

December 13, 2001



PRESS-RELEASE

DEBT STOCK RESTRUCTURING AGREEMENT BETWEEN THE PARIS CLUB AND PAKISTAN

Paris Club creditors agreed on December 13, 2001 with the Islamic Republic of Pakistan to a restructuring of its public external debt. Representatives of the creditor countries welcomed the efforts for economic recovery undertaken by Pakistan, supported by a three year arrangement under the Poverty Reduction and Growth Facility with the International Monetary Fund, approved by the Executive Board of the Fund on December 6, 2001.

The agreement provides for a comprehensive restructuring of a stock of debt amounting to US\$ 12.5 billion as of November 30, 2001.

The restructuring is conducted according to the following terms : commercial credits are to be repaid over 23 years, with 5 years of grace and progressive payments, at the appropriate market rate ; Official Development Assistance credits are to be repaid over 38 years, with 15 years of grace at an interest rate at least as favourable as the concessional rates applying to those loans. The repayment profile of the restructured amounts is attached.

Taking into account the current situation of Pakistan, the Participating Creditor Countries decided to grant the Islamic Republic of Pakistan substantial cash-flow relief during the program period. They decided to defer between November 30, 2001 and June 30, 2002 the maturities of post cut off date debts as well as the interest payments due on the restructured amounts. During the following two years, 20% of interest payments will also be deferred.

The Islamic Republic of Pakistan commits itself to seek comparable treatment from its public and private external creditors.

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

This exceptional debt restructuring will make an important contribution to improving the Islamic Republic of Pakistan's medium term economic outlook, as well as support economic and social reform programs and poverty reduction efforts. It will also contribute to meeting the Islamic Republic of Pakistan's financing requirements during the period of its current IMF program.

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, Finland, 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 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 Mr Jean-Pierre Jouyet, Director of the French Treasury at the Ministry of Economy, Finance and Industry, Chairman of the Paris Club.

Technical notes

1. The three year arrangement under the Poverty Reduction and Growth Facility concluded by Pakistan with the International Monetary Fund was approved by the Executive Board of the International Monetary Fund's on December 6, 2001.

2. The total stock of Pakistan's public sector debt was estimated as of June 1, 2001 to be US\$ 32.8 billion (source : IMF staff report to be 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\$ 13.5 billion as of November 1, 2001 out of which US\$ 12.5 billion is pre-cut-off-date claims (out of which 70% is Official Development Assistance -ODA- loans) and US\$ 0.9 billion is post-cut-off-date claims (out of which 36% 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 debt stock restructured amounts to approximately US\$ 12.5 billion using the exchange rate as of November 1, 2001. Included in this stock are US\$ 8.8 billion in ODA loans, as well as US\$ 77 million of payments in arrears as of November 1, 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.