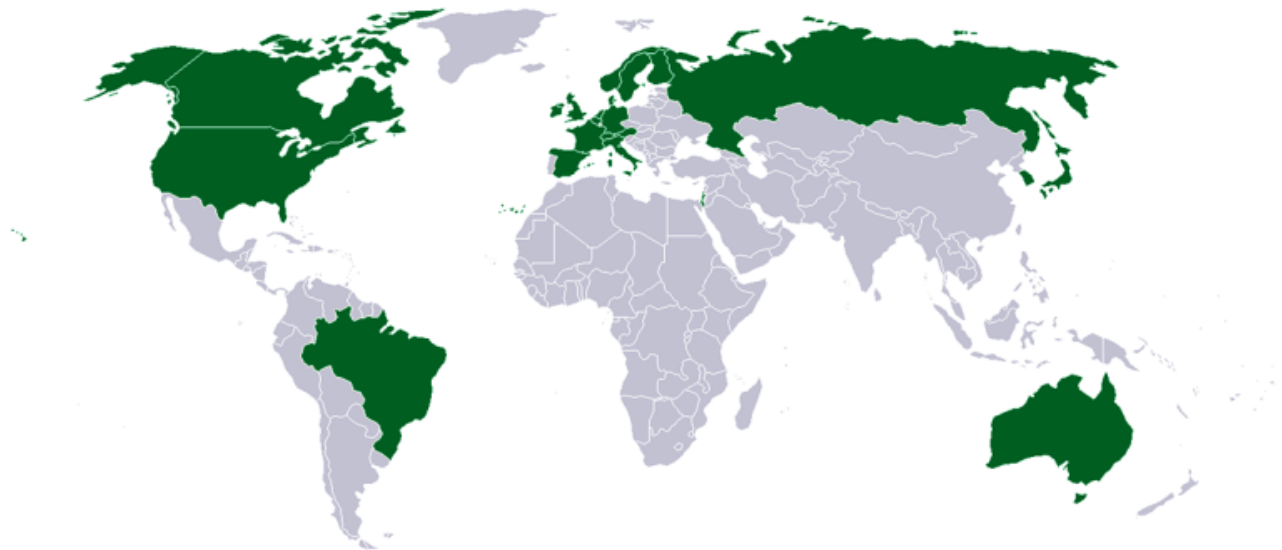
### Why in News?

The [Paris Club](#), an informal group of creditor nations, will provide financial assurances to the [International Monetary Fund \(IMF\)](#) on Sri Lanka's debt.

- Sri Lanka needs **assurance from the Paris Club** and other creditors in order to receive a **USD 2.9 billion** bailout package from the IMF, following an [economic crisis](#) in 2022.

### What is the Paris Club?

- **About:**
  - The **Paris Club** is a group of **mostly western creditor countries** that grew from a **1956** meeting in which **Argentina agreed to meet its public creditors in Paris**.
    - It describes itself as a forum where official creditors meet **to solve payment difficulties faced by debtor countries**.
  - Their objective is to **find sustainable debt-relief solutions** for countries that are **unable to repay their bilateral loans**.
- **Members:**
  - **The members are:** Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Japan, Netherlands, Norway, Russia, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the United States.
  - All 22 are members of the group called [Organisation for Economic Co-operation and Development \(OECD\)](#).



- **Involved in Debt Agreements:**
  - According to its official website, Paris Club has reached **478 agreements with 102 different debtor countries.**
  - Since 1956, the debt treated in the framework of **Paris Club agreements** amounts to **USD 614 billion.**
- **Recent Developments:**
  - The Paris group countries dominated bilateral lending in the last century, but their **importance has receded over the last two decades** or so with the emergence of **China as the world's biggest bilateral lender.**
  - In Sri Lanka's case, for instance, **India, China, and Japan** are the largest bilateral creditors.
    - Sri Lanka's debt to China is **52% of its bilateral debt, 19.5% to Japan, and 12% to India.**

### What is India's Position on Bilateral Negotiation with Sri Lanka?

- India **launched its own [bilateral negotiations with Sri Lanka](#)** in January 2023.
  - The **Indian External Affairs Minister** announced that India had written to the **IMF** providing the necessary financial assurances, adding that it hoped others would follow suit.
- The decision of financing assurance was also a reassertion of India's belief in the principle of **"neighborhood first"**, and not leaving a partner to fend for themselves.

### UPSC Civil Services Examination, Previous Year Question (PYQ)

#### Prelims

**Q1. "Rapid Financing Instrument" and "Rapid Credit Facility" are related to the provisions of lending by which one of the following? (2022)**

- (a) Asian Development Bank
- (b) International Monetary Fund
- (c) United Nations Environment Programme Finance Initiative
- (d) World Bank

**Ans: (b)**

**Exp:**

- **Rapid Financing Instrument (RFI)** provides quick financial assistance, which is available to all member countries facing urgent balance of payments requirements. The RFI was created as part of a broader reform to **make IMF financial support more flexible** to meet the diverse needs of

member states. The RFI replaces the IMF's previous emergency assistance policy and can be used in a wide variety of circumstances.

- The **Rapid Credit Facility (RCF)** provides immediate balance of payments (BoP) requirements to low-income countries (LICs) with no ex-post condition, where a full economic program is neither necessary nor feasible. RCF was set up as part of a comprehensive reform to make the fund's financial support more flexible and better suited to suit the diverse needs of LIC including times of crisis.
- There are three areas under the RCF: (i) a "regular window" for immediate BoP needs due to a wide range of sources such as household instability, emergencies and fragility (ii) for immediate BoP needs due to sudden, exogenous shocks. an "exogenous shock window" and (iii) a "large natural disaster window" for immediate BoP needs due to natural disasters where the damage is estimated to be equal to or greater than 20% of the member's GDP.

**Q2. "Gold Tranche" (Reserve Tranche) refers to (2020)**

- (a) a loan system of the World Bank
- (b) one of the operations of a Central Bank
- (c) a credit system granted by WTO to its members
- (d) a credit system granted by IMF to its members

**Ans: (d)**

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**Mains**

**Q1.** In respect of India-Sri Lanka relations, discuss how domestic factors influence foreign policy. **(2013)**

**Q2.** 'India is an age-old friend of Sri Lanka.' Discuss India's role in the recent crisis in Sri Lanka in the light of the preceding statement. **(2022)**

**Source: IE**

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