

March 6, 2001

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

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

Paris Club creditors agreed on March 6, 2001 with the Government of Georgia to a restructuring of Georgia's external debt. This agreement follows the International Monetary Fund's approval of Georgia's arrangement under the Poverty Reduction and Growth Facility on January 12, 2001.

This agreement consolidates roughly US\$ 58 million due on loans contracted by Georgia before November 1, 1999 ("cut-off-date", see attached technical notes). This amount consists of principal falling due from January 1<sup>st</sup>, 2001 through December 31, 2002 (of which US\$ 1 million are ODA loans).

The rescheduling is structured on the following terms : ODA credits are to be repaid over 20 years, with 10 years of grace, at interest rates at least as favourable as the concessional rates applying to those loans ; commercial credits are to be repaid over 20 years, with 3 years of grace with progressive repayment, at market rates of interest. However, loans resulting from previous bilateral consolidations negotiated by the Georgian Government will be rescheduled at an interest rate not higher than the interest rate of these bilateral consolidations. The attached tables describe the repayment profile of the restructured amounts.

This agreement is expected to reduce debt service due to Paris Club creditors during 2001 and 2002 from US\$ 88 million to US\$ 33 million, which consists mainly of payments of interest due on existing loans plus payments of interest on the rescheduled amounts.

On a voluntary and bilateral basis, each creditor may also undertake debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps.

This debt restructuring will make an important positive contribution to Georgia's economic outlook. After a comparable effort from other creditors, this rescheduling will satisfy Georgia's financing requirements for 2001 and 2002.

Creditors agreed in principle to consider further restructuring of Georgia's external debt falling due during the remainder of the program period in case of financing need.

### **Background notes**

1. The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries (i.e. OECD). 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 were representatives of the governments of Austria, the Netherlands, the Russian Federation and the United States of America. The Republic of Turkey, a major creditor of Georgia also participated in the debt rescheduling.

Observers at the meeting were representatives of the Governments of France, Germany, Italy and Japan as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the Secretariat of the U.N.C.T.A.D., the Organization for Economic Cooperation and Development and the European Commission.

3. The delegation of Georgia was headed by Mr Zurab NOGAIDELI, 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 Georgia's economic program was approved by the International Monetary Fund on January 12, 2001.

2. The total stock of Georgia's public sector debt was estimated as of December 31, 1999 to be US\$ 1.7 billion (source : IMF document dated December 6, 2000, published on the IMF web site [www.imf.org](http://www.imf.org)). The stock of debt owed to Paris Club creditors as at January 1, 2000 was estimated to be US\$ 482 million (source: Paris Club creditors). Paris Club creditors' stock of debt is divided into US\$ 153 million in ODA claims and US\$ 329 million in non ODA claims.

3. The cut-off-date is used by Paris Club creditors for the sole internal purpose 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 future rescheduling. Thus, the cut-off-date helps restore access to credit for debtor countries facing liquidity problems. Concerning Georgia, the cut-off date was set at November 1, 1999.

4. Interest rates to be applied on the restructuring are to be negotiated with each creditor country by the Government of Georgia in bilateral agreements implementing the Paris Club agreement. Official development assistance loans will be rescheduled at below-market interest rates not higher than the interest rates on the original credits. Loans resulting from previous bilateral consolidations negotiated by the Georgian Government will be rescheduled at an interest rate not higher than the interest rate applied to these bilateral consolidations. 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, Georgia agreed to seek comparable treatment from non-Paris Club creditors. In the present case, the comparable treatment shall imply an equivalent contribution of non Paris Club official creditors to the financing gap during the consolidation period (2001- 2002). The Georgian delegation indicated its willingness to meet these creditors soon in order to negotiate the terms of a future rescheduling.