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Paris Club - 93-05 (June 21-23, 1993 meeting)

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Document Date June 23, 1993	Document Type Report
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Correspondents / Participants

Subject / Title
Summaries of Paris Club Meeting Discussions.

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OFFICE MEMORANDUM

DATE: June 29, 1993

CONFIDENTIAL

TO: Ms. Nancy Birdsall, Acting Vice President, DEC

FROM: *Michael Lav*
Michael Lav, Economic Adviser, DPG

EXTENSION: 35092

SUBJECT: Paris Club - June 21 to 23, 1993

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Introduction

1. The principal business during the Paris Club's June meeting was the negotiation of new rescheduling agreements for Benin and Costa Rica, and discussions concerning the treatment of debt of "IDA only" and lower middle income countries. In addition, the Club held its normal tour d'horizon.

Benin Rescheduling

2. Benin received enhanced Toronto terms for its rescheduling, following the enhanced Toronto terms received for the 1991 rescheduling. Some creditors asked about Benin's low debt service ratio and low debt/GDP ratio, but accepted that the country's per capita income and IDA only status merited receipt of the enhanced Toronto terms. Benin was an early recipient of enhanced Toronto terms and has been implementing its Fund supported programs reasonably well and maintains good relations with creditors. Although the agreement calls for a 4 year track record before discussions of a reduction in the stock of debt (compared to 3 years for most other countries receiving enhanced Toronto terms), Benin may well be one of the earlier countries to receive debt stock reduction if it continues to perform well.

Costa Rica Rescheduling

3. The Costa Rica rescheduling of arrears closed the financing gap for 1993, although the amounts involved were not large. Because of Costa Rica's per capita income, the grace period extends only to 1995 and repayments are to be completed by 1999.

4. Creditors were interested to know the status of IBRD and IDB loans, and particularly our adjustment loan, for which parliamentary approval of certain laws and of the loans themselves is required for effectiveness and disbursements. The Minister of Finance of Costa Rica confirmed that his government was committed to passage of the needed legislation, and that the opposition party was also supporting the adjustment program. Therefore, Parliamentary approval, effectiveness, and disbursements were projected during 1993.

Methodology

5. The Paris Club has been according enhanced Toronto terms to "IDA only" countries since December 1991. These call for a reduction in the stock of debt after a 3 or 4 year track record has been established. While the amount by which the stock of debt would be reduced has not been specified, it has been widely assumed that 50% would be an appropriate reduction. Discussion about improving these terms has not been possible since the United States has been choosing the non-concessional option, and the other creditors had concerns about burden sharing. However, it now seems as if the United States in the near future will be able to move to one of the two concessional options offered in the enhanced Toronto terms menu, as Congressional approval of the Administration's proposals seems reasonably likely.

6. In this context, a number of creditors asked to discuss the enhanced Toronto terms in the methodology session. More than half of the creditors were willing to support a reduction of greater than 50%. Some of these felt that a case by case approach was merited, with reductions depending on the needs and capabilities of the country. Other creditors, while agreeing with the desirability of assuring an appropriate reduction for each debtor, preferred to have guidelines on which to base such decisions. Some creditors stated that they would probably face a budget constraint, so that if a greater stock reduction were given for some countries, other countries would need to receive less. Concerning the track record, all creditors wished to see some time period over which a track record could be established before moving to the stock of debt reduction. However, some felt that a time period of less than 3 years could be appropriate.

7. All creditors agreed that the object of the exercise was to exit debtor countries from the rescheduling process. In this regard, they welcomed further discussion of indicators and perspectives important to gauge the adequacy of a debt stock reduction.

8. The creditor countries also discussed the treatment given to lower middle income countries (LMICs). An important group of creditors, but substantially less than a majority, felt that better treatment was important, including the possibility of debt stock reductions. Some creditors stated that they were prepared to look at this on a case by case basis. Since none of the LMICs of interest appeared close to coming to the Paris Club for a rescheduling, the feeling was that there would be time to discuss this in the future.

9. It is worth recalling that Paris Club decisions are made by consensus. Therefore, because various creditors now have different points of view, a substantial amount of work remains before these matters are resolved.

Tour d'Horizon

10. A total of 19 countries were covered in the tour d'horizon, comprising:

Africa: Equatorial Guinea, Sierra Leone, Tanzania, Zambia

LAC: Argentina, Bolivia, Brazil, Ecuador, Nicaragua, Venezuela

ECA: Albania, Bulgaria, Macedonia, Poland, Russia, Slovenia

MNA: Egypt, Iran, Jordan,

No points of general interest emerged.

Next Steps

11. The next meeting of the Paris Club will be the week of October 4th. Ecuador could be a candidate for a rescheduling at that time if several important issues are resolved and if a Fund program materializes. Informal discussions on the methodology issues discussed in paragraphs 5-9 are taking place and will continue in the coming months.

cc and cleared with: Anandarup Ray

Messrs./

Mmes. Karaosmanoglu; Sandstrom; Stern; Husain, Jaycox, Kaji, Koch-Weser, Thalwitz, Wood; Linn; Kashiwaya; Edwards, I. Husain, Thomas, Nankani, Selowsky, Squire; McCarthy; D.C. Rao, Birdsall, Gelb, Ahmed; Donovan, Nishimizu, Bhattacharya; Pfeffermann; Shakow. Wyss, Handwerger, Paris Office. Institutional ISC.

Messrs./Mmes.

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Colaco, Carter, AF2 (Tanzania)
Aguirre-Sacasa, Gorjestani, AF3
Lim, Salop, AF4 (Sierra Leone)
Marshall, Sarbib, Lewis, AF5
Denning, Patel, AF6 (Zambia)
Hamilton, Kilby, SA1
Vergin, Khalilzadeh-Shirazi, SA2
Isenman, Penalver-Quesada, SA3
Madavo, Ikram, EA1
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Dervis, Noel, EC2 (Albania, Macedonia, Poland, Slovenia)
Cheetham, Huang, Yurukoglu, Toft, EC3 (Russia)
Kavalsky, Kanaan, Grais, EC4
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Chopra, Voyadzis, MN2 (Egypt, Iran, Jordan)
Steckhan, Papageorgiou, LA1 (Brazil, Venezuela)
Segura, de Ferranti, LA2C1 (Costa Rica, Nicaragua)
Segura, Lacey, LA2C2
Abe, de Tray, LA3C1 (Bolivia)
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Loh, Dowsett-Coirolo, LA4 (Argentina, Ecuador)

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