

June 14, 2001



THE PARIS CLUB AND THE REPUBLIC OF YEMEN AGREE TO A DEBT RESTRUCTURING

Paris Club creditors agreed on June 14, 2001 with the Government of the Republic of Yemen to a restructuring of Yemen's public external debt. Yemen's economic program is supported by an IMF Extended Arrangement and a three year arrangement under the IMF's Poverty Reduction and Growth Facility approved in October 1997. The third annual arrangement of the PRGF and the fourth review under the Extended Arrangement were approved by the International Monetary Fund on February 28, 2001.

Given the high level of external indebtedness of Yemen, this agreement consolidates part of the stock of debt of Yemen in order to reach a sustainable indebtedness level. The stock of debt due to Paris Club creditors was estimated to be US\$ 1,9 billion on December 31, 2000, out of which US\$ 1,85 billion of pre cut off date debt (of which 24% of Official Development Assistance – ODA) and US\$ 50 million of ODA post cut off date debt. The agreement reached with Paris Club creditors included about US\$ 420 million on the stock of pre cut off date debt, of which 90% of ODA debt and 10% of commercial debt.

The agreement is concluded under the so-called "Naples terms" designed by Paris Club creditors : pre-cut off date ODA credits are to be repaid over 40 years, with 16 years of grace, at interest rates at least as favourable as the original concessional rates applying to those loans ; pre-cut off date commercial credits are treated so as to reach a 67% cancellation rate taking into account previous cancellations undertaken by Paris Club creditors ; the remaining amounts of commercial credits will be repaid in advance.

This relief will lead to the immediate cancellation by Paris Club creditors of about US\$ 25 million of Yemen's external debt. These measures are also expected to reduce debt service due to Paris Club creditors in 2001 and 2002 from US\$ 125 million to US\$ 96 million. The remaining payments consist of interest on the rescheduled amounts, maturities on previously rescheduled debt and maturities on post-cut off date debt. Yemen is committed to devote the resources freed by the present exceptional treatment of the debt to priority areas identified in the country's poverty reduction strategy.

Background notes

1. The Paris Club first met 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 Yemen's debt were representatives of the governments of France, Italy, Japan, the Russian Federation and the United States of America.

Observers at the meeting were representatives of the Government of Belgium, Denmark, Germany, the Netherlands, Spain and the United-Kingdom, as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the Secretariat of the UNCTAD and the Organization for Economic Cooperation and Development.

The delegation of the Republic of Yemen was headed by Mr H.E. Alawi S. AL SALAMI, 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-President of the Paris Club.

Technical notes

1. Yemen's economic program is supported by an IMF Extended Arrangement and a three year arrangement under the IMF's Poverty Reduction and Growth Facility approved in October 1997. The third annual arrangement of the PRGF and the fourth review under the Extended Arrangement were approved by the International Monetary Fund on February 28, 2001.

2. The total stock of Yemen's public sector debt was estimated as of December 31, 1999 to be US\$ 5.49 billion in face value (source : IDA document, dated June 28, 2000, published on the Worldbank web site : www.worldbank.org/hipc). The stock of debt owed to Paris Club creditors as of December 31, 2000 was estimated to be US\$ 1.9 billion out of which US\$ 1.85 billion is pre-cut-off-date claims (24% is ODA) and US\$ 50 million is ODA post-cut-off-date claims (source : Paris Club).

The cut-off date (January 1st, 1993 concerning Yemen) 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 the Republic of Yemen 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, Yemen 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. The delegation of Yemen indicated its willingness to meet these creditors soon in order to negotiate the terms of a comparable rescheduling.