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Club de Paris
Paris Club

PRESS-RELEASE

THE PARIS CLUB AND NICARAGUA AGREE TO A DEBT RESTRUCTURING UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE.

Paris Club creditors agreed on 13 December 2002 with the Government of Nicaragua to a restructuring of its public external debt. Based on its track-record of reforms, Nicaragua reached on 21 December 2000 its decision point under the enhancedHIPC Initiative.

This 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 30 September 2002 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). ODA credits, which amount to US$ 19 million, will be rescheduled over 40 years including a 16 years grace period.

This agreement consolidates roughly US$ 579 million of which US$ 560 million relate to pre-cut off date commercial credits falling due from 1 October 2002 to 30 September 2005.

This interim relief shall lead to the immediate cancellation by Paris Club creditors of about US$ 405 million of Nicaragua'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 1 October 2002 and 30 September 2005 from US$ 657 million to approximately US$ 90 million. The remaining payments consist mainly of interest on the rescheduled amounts and of maturities on post-cut off date debt. Nicaragua is committed to devote the resources freed by the present exceptional treatment of the debt on priority areas identified in the country's poverty reduction strategy.

Nicaragua agreed to seek comparable treatment from non Paris Club official creditors and private creditors.

The creditor countries express their readiness to reduce Nicaragua's stock of debts, as soon as Nicaragua 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 Nicaragua's debt were representatives of the Governments of Australia, Austria, France, Germany, Israel, Italy, the Netherlands, the Russian Federation, Spain, the United Kingdom and the United States of America.

Observers at the meeting were representatives of the Governments of Brazil, Canada, Denmark and Japan, as well as the International Monetary Fund, the International Development Association, the Inter-American Development Bank, the Secretariat of the UNCTAD and the Organization for Economic Cooperation and Development.

The delegation of Nicaragua was headed by Mr. Mario B. ALONSO I., President of the Central Bank of Nicaragua. The meeting was chaired by Mr. Ambroise FAYOLLE, Deputy Assistant Secretary at the Treasury of the French Ministry of Economy, Finance and Industry, Vice-President of the Paris Club.

Technical notes

1. Nicaragua's economic program is supported by a three year arrangement under the Poverty Reduction and Growth Facility approved by the International Monetary Fund on 4 December 2002.

Nicaragua reached its decision point under the enhanced HIPC Initiative on 21 December 2000.

2. The total stock of Nicaragua's external public sector debt was estimated as of end December 2001 to be US$ 6.4 billion (source: IMF Staff report dated 20 November 2002 - www.imf.org). The stock of debt owed to Paris Club creditors as of 30 September 2002 was estimated to be US$ 1.638 billion out of which US$ 1.306 billion is pre-cut-off-date claims, 6% being ODA credits. Post-cut-off-date debts amount to US$ 332 million out of which 92% are ODA claims (source : Paris Club).

The cut-off date (1 November 1988) is used by Paris Club creditors for the sole internal purposes of Paris Club agreements. Credits granted after this cut-off date are not subject to rescheduling. Thus, the cut-off-date helps to 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 Nicaragua in bilateral agreements implementing the Paris Club agreement. Commercial loans shall 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, Nicaragua agreed to seek comparable treatment from non-Paris Club creditors. In the present case, the comparable treatment shall imply an equivalent assistance by non-Paris Club official creditors and private creditors. The delegation of Nicaragua indicated its willingness to meet those creditors which have not yet agreed on a comparable agreement soon in order to negotiate the terms of a comparable rescheduling.