



## **PRESS-RELEASE**

### **THE PARIS CLUB PROVIDES DEBT REDUCTION TO HONDURAS UNDER THE ENHANCED HIPC INITIATIVE**

Paris Club creditors agreed on April 14, 2004 with the Government of Honduras to a restructuring of its public external debt.

Based on its track-record of reforms, Honduras reached on July 6, 2000 its decision point under the Enhanced HIPC Initiative. At that time, Paris Club Creditors had already granted deferral of payments in support of Honduras in the wake of hurricane Mitch. Following the approval by the IMF board of a new PRGF on February 18, 2004, the Paris Club has concluded a new Agreement with Honduras under the Enhanced HIPC Initiative. Paris Club creditors noted the strong measures of poverty reduction and adjustment in the economic and financial program undertaken by the Government of Honduras and its commitment to implement the country's development and poverty reduction strategy.

The present agreement is concluded under the so-called "Cologne terms" designed by Paris Club creditors for the implementation of the Enhanced HIPC Initiative: the cancellation rate on pre-cut off date commercial credits due as at December 31, 2003 and between January 1, 2004 and June 30, 2005 is topped-up to reach 90% (taking into account previous cancellations undertaken by Paris Club creditors); the remaining amounts are rescheduled over 23 years out of which 6 years are a grace period, at market interest rates (see attached Table). Official Development Assistance loans, which amount to US\$ 98 million, will be rescheduled over 40 years out of which 16 years are a grace period.

Exceptionally and to take into account Honduras' limited payment capacity, Paris Club creditors have, in addition, agreed to defer arrears as at December 31, 2003 on credits granted between June 1, 1990 (cut off date) and June 20, 1999 as well as 90% of the ODA maturities falling due between January 1, 2004 and June 30, 2005 on the same credits.

This agreement consolidates roughly US\$ 360 million of which US\$ 161 million relate to pre-cut off date commercial credits falling due from January 2004 to June 30, 2005. This interim relief shall lead to the immediate cancellation by Paris Club creditors of about US\$ 147 million. These measures are expected to reduce debt service due to Paris Club creditors between January 1, 2004 and June 30, 2005 from US\$ 405 million to approximately US\$ 49 million. The remaining payments consist mainly of interest on the rescheduled amounts and of non deferred maturities on post-cut off date debts.

Honduras agreed to seek comparable treatment from non Paris Club official creditors and private creditors.

Paris Club creditors expressed their readiness to reduce Honduras' stock of debts, as soon as Honduras reaches the completion point under the enhanced HIPC Initiative by early 2005.

### **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 Honduras' debt were representatives of the Governments of Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland and the United States of America.

Observers at the meeting were representatives of the Governments of Norway, the Russian Federation and the United Kingdom, as well as the International Monetary Fund, the International Development Association and the Inter-American Development Bank.

The delegation of Honduras was headed by Mr. José Arturo ALVARADO, Minister of Finance of Honduras. The meeting was chaired by Mrs Stéphane PALLEZ, Assistant Secretary for European and International Affairs at the French Treasury of the Ministry of Economy, Finance and Industry, Co-Chairperson of the Paris Club.

### **Technical notes**

1. Honduras' economic program is supported by a three-year Arrangement under the Poverty Reduction and Growth Facility approved by the IMF on February 18, 2004.

Honduras reached its Decision Point under the enhanced HIPC Initiative on July 6, 2000.

2. The total stock of Honduras' external public sector debt was estimated at end December 1999 to be US\$ 4 288 million (source: IMF Staff report dated June 20, 2000 - [www.imf.org](http://www.imf.org)). The stock of debt owed to Paris Club creditors as of January 1, 2004 was estimated to be US\$ 1 431 million out of which US\$ 852 million is pre-cut-off-date claims (46% ODA loans). Post-cut-off-date debts amount to US\$ 579 million out of which 82% are ODA claims (source : Paris Club).

The cut-off date (June 1, 1990) is used by Paris Club creditors for the sole internal purposes of Paris Club Agreements. Credits granted after this cut-off date are normally not subject to rescheduling. Thus, the cut-off-date helps to 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 Honduras in bilateral Agreements implementing the Paris Club Agreement. Commercial loans shall 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. For ODA credits, these rates and conditions of interest should be at least as favorable as the concessional rates applying to those loans.

4. As in any Paris Club Agreement, Honduras 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 and private creditors. The delegation of Honduras indicated its willingness to meet those creditors which have not yet agreed on a comparable agreement soon in order to negotiate the terms of a comparable rescheduling.