

April 5, 2001

**PARIS CLUB**  
**PRESS RELEASE**

**THE PARIS CLUB AND ETHIOPIA AGREE TO A DEBT RESTRUCTURING**

Paris Club creditors agreed on April 5, 2001 with the Government of Ethiopia to a restructuring of its public external debt, following the approval of a Poverty Reduction and Growth Facility with the International Monetary Fund on March 19, 2001.

This agreement consolidates roughly US\$ 430 million, of which 33% of ODA loans. This amount consists of US\$ 230 million of arrears in principal and interest as at February 28, 2001 and US\$ 200 million of maturities in principal and interest falling due from March 1<sup>st</sup>, 2001 up to March 31, 2004.

The agreement is concluded under the so-called "Naples terms" : 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 ; 67% of pre cut-off-date commercial credits are cancelled, 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).

This debt relief will lead to the immediate cancellation by Paris Club creditors of about US\$ 140 million of Ethiopia's external debt. These measures are expected to reduce debt service due to Paris Club creditors between March 1<sup>st</sup>, 2001 and March 31, 2004 from around US\$ 500 million down to around US\$ 110 million. The remaining payments consist of interests on the rescheduled amounts as well as debt service due on post cut-off-date debt and short term debt.

Ethiopia is a country eligible to the enhanced HIPC Initiative. The creditor countries expressed their readiness to consider the debt service of Ethiopia, at the end of this agreement.

### **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 Ethiopia's debt were representatives of the governments of Austria, Belgium, Finland, France, Germany, Italy, Japan, the Russian Federation, Sweden, the United Kingdom and the United States of America.

Observers at the meeting were representatives of the governments of Australia, Denmark, the Netherlands and Spain, as well as the International Monetary Fund, the World Bank, the African Development Bank, the Secretariat of the U.N.C.T.A.D. and the Organization for Economic Cooperation and Development.

The delegation of Ethiopia was headed by Mr Sufian Ahmed, 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. A loan under the Poverty Reduction and Growth Facility in support of Ethiopia's economic program was approved by the International Monetary Fund on March 19, 2001.

2. The total stock of Ethiopia's public sector debt was estimated as of July 6, 2000 to be US\$ 5.4 billion (source : IMF document, dated February 5, 2001 published on the IMF web site [www.imf.org](http://www.imf.org)). The stock of debt owed to Paris Club creditors as at December 31, 2000 was estimated to be US\$ 1.9 billion, out of which US\$ 1.83 billion of pre cut-off-date debt (out of which 22% is ODA loans), and US\$ 70 million of post cut-off-date debt (of which 74% of ODA loans).

The cut-off-date (December 31, 1989 for Ethiopia) 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 these debtor countries.

3. Interest rates to be applied on the restructuring are to be negotiated with each creditor country by the Government of Ethiopia in the 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, Ethiopia agreed to seek comparable treatment from non-Paris Club creditors. In the present case, the comparable treatment shall imply an equivalent assistance of non-Paris Club official creditors and of commercial creditors. The delegation of Ethiopia indicated its willingness to meet these creditors soon in order to negotiate the terms of a comparable rescheduling.