



PARIS CLUB RECENT ACTIVITY



QUICK REVIEW OF PARIS CLUB RECENT ACTIVITY

Key events in 2003-2004

- 1. Approval of the Evian approach in October 2003** (to date two countries examined under the new framework);
- 2. Implementation of the HIPC initiative including topping-up** (6 countries at completion point);
- 3. Early engagement on Iraq since April 2003** (data call, no payments expected in 2004).

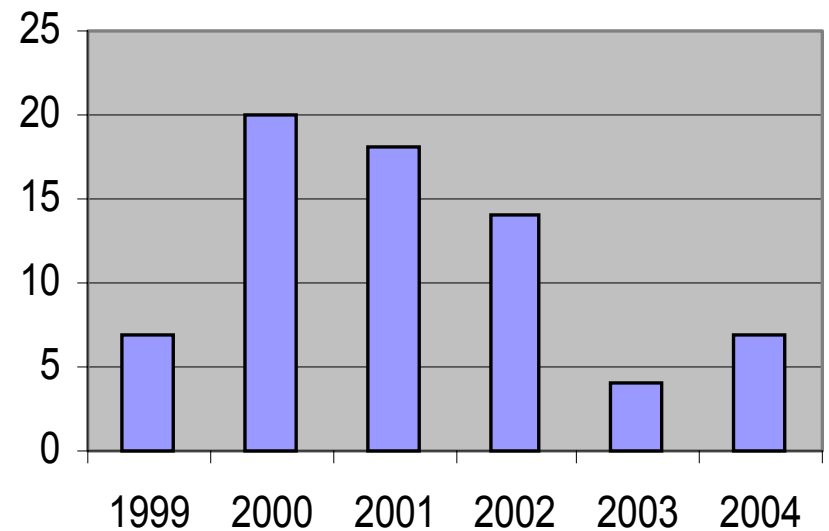
QUICK REVIEW OF PARIS CLUB RECENT ACTIVITY

Agreements concluded

Since March 2003, Paris Club creditors have concluded 9 agreements :

- **6 with HIPCs** (Benin, Burundi, Guyana, Honduras, Mali, Nicaragua, Niger)
- **3 with non-HIPCs** (Ecuador, Kenya, Dominican Rep.)

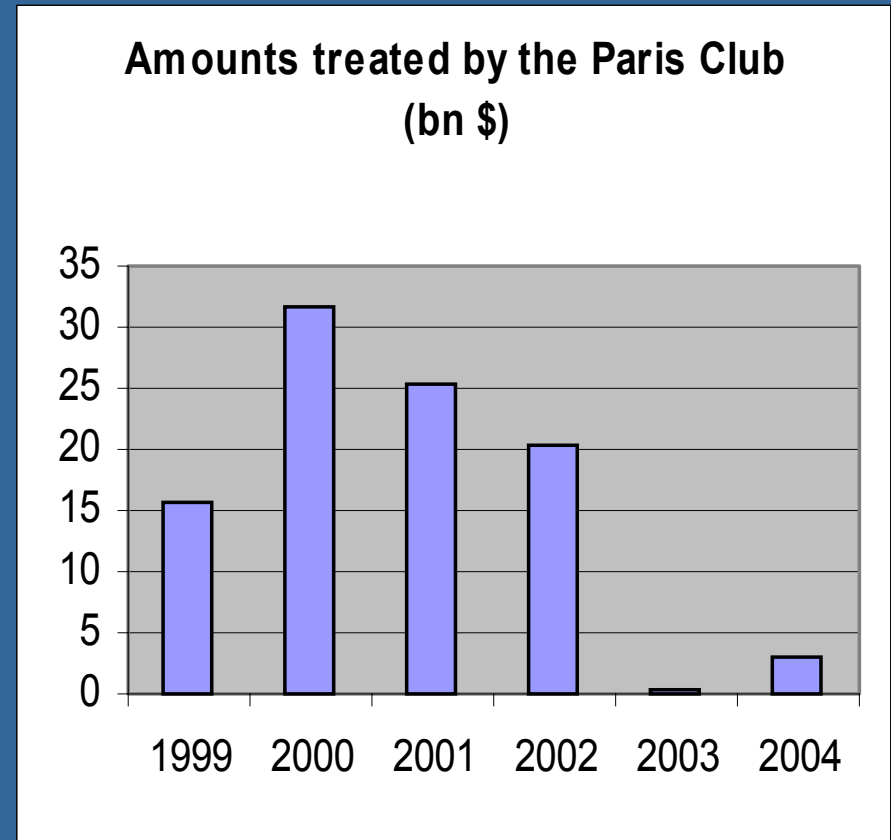
Agreements concluded by the Paris Club (nb)



QUICK REVIEW OF PARIS CLUB RECENT ACTIVITY

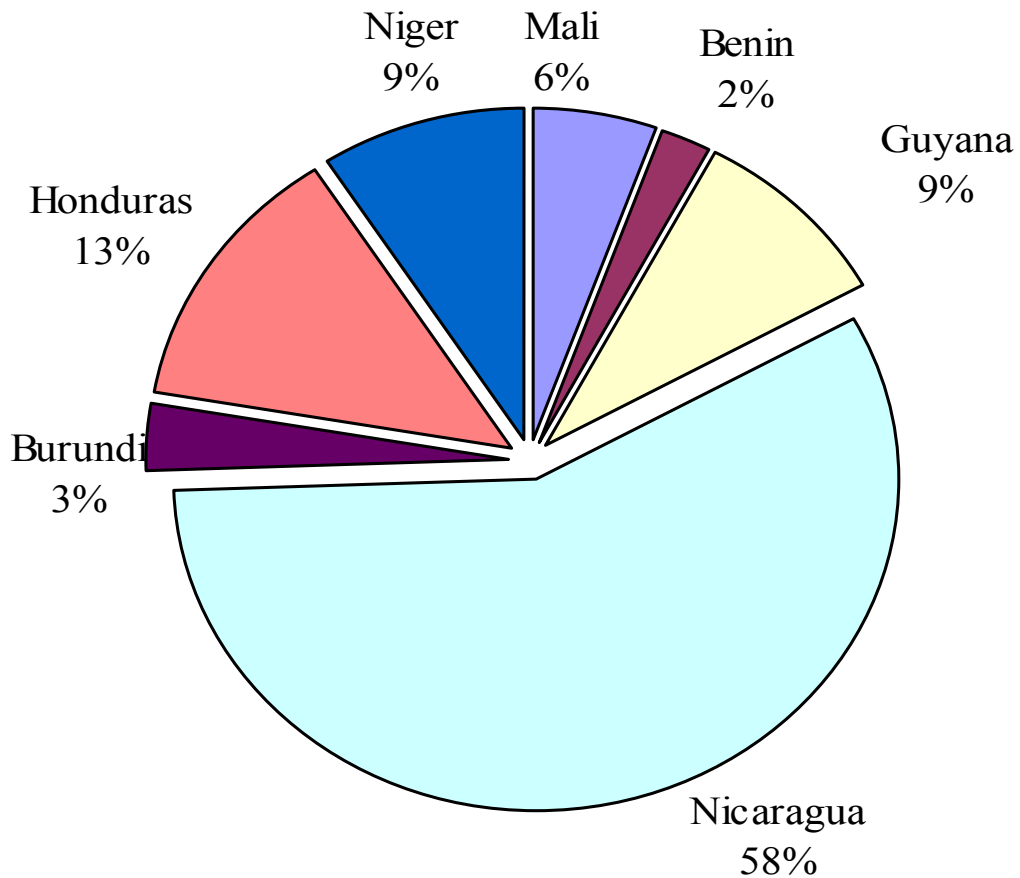
Amounts restructured

**Since March 2003,
Paris Club creditors
have restructured
\$ 3,1 billion**



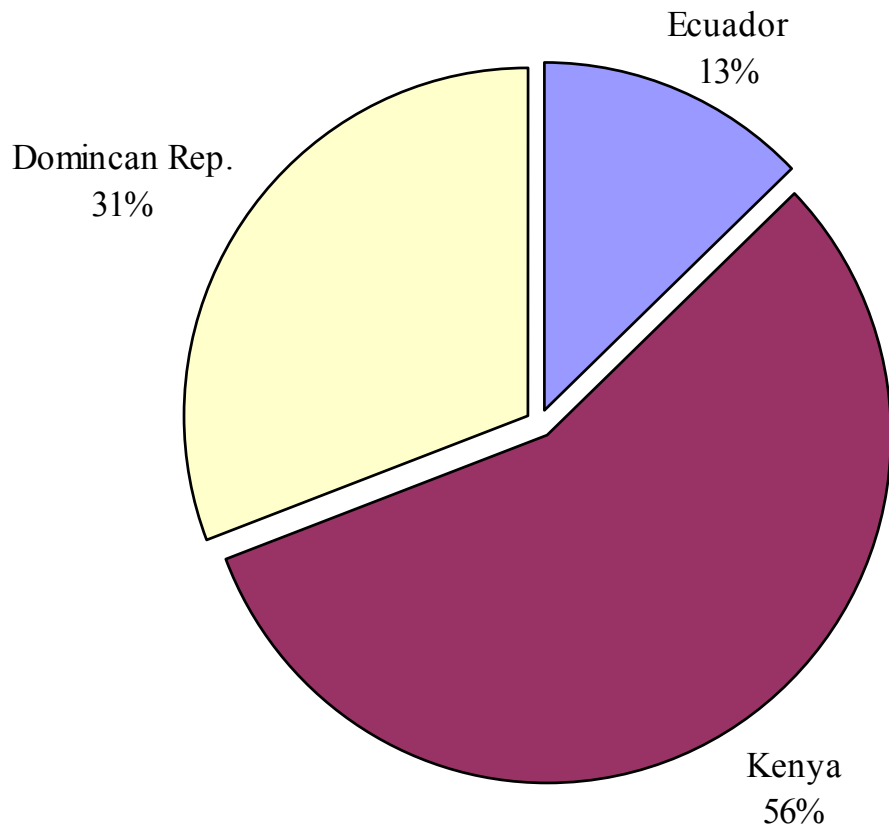
QUICK REVIEW OF PARIS CLUB RECENT ACTIVITY HIPC

Amounts treated in 2003-2004 : HIPC



QUICK REVIEW OF PARIS CLUB RECENT ACTIVITY non-HIPCs

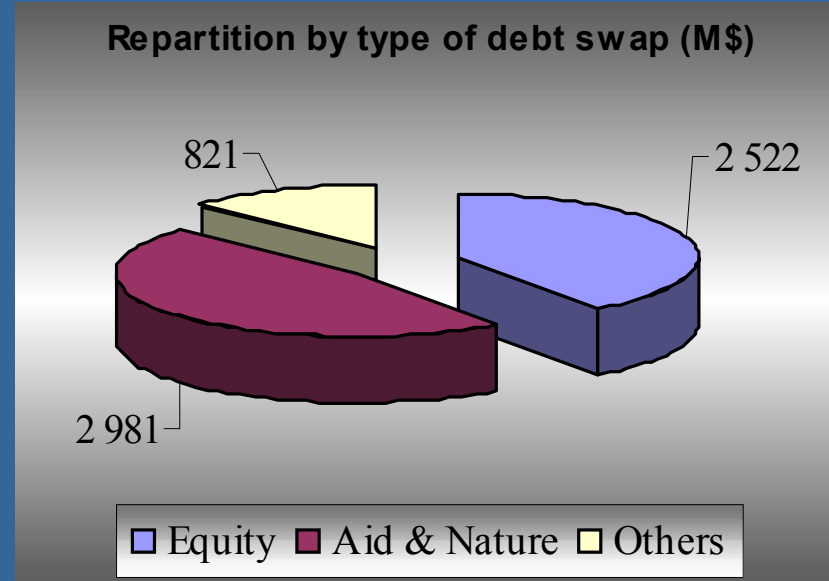
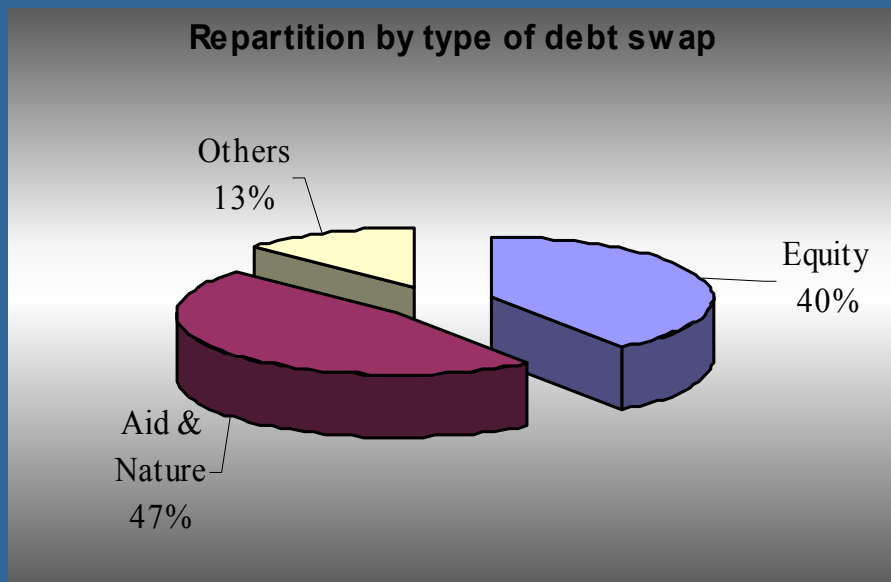
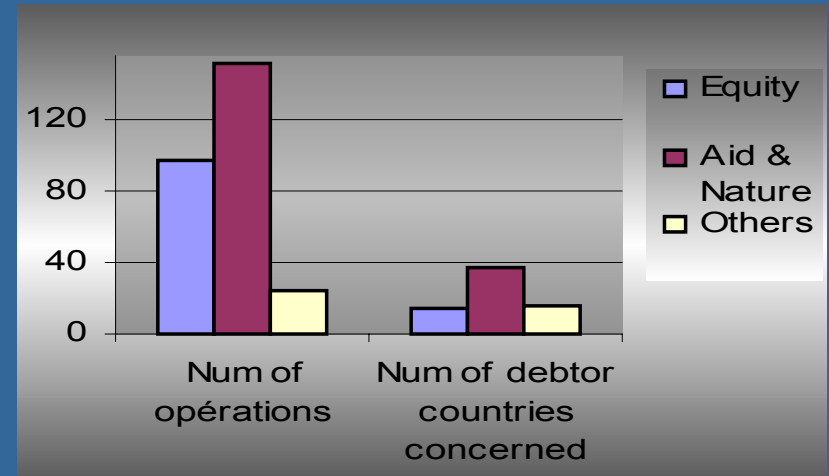
Amounts treated in 2003-2004 : non-HIPCs



QUICK REVIEW OF PARIS CLUB RECENT ACTIVITY

Debt swap reporting

- 13 Paris Club creditors concerned
- 41 debtor countries
- 272 operations for an amount of 6,3Md\$



PARIS CLUB RECENT ACTIVITY



DOMINICAN REPUBLIC
Presentation of the April 2004 agreement



DOMINICAN REPUBLIC

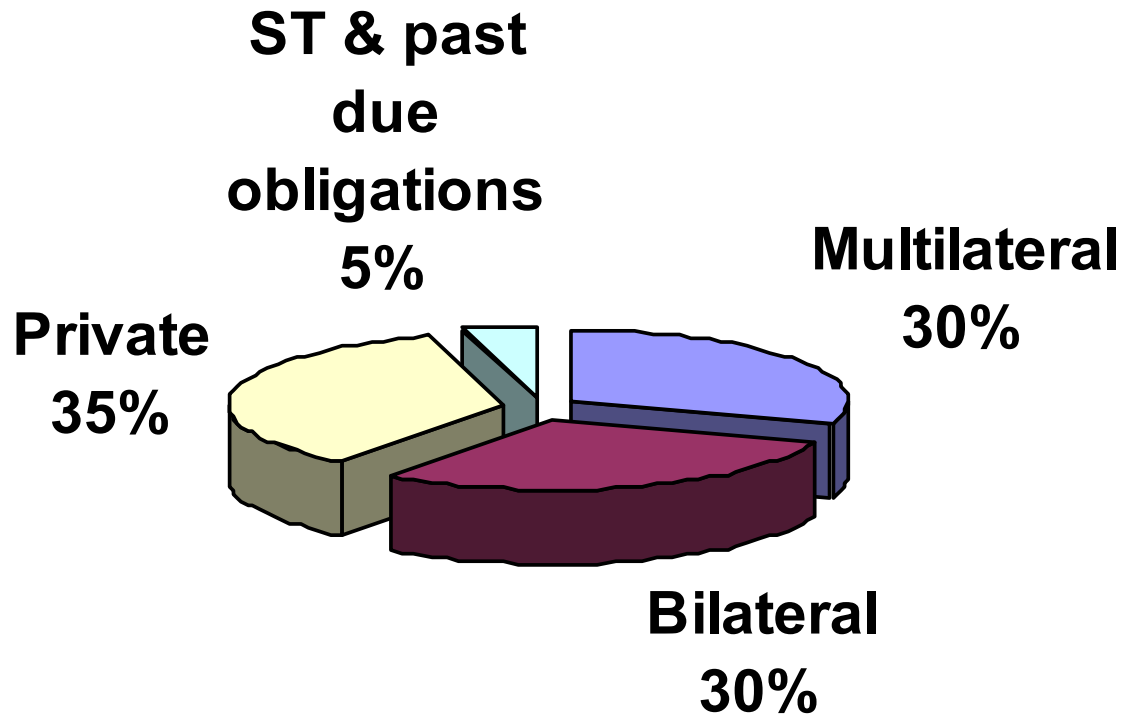
Background and context of the negotiation

- **Previous Paris Club agreements**
 - **1985 : Classic terms and 280 M\$ treated (fully repaid).**
 - **1991 : Houston terms and 771 M\$ treated (still active).**
- **Context of the negotiation**
 - **DR was facing a liquidity problem : financing gap was estimated around 300 M\$.**
 - **Agreement negotiated in the framework of the Evian approach : sustainable branch → existing terms.**
 - **DR was not any more eligible to Houston terms.**
 - **Significant private sector exposure.**

DOMINICAN REPUBLIC

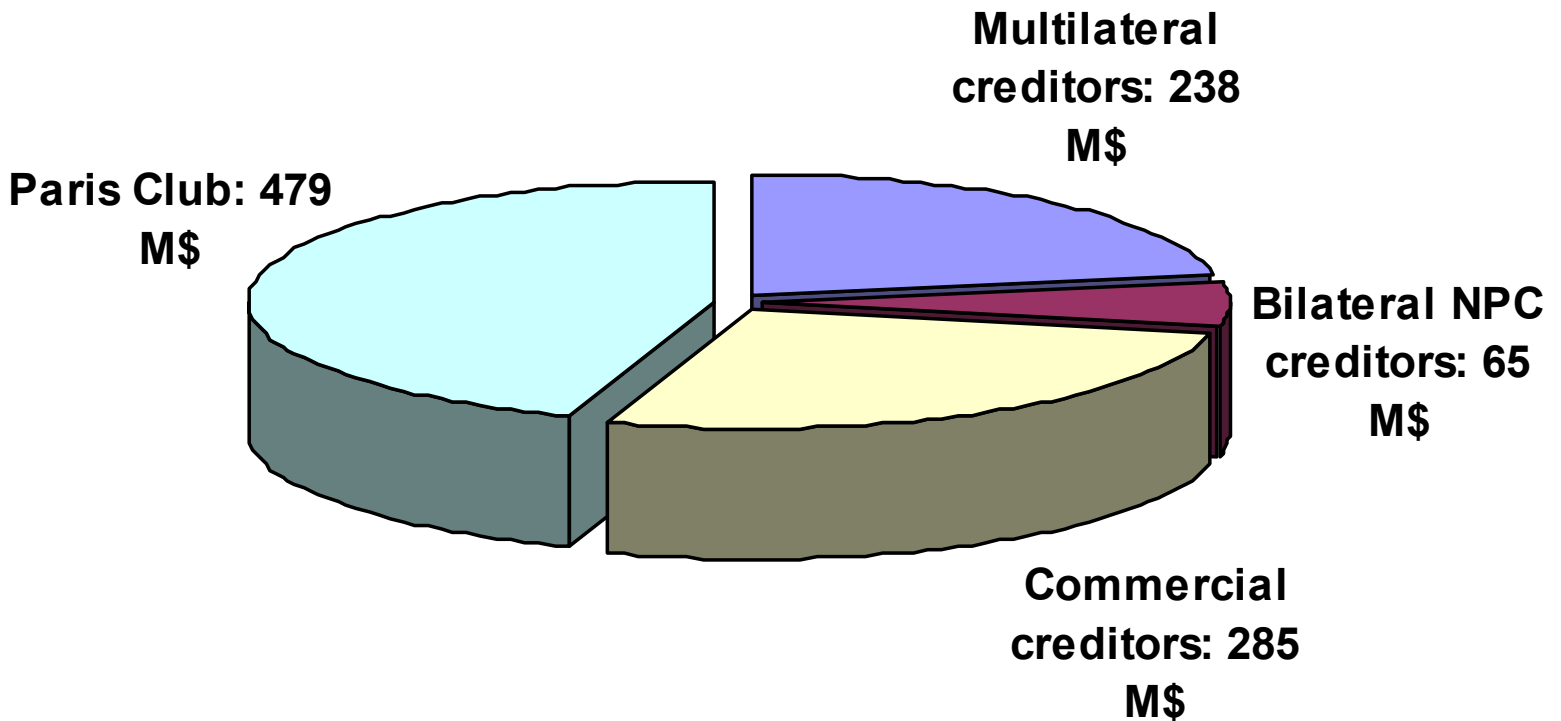
Structure of the long term external debt

External debt as at dec 2003 : 5.4 Md\$



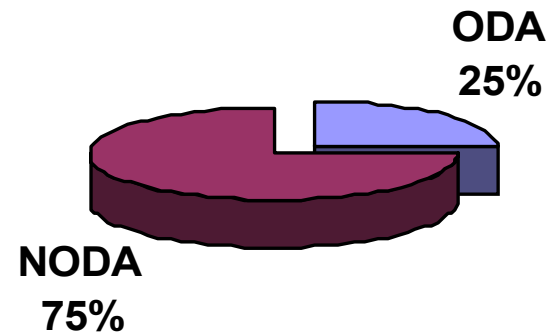
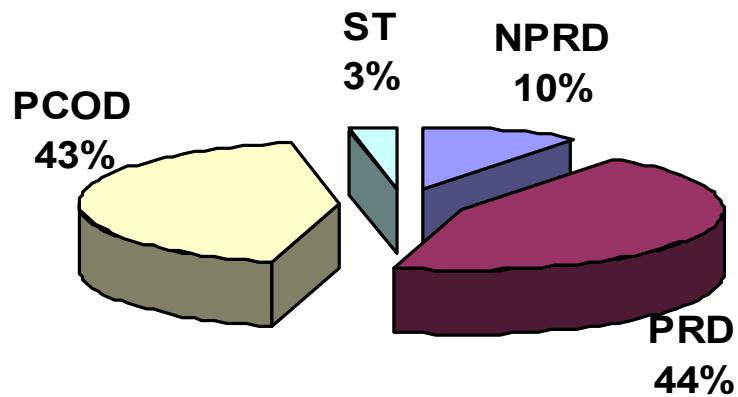
DOMINICAN REPUBLIC

Maturities falling due in 2004



DOMINICAN REPUBLIC

Payments due to Paris Club Creditors in 2004



DOMINICAN REPUBLIC

Paris Club terms of treatment

- **Agreement concluded on April 16, 2004 under classic terms.**
- **Cut-off date** : June, 30 1984.
- **Consolidation period** : January 1st 2004-December 31, 2004.
- **Rescheduling of principal and interest maturities** :
 - Non ODA & ODA: rescheduled over 12 years, 5 years grace.
 - 193 M\$ have been rescheduled.
 - Comparability of treatment clause.

DOMINICAN REPUBLIC

Comparability of treatment

- **Paris Club takes its share of the financing gap : the remaining financing gap has to be covered by the private sector in implementing a comparable treatment.**
- **Comparability of treatment will be assessed according to cash flow, NPV, Duration. New money can also be taken into account provided that it represents a comparable effort.**
- **Compliance with Comparability of Treatment clause will be assessed regularly.**
- **Agreement is contingent on implementation of IMF program and comparability of treatment.**

PARIS CLUB RECENT ACTIVITY



KENYA
Presentation of the January 2004 agreement



KENYA

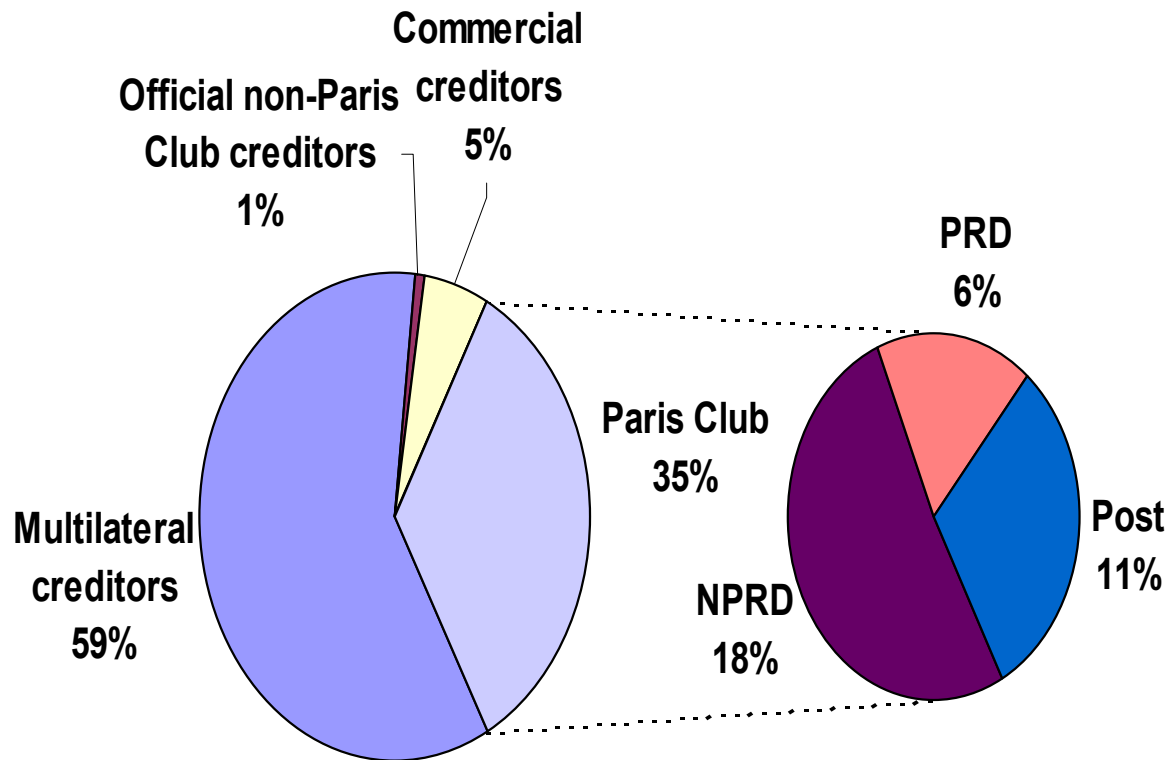
Background and context of the negotiation

- **Previous Paris Club agreement**
 - **1994: 549 m\$ in arrears (mainly non-ODA claims) rescheduled over 7 years (incl. 1 year grace period)**
 - **2000: 25 m\$ in arrears and 225 m\$ in maturities treated under Houston terms (rescheduled over 18 year incl. 4 for non-ODA and 20 years incl. 10 for ODA)**
- **Context of the negotiation**
 - **IMF PRGF : November 21, 2003 – November 20, 2006**
 - **First case to be treated under the Evian approach**
 - **Considered as sustainable ⇒ Implementation of existing terms**
 - **Eligible to Naples but no cancellation** was provided: Non concessional terms sufficient to meet the financial needs and Kenya was willing to preserve its access to private financing

KENYA

Structure of the long term external debt

Structure of Kenya's debt as at December 2003



KENYA

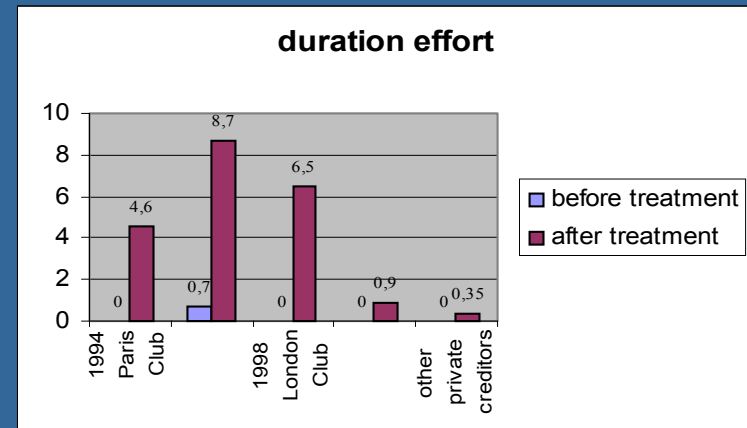
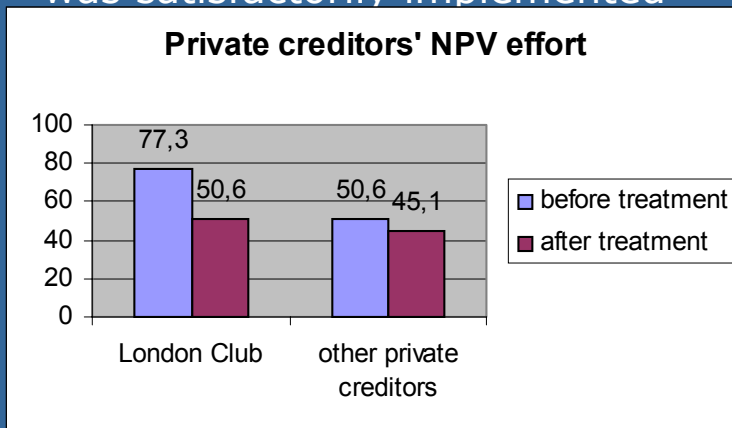
Paris Club terms of treatment

- **Agreement concluded on January 15, 2004 under Houston terms**
 - **Cut-off date** : December 31st, 1991
 - **Consolidation period** : January 1st, 2004- December 31st, 2006
 - **Rescheduling of 350 M\$** (17 m\$ of arrears and 336 m\$ of maturities)
 - ODA : rescheduled over 20 years, 10 years grace
 - Non ODA : rescheduled over 15 years , 5 years grace
- **Exit treatment :**
 - **Decreasing consolidated amounts** : 82 % of total maturities in 2004, 77 % in 2005 and 67 % in 2006

KENYA

Comparability of treatment

- Late and partial implementation of comparability of treatment after 2000 PC agreement**
 - Agreements with private creditors were concluded in end 2003 and less than 50 % of private creditors have contributed.
 - For creditors that have contributed, comparability of treatment with Paris Club was satisfactorily implemented



- Paris Club 2004 agreement calls for additional effort from private creditors**
 - PRGF financing requires a comparable treatment from private creditors
 - Specific trigger clause included in PC 2004 agreement : full implementation of agreement contingent upon comparability of treatment which will be regularly assessed.

PARIS CLUB PERSPECTIVES



ARGENTINA & THE EVIAN APPROACH



BACKGROUND IN THE PARIS CLUB

- Paris Club 1st ever agreement in 1956
- 7 treatments for a total of \$8,8bn
- 2 cycles of debt restructuring :

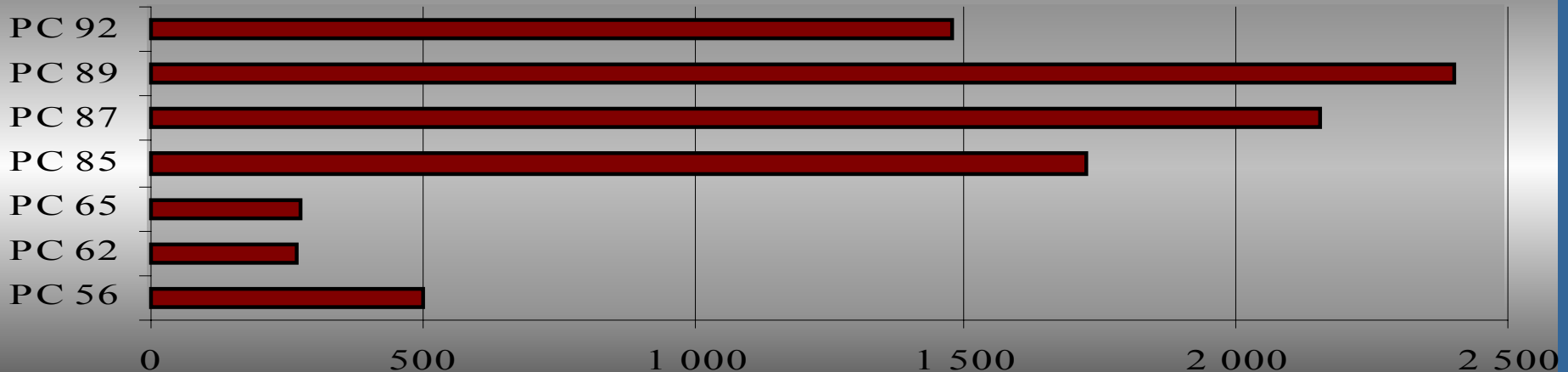
60's

- 1956, 1962 and 1965
- Amounts treated < \$500m
- PC 1962 and PC 1965 under classic terms

mid 80's & 90's

- 1985, 1987, 1989 and 1992 (which is still active)
- Amounts treated > \$1,5bn
- All under classic terms

Amount of Argentina's debt treated in the Paris Club (\$m)

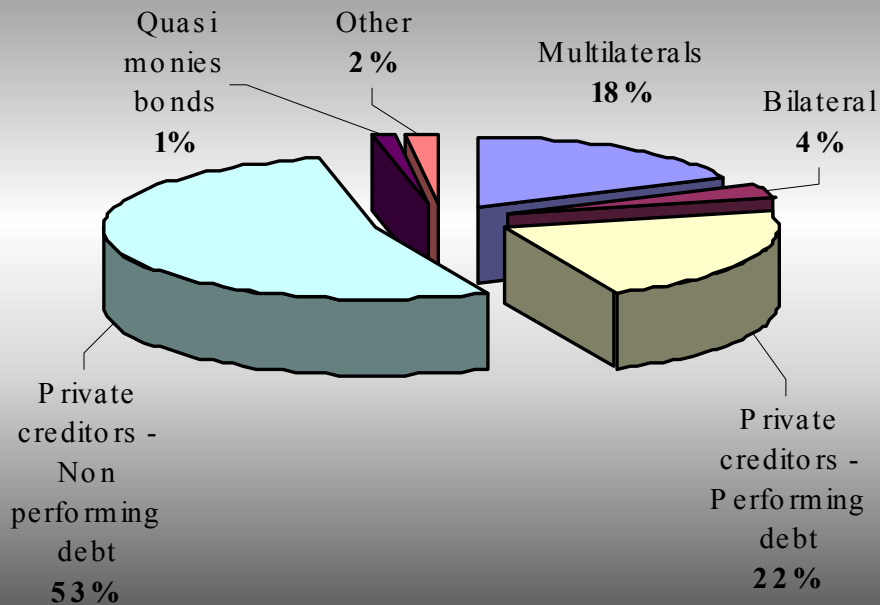


Paris Club Secretariat estimates

CREDITORS' EXPOSURE

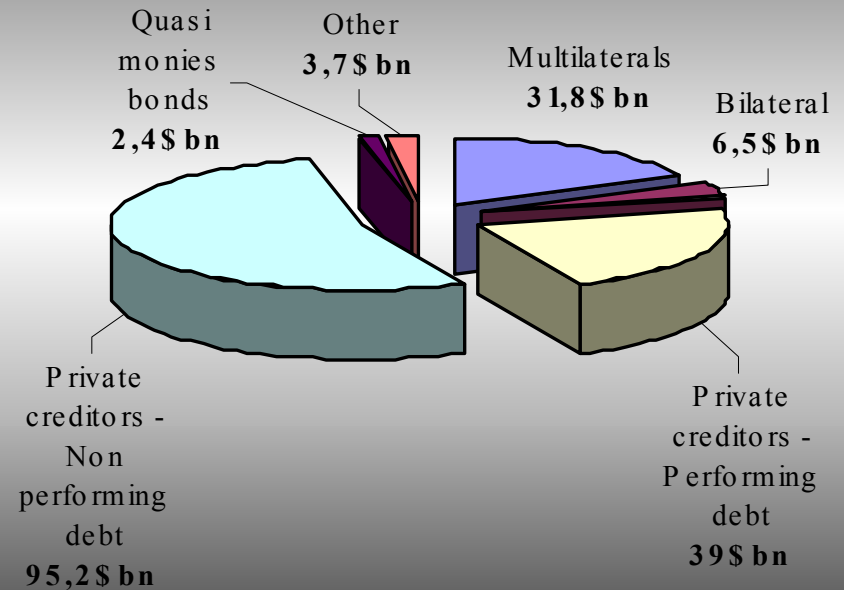
Federal Government Debt Outstanding as of end 2003 : \$180bn

Breakdown of the federal government debt by type of creditor



IMF estimates

Breakdown of the federal government debt by type of creditor

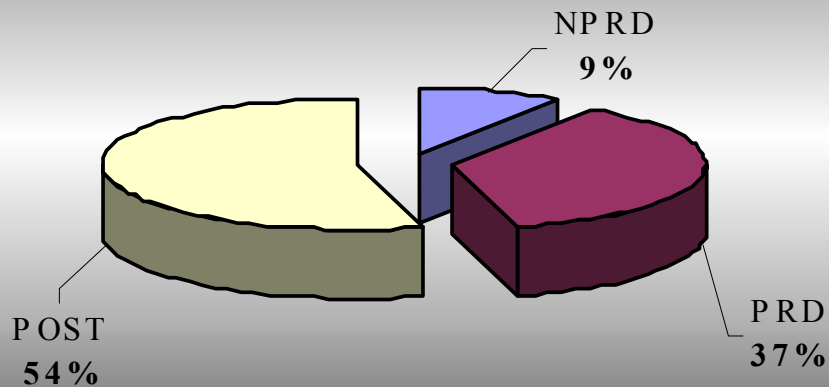


IMF estimates

PARIS CLUB EXPOSURE

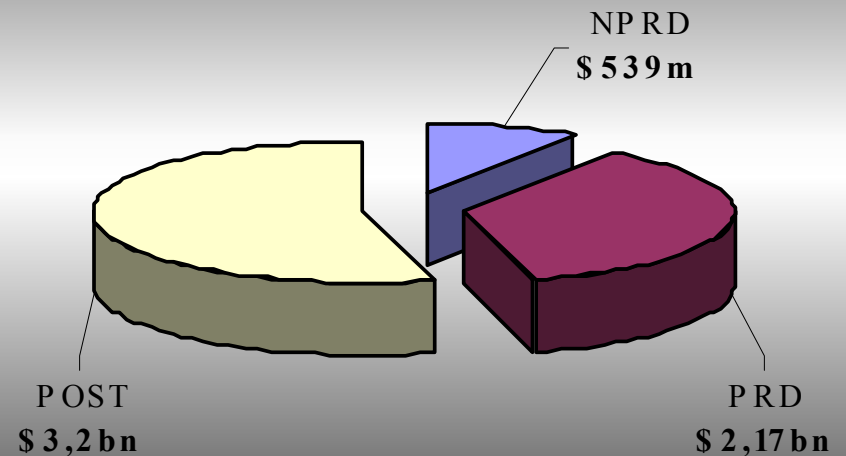
- Paris Club Outstanding amount as of September 1st, 2003 : **\$5,9bn**
- Out of which **\$970m in arrears**

**Breakdown of Paris Club debt
Outstanding amount as at 09/03**



Paris Club Secretariat estimates

**Breakdown of Paris Club debt
Outstanding amount as at 09/03**



Paris Club Secretariat estimates

ARGENTINA

CURRENT SITUATION

IMF

- 3 year SBA
 - \$13,3bn
 - Covering the period Sept 03 – Sept 06
-
- Approved on Sept 20, 2003
 - 1st & second reviews approved on Jan 28 and March 22, 2004

Paris Club

- SBA assumes a Paris Club flow treatment
- Sept 03 : financing assurances to the IMF in support of the SBA
- 24/09/03 : meeting between the Secretariat and Argentina
- Nov 03 : data reconciliation between the GoA and its main PC creditors
- Nov 03 : PC creditors agreed to assess the problem of Argentina under the Evian approach
- Invitation to negotiate in Dec 03

RATIONALES FOR THE EVIAN APPROACH

Paris Club response to debt distress partly inadequate

- ✓ Inability to address sustainability problems
 - **Take into account debt sustainability considerations**
- ✓ Standardized terms could be more or less “generous” than the debtor country needs
 - **Tailor debt treatments to the situation of the debtor country**
- ✓ Need for enhanced involvement of the private sector
 - **Further coordination with private creditors**

RATIONALES FOR THE EVIAN APPROACH (1)

Address sustainability problems

Before

▪ Identification of a financing gap in the context of an IMF supported programme

➤ **Financing gap** is to be fulfilled through a satisfactory implementation of the IMF programme

➤ **Paris Club creditors** give **financing assurances** to the IMF to help close the gap

➤ Paris Club creditors negotiate with the debtor country on the **basis of the capacity to pay analysis (CAPA)**

After

▪ Examination of the sustainability of the debt at the stage of the financing assurances

➤ **Liquidity problem** treated on the basis of the existing terms tailored to the financial situation of the debtor

➤ **Sustainability problem** could be treated through a **comprehensive debt treatment** if the country is committed to policies that will secure

- ✓ an exit from the Paris Club
- ✓ comparable treatment

RATIONALES FOR THE EVIAN APPROACH (2)

Adapt Paris Club response to the situation of countries

Before

- standard terms only
 - **Classic** terms
 - **Houston** terms (high degree of heterogeneity)
 - eligibility: Gdp/cap, level/struct. of debt
 - no cancellation / cash flow relief
 - **Naples** terms
 - eligibility IDA-only
 - 67 % debt reduction of eligible claims
 - Increasing use of **ad hoc treatments** to fix the situation

After

- Tailored rescheduling
- Possibility of comprehensive treatments when debt is unsustainable
 - Delivered according to a **staged process**
 - Could take **various forms** and include different types of **flexible instruments**
 - **Active policy of adjusting the cut-off date**

RATIONALES FOR THE EVIAN APPROACH (3)

PSI in the debt restructuring process

Before

- Comparability of treatment
 - **Clause** : debtor country commits to seek from all its external creditors an agreement based on **terms comparable** and reports regularly
 - **Ex post assessment** without specific consultations : analysis based on cash flows, NPV & duration
 - **Increasing transparency** (regular meetings, web site)

After

- Comparability of treatment & inter-creditor coordination
 - **Ex ante commitment from the debtor country**
 - Dialogue will continue and could take the form of **early consultations**
 - **Clause** : debtor country commits to seek from all its external creditors an agreement based on **comparable terms** and reports regularly on implementation
 - **Ex post assessment** without specific consultations : analysis based on cash flows, NPV & duration

ARGENTINA & THE EVIAN APPROACH

1 / IS ARGENTINA'S DEBT SUSTAINABLE ?

2 / DEBT TREATMENT UNDER THE EVIAN APPROACH

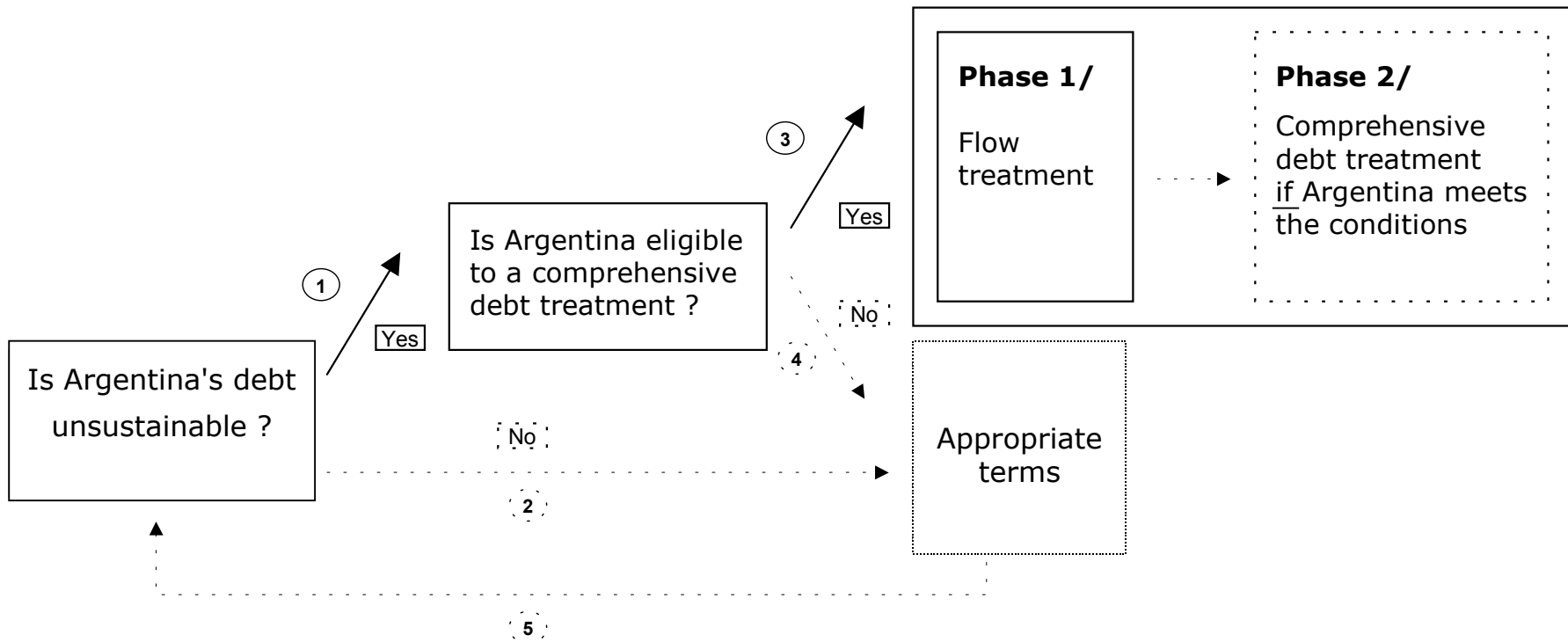
ARGENTINA & THE EVIAN APPROACH

- Is Argentina's debt sustainable and does Argentina need a comprehensive treatment ?
- Is Argentina committed to policies that will secure an exit from the Paris Club in the framework of an IMF arrangement and committed to seek a comparable treatment from its other creditors ?

ARGENTINA & THE EVIAN APPROACH

Evian approach's criteria	Eligibility
Is Argentina's debt unsustainable?	Strong presumptions <ul style="list-style-type: none">• Debt to GDP ratio projections• Financing gap projections and sensitivity analysis• Impact of the crisis on Argentina's economic potential
Is Argentina committed to policies that will secure an exit from the Paris Club and comparable treatment?	Close monitoring for the period Sept 03- March 04 Declarations of the GoA to seek comparable treatment Key elements and reforms formulated at a later stage

OPTIONS FOR ARGENTINA'S DEBT TREATMENT UNDER THE EVIAN APPROACH



PARIS CLUB PERSPECTIVES



IRAQ

On going work in the Paris Club



IRAQ

- **Context of the involvement of the Paris Club**
- **Assessment of Iraq's debt**
- **Modalities of treatment of Iraq's debt**

IRAQ

Context of the involvement of the Paris Club

- **United Nations Resolutions:**
 - **687 (1991)** § 16: debts and obligations arising prior to August, 2nd 1990 will be addressed through normal mechanisms
 - **1483 (2003)** § 15: welcomes the readiness of creditors, including those of the Paris Club, to seek a solution to Iraq's sovereign debt problem

IRAQ

Context of the involvement of the Paris Club

- **G7 communiqués and consensus in 2003:**
 - **April:** Calls for the early engagement of the Paris Club
 - **September:** Call upon the Paris Club to make its best efforts to complete the restructuring of Iraq's debt before the end of 2004 and urge all non-Paris Club creditors to cooperate
 - **December** (James Baker's tour): Should be substantial reduction for Iraq in the Paris Club in 2004.

IRAQ

Context of the involvement of the Paris Club

- **Paris Club creditors first steps:**
 - **Data collection:** 21 bn \$, almost exclusively in arrears, plus a similar amount of late interest
 - **Press release:** Paris Club creditors indicated that they were not expecting Iraq to be in a position to resume payments to them before end 2004
 - **Technical meeting with Iraqis in Beirut in March 2004**

IRAQ

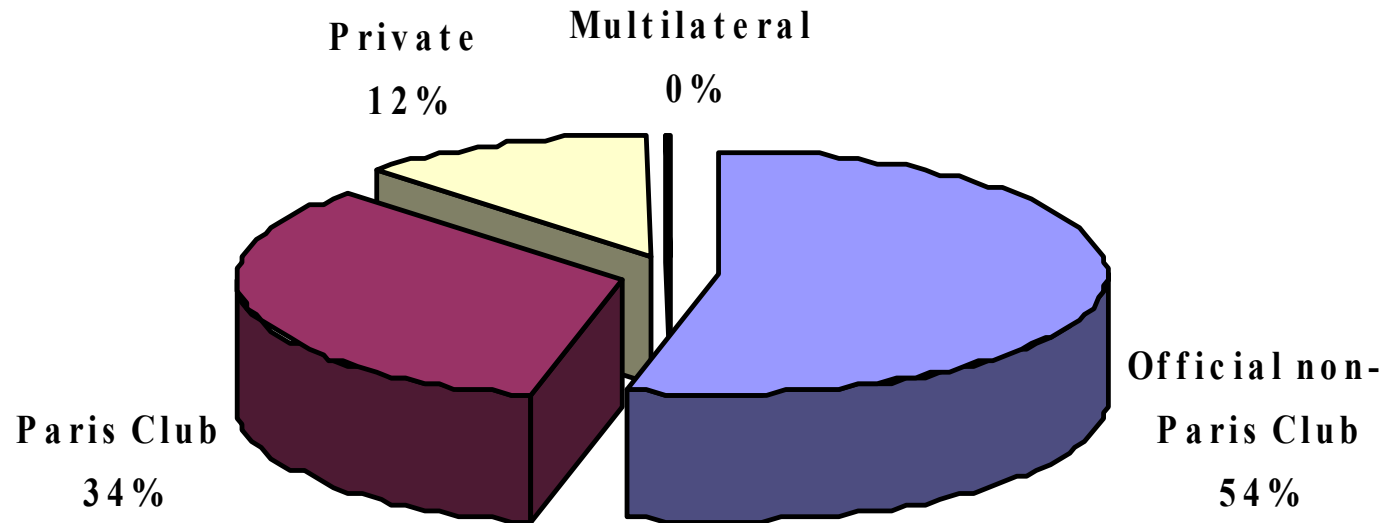
Assessment of Iraq's debt

- **Iraq's public debt includes:**
 - **Central government debt**
 - **Public sector debt.**

IRAQ

Assessment of Iraq's debt

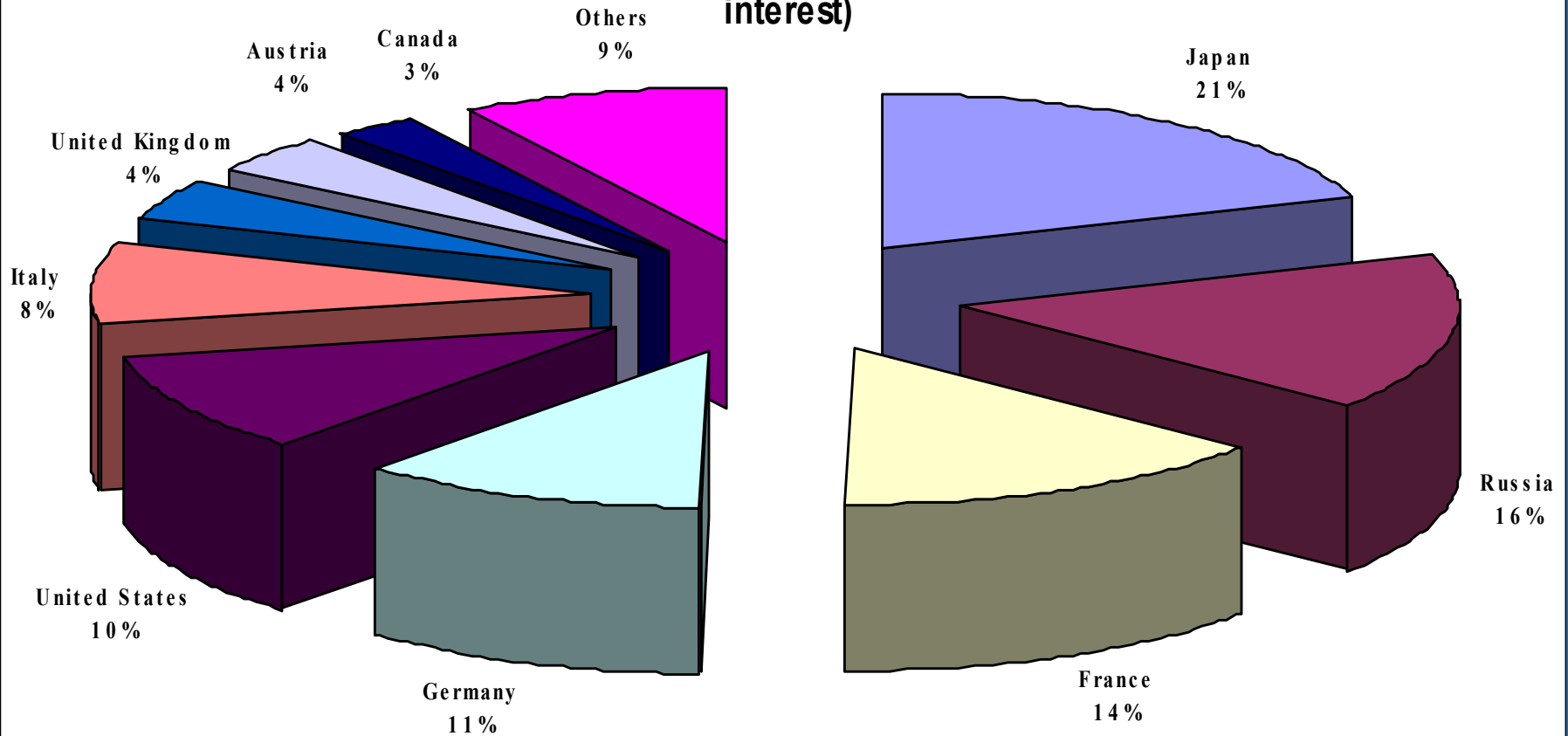
**Total debt around 125 \$ bn (end-2003)
(including estimated late interest)**



IRAQ

Assessment of Iraq's debt

Total debt towards the Paris Club around \$ 21,0 bn (excluding late interest)



IRAQ

Assessment of Iraq's debt

- **Characteristics of Iraq's debt to the Paris Club:**
 - **All claims reported were concluded before August 2, 1990**
 - **Almost all the claims reported by creditor countries are commercial**
 - **More than 99% of the debt is in arrears**
 - **Late interest represent an amount similar magnitude of all debts**

IRAQ

Assessment of Iraq's debt

- **Consequences on Paris Club debt treatment:**
 - **All the debt should be eligible** (presumably all debt preCOD)
 - **All the debt should be treated on the same basis** (e.g. no distinction ODA/non ODA)

IRAQ

Modalities of Iraq's debt treatment

- **A specific framework has been set up for war reparations:**
 - **Reparations are dealt with by UNCC** (2,64 million claims registered by UNCC for a total amount of 350 bn \$; 98 % of claims have been treated and 17,5 bn \$ paid under oil for food programme)
 - **UNSC resolution 1483 of May 20th 2003 (§21):** 5 % of oil proceeds will be deposited into the UNCC

IRAQ

Modalities of Iraq's debt treatment

- **With a view to negotiate a debt treatment in 2004, Paris Club creditors will:**
 - **Develop their own opinion on the IMF debt sustainability analysis**
 - **Expect Iraq to conclude a programme with the IMF**
 - **Assume a treatment based on comparable terms from all Iraq's external creditors**

PARIS CLUB PERSPECTIVES



ANGOLA
Paris Club views



ANGOLA

Background in the Paris Club

- **Two “informal” treatments with some Paris Club creditors:**
 - **1987:** rescheduling of arrears on 6 years - outside the framework of an IMF arrangement / Angola was not a member of the IMF at that time
 - **1989:** rescheduling of arrears and maturities on 10 years on the eve of Angola’s admission to the IMF and based on a quasi-IMF program
- **Widespread accumulation of arrears towards Paris Club creditors since the early 1990s:**
 - Paris Club debt stock on Angola: 4 Bn\$
 - **Arrears: 2 Bn\$**

ANGOLA PARIS CLUB VIEWS

- **Angola sends conflicting signals to the international financial community:**
 - Willingness to improve its relations with the IMF...
 - Progress in transparency : publication of last article IV, auditing of oil receipts,...
 - Apparent willingness to come to an agreement with the IMF (SMP followed by a PRGF)
 - ...While acceleration of oil-guaranteed new borrowing :
 - US \$ 1.5 bn contracted over the past year
 - June 2004 : US \$ 2.5 bn currently in negotiation
 - Selected default : only the oil-guaranteed loans are regularly serviced

ANGOLA PARIS CLUB VIEWS

- **Paris Club strategy towards Angola → promoting a sustainable and long term solution to Angola external debt situation**
 - Maintaining incentives for Angola to reach an agreement with the IMF
 - Preserving conditionality and solidarity among creditors
 - Once the pre-conditions are met, Paris Club will assess the sustainability of Angola's debt and provide a tailored treatment, if necessary, under the Evian approach.