



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Caroline Lucas MP
House of Commons
London
SW1A 0AA

24 May 2023
Your ref: ML.C0017.CM.5.5.23

Dear Caroline,

Thank you for your email of 5 May to the Minister of State for Development and Africa about international debt. I am replying on behalf of HM Treasury.

The rise in global debt vulnerabilities is of concern and I can assure you that HM Treasury, supporting the Foreign, Commonwealth and Development Office (FCDO), are doing all that we can to holistically address this. The UK is actively pushing for progress on debt issues at the G7, G20, Paris Club and the newly-convened Global Sovereign Debt Roundtable, which for the first time brings together creditors, borrowers, the private sector and International Financial Institutions in one place. In these fora we recognise the need to deliver not just on individual debt treatments, but to tackle cross-cutting issues like transparency and how to ensure restructurings happen as efficiently as possible.

On the topic of private sector debt, specifically the Paris Club, and now the G20 as part of its commitment to coordinate on debt treatments under the Common Framework, are clear on our collective expectation that private creditors must participate in restructurings on terms at least as favourable as those provided by the official sector (sovereign creditors). This has always been the case for Paris Club debt treatments and has in the past functioned effectively. I therefore welcome the formation of bondholder committees for the current Common Framework cases, whose engagement to date indicates a willingness to constructively participate in these restructurings.

The UK Government's work on private debt has focused on enhancing the so-called 'market-based' approach to private debt restructurings, rather than approaches that would 'force' private sector participation, such as legislation. Beyond the potential unintended consequences that legislation could have for access to finance, it is worth noting that under 50 per cent of debt contracts are drawn up under UK law, so any move to legislate would in any case likely result in contracts simply being drawn up less transparently elsewhere.

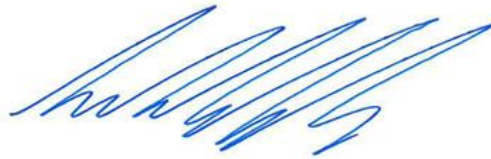
The Government's position is in line with a paper that the International Monetary Fund wrote in 2020, which concluded that the market-based approach has generally functioned well in recent years, most notably since the introduction of enhanced Collective Action Clauses in private bonded debt. These contractual clauses work by allowing a qualified majority of bondholders to bind the minority to agree to amendments to payments terms - including across bond series. However, the paper also

made recommendations on areas where this approach could be enhanced. As part of our G7 Presidency in 2021, the UK established a Private Sector Working Group that took heed of these recommendations and delivered a set of contractual innovations that, if adopted widely, will make restructurings more efficient and equitable.

Finally, to address the points raised on Pakistan, I would like to highlight how the UK is contributing to efforts to help manage the devastating impact of floods there. In addition to technical assistance, we contributed £26.5 million in aid, while the DEC Pakistan appeal has raised over £42 million from the British people, which includes £5 million of UK Aid Match funding from the FCDO.

Thank you for taking the trouble to make me aware of these concerns.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Andrew Griffith', with a stylized flourish at the end.

ANDREW GRIFFITH MP