

January 23, 2001

PARIS CLUB
PRESS RELEASE

AGREEMENT BETWEEN THE PARIS CLUB AND PAKISTAN

Paris Club creditors agreed on January 23, 2001 with the Government of the Islamic Republic of Pakistan to a restructuring of its public external debt. Representatives of the creditor countries welcomed the efforts at economic recovery undertaken by Pakistan, and supported by a Stand-By Arrangement approved by the International Monetary Fund on November 29, 2000.

The agreement provides for the rescheduling of roughly US\$ 1.8 billion consisting of arrears as of November 30, 2000 and of maturities falling due between December 1, 2000 and September 30, 2001.

The rescheduling is conducted under the so-called "Houston terms" : non-Official Development Assistance credits are to be repaid over 18 years, with 3 years of grace and progressive payments, at the appropriate market rate ; Official Development Assistance credits are to be repaid over 20 years, with 10 years of grace, at an interest rate at least as favourable as the concessional rates applying to those loans. The repayment profile of the rescheduled amounts is attached.

Each creditor may also undertake, on a voluntary and bilateral basis, debt for nature, debt for aid, debt for equity swaps or other debt swaps.

This debt restructuring will make an important contribution to improving Pakistan's economic outlook, will support Pakistan's reform and poverty reduction efforts and will contribute to meeting Pakistan's financing requirements during the period of its current IMF Stand-By Arrangement (November 2000 to September 2001).

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 Pakistan's debt were representatives of the governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom and the United States of America. The Republic of Korea, which is an important creditor of Pakistan, also attended the meeting.

Observers at the meeting were representatives of the governments of Australia and Finland, as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the Asian Development Bank, the Secretariat of the U.N.C.T.A.D. and the Organization for Economic Cooperation and Development.

The delegation of the Republic of Pakistan was headed by Mr Shaukat Aziz, Minister of Finance. The meeting was chaired by Mrs Stéphane Pallez, Assistant Secretary for European and International Affairs at the French Treasury at the Ministry of Economy, Finance and Industry, Co Présidente of the Paris Club.

Technical notes

1. The stand-by arrangement concluded by Pakistan with the International Monetary Fund was approved by the International Monetary Fund's on November 29, 2000.

2. The total stock of Pakistan's public sector debt was estimated as of June 30, 2000 to be US\$ 29.4 billion (source : IMF staff report dated November 15, 2000 published on the International Monetary Fund web site www.imf.org). The stock of Pakistan's public sector debt owed to Paris Club creditors was estimated to be US\$ 12.2 billion as of November 1, 2000, out of which US\$ 11.3 billion is pre-cut-off-date claims (out of which 74% is Official Development Assistance -ODA- loans) and US\$ 0.9 billion is post-cut-off-date claims (out of which 33% is ODA loans).

The cut-off date (September 30, 1997 for Pakistan) is used by Paris Club creditors for the sole internal purposes of the Paris Club agreement. When a debtor country first meets with Paris Club creditors, the "cut-off- date" is defined and is not changed in subsequent Paris Club treatments and credits granted after this cut-off- date are not subject to rescheduling. Thus, the cut-off-date helps restore access to credit for debtor countries facing liquidity problems.

3. The amounts treated (US\$ 1,752 million using the exchange rate as of November 1, 2000) are broken down into US\$ 780 million of arrears as of October 31, 2000 (out of which US\$ 413 million in ODA loans) and US\$ 972 million of current maturities. These current maturities comprise US\$ 656 million of maturities (out of which US\$ 364 million in ODA loans) falling due during the first fiscal year, between November 1, 2000 and June 30, 2001, and US\$ 316 million of maturities (out of which US\$ 192 million in ODA loans) falling due during the first quarter of the following fiscal year, between July 1, 2001 and September 30, 2001.

4. Interest rates to be applied on the restructuring are to be negotiated with each creditor country by the Government of Pakistan 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.

5. As in any Paris Club agreement, Pakistan committed to seek comparable treatment from public and private external creditors that are not participating in this Paris Club agreement. In the context of the present Paris Club agreement, this commitment does not cover the eurobonds restructured in 1999.