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PARIS CLUB

PRESS RELEASE

**THE PARIS CLUB AND MALAWI AGREE TO A DEBT RESTRUCTURING
UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE.**

Paris Club creditors agreed on January 25, 2001 with the Government of the Republic of Malawi to a restructuring of its public external debt. Given its strong track-record of reforms as well as the burden of its external indebtedness, Malawi reached on December 21, 2000 its decision point under the enhanced HIPC Initiative and was granted an arrangement under the Poverty Reduction and Growth Facility with the International Monetary Fund.

This agreement consolidates maturities in principal and interest falling due from December 1, 2000 up to December 31, 2003 (of which about 67% is Official Development Assistance loans).

The agreement is concluded under the so-called "Cologne terms" designed by Paris Club creditors for the implementation of the enhanced HIPC Initiative : 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 ; 90% of pre-cut off date commercial credits falling due after decision point are cancelled ; the remaining amounts are rescheduled over 23 years, with 6 years of grace, at market rates of interest (see attached table).

This interim relief will lead to the immediate cancellation by Paris Club creditors of about US\$ 19 million of Malawi's external debt, consistent with the implementation of the enhanced HIPC Initiative. These measures are expected to reduce debt service due to Paris Club creditors between December 1, 2000 and December 31, 2003 from around US\$ 72 million down to around US\$ 4 million. The remaining payments consist of interests on the rescheduled amounts and arrears as at November 30, 2000. Malawi is committed to use the resources freed by the present exceptional treatment of the debt on priority areas identified in the country's poverty reduction strategy.

The creditor countries expressed their readiness to reduce Malawi's stock of debt, as soon as Malawi reaches the completion point under the enhanced HIPC Initiative.

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 Malawi's debt were representatives of the governments of Austria, France, Germany, Italy, Japan, Spain, Sweden and the United Kingdom.

Observers at the meeting were representatives of the governments of Belgium, Canada, Norway, the Russian Federation, the United States of America as well as the International Monetary Fund, the International Development Association, the Secretariat of the U.N.C.T.A.D., the African Development Bank and the Organization for Economic Cooperation and Development.

The delegation of the Republic of Malawi was headed by Hon. Dr Mathews A.P CHIKAONDA, Minister of Finance and Economic Planning. The meeting was chaired by Mr Bruno BEZARD, Deputy Assistant Secretary at the Treasury of the French Ministry of Economy, Finance and Industry, Vice President of the Paris Club.

Technical notes

1. A loan under the Poverty Reduction and Growth Facility in support of Malawi's economic program was approved by the International Monetary Fund on December 21, 2000.

The Republic of Malawi reached its decision point under the enhanced HIPC Initiative on December 21, 2000.

2. The total stock of Malawi's public sector debt was estimated as of December 31, 1999 to be US\$ 2.6 billion (source : IMF and IDA document, dated December 8, 2000 published on the IMF web site www.imf.org). The stock of debt owed to Paris Club creditors as at June 30, 1999 was estimated to be US\$ 333 million (out of which 70% is ODA loans).

The cut-off date (January 1st, 1997 for Malawi) 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 Malawi 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, Malawi 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. The delegation of Malawi indicated its willingness to meet these creditors soon in order to negotiate the terms of a comparable rescheduling.