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PARIS CLUB
PRESS RELEASE

**THE PARIS CLUB AND GUINEA-BISSAU AGREE TO A DEBT RESTRUCTURING
UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE.**

Paris Club creditors agreed on January 26, 2001 with the Government of the Republic of Guinea-Bissau to a restructuring of its public external debt. Given its track-record of reforms as well as the burden of its external indebtedness, Guinea-Bissau reached in December 2000 its decision point under the enhanced HIPC Initiative. This Paris Club agreement also follows the International Monetary Fund's approval of an arrangement under the Poverty Reduction and Growth Facility on December 15, 2000.

This agreement consolidates roughly US\$ 141 million. This amount is broken down between US\$ 58 million in arrears as of November 30, 2000 and US\$ 28 million of maturities in principal and interest falling due from December 1, 2000 up to December 31, 2003. Furthermore, around US\$ 29 million in arrears on post-cut-off date debt are deferred, as well as US\$ 26 million on previously deferred post-cut-off date maturities falling due until December 31, 2003.

The agreement is concluded under the so-called "Cologne terms" designed by Paris Club creditors for the implementation of the enhanced HIPC Initiative : pre-cut off date commercial credits falling due after the decision point are treated so as to reach a 90% cancellation rate taking into account previous cancellations undertaken by Paris Club creditors ; the remaining amounts are rescheduled over 23 years, with 6 years of grace, at market rates of interest (see attached table).

This interim relief will lead to the immediate cancellation by Paris Club creditors of about US\$ 60 million of Guinea-Bissau's external debt, consistent with the implementation of the enhanced HIPC Initiative. These measures are expected to reduce debt service due to Paris Club creditors between December 1, 2000 and December 31, 2003 from US\$ 58 million down to around US\$ 9 million. The remaining payments consist of interest on the rescheduled amounts and of maturities on post-cut off date debt. Guinea-Bissau is committed to use the resources freed by the present exceptional treatment of the debt on priority areas identified in the country's poverty reduction strategy.

The creditor countries expressed their readiness to reduce Guinea-Bissau's stock of debt, as soon as Guinea-Bissau reaches the completion point under the enhanced HIPC Initiative.

Background notes

1. The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries. It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debts.

2. The members of the Paris Club which participated in the reorganization of Guinea-Bissau's debt were representatives of the governments of Belgium, France, Germany, Italy, the Russian Federation, and Spain. Brazil and Portugal, which are important creditors for Guinea-Bissau, were also represented.

Observers at the meeting were representatives of the International Monetary Fund, the International Development Association, the Organization for Economic Cooperation and Development, the African Development Bank and the Secretariat of the U.N.C.T.A.D.

The delegation of the Republic of Guinea-Bissau was headed by Mr Faustino Imbali, Vice Prime Minister in charge of Economic and Social Reconstruction. The meeting was chaired by Mr Bruno Bézard, Deputy Assistant Secretary at the Treasury of the French Ministry of Economy, Finance and Industry, Vice-President of the Paris Club.

Technical notes

1. Guinea-Bissau's economic program is supported by an arrangement under the Poverty Reduction and Growth Facility approved by the International Monetary Fund on December 15, 2000.

The Republic of Guinea-Bissau reached its decision point under the enhanced Debt Initiative in December 2000.

2. The total stock of Guinea-Bissau's public sector debt was estimated as of December 31, 1999 to be US\$ 944 million (source : IMF and IDA document, dated December 27, 2000, published on the IMF web site www.imf.org). The stock of debt owed to Paris Club creditors as of December 1999 was estimated to be US\$ 360 million out of which US\$ 275 million is pre-cut-off-date claims and US\$ 85 million is post-cut-off-date claims (out of which 4% is ODA) (source : Paris Club).

The cut-off date (December 31, 1986 concerning Guinea-Bissau) is used by Paris Club creditors for the sole internal purposes of the Paris Club agreement. Credits granted after this cut-off date are not subject to rescheduling. Thus, the cut-off-date helps restore access to credit for these debtor countries.

3. Interest rates to be applied on the restructuring are to be negotiated with each creditor country by the Government of Guinea-Bissau in bilateral agreements implementing the Paris Club agreement. ODA loans will be rescheduled at a below-market interest rate not higher than the interest rate of the original credits. Other loans will be rescheduled at a market interest rate (known as "appropriate market rate") defined on the basis of risk-free rates for the currency considered, plus a management margin.

4. As in any Paris Club agreement, Guinea-Bissau agreed to seek comparable treatment from non-Paris Club creditors. In the present case, the comparable treatment shall imply an equivalent assistance of non-Paris Club official creditors. The delegation of Guinea-Bissau indicated its willingness to meet these creditors soon in order to negotiate the terms of a comparable rescheduling.