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Paris Club

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OFFICE MEMORANDUM

DATE: February 1, 1995

TO: Mr. Masood Ahmed, IEC DR

FROM: R.P. Brigish, Advisor, IEC 

EXTENSION: 33868

SUBJECT: **The Paris Club--January 23-26, 1995: Back-to-Office Report**

1. The meeting was convened to negotiate reschedulings for Guinea (Conakry) and Croatia, and to resolve several outstanding technical issues relating to the Naples terms. There was also an extensive tour d'horizon covering: Angola, Cambodia, Chad, Cuba, Ecuador, Ethiopia, Guyana, Honduras, Jordan, Macedonia, Myanmar, Nicaragua, Nigeria, Russia, Sudan, Syria, Tanzania, Togo, Uganda, and Zambia.

Guinea

2. Russia had requested immediately before the meeting to be permitted to attend as a creditor. The request was politely declined on the grounds that there was insufficient time to integrate Russia's claims (in Soviet Union Rubles) on Guinea into the payment capacity calculation.

3. The rescheduling itself went smoothly. As the first country to submit to a rescheduling after the Paris Club agreement on Naples terms, these terms were to apply to Guinea. However, its track record has not been sufficiently sound nor continuous to warrant consideration of a stock reduction operation. Moreover, Guinea's per capita income and its indebtedness indicators left it beyond the thresholds agreed for a 67% reduction (of flows). Consequently, the agreement was for a conventional rescheduling of flows, of which 50% falling due during the consolidation period were reduced. The Guinean authorities accepted this with no debate. Creditor questions on the authorities opening presentation centered on the status of negotiations with Russia concerning its claims on Guinea, the settlement of expropriation claims, and the privatization process.

4. From the outset, complications were introduced into the negotiations by two factors, namely Croatia's request for debt reduction, and its position that debt service payments on non-allocated debt of the former Yugoslavia be linked to the distribution of assets of the former Yugoslavia. While recognizing that the country was not a SILIC, the authorities argued that debt reduction was essential to their ability to convince the public (and parliament) to accept a Paris Club deal. They argued further that the formula used by the Paris Club in allocating debt of ex-Yugoslavia was computed on the assumption that that country's assets would be shared among successor states. Since there has been no agreement on these assets (reserves of the former central bank of Yugoslavia, possession of embassies etc.), Croatia should not be expected to service all the non-allocated debts. Also, they contended that the Croatian public believes that some of the loans in question had benefitted an army which then destroyed Croatia's physical assets, or now occupied areas to which refugees cannot return.

5. Creditor questions on the Croatian presentation concerned the status of privatization (particularly of banks), progress in negotiations with the London Club, and medium-term economic prospects. Concern was expressed at the request for debt reduction. One creditor also contended that if the (non-allocated) assets and liabilities were linked, it might have been premature to schedule a meeting. In the end, the request for debt reduction was relinquished with some reluctance, but Croatia's insistence on the linkage to the resolution of the assets prevented a deal from being reached. Discussions may resume in February.

SILIC Debt – Next steps under the Naples terms

6. Model Agreed Minutes for maturities treatments were agreed, and are on file. However, the draft Minutes related to stock reduction operations remains under discussion. Final agreement options to treat ODA under the Naples terms was also reached. There was a consensus that **Uganda** will be invited to negotiate a stock reduction operation. Although there was not a unanimity of views on **Togo's** eligibility for Naples terms, there appeared to be sufficient consensus to accord it a rescheduling of maturities falling due during the consolidation period -- with 67% reduction of debt or debt service. These countries are to be invited for negotiations in February, 1995.

Attachment

- cc Messrs./Mmes (w/attachments): Baird (DECVP); Bhattacharya (FRSCR); Reyes (IECDF); Guerard (AFRCE); Katz (AFTPS); Rosenberg (AFRVP); Marshall, Pomerantz (AF1); Colaco, Carter (AF2); Aguirre-Sacasa, Chevallier (AF3); Lafourcade, Okonjo-Iweala, Denton (AF4); Sarbib, Fredriksen (AF5); Madavo, Ikram (EA1); Wiehen, Poortman (EC1); Cheetham, Huang (EC3); Segura, Dowsett-Coirolo (LA2); Abe, Morrow (LAC3); Chopra, Voyadzis (MN2); **Institutional ISC**
- cc Messrs/Mmes. (w/o attachment): Kaji, Sandstrom, Frank (EXC); Bruno (DECVP); Jaycox, (AFRVP); Cheetham, Husain (EAPVP); Koch-Weser, Page (MNAV); Wood, Salop (SASVP); Thalwitz, Selowsky (ECAVP), Burki, Edwards (LACVP); Linn (FPRVP); Fukui (CFSVP); Nishimizu (FRSDR); Gelb (PRDTE); Donovan (FRMDR); Kanbur (AFRCE); Lav (FRMRO); Pfeffermann (CEIED); Malloch Brown (EXTDR); Handwerker, Wyss (Field Office, Paris) Johannes, Jun (IECIF); IEC Division Chiefs

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The Chairman of the Paris Club

95EL9/V

20 JAN. 1995

PARIS,

Mr Minister,


I thank you for your letter dated January 17, 1995 which I have transmitted to the creditor countries members of the Paris Club. It provides useful information on your present situation, and it makes creditor countries well aware of the importance you attach to the question of assets.

They however asked me to reaffirm that Croatia's agreement to take over its share of the former Yugoslavia's non-allocated debt, as defined in Jean-Claude TRICHET's letter dated January 6, 1993, is a prerequisite for the negotiation on the rescheduling of Croatia's external public debt.

In this respect, it is their understanding that your January 17, 1995 letter confirms Croatia's commitment to service its share of non-allocated debt as expressed in Croatia's Prime Minister's December 12, 1994 letter, and that no linkage can be established between the assets issue (for which, as you know, the Paris Club is not the appropriate forum) and the repayment of non-allocated debt.

Please accept, Mr Minister, the assurances of my highest esteem and my best personal regards.

Francis MAYER



Mr Bozo PRKA
Minister of Finance of Croatia
41000 ZAGREB
KATANCICEVA 5

CROATIA

The Government of the Republic of Croatia

STATEMENT

by Mr. Borislav Škegro, Deputy Prime Minister

at the session of the Paris Club,

Paris, January 26, 1995

Distinguished Mr. Chairman,
ladies and gentlemen,

On behalf of the Government of the Republic of Croatia allow me to greet you and to express pleasure for having the opportunity to meet you today. The Government of Republic of Croatia attaches great importance to regularizing its relations with member countries of the Paris Club. I believe it is reasonable to expect that this meeting will result in a permanent and comprehensive solution of the problem of the Croatian debt to member countries of the Paris Club, and in this connection I would like to convey the determination of the Government of the Republic of Croatia to make every effort with a view to finding a just solution to the problem that will be acceptable to all parties concerned.

Starting from the fact that Croatia has already - through the Paris Club Secretariat - submitted to all the member countries its views on the possible solution to the problem of its external debt, as well as all relevant data on the economic and financial situation in the country, on the afflicted war damage and its effect on the economy, including the relevant UN resolutions concerning the need for the international community assistance to the Republic of Croatia, allow me to present a brief overview of the basic elements that were taken into consideration in the formulation of our views on the possible solution of the Croatian external debt.

Today's negotiations take place at the moment marked by a stable political situation in the Republic of Croatia. The Government of the Republic of Croatia is committed to implementing and completing its economic program launched in October 1993, which has so far produced positive results. The stability of the Government - in April 1994 it will complete the second year of its being in office - derives from the stable majority in the Parliament. This in turn represents one of the basic determinants of and guarantees for the further implementation of the reform program.

In its international relations, the Republic of Croatia has always strongly supported and will continue to support the efforts of the international community to find peaceful solution to the crisis in the region of former Yugoslavia. These efforts resulted in the signing of the Washington agreements, as well as in giving support to various peace initiatives of the international community, while in terms of the internal policy they led to negotiations with local Serbs on reintegration of the temporarily occupied territories.

Croatia has experienced considerable economic difficulties. The consequences of the war and aggression have been extremely severe. Nearly one fourth of the internationally recognized territory of the Republic of Croatia is still occupied, the war damage exceeds the amount of about two GDPs recorded in pre-war period. GDP declined by nearly 40 percent, domestic and foreign trade were distorted, the unemployment rate is still very high (about 17 percent). In addition, Croatia has accepted hundreds of thousands of refugees, mostly from Bosnia and Herzegovina, as well as displaced persons from Croatian territories (during certain periods their number exceeded 700 thousand, which is more than 15 percent of the Croatian population). An indicator of all these difficulties was an extremely high inflation rate of more than 25 percent monthly.

Nevertheless, upon gaining its independence, Croatia has started, through many sacrifices and deprivations, the process of correcting adverse trends in the economy. After conducting comprehensive preparations and effecting radical changes in the institutional and legal framework of the overall economic, monetary and fiscal policy, in October 1993 Croatia launched a comprehensive stabilization program aimed at breaking down inflation and providing the basis for the privatisation and restructuring of the economy, as well as for its recovery and development.

The positive results of the program are evident; 1994 ended with negative price growth, the exchange rate has been stable, the internal convertibility of the kuna has been achieved, fiscal deficit has been substantially reduced and the balance of payments has improved due to, among other factors, a recovery in tourism and private foreign exchange remittances from abroad, as well as supply of foreign exchange from the households.

Nevertheless, the economic growth has been rather slow, the reconstruction has not yet begun, not a single displaced person has returned to his/her home, a number of big enterprises are still making losses, the banking system has not yet been rehabilitated and, in addition, substantial arrears in servicing debts owed to the creditors of the Paris and London Club have accumulated. In spite of this, Croatia has been orderly servicing its debts to international financial institutions, to other creditors, and partially also to the Paris Club creditors. The consequence was net capital outflow. Croatia has been equally servicing the debts of the enterprises which are located on the occupied territory or have been destroyed during the aggression, such as those from Vukovar, Petrinja, Obrovac, Beli Manastir and others.

With regard to these facts - ladies and gentlemen - it is inevitable to recognize the uniqueness of the Croatian case in terms of its relations with member countries of the Paris Club and the permanent regularization of our debt. I take the liberty of emphasizing that we are not talking about the usual procedure nor about the debtor country of the type commonly met in the dealings of the Paris Club. Here we are rather talking about a very specific situation, marked by the fact that the debtor country in this case did not exist at the moment when the debts were contracted, nor did it have an opportunity to influence the amount of debt or its uses. Not only that, but it is still unknown for a part of the Croatian debt for what purposes, when, and in which manner it has been used. Nevertheless, this part of debt is also a topic of these negotiations. All this points to peculiar features of the Croatian case, which requires an appropriate response on the part of creditors. By acknowledging its peculiarity you may contribute to a faster resolution of the problem. In the operation of the Paris Club such cases have been recorded and we therefore believe that the understanding reached through today's negotiations will take the form of mutually acceptable solutions.

Finding an acceptable solution is crucial for the further implementation of the economic program of the Croatian Government. Otherwise, all those efforts and sacrifices which brought about the success in the program implementation will be jeopardized, the clear perspective of the economic growth will be lost, which may have extremely negative implications internally and internationally.

Taking all this into consideration, the Croatian Government believes that the future framework of the relations between the Republic of Croatia and the member countries of the Paris Club should be based on the following:

Debt rescheduling should include all pre cut-off date debts that were already rescheduled in the period between 1984 and 1988, as well as those that were not previously rescheduled (the so called consolidated and nonconsolidated pre cut-off date debts). The rescheduling should also include all principal and interest arrears, late interest as well as current maturities (principal and interest falling due) during the consolidation period (from October 14, 1994 to April 13, 1996 - the duration of the stand-by arrangement with the IMF). It is our request that the amount of debts included in the rescheduling be halved, while the remaining part of the debt be serviced over the period of 16 years after the expiring of the consolidation period, including a 5 year grace period. The debts contracted after December 2, 1982, the so called post cut-off date debts, would not be included in the rescheduling. These debts would be serviced in accordance with the originally contracted maturities, and we propose that the principal and interest arrears on this category of debts be repaid in several installments during the consolidation period.

All this refers to the so called allocated debt, that is to the loans contracted by Croatian borrowers, banks or enterprises domiciled in Croatia which signed the original loan agreements with the creditors. As far as the unallocated debt is concerned, that is the debt concluded by the former Yugoslavia and/or the former National Bank of Yugoslavia, we have expressed our willingness to service this debt, in principle, according to the key for the distribution of the IMF quota (28,49 percent).

We have also expressed our opinion that the unallocated debt should be rescheduled on the same terms and conditions as the allocated debt. The mentioned key for the distribution of the unallocated debt should be applied on temporary basis, until the Croatian share in the distribution of the assets and liabilities of the former Yugoslavia has been definitely determined at the Conference on the Succession in Geneva. However, we request that the servicing of unallocated debt should be tied to the distribution of the financial assets of the former Yugoslavia. We are willing to service this debt, but only in a symbolic amount, until the issue of the final allocation of these financial assets, in particular of foreign exchange reserves, has been settled.

Due to the sensitivity and various implications of the unallocated debt servicing, we request that, should any of the successor states of former Yugoslavia be granted more favorable conditions for servicing the unallocated debt in negotiations with the Paris Club, these more favorable conditions should also be applied to the Republic of Croatia, so that the agreement we may reach today can be altered accordingly.

To summarize, the Government of the Republic of Croatia believes that it is possible to conclude an agreement with member countries of the Paris Club, which would ensure a definite solution to the problem of the Croatian debt. For Croatia, it would be a guarantee for the further implementation of the economic program, and, last but not least, it would contribute to the strengthening of the overall financial credibility of the country and to the improving of the stability in the region.

Thank you very much, ladies and gentlemen.



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Zagreb, January 17, 1995

Ministry of Finance

Tresor

Mr. Bertrand de Mazieres

Vice President

Paris Club Secretariat

Paris

Fax No: 99 33 1 40 04 16 91

Dear Mr. Vice President,

In supplement to the Prime Ministers letter dated December 12, 1994 requesting a comprehensive debt reorganization for the Republic of Croatia I would like to notify you that in discussion on bilateral issues with some Paris Club creditor countries we have realized that in designing a possible solution for an agreement and effective implementation of 28,49% for the Republic of Croatia of the unallocated debt originally contracted by the former National bank of Yugoslavia and the Government of the former SFR of Yugoslavia, division of joint assets ("frozen bank deposits") will be also discussed and the same IMF formula implemented. We are raising this nonstandard issue of linking frozen bank deposits of the former SFRY with the solution for unallocated debt in a good faith and count on the understanding of the Paris Club member countries.

Pending a general solution we are interested to conclude Arrangements for reorganization of our total external debt to the Paris Club creditors and start to pay some of the unallocated debt. In that regard we expect

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an equal treatment would be applied to all countries successors to the former SFRY. If there would be a better deals or more favourable terms of reorganization and rescheduling for some countries coming latter that should be equally beneficial and implemented for the Republic of Croatia.

We are ready to reconfirm fundamental condition to accept 28,49% of unallocated debt and to secure regular repayments. At the same time you should be aware that in current situation accepting this represents for the Government of the Republic of Croatia serious political problem and financial burden.

Further depletion of joint foreign assets and reserves of the former SFR of Yugoslavia frozen in certain foreign banks should be stopped and divided for securing the payments of unallocated debt. Otherwise it would be very hard for the Government of the Republic of Croatia to propose to our Parliament to accept some new external debt deriving out of the unallocated debt of the former Yugoslavia.

We are ready to provide you with more detailed explanations and would be ready to share our concerns with Paris Club creditors with the objective to find a fair and effective solution which will be beneficial for all parties concerned.

Please accept Mr. Vice President my highest considerations.

Minister of Finance



Statement by the IMF Staff Representative to
the Meeting of the Paris Club on Croatia
January 26, 1995

On October 14, 1994, the Executive Board of the IMF approved a request from the Croatian authorities for an 18-month stand-by arrangement for SDR 65.4 million in support of the authorities' stabilization and reform program. In addition, the Board approved a first purchase of SDR 65.4 million under the Systemic Transformation Facility. It is expected that a second purchase under the STF, for the same amount, will be requested by the authorities upon completion of the first review under the stand-by, assuming that all conditions for such a purchase have been met.

An IMF mission for the first program review visited Zagreb earlier this month and, based on the discussions between the Fund staff and the authorities, it appears that the economic program is on track and the outlook for 1995 is essentially as was presented in the documentation for the stand-by arrangement, albeit with somewhat higher real GDP growth. It is expected that the Board meeting for the first program review will take place in late March or early April.

In October 1993, the authorities announced a stabilization program designed to reduce inflation sharply from the near-hyperinflationary levels then prevailing. The program has thus far achieved considerable success with inflation dropping abruptly and only a limited adverse impact on economic activity. Consumer prices declined by a cumulative 3 percent during 1994. Industrial production in the final quarter of 1994 was about 3 percent above its level during the same period of 1993, and the number of unemployed has stabilized at levels slightly below those of one year ago. Preliminary fiscal data for 1994 indicate that the central government had a surplus of about 1/2 percent of GDP. The external current account of the balance of payments is estimated to have shown a surplus of 1.5 percent of GDP in 1994, led by a substantial increase in revenue from tourism.

In designing their policies for 1995, the authorities are seeking to consolidate the success on the inflation front while encouraging a resumption of economic growth. In addition, the authorities are aiming to strengthen Croatia's external position and to normalize relations with external creditors. To achieve these goals the authorities are implementing a program which includes the elimination of monetary financing of the fiscal deficit, a tightening of incomes policy, restrictions on the access of loss-making enterprises to credit, enterprise and bank restructuring, and accelerated privatization.

Recent developments in Croatia's external accounts have on the whole been favorable, although a substantial financing gap remains and a Paris Club rescheduling is necessary if Croatia is to achieve a regularization of relations with official bilateral creditors. In the current account, a modest recovery in exports is expected to have occurred in 1994--reflecting

in part a large increase in exports of ships--and is projected for 1995. Imports are also expected to increase from the extremely depressed levels of recent years, reflecting higher expenditures on reconstruction, and imports of intermediate goods. There also appears to have been a significant rise in revenues from tourism in 1994. A continuation of the trends evident in 1994 is expected in 1995, and despite an expected further pickup in imports associated with reconstruction, the current account is expected to be approximately in balance.

The authorities understand that regularizing their position with official bilateral creditors will require the clearing of outstanding arrears on debt of the former Yugoslavia attributable to Croatia. They also accept that Croatia will need to clear arrears and make arrangements for the treatment of obligations falling due on that part of the nonallocated debt of the former Yugoslavia owed to official bilateral creditors that has been allocated to Croatia, on a temporary basis, under the IMF quota key. Reserves are still below comfortable levels, and the program calls for a further modest increase in 1995 to a level equivalent to about 2.5 months of imports. Given the outstanding obligations and the need for an increase in reserves, a substantial financing gap remains in 1995. It is expected that this gap will be filled in part by use of Fund resources, in part by either a rescheduling or a deferral of payments due to commercial creditors and in part by a Paris Club rescheduling.

Our assessment on the basis of recent discussions of the program with the authorities is that the assumptions of the program that was approved by our Board in October 1994 on Croatia's capacity to make payments on its debts remain broadly valid. Some elements of the balance of payments performed better than expected in 1994, notably tourism, and a larger than projected increase in reserves was achieved. However, imports were higher in 1994 than originally projected, and are also expected to be higher in 1995, and disbursements in 1995 are now expected to be lower than previously projected. On balance, Croatia's capacity to make payments to the Paris Club in 1995 is much as it was before.

In regard to other creditors, the program envisages that Croatia will seek comparable terms from other official bilateral and commercial creditors to those agreed with the Paris Club. If an agreement on comparable terms to the Paris Club agreement cannot be reached, there will be a deferral of payments to commercial bank creditors, pending the outcome of further negotiations. There are currently substantial differences between the commercial banks and Croatia on the extent of obligations due to the banks, and these differences may take some time to resolve. In the meantime, and until an agreement with the commercial banks can be reached, the program provides for amounts corresponding to interest payments due on debt accepted by the Croatian side to be paid into a special account in the National Bank of Croatia.

Croatia's medium-term prospects are good assuming that the security situation in the region allows a resumption of growth. The program's

medium-term scenario shows some widening of the current account deficit in the period to 1997, reflecting a strong increase in imports for reconstruction. However, exports and revenues from tourism are also projected to increase significantly. The capital account is also expected to improve as private transfers are replaced by foreign direct investment and lending from expatriates, and as investment by foreign companies and lending from multilateral institutions and supported by official export credit agencies increases. It should be emphasized, of course, that the ability of Croatia to attract foreign tourists and investors is especially dependent on developments in the security situation. In our medium-term scenario, debt ratios are projected to decline gradually over the medium term, and debt-service ratios to remain broadly stable.

In conclusion, the authorities' adjustment program appears to be on track. We believe that it is a strong program, which merits the full support of creditors.

CROATIA

The Paris Club Statement of the World Bank Representative January 26, 1995

Croatia has been successful at stabilizing the economy and bringing inflation under control, through, *inter alia*, the enforcement of a tight fiscal and incomes policy. Indications are that ^{GDP} growth resumed in 1994 at a modest pace. For the years to come, our base scenario foresees that growth would accelerate progressively to an annual rate of 5% by 1997, which would be sustained until the end of the decade, and would allow Croatia to recover 80% of its 1990 GDP by the end of this decade. Economic recovery would be driven by two main forces. First, exports would grow rapidly, at a 5-6% annual growth rate. Such a pattern would be consistent with Croatia's pre-war record, and the remarkable resilience of its exports during 1992-93, despite particularly adverse external and domestic conditions. Export growth would also build on the current recovery in Western Europe, and further trade liberalization.

The second main source of growth would be Croatia's investment effort needed to repair war damage, and adapt the country's capital stock to new markets and exchange patterns. Investment is expected to grow rapidly (13% ^{annually} on average) during the coming three years, increasing its share in GDP from 14% to over 18%. Private sector investment is expected to increase only moderately in the initial years, and would then take over from the public sector as the process of industrial restructuring and privatization yields its effects.

The resumption of growth, together with the consequences of independence and war, have already contributed to a strained balance of payments. The large surpluses that

characterized Croatia's current account before independence (5-6% of GDP), will likely become moderate deficits. These deficits and the likely low levels of direct investment, imply that Croatia will have to rely ^{initially} ~~heavily~~ on external debt relief to be able to resume annual debt service and build up its foreign exchange reserves. At this stage, it has no access to the reserves of the former Yugoslavia. A resolution of its external financing problems is thus critical to the resumption of growth.

The growth objective of the Croatian Government will require, in addition to the commitment to stabilization and the investment effort already mentioned, the implementation of wide-ranging structural reforms in the economy. The Government's medium term strategy is three-fold.

First, **encouraging private sector growth**. The Government wishes to foster the contribution of the private sector to growth and to the reorientation of the economy towards Western markets. Two main routes will be followed to achieve this aim: furthering privatization, and the creation of a conducive environment for the private sector. The Government's privatization strategy ^{has} ~~which~~ already led to divestiture of more than one third of State-held productive assets, ~~will be redefined~~. ~~And a~~ multi-track approach will be ^{followed,} ~~introduced,~~ including mass privatization, direct sales to domestic or foreign investors, as well as improved existing methods.

Work on a conducive environment for the private sector will be furthered by the adaptation of the legislative framework and the judicial system to the standard for a market-based economy; this process is already underway. Immediate priorities are

the enactment of a new bankruptcy Law, and a Law on Labor relations authorizing lay-offs in the case of ~~economic~~ redundancy. The financial system will be strengthened, enabling it to allocate resources more effectively, at a lower cost, and to enforce ^a ~~the~~ hard budget constraint on enterprises. The Government is preparing a comprehensive reform aimed at relieving troubled banks from their non-performing assets, privatizing them, and bringing bank regulation and supervision to international standards. Capital markets are also to be developed, as an additional way to improve resource allocation, and reinforce competition within the financial system. To this end, work is already underway to create the ~~logistical and~~ ^{financial} regulatory infrastructure.

Second, **investing for future growth.** Croatia needs to make a major investment effort in infrastructure, agriculture and other sectors to put the economy back on a growth path. The requirements are multiple and massive; war damage has resulted in large reconstruction needs in most sectors, and low investment levels in recent years ~~has~~ ^{have} contributed to a backlog of rehabilitation needs, particularly in infrastructure.

The Government's strategy for agriculture also emphasizes investment to support the private sector, reversing previous policies that allocated most resources towards socially-owned agricultural enterprises. It should be noted that, in the event that a solution to Croatia's territorial issues is reached, additional reconstruction works will need to be carried out in areas that were previously inaccessible to the Government.

Third, **redefining the size and role of the state.** Government strategy calls for reform of tax system, both increasing the efficiency of administration, and reducing tax rates, through the broadening of the base and improved compliance, and replacing

the most distortive taxes with more neutral ones. Large public enterprises, such as the railways and utilities, will be restructured; some will need to be downsized. The efficiency of public investment will be increased by procurement reforms which have already been initiated. Social sector reform programs will be developed: in fact, reforms in the health sector have already met with impressive results.

The World Bank's initial lending to Croatia, the Emergency Reconstruction Loan in an amount of US\$128 million, supported the immediate investment priorities for reconstruction. Several other operations are under preparation. ~~Subject to contingency plans that would address the possible deterioration of the political/military situation in the region -- which we will continue to monitor closely --~~ It is anticipated that lending could be in the order of \$200 million per year, subject to progress in policy dialogue ~~and~~ success in project implementation. ^{and, of course, the political & military situation in the country} About half of ^{an} the proposed lending would be adjustment lending in the first two years; after that, most of the lending would be for investments.

The program described above involves risks and is ^{potentially} vulnerable to external or internal developments. We consider ^{that} the support of the international community in providing adequate debt relief and new financing is vital to its success.

PARIS CLUB MEETING ON THE REPUBLIC OF CROATIA**26 January 1995****STATEMENT BY THE UNCTAD REPRESENTATIVE**

The young Republic of Croatia is facing many hurdles on its way to achieve economic restructuring and recovery. The armed conflict which followed the break-up of the former Socialist Federal Republic of Yugoslavia severely affected the Croatian economy. The destruction of part of its infrastructural and industrial installations and disruptions of transport and communications network contributed to weaken the Croatian productive capacity. Tourism, one of the main sources of foreign exchange for Croatia, suffered heavily from the prevailing unstable security situation. In addition, a large inflow of refugees put additional burden on the government budget.

The traditional trade relations were broken by the dissolution of the trade and payments system of the Council for Mutual Economic Assistance (CMEA) and the disintegration of the former Socialist Federal Republic of Yugoslavia (SFRY). Between 1990 and 1993, Croatia's exports to CMEA countries were halved.

The Republic of Croatia has inherited an economy riddled with high inflationary tendencies and structural problems. High inflation was fed by steady inflationary expectations and wage indexation policies. The transition process to a market-based economy was rendered arduous by the difficult restructuring of inefficient public corporations. Enterprises, through their close links with state banks covered their losses by bank credit and also by inter-enterprise arrears, thus seriously threatening the viability of the financial system.

In response to the deteriorating macroeconomic situation, the Government implemented a vigorous stabilization program, particularly since October 1993. This program was based on tight fiscal and monetary control, together with wage control. The exchange rate was also

stabilized within a narrow band, after an initial depreciation of 20% in October 1993. At the same time, the Government continued its structural adjustment efforts by pursuing its privatization program and vigorously restructuring loss-making enterprises.

The government's efforts have already displayed remarkable results. Inflation was abruptly reduced. Consumer prices declined by about 2 % in 1994, after increasing by more than 1000% in 1993. The Consolidated Central Government budget deficit was also reduced from 4.8% of GDP in 1991 to around 1% of GDP in 1993. The Government expected to maintain this deficit at a level much below 1% of GDP in 1994-1995.

There are signs that the decline in GDP was arrested in 1994 and that, provided the security situation does not deteriorate further, GDP growth could resume this year. However, gross fixed investment, despite an increase in 1993 after years of decline, remained low. At the same time, a rate of unemployment of more than 16% is a real concern for the government.

On the external side, the current account has been in surplus since 1992. Exports are expected to increase by some US\$200 million per year in 1994 and 1995; imports are likely to exceed exports because of reconstruction needs. As a result, the trade balance is expected to continue showing a deficit until the end of 1995. However, tourist revenues are expected to continue increasing in 1994 and 1995, permitting Croatia to maintain a small surplus in the current account balance.

Despite the improved balance of payments position in 1994, Croatia is severely burdened by its obligations towards foreign official and private creditors. The arrears to Paris Club creditors at the end of 1993 exceeded US\$400 million and should have risen further due to the inability of the Croatian government to meet its obligations during 1994. In addition, Croatia will likely have to meet obligations on the non-allocated debt of the former SFRY. The need to increase foreign exchange reserves and the clearance of debt arrears will leave Croatia with large financing gaps in ~~1994 and~~ 1995.

The Paris Club creditors by agreeing to reschedule the arrears and current obligations of Croatia will largely contribute to finance the financing gap of this year. However, the rescheduling terms agreed by the Paris Club should also allow this country to address its huge

reconstruction needs in the coming years. Much depends on the future security situation of the region. As long as uncertainty persists, the much expected capital inflows mostly in the form of foreign direct investment might not be forthcoming at the level sufficient to allow an adequate financing of its reconstruction. This situation warrants that Paris Club creditors look favorably at the request of the Croatian Government and agree to rescheduling terms which are commensurate with its efforts and future needs.

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TRANSITIONAL GOVERNMENT OF ETHIOPIA
MINISTRY OF FINANCE

ቀን 5/1/95
Date

ቁጥር FA/4/49/113
Ref. No.

ቴሌክስ ፖ. ግ. ቁ.
Telex 21147 P.O. Box 1905

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Tel. 55 24 00 Addis Ababa, Ethiopia

Mr. Bertrand De Mazieres
Paris Club Secretariat
139, Rue De Bercy 75572
Paris CDEX12
France

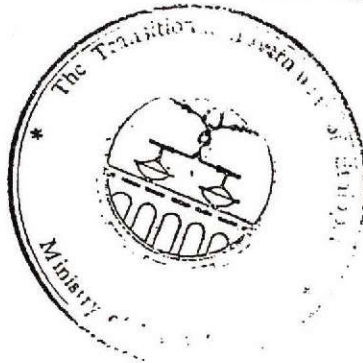
Dear Mr. De Mazieres,

We refer to your telex of December 23, 1994 by which you advised us to clear arrears registered in the books of some of our creditors.

This is to bring to your attention that the said arrears have been cleared as of December 29, 1994. Accordingly, we expect the third stage of the consolidation period (November 1, 1994-October 31, 1995) to enter into force as per Para IV, article 6(b) of the Agreed Minute of December 16, 1992.

Best regards.


TSEHAYEHU DABA
MINISTER



AGREED MINUTE
ON THE CONSOLIDATION OF THE DEBT
OF THE REPUBLIC OF GUINEA

I- A/ PREAMBLE

1. The representatives of the Governments of Austria, Belgium, France, Germany, Italy, Japan, Norway, Spain, Switzerland, the United Kingdom and the United States of America, hereinafter referred to as "Participating Creditor Countries", met in Paris on January 25, 1995 with representatives of the Government of the Republic of Guinea in order to examine the request to alleviate the Republic of Guinea's external debt service obligations. Observers of the Governments of Australia and Canada as well as the International Monetary Fund, the International 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 also attended the meeting.

2. The Delegation of the Republic of Guinea described the serious economic and financial difficulties faced by its country and its strong determination to reduce the economic and financial imbalances and to attain the targets of the program supported by the arrangements under the Enhanced Structural Adjustment Facility with the International Monetary Fund.

3. The representatives of the International Monetary Fund described the Republic of Guinea's economic situation and the major elements of the adjustment program undertaken by the Government of the Republic of Guinea and supported by arrangements under the Enhanced Structural Adjustment Facility with the International Monetary Fund. The second annual arrangement approved by the Executive Board of the Fund on September 23, 1994, involves specific commitments in both the economic and financial fields.

4. The representatives of the Governments of the Participating Creditor Countries noted the strong measures of adjustment in the economic and financial program undertaken by the Government of the Republic of Guinea and stressed the importance they attach to the continued and full implementation of this program and, in particular, the revitalization of the productive sector of the economy and the improvement of public finances.

The Participating Creditor Countries took note of the Republic of Guinea's protracted structural balance of payments and debt service problems and the expectation that a solution to these problems through the sustained implementation of the agreed Policy Framework would take a number of years. Participating Creditor Countries also noted that the International Monetary Fund has provided an Enhanced Structural Adjustment Facility arrangement as the appropriate framework for support of the Republic of Guinea's current adjustment effort.

They took note of the Republic of Guinea's chronic balance of payments problems and very heavy debt service obligations, in conjunction with very low per capita income, which were deemed, given the strong adjustment program noted above, to warrant exceptional treatment of the debt.

B/ DEFINITIONS

1. For the purpose of the present Agreed Minute, "the Appropriate Market Rate" means the rate, rounded to the nearest 1/16th of a point, and conditions of interest which will be determined bilaterally between the Government of the Republic of Guinea and the Government or the appropriate institutions of each Participating Creditor Country.

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2. The authenticated Tables attached to the present Agreed Minute and referred to hereafter form an integral part of the present Agreed Minute. As concerns the repayment schedules indicated in Tables A, B1 and D, it is understood that "semester" means a period of six successive months. The first semester referred to in the Tables is the period beginning on January 1, 1996. For each semester, it is understood that the due date is the first day of the corresponding semester.

3. Late interest charges are those interest charges accruing between the contractual payment date of principal and interest due and not paid, and a date to be fixed in the bilateral agreements concluded for the implementation of the present Agreed Minute.

II- RECOMMENDATIONS ON TERMS OF THE REORGANIZATION

In view of the serious payment difficulties faced by the Republic of Guinea, the representatives of the Participating Creditor Countries agreed to recommend to their Governments or their appropriate institutions that they provide, through rescheduling or refinancing, debt relief for the Republic of Guinea on the following terms :

1. Debts concerned

The debts to which this reorganization will apply are the following :

a) commercial credits guaranteed or insured by the Governments of the Participating Creditor Countries or their appropriate institutions, having an original maturity of more than one year, and which were extended to the Government of the Republic of Guinea or covered by its guarantee, pursuant to an agreement concluded before January 1, 1986 ;

b) loans from Governments or appropriate institutions of the Participating Creditor Countries, having an original maturity of more than one year, and which were extended to the Government of the Republic of Guinea or covered by its guarantee, pursuant to an agreement concluded before January 1, 1986 ;

c) repayments of principal and interest due as a result of the consolidation agreements concluded according to the Agreed Minute dated April 18, 1986.

It is understood that debt service, due as a result of debts described above in the present Agreed Minute and effected through special payment mechanisms or other external accounts, is included in the present reorganization. Participating Creditor Countries will reschedule, refinance, or take other appropriate measures to ensure that this category of debt is treated in a manner comparable to other debt subject to this Agreed Minute.

It is understood that debt service due as a result of the consolidation agreements concluded according to the Agreed Minutes dated April 12, 1989 and November 18, 1992 is not affected by the present reorganization.

2. Terms of the consolidation

The debt relief will apply as follows :

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A/ As regards credits or loans granted or guaranteed by the Governments of France, Germany, Norway and the United States of America or their appropriate institutions

a) 50% of the amounts of principal and interest (including late interest) due as at December 31, 1994 inclusive and not paid and 50% of the amounts of principal and interest (excluding late interest) due from January 1, 1995 up to December 31, 1995 inclusive and not paid on credits, loans and consolidations mentioned in paragraphs 1a), 1b) and 1c) above and not concerned by paragraph C/ below will not need to be repaid by the Government of the Republic of Guinea.

b) 50% of the amounts of principal and interest (including late interest) due as at December 31, 1994 inclusive and not paid and 50% of the amounts of principal and interest (excluding late interest) due from January 1, 1995 up to December 31, 1995 inclusive and not paid on credits, loans and consolidations mentioned in paragraphs 1a), 1b) and 1c) above and not concerned by paragraph C/ below will be rescheduled or refinanced. Repayment by the Government of the Republic of Guinea of the corresponding sums will be made as described in Table A attached to the present Agreed Minute.

c) The rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph b) above will be determined bilaterally between the Government of the Republic of Guinea and the Government or appropriate institutions of the concerned Participating Creditor Countries on the basis of the Appropriate Market Rate.

B/ As regards credits or loans granted or guaranteed by the Governments of Austria, Belgium, Italy, Japan, Spain, Switzerland and the United Kingdom or their appropriate institutions

a) 100% of the amounts of principal and interest (including late interest) due as at December 31, 1994 inclusive and not paid and 100% of the amounts of principal and interest (excluding late interest) due from January 1, 1995 up to December 31, 1995 inclusive and not paid on credits, loans and consolidations mentioned in paragraphs 1a), 1b) and 1c) above and not concerned by paragraph C/ below will be rescheduled or refinanced.

Repayment by the Government of the Republic of Guinea of the corresponding sums will be made as described in Table B1 attached to the present Agreed Minute.

b) The rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph a) above will be determined bilaterally between the Government of the Republic of Guinea and the Government or appropriate institutions of the concerned Participating Creditor Countries on the basis of the Appropriate Market Rate, according to Table B2 attached to the present Agreed Minute.

C/ As regards Official Development Assistance loans (ODA) granted by the Governments of the Participating Creditor Countries listed in paragraphs A/ and B/ above, or their appropriate institutions.

a) The present paragraph applies to Official Development Assistance (ODA) loans, according to OECD definition, extended to the Government of the Republic of Guinea by the Governments or appropriate institutions of the Participating Creditor Countries concerned by paragraphs A/ and B/ above, pursuant to an agreement concluded before January 1, 1986 as well as to the consolidation of such loans pursuant to an agreement concluded according to the Agreed Minute dated April 18, 1986.

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b) Recognizing the great value of contributions already made by the Participating Creditor Countries through various means in order to alleviate further the burden of servicing these debts, 100% of the amounts of principal and interest (including late interest) due as at December 31, 1994 inclusive and not paid and 100% of the amounts of principal and interest (excluding late interest) due from January 1, 1995 up to December 31, 1995 inclusive and not paid on loans and consolidations mentioned in paragraph a) above will be rescheduled or refinanced.

c) Repayment by the Government of the Republic of Guinea of the corresponding sums will be made as described in Table D attached to the present Agreed Minute.

d) The rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph b) above will be determined bilaterally between the Government of the Republic of Guinea and the Government or appropriate institutions of the concerned Participating Creditor Countries. These rates and conditions of interest should be at least as favourable as the concessional rates applying to those loans.

3. Debt swaps

On a voluntary and bilateral basis, the Government of each participating creditor country or its appropriate institutions may sell or exchange, in the framework of debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps :

(i) the amounts of outstanding loans mentioned in paragraph 1 above as regards official development aid loans and direct government loans ;

(ii) the amounts of other outstanding credits mentioned in paragraph 1 above, up to 10% of the amounts of outstanding credits as of December 31, 1992 or up to an amount of 10 million US dollars, whichever is higher.

III - GENERAL RECOMMENDATIONS

1. In order to secure comparable treatment of public and private external creditors on their debts, the Government of the Republic of Guinea commits itself to seek from external creditors, including banks and suppliers, rescheduling or refinancing arrangements on terms comparable to those set forth in this Agreed Minute for credits of comparable maturity, making sure to avoid inequality between different categories of creditors.

2. The Government of the Republic of Guinea will seek to secure, from each of its creditor countries not participating in this Agreed Minute, rescheduling or refinancing arrangements on terms comparable to those set forth in this Agreed Minute. The Government of the Republic of Guinea agrees not to accord any such creditor country repayment terms more favourable than those accorded to the Participating Creditor Countries.

3. The Government of the Republic of Guinea agrees that it will promptly negotiate rescheduling or refinancing arrangements with all other creditors on debts of a comparable term.

The Government of the Republic of Guinea will inform in writing the Chairman of the Paris Club not later than June 30, 1995 of the progress made for this purpose in negotiations with other creditors.

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4. The provisions set forth in this Agreed Minute do not apply to creditor countries with amounts due on debts specified in Article II, paragraph 2, of less than SDR 500,000. The payments owed to these countries should be made on the original due dates. Payments already due and not paid should be made as soon as possible and, in any case, not later than June 30, 1995. Interest will be charged on those amounts.

5. Each of the Participating Creditor Countries agrees to make available, upon the request of another Participating Creditor Country, a copy of its bilateral agreement with the Government of the Republic of Guinea which implements this Agreed Minute. The Government of the Republic of Guinea acknowledges this arrangement.

6. Each of the Participating Creditor Countries agrees to inform the Chairman of the Paris Club of the date of the signature of its bilateral agreement, of the interest rates, of the amounts of debts involved and of any implementation of debt conversions in application of paragraph II 3. above. The Government of the Republic of Guinea acknowledges this arrangement.

7. The Government of the Republic of Guinea will inform the Chairman of the Paris Club of the content of its bilateral agreements with creditors mentioned in paragraphs 1, 2 and 3 above.

8. The Government of the Republic of Guinea undertakes to pay all debt service due and not paid, as at the date of the present Agreed Minute, on consolidations, on loans, on credits or pursuant to contracts or other financial arrangements payable on cash terms, extended or guaranteed by the Governments of the Participating or Observer Creditor Countries or their appropriate institutions, and not covered by this Agreed Minute, as soon as possible and, in any case, not later than June 30, 1995. Late interest will be charged on those amounts.

9. The Government of the Republic of Guinea will continue to guarantee within an appropriate exchange rate system the immediate and unrestricted transfer of the foreign exchange counterpart of all amounts paid in local currency by the private debtors in the Republic of Guinea for servicing their foreign debt owed to or guaranteed by the Participating or Observer Creditor Countries or their appropriate institutions.

IV - IMPLEMENTATION

The detailed arrangements for the rescheduling or refinancing of the debts will be accomplished by bilateral agreements to be concluded by the Government or the appropriate institutions of each Participating Creditor Country with the Government of the Republic of Guinea on the basis of the following principles :

1. The Government or the appropriate institutions of each Participating Creditor Country will :

- either refinance debts by placing new funds at the disposal of the Government of the Republic of Guinea, according to existing payment schedules, during the reorganization period and for the above mentioned percentages of payment. These funds will be repaid by the Government of the Republic of Guinea according to the terms and conditions set out in Article II, paragraph 2 above ;

- or reschedule the corresponding payments.

2. All other matters involving the rescheduling or the refinancing of the debts will be set forth in the bilateral agreements which the Government of the Republic of Guinea and the Governments or the appropriate institutions of the Participating Creditor Countries will seek to conclude with the least delay and in any case before October 31, 1995.

Handwritten signatures and initials at the bottom of the page, including "AL" and "yes to".

3. Each Participating Creditor Country reserves the right to change its option chosen in the present Agreed Minute among options described in Article II paragraphs 2. A/ and 2. B/ hereabove not later than the date of the signature of the corresponding bilateral agreement.

4. a) The provisions of the present Agreed Minute will continue to apply until September 30, 1995 inclusive provided that the Government of the Republic of Guinea continues to have an appropriate arrangement with the International Monetary Fund ;

b) they will also continue to apply from October 1, 1995 up to December 31, 1995 provided that the Executive Board of the International Monetary Fund has approved before October 1, 1995, the third annual arrangement under the Enhanced Structural Adjustment Facility with the Government of the Republic of Guinea and provided that Guinea has made on due dates the payments referred to in this Agreed Minute ;

c) for this purpose, the Government of the Republic of Guinea agrees that the International Monetary Fund will inform the Chairman of the Paris Club regarding the status of Guinea's relations with the International Monetary Fund.

5. To facilitate the implementation of this Agreed Minute, the Government of the Republic of Guinea will deposit in the special account established with the Banque de France, the equivalent of at least SDR 400,000 at the end of each month, commencing in February 28, 1995 through December 31, 1995 inclusive. The Government of the Republic of Guinea undertakes to have this Bank notify the Chairman of the Paris Club as soon as each deposit has been made. The total amount approximates the amounts estimated to be payable to all Participating Creditor Countries from January 1, 1995 up to December 31, 1995 inclusive under the terms of the bilateral agreements to be concluded pursuant to this Agreed Minute. As specific payments under these agreements become due, the Government of the Republic of Guinea will draw on the special account to meet these payments ; no drawing will be made on the special account for any other use before all payments due from January 1, 1995 up to December 31, 1995 inclusive under these agreements have been made. Any drawing on this account will be made after a previous 15-day notice to the above Bank, which this Bank will notify immediately to the Chairman of the Paris Club. This scheme could be continued by agreement between the parties.

6. In response to the request of the representatives of the Government of the Republic of Guinea, the Participating Creditor Countries agreed in principle to a meeting to consider the matter of the Republic of Guinea's debt service payments falling due after December 31, 1995 and relating to loans or credits pursuant to a contract or other financial arrangement concluded before January 1, 1986 provided :

- that the Republic of Guinea continues to have an appropriate arrangement with the International Monetary Fund ;

- that the Republic of Guinea has reached with other creditors effective arrangements meeting the conditions described in Article III paragraphs 1, 2 and 3 above and has reported in writing to the Chairman of the Paris Club, pursuant to Article III paragraphs 3 and 7 above ;

- and that the Republic of Guinea has complied with all conditions set out in this Agreed Minute.

on behalf of the Government of the Republic of Guinea AL [Signature] [Signature] [Signature]

7. The representatives of the Government of each of the Participating Creditor Countries and of the Government of the Republic of Guinea agreed to recommend to their respective Governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth herein.

Done in Paris, on January 25, 1995
in two versions, English and French,
both texts equally authentic,

The Chairman of the
Paris Club



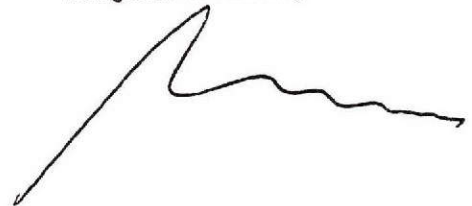
The Head of the Delegation
of the Republic of Guinea



Delegation of Austria



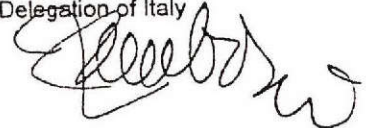
Delegation of Germany



Delegation of Belgium



Delegation of Italy



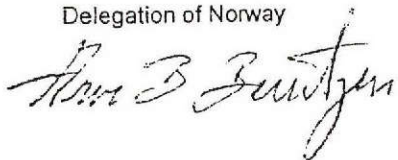
Delegation of France



Delegation of Japan



Delegation of Norway



Delegation of Switzerland



Delegation of Spain



Delegation of the United Kingdom



Delegation of the United States of America



PROCES VERBAL AGREE
RELATIF A LA CONSOLIDATION DE LA DETTE
DE LA RÉPUBLIQUE DE GUINEE

I. A/ PREAMBULE

1. Les représentants des Gouvernements de l'Allemagne, de l'Autriche, de la Belgique, de l'Espagne, des Etats-Unis d'Amérique, de la France, de l'Italie, du Japon, de la Norvège, du Royaume-Uni et de la Suisse ci-après désignés "Pays Créanciers Participants", se sont réunis à Paris le 25 janvier 1995 avec les représentants du Gouvernement de la République de Guinée pour examiner la demande d'allègement du service de la dette extérieure de ce pays. Des observateurs des Gouvernements de l'Australie et du Canada ainsi que du Fonds Monétaire International, de la Banque Internationale pour la Reconstruction et le Développement, du Secrétariat de la C.N.U.C.E.D, de l'Organisation de Coopération et de Développement Economique et de la Commission Européenne ont également assisté à la réunion.

2. La délégation de la République de Guinée a décrit les graves difficultés que connaît son pays dans les domaines économique et financier et sa ferme détermination à résorber les déséquilibres économiques et financiers et à atteindre les objectifs définis par le programme qui sous-tend les accords conclus au titre de la Facilité d'Ajustement Structurel Renforcée avec le Fonds Monétaire International.

3. Les représentants du Fonds Monétaire International ont décrit la situation économique de la République de Guinée ainsi que les principaux éléments du programme d'ajustement mis en oeuvre par le Gouvernement de la République de Guinée et appuyé par des accords au titre de la Facilité d'Ajustement Structurel Renforcée avec le Fonds Monétaire International. Le deuxième accord annuel, qui a été approuvé par le Conseil d'Administration du Fonds le 23 septembre 1994, comporte des engagements précis à la fois dans le domaine économique et dans le domaine financier.

4. Les représentants des Gouvernements des Pays Créanciers Participants ont pris note des mesures importantes de redressement incluses dans le programme économique et financier entrepris par le Gouvernement de la République de Guinée et ont souligné l'importance qu'ils attachent à sa réalisation régulière et totale et, en particulier, à la revitalisation du secteur productif et à l'amélioration de la gestion des finances publiques.

Les Pays Créanciers Participants ont pris note des problèmes durables et structurels de balance des paiements et de service de la dette de la République de Guinée et du fait qu'il apparaissait probable qu'une solution à ces problèmes, grâce à la mise en oeuvre soutenue du programme cadre macro-économique agréé, prendrait plusieurs années. Les Pays Créanciers Participants ont également noté que le Fonds Monétaire International a conclu un accord au titre de la Facilité d'Ajustement Structurel Renforcée, qui a été considéré comme le cadre approprié au soutien de l'effort d'ajustement de la République de Guinée.

Ils ont pris note des problèmes chroniques de la balance des paiements et du service très important de la dette que connaît la République de Guinée, conjugués avec un très faible niveau de revenu par habitant, qui leur ont paru mériter un traitement exceptionnel de la dette, étant donné le programme d'ajustement important mentionné ci-dessus.

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B/ DEFINITIONS

1. Dans le cadre du présent Procès-Verbal agréé, "le Taux Approprié du Marché" est le taux, arrondi au 1/16ème de point le plus proche, et les conditions d'intérêt qui seront déterminés bilatéralement entre le Gouvernement de la République de Guinée et le Gouvernement ou les institutions appropriées de chaque Pays Créancier Participant.

2. Les Tables authentifiées, annexées au présent Procès-Verbal agréé et visées ci-après, forment partie intégrante du présent Procès-Verbal agréé. S'agissant des échéanciers de remboursement indiqués dans les Tables A, B1 et D, il est entendu que "semestre" est une période de six mois successifs. Le premier semestre visé dans les Tables est la période débutant le 1er janvier 1996. Il est entendu que pour chaque semestre la date d'échéance est le premier jour du semestre correspondant.

3. Les intérêts de retard sont les intérêts qui s'appliquent entre la date contractuelle de paiement du principal et des intérêts dus et non payés et une date à fixer dans les accords bilatéraux conclus en application du présent Procès-Verbal agréé.

II- RECOMMANDATIONS RELATIVES AUX TERMES DU REAMENAGEMENT

Considérant les sérieuses difficultés de paiement rencontrées par la République de Guinée, les représentants des Pays Créanciers Participants sont convenus de recommander à leurs Gouvernements ou organismes appropriés de procéder à un allègement de la dette de la République de Guinée au moyen d'un rééchelonnement ou d'un refinancement, dans les termes suivants :

1. Définition des dettes concernées

Les dettes auxquelles ce réaménagement s'applique sont :

a) les crédits commerciaux, comportant initialement une durée de crédit supérieure à un an, garantis ou assurés par les Gouvernements ou les organismes appropriés des Pays Créanciers Participants, ayant fait l'objet d'un contrat ou de toute autre forme d'arrangement financier conclu avant le 1er janvier 1986, accordés au Gouvernement de la République de Guinée ou bénéficiant de sa garantie ;

b) les prêts gouvernementaux ou des organismes appropriés des Pays Créanciers Participants, comportant initialement une durée de crédit supérieure à un an, conclus avant le 1er janvier 1986, accordés au Gouvernement de la République de Guinée ou bénéficiant de sa garantie ;

c) les remboursements en principal et en intérêts résultant des accords de consolidation conclus en application du Procès-Verbal agréé du 18 avril 1986.

Il est entendu que le service de la dette, au titre des dettes décrites ci-dessus et effectué au travers de mécanismes spéciaux de paiement ou d'autres comptes extérieurs, est inclus dans la présente réorganisation. Les Pays Créanciers Participants rééchelonneront, refinanceront ou prendront d'autres mesures appropriées afin d'assurer que cette catégorie de dettes sera traitée selon des termes comparables à ceux appliqués aux autres dettes visées dans ce Procès-Verbal agréé.

Il est entendu que le service de la dette résultant des accords de consolidation conclus en application des Procès-Verbaux agréés du 12 avril 1989 et du 18 novembre 1992 n'est pas affecté par le présent réaménagement.

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2. Termes de la consolidation

L'allègement de la dette s'appliquera sur les bases ci-dessous :

A/ S'agissant des crédits ou des prêts accordés ou garantis par les Gouvernements de l'Allemagne, des Etats-Unis d'Amérique, de la France et de la Norvège ou leurs institutions appropriées

a) 50 % des montants en principal et en intérêts (y compris les intérêts de retard) payables au 31 décembre 1994 inclus et non réglés et 50 % des montants en principal et en intérêts (à l'exclusion des intérêts de retard) dus du 1er janvier 1995 au 31 décembre 1995 inclus et non réglés sur les crédits, les prêts et les consolidations mentionnés aux paragraphes 1a), 1b) et 1c) ci-dessus, et non concernés par le paragraphe C/ ci-dessous, n'auront pas à être remboursés par le Gouvernement de la République de Guinée.

b) 50 % des montants en principal et en intérêts (y compris les intérêts de retard) payables au 31 décembre 1994 inclus et non réglés et 50 % des montants en principal et en intérêts (à l'exclusion des intérêts de retard) dus du 1er janvier 1995 au 31 décembre 1995 inclus et non réglés sur les crédits, les prêts et les consolidations mentionnés aux paragraphes 1a), 1b) et 1c) ci-dessus, et non concernés par le paragraphe C/ ci-dessous seront rééchelonnés ou refinancés. Le remboursement par le Gouvernement de la République de Guinée des sommes correspondantes sera effectué comme indiqué à la Table A annexée au présent Procès-Verbal agréé.

c) Les taux et les conditions d'intérêts sur les accords de rééchelonnement ou de refinancement couverts par le paragraphe b) ci-dessus seront fixés bilatéralement entre le Gouvernement de la République de Guinée et le Gouvernement ou les institutions appropriées de chacun des Pays Créanciers Participants concernés sur la base du taux approprié du marché.

B/ S'agissant des crédits ou des prêts accordés ou garantis par les Gouvernements de l'Autriche, de la Belgique, de l'Espagne, de l'Italie, du Japon, du Royaume-Uni et de la Suisse ou leurs institutions appropriées

a) 100 % des montants en principal et en intérêts (y compris les intérêts de retard) payables au 31 décembre 1994 inclus et non réglés et 100 % des montants en principal et en intérêts (à l'exclusion des intérêts de retard) dus du 1er janvier 1995 au 31 décembre 1995 inclus et non réglés sur les crédits, les prêts et les consolidations mentionnés aux paragraphes 1a), 1b) et 1c) ci-dessus et non concernés par le paragraphe C/ ci-dessous, seront rééchelonnés ou refinancés.

Le remboursement par le Gouvernement de la République de Guinée des sommes correspondantes sera effectué comme indiqué à la Table B1 annexée au présent Procès-Verbal agréé.

b) Les taux et les conditions d'intérêts sur les accords de rééchelonnement ou de refinancement couverts par le paragraphe a) ci-dessus seront déterminés bilatéralement entre le Gouvernement de la République de Guinée et le Gouvernement ou les institutions appropriées de chacun des Pays Créanciers Participants concernés sur la base du taux approprié du marché, conformément à la Table B2 annexée au présent Procès-Verbal agréé.

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C/ S'agissant des prêts de l'Aide Publique au Développement (APD) accordés par les Gouvernements ou les institutions appropriées des Pays Créanciers Participants énumérés aux paragraphes A/ et B/ ci-dessus

a) Le présent paragraphe s'applique aux prêts de l'Aide Publique au Développement (APD), tels que définis par l'OCDE, accordés par les Gouvernements ou les institutions appropriées de chacun des Pays Créanciers Participants concernés par les paragraphes A/ et B/ ci-dessus, conclus avant le 1er janvier 1986, ainsi qu'à la consolidation de tels prêts effectuée en application d'un accord conclu conformément au Procès-Verbal agréé du 18 avril 1986.

b) Reconnaisant la grande valeur des contributions déjà apportées par les Pays Créanciers Participants, par divers moyens, dans le but d'alléger davantage la charge du service de ces dettes, 100 % des montants en principal et en intérêts (y compris les intérêts de retard) payables au 31 décembre 1994 inclus et non réglés et 100 % des montants en principal et en intérêts (à l'exclusion des intérêts de retard) dus du 1er janvier 1995 au 31 décembre 1995 inclus et non réglés sur les prêts et les consolidations mentionnés au paragraphe a) ci-dessus seront rééchelonnés ou refinancés.

c) Le remboursement par le Gouvernement de la République de Guinée des sommes correspondantes sera effectué comme indiqué à la Table D annexée au présent Procès-Verbal agréé.

d) Les taux et les conditions d'intérêts sur les accords de rééchelonnement ou de refinancement couverts par le paragraphe b) ci-dessus seront déterminés bilatéralement entre le Gouvernement de la République de Guinée et le Gouvernement ou les institutions appropriées de chacun des Pays Créanciers Participants concernés. Ces taux et conditions d'intérêts seront au moins aussi favorables que les taux concessionnels s'appliquant à ces prêts.

3. Conversions de dettes

Sur une base volontaire et bilatérale, le Gouvernement ou les organismes appropriés de chaque pays créancier participant peut vendre ou échanger, dans le cadre de conversions de dettes en projets pour la protection de l'environnement, en projets d'aide, ou en investissements ou d'autres conversions de dettes en monnaie locale :

(i) les montants d'encours au titre des prêts mentionnés au paragraphe 1 ci-dessus s'agissant des prêts d'aide publique au développement et des prêts gouvernementaux directs ;

(ii) les montants d'encours au titre des autres crédits mentionnés au paragraphe 1 ci-dessus, jusqu'à 10 % des montants d'encours de créances au 31 décembre 1992 ou jusqu'à un montant de 10 millions de dollars des Etats-Unis d'Amérique, si ce montant est plus élevé.

III- RECOMMANDATIONS GENERALES

1. Afin d'assurer un traitement comparable aux créanciers extérieurs publics et privés, le Gouvernement de la République de Guinée s'engage à chercher à obtenir de ses créanciers extérieurs, y compris les banques et les fournisseurs, un rééchelonnement ou un refinancement à des conditions semblables à celles prévues par le présent Procès-Verbal agréé pour les crédits d'échéance comparable, en s'assurant d'éviter toute discrimination entre les différentes catégories de créanciers.

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2. Le Gouvernement de la République de Guinée s'engage à rechercher de la part de chacun de ses pays créanciers ne participant pas au présent Procès-Verbal agréé des accords de rééchelonnement ou de refinancement selon des termes comparables à ceux figurant au présent Procès-Verbal agréé. Le Gouvernement de la République de Guinée accepte de ne pas accorder à ces pays créanciers des conditions de remboursement qui leur soient plus favorables que celles accordées aux Pays Créanciers Participants.

3. Le Gouvernement de la République de Guinée s'engage à négocier dans les meilleurs délais des accords de rééchelonnement ou de refinancement avec tous les autres créanciers pour des dettes de termes comparables.

Le Gouvernement de la République de Guinée informera par écrit le Président du Club de Paris, au plus tard le 30 juin 1995, des progrès accomplis à cette fin dans les négociations menées avec les autres créanciers.

4. Les dispositions du présent Procès-Verbal agréé ne s'appliquent pas aux pays créanciers pour lesquels le total du montant du au titre des dettes spécifiées à l'Article II, paragraphe 2, est inférieur à 500 000 DTS. Les paiements dus à ces pays continueront à être réglés selon le calendrier originel. Les échéances dues et non réglées devront être payées le plus tôt possible et, en tout cas, au plus tard le 30 juin 1995. Des intérêts seront perçus sur ces montants.

5. Les Pays Créanciers Participants sont convenus que chaque pays communiquera, à la demande de tout autre pays créancier participant, une copie de son accord bilatéral avec le Gouvernement de la République de Guinée en application du présent Procès-Verbal agréé. Le Gouvernement de la République de Guinée prend acte de cette disposition.

6. Chaque pays créancier participant accepte d'informer le Président du Club de Paris de la date de la signature de son accord bilatéral, des taux d'intérêt pratiqués, des montants des dettes concernées et de la mise en oeuvre de toute conversion de dettes en application du paragraphe II.3. ci-dessus. Le Gouvernement de la République de Guinée prend acte de cette disposition.

7. Le Gouvernement de la République de Guinée informera le Président du Club de Paris du contenu de ses accords bilatéraux avec tous les autres créanciers mentionnés aux paragraphes 1, 2 et 3 ci-dessus.

8. Le Gouvernement de la République de Guinée s'engage à payer les échéances dues et non réglées à la date du présent Procès-Verbal agréé, au titre de consolidations, de prêts, de crédits, ou de toutes autres formes d'arrangements financiers payables au comptant, accordés ou garantis par les Gouvernements ou les organismes appropriés des Pays Créanciers Participants ou observateurs, et n'entrant pas dans le champ d'application du présent Procès-Verbal agréé le plus tôt possible et, en tout cas, au plus tard le 30 juin 1995. Des intérêts de retard seront perçus sur ces montants.

9. Le Gouvernement de la République de Guinée continuera de garantir dans le cadre d'un mécanisme de change approprié le libre transfert immédiat de la contre-valeur en devises de tous les montants versés en monnaie locale par les débiteurs privés guinéens pour le service de la dette extérieure due aux Pays Créanciers Participants ou observateurs, ou à leurs institutions appropriées, ou bien garantie par ces derniers.

IV - MISE EN OEUVRE

Les modalités du rééchelonnement ou du refinancement seront fixées dans des accords bilatéraux à conclure par le Gouvernement ou les organismes appropriés de chacun des Pays Créanciers Participants avec le Gouvernement de la République de Guinée sur la base des principes suivants :

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1. Le Gouvernement ou les institutions appropriées de chaque Pays Créancier Participant :

- soit refinancera les dettes, par mise à la disposition du Gouvernement de la République de Guinée de nouveaux financements, conformément aux échéanciers de paiement existants, durant la période de consolidation et pour les pourcentages indiqués ci-dessus. Ces financements seront remboursés par le Gouvernement de la République de Guinée conformément aux termes et conditions fixés à l'Article II, paragraphe 2 ci-dessus ;

- soit rééchelonnera les échéances correspondantes.

2. Tous les autres points concernant le rééchelonnement ou le refinancement seront fixés dans les accords bilatéraux que le Gouvernement de la République de Guinée et les Gouvernements ou organismes appropriés des Pays Créanciers Participants s'efforceront de conclure dans les meilleurs délais et, en tout cas, avant le 31 octobre 1995.

3. Chaque pays créancier participant se réserve le droit de changer l'option choisie parmi les options décrites à l'Article II, paragraphes 2.A/ et 2.B/ ci-dessus, au plus tard à la date de signature de l'accord bilatéral correspondant.

4. a) Les dispositions du présent Procès-Verbal agréé s'appliqueront pour la période allant jusqu'au 30 septembre 1995 à la condition que le Gouvernement de la République de Guinée continue d'avoir un accord approprié avec le Fonds Monétaire International ;

b) les dispositions du présent Procès-Verbal continueront à s'appliquer également pour la période du 1er octobre 1995 au 31 décembre 1995 à la condition que le Conseil d'Administration du Fonds Monétaire International ait approuvé avant le 1er octobre 1995, le troisième accord annuel au titre de la Facilité d'Ajustement Structurel Renforcée avec le Gouvernement de la République de Guinée, et que la République de Guinée ait effectué à bonne date tous les paiements aux Pays Créanciers Participants prévus par le présent Procès-Verbal agréé ;

c) à cette fin, le Gouvernement de la République de Guinée est d'accord pour que le Fonds Monétaire International informe le Président du Club de Paris de l'état des relations entre le Gouvernement de la République de Guinée et le Fonds Monétaire International.

5. Pour faciliter la mise en oeuvre du présent Procès-Verbal agréé, le Gouvernement de la République de Guinée déposera sur le compte spécial ouvert à la Banque de France, au moins l'équivalent de 400 000 DTS à la fin de chaque mois, à compter du 28 février 1995 jusqu'au 31 décembre 1995 inclus. Le Gouvernement de la République de Guinée s'engage à faire notifier par la Banque mentionnée ci-dessus, au Président du Club de Paris, les versements mentionnés ci-dessus, dès qu'ils seront effectués. Le montant total représente une évaluation des montants dus du 1er janvier 1995 au 31 décembre 1995 inclus, à tous les Pays Créanciers Participants, au titre des accords bilatéraux à conclure pour l'application du présent Procès-Verbal agréé. A mesure que des paiements deviendront dus en application de ces accords, le Gouvernement de la République de Guinée devra tirer sur le compte spécial pour tout paiement ; aucun tirage ne pourra être fait sur le compte spécial pour tout autre objet avant que tous les paiements dus du 1er janvier 1995 au 31 décembre 1995 inclus, en application de ces accords, aient été effectués. Tous les tirages sur ce compte seront effectués après un avis préalable de 15 jours notifié à la Banque mentionnée ci-dessus, laquelle en informera immédiatement le Président du Club de Paris. Ce dispositif pourrait être reconduit par accord entre les parties.

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6. En réponse à la demande des représentants du Gouvernement de la République de Guinée, les Pays Créanciers Participants se sont déclarés d'accord en principe sur une réunion pour examiner le problème des échéances de la dette venant à maturité après le 31 décembre 1995 et se rapportant à des prêts ou des crédits ayant fait l'objet d'un contrat ou de tout autre arrangement financier conclu avant le 1er janvier 1986, sous réserve :

- que la République de Guinée continue d'avoir un accord approprié avec le Fonds Monétaire International ;

- que la République de Guinée ait conclu avec les autres créanciers les accords effectifs répondant aux conditions prévues à l'Article III, paragraphes 1, 2 et 3 ci-dessus, et ait fait rapport par écrit au président du Club de Paris, conformément aux dispositions de l'Article III, paragraphes 3 et 7 ci-dessus ;

- et que la République de Guinée ait satisfait à toutes les conditions prévues au présent Procès-Verbal agréé.

7. Les représentants des Gouvernements des Pays Créanciers Participants et les représentants du Gouvernement de la République de Guinée sont convenus de recommander à leurs Gouvernements ou organismes appropriés d'ouvrir dans les meilleurs délais les négociations bilatérales et de les conduire sur la base des principes énoncés ci-dessus.

Fait à Paris, ce jour, le 25 janvier 1995
en deux versions, en langues
française et anglaise, les deux textes
faisant également foi,

Le Président
du Club de Paris



Le Chef de la Délégation de la
République de Guinée



[Handwritten signatures and initials at the bottom of the page, including 'AL' and a star symbol.]

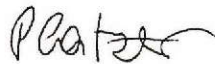
Délégation de l'Allemagne



Délégation de la France



Délégation de l'Autriche



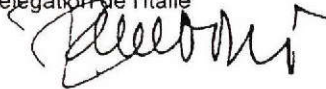
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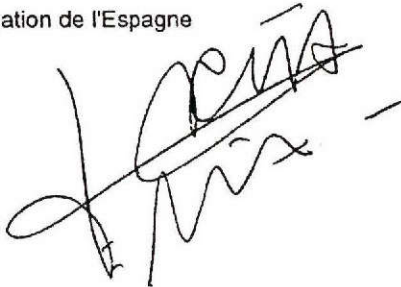
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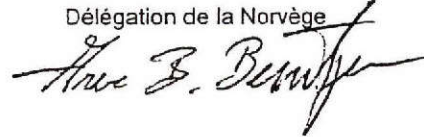
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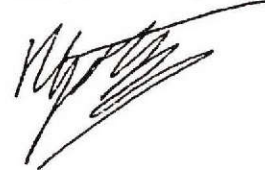
Délégation de la Norvège



Délégation des Etats-Unis
d'Amérique



Délégation du Royaume-Uni



Délégation de la Suisse



REUNION DU CLUB DE PARIS
SUR LA REPUBLIQUE DE GUINEE
25 JANVIER 1995

DISCOURS DE MONSIEUR EL HADJ CAMARA
MINISTRE DES FINANCES

Monsieur le Président,
Mesdames et Messieurs les Représentants des Institutions
Financières Internationales
Honorables Invités,
Mesdames et Messieurs,

C'est avec un réel plaisir et un grand honneur que je m'adresse à vous ce matin, au nom de mon gouvernement et de ma délégation à l'occasion de la réunion du Club de Paris sur la dette Guinéenne.

Je voudrais saisir cette occasion pour adresser mes sincères remerciements au Secrétariat du Club de Paris pour l'accueil chaleureux qu'il a bien voulu réserver à notre délégation et pour la qualité de l'organisation de la présente réunion. Que soient également remerciés les représentants du Fonds Monétaire International, de la Banque Mondiale, de la CNUCED et de la Banque Africaine de Développement pour leur bienveillante assistance.

Je me dois d'exprimer la profonde gratitude du gouvernement et du Peuple guinéen à la Communauté Financière Internationale et à tous les pays créanciers pour la sollicitude constante qu'ils manifestent à l'égard de la Guinée.

Monsieur le Président,
Mesdames, Messieurs,
Honorables Invités,

Depuis 1986 notre pays se présente pour la quatrième fois devant le Club de Paris. C'est le signe que les réformes économiques engagées en Guinée constituent un processus à long terme. Cela signifie aussi que le traitement de la dette, d'une manière générale, est une opération complexe qui exige un effort constant d'imagination et d'innovation afin de trouver des solutions aux effets plus durables.

A cet égard, je salue les récentes décisions prises en décembre 1994 par les pays du Club de Paris tendant à s'attaquer plus en profondeur au problème de la dette. Ce faisant, les pays créanciers font un pas significatif dans le sens des recommandations que j'ai eues l'honneur d'exprimer au nom du groupe africain lors des Assemblées annuelles du Fonds Monétaire International et de la Banque Mondiale tenues à Madrid en octobre 1994.

Monsieur le Président,
Mesdames, Messieurs,

Je souhaiterais que la présente réunion du Club de Paris accepte d'accorder à mon pays le traitement actuel le plus favorable, et ce pour deux raisons essentielles :

- d'abord parce que la Guinée a fait des efforts remarquables pour sortir de l'économie dirigiste vers l'économie de marché ;

- ensuite parce que l'économie guinéenne malgré les progrès accomplis, reste encore fragile du fait d'un contexte interne et externe défavorable.

I. LES PERFORMANCES ECONOMIQUES DE LA GUINEE

Depuis le réaménagement de sa dette par le Club de Paris le 18 novembre 1992, le gouvernement guinéen a mis en oeuvre d'importantes

mesures d'ajustement dans les domaines budgétaire, monétaire, et structurel qui lui ont permis de réaliser des performances économiques très encourageantes.

Le gouvernement guinéen a poursuivi le désengagement de l'Etat des secteurs productifs et s'est attelé à restructurer les entreprises restées dans son portefeuille. C'est ainsi que le secteur du pétrole a été entièrement privatisé ; dans le secteur de l'énergie, il a été procédé à la création d'une société de patrimoine et d'une société privée de gestion à l'exemple du schéma adopté en 1990 pour l'eau ; le processus de privatisation a également commencé au niveau des télécommunications et suit son cours normalement.

Au total, il n'y a plus en Guinée de domaine soit-disant stratégique réservé exclusivement à l'Etat.

Parallèlement, des actions énergiques sont engagées pour assainir le cadre juridique et institutionnel du secteur privé grâce notamment à une réforme en profondeur du fonctionnement de la justice en Guinée.

Ces réformes structurelles ont permis au gouvernement de se concentrer sur l'amélioration de la gestion macroéconomique.

Ainsi pour la période 1992-1994 le taux de croissance du PIB en termes réels s'est situé en moyenne autour de 4 % ; le déficit budgétaire sur base engagement (hors dons) est passé de 8,5 % en 1992 à 7,5 % en 1993 et 7,3 % en 1994 ; le taux de change du franc guinéen par rapport au dollar américain est resté relativement stable autour de 975 francs guinéens pour un dollar tandis que les réserves officielles de change sont passées de 2,5 à 3,4 mois d'importations. De même, grâce à un contrôle strict des liquidités,

l'évolution de la masse monétaire a été contenue dans les limites prévues par le cadrage macroéconomique convenu avec le Fonds Monétaire International.

La combinaison de toutes ces performances budgétaires et monétaires a permis de réduire très nettement le taux d'inflation qui est passé de 16 % en 1992 à environ 4 % en 1994.

Monsieur le Président,
Mesdames, Messieurs,

Le mérite de ces résultats économiques et financiers est qu'ils ont été obtenus à un moment où la Guinée est confrontée aux échéances du processus démocratique sans parler du lourd fardeau que représente l'afflux des réfugiés du Libéria et de la Sierra Léone.

II. CONTRAINTES DE L'ECONOMIE GUINEENNE

Le programme de redressement économique et financier mis en oeuvre par le gouvernement guinéen vise à terme, à mettre en valeur les vastes ressources agricoles et minières du pays.

Cependant, malgré les progrès réalisés force est de reconnaître que de lourdes contraintes pèsent sur le programme de réforme du fait notamment de la baisse continue des recettes tirées de la bauxite. La part du secteur minier qui était de 58 % des recettes fiscales totales en 1991 est tombée successivement à 45 % en 1992, 39 % en 1993 et 29,6 % en 1994, avec une projection de 28,16 % pour 1995. Ces chiffres traduisent certes l'effort fait par le gouvernement pour mobiliser des recettes fiscales non minières. Ils montrent également la baisse en valeur absolue des recettes minières qui a un impact négatif non seulement sur le budget de l'Etat mais aussi sur les recettes en devises et sur la balance des

paiements du pays. La relance des exportations d'autres produits miniers et agricoles est encore loin de compenser la baisse des recettes de la bauxite.

Monsieur le Président,
Mesdames, Messieurs,

C'est dire que la poursuite du programme des réformes économiques et financières lancé en Guinée depuis bientôt dix ans requiert le maintien du soutien de la Communauté Financière Internationale.

Mon gouvernement souhaiterait pouvoir bénéficier de concours extérieurs hors projet concessionnels selon des conditions et des modalités à convenir avec ses partenaires.

Pour aujourd'hui j'ai été chargé par mon gouvernement de demander à nos créanciers réunis autour de cette table de bien vouloir accepter de rééchelonner, aux conditions actuelles les plus favorables, les arriérés de la dette guinéenne arrêtés au 31 décembre 1994 et les échéances du 1er janvier 1995 au 30 juin 1996. A cet égard, il convient de préciser que la revue pour la troisième année de la facilité d'ajustement structurel renforcée (FAS-R) devrait avoir lieu au début du deuxième semestre de l'année en cours. Le gouvernement souhaiterait, le cas échéant, que les pays créanciers du Club de Paris acceptent la possibilité de rééchelonner les échéances à venir de la dette guinéenne dans le cas où, en concertation avec le Fonds Monétaire International et la Banque Mondiale, les projections de balance de paiements feraient ressortir des besoins de financement additionnels. Par ailleurs, il serait souhaitable que les pays créanciers accordent à la Guinée le bénéfice de la clause de bonne volonté visant à une réduction de l'encours de la dette.

Monsieur le Président,
Mesdames, Messieurs,

Je vous remercie de l'attention que vous voudrez bien accorder à la présente requête. Les conclusions de la réunion de ce matin sont attendues avec beaucoup d'intérêt et d'espoir par mon gouvernement qui est déterminé à poursuivre et à accentuer les efforts d'ajustement déjà entrepris.

Je vous remercie.

Paris Club Meeting on Guinea

January 25, 1994

Statement by the Fund Staff Representative

Guinea's reinforced medium-term adjustment strategy is premised on the recognition that, despite the progress made since 1985, the country remains confronted with large internal and external imbalances and a vulnerable external position, characterized by a high external debt burden and heavy reliance on mining export earnings and foreign financial assistance. In addition, private sector development continues to be impeded by inadequate infrastructure and weaknesses in the judicial and institutional apparatus, while educational and health conditions are among the most inadequate in sub-Saharan Africa. The key objective of the adjustment strategy is to accelerate progress toward a sustained expansion in output and employment and a viable external position, through a further diversification of the production and export base and the establishment of an enabling environment for private sector development.

Within the updated medium-term framework, Guinea's adjustment program for the 12 months to June 1995 is being supported by the second annual ESAF arrangement from the Fund, approved by the Fund's Executive Board on September 23, 1994. The main macroeconomic objectives of the program for 1994-96 are to (a) achieve average real GDP growth of over 4.5 percent a year; (b) stabilize inflation at 4 percent; (c) lower the external current account deficit (excluding official transfers) from 12.5 percent of GDP in

credit and foreign exchange demand from the Central Bank, and by a sharp decline in nominal terms in broad money; however, these trends were partly reversed by the end of the year. The auction-determined treasury bill rate eased only marginally, remaining at a high level in real terms. Although the limit on the overall budget deficit was met, overall fiscal developments were mixed. In particular, revenue mobilization did not pick up as anticipated under the program, giving rise to a shortfall in government revenue equivalent to 1.7 percent of GDP. This shortfall could be traced mainly to a lower-than-expected level of taxable imports, due in part to a disruption in rice imports from China and, following the CFA franc devaluation, a pronounced weakening of demand for imports channelled through Guinea by neighboring countries. In addition, there have been delays in implementing some revenue-enhancing measures, as well as temporary lapses in tax administration and program monitoring.

Nonetheless, the revenue shortfall continued to be offset with cuts in government current and investment expenditure, to undesirable levels in some areas. This has facilitated the observance of virtually all the objectives for the control variables at end-September and end-December 1994, although there has also been some accumulation of domestic arrears. The end-December target for the net foreign assets of the Central Bank was missed by a small margin, partly as a result of a temporary need for intervention following the introduction in early November 1994 of an interbank foreign exchange market. The independent audit of the implementation of the Investment Code and the undertaking of a public expenditure review have not been completed

either, largely because of delays in the availability of the required external assistance. Completion of these measures is now expected by mid-February, i.e., before the arrival of a Fund mission for the midterm review of the ESAF-supported program. The public telecommunications company has been offered for sale to the private sector, but the establishment of a simplified land registry for Conakry has been delayed.

These developments underscore the importance of reinforcing the policy package, particularly as regards government revenue mobilization, as both the authorities and the Fund staff consider further expenditure cuts as detrimental to the basic objectives of Guinea's adjustment program. Accordingly, a number of revenue enhancing measures were implemented in late 1994 and in the context of the 1995 government budget, which was adopted in late December 1994. These measures include the elimination of a broad range of tax exemptions; the suspension of application of the Investment Code for new investors, pending a revision; additional improvements in tax administration; and stepped up preparations for the introduction of a new generalized sales tax by January 1996. Consistent with the macroeconomic framework, the budget provides for a reduction in the overall deficit from 7.3 percent of GDP in 1994 to 6.1 percent in 1995, to be achieved through an increase in revenue and the stabilization of total expenditure in relation to GDP. Attainment of the fiscal objectives will depend critically on the authorities' determination to effectively raise tax receipts from the nonmining sector.

As regards the external sector, the current account deficit was limited to about US\$375 million in 1994 and is targeted to be reduced to US\$365 million in 1995. The 1994 deficit is estimated to have been financed in part by net inflows of official concessional assistance and private capital inflows, albeit at a level lower than initially projected; the rest was covered by a modest use of reserves and a buildup of external payments arrears. The current account deficit for 1995 is projected to be covered mainly by higher net inflows of external assistance, including a large increase in nonproject aid from multilateral donors. However, the envisaged clearing of outstanding arrears and the attainment of the reserve objectives would leave a residual financing gap of about US\$220 million. It should be stressed that Guinea's external outlook is particularly sensitive to changes in the volume and prices of bauxite and alumina exports, as well as the timely availability of concessional financial assistance. The inevitable uncertainties about the timing and likely magnitude of nonproject assistance from key multilateral donors might raise the financing gap for 1995 and beyond.

In conclusion, despite a somewhat checkered record of policy implementation, more progress has been achieved in the last few years. In view of the strength of the recently announced corrective revenue measures, as well as the strong commitment of the Guinean authorities to step up their adjustment efforts in the period ahead, the Fund staff considers that Guinea's reform efforts deserve the support of the international community.

GUINEA
The Paris Club

Statement by World Bank Representative
January 25, 1995

Despite a very promising start, the process of transformation of Guinea from a centrally-controlled system to a market-based economy has proven ~~more~~ difficult and ~~more~~ protracted ~~than had initially been expected~~. There has been progress, but it has, at times, been uneven.

On the macroeconomic front, the Bank concurs with the Fund in finding the Government program broadly on track. Nevertheless, the persistent short falls in revenue mobilization by Guinean authorities continues to be a significant weak point. The Government has succeeded in maintaining macroeconomic balances by compensating revenues shortfalls ~~revenues~~ through matching cuts in expenditures, but this pattern of adjustment has tended to compromise some long-term development ~~expenditures~~ ^{objectives}. Guinea remains highly dependent on one commodity, bauxite, and part of the challenge of the economic transformation requires its gradual weaning from this source of financing by mobilizing its internal sources of finance which by being less volatile could better support the sustained efforts required for development.

Measures taken by the authorities over the last two years have significantly reduced the direct intervention of the State in operations of a number of large companies in key sectors. The Office des Bauxites de Kindia has been converted into an autonomous public enterprise. The telecommunications office of the PTT has been spun off as a separate entity and the new company has been the object of an offer for, at-least, a partial privatization. ~~After delays,~~ ^{As mentioned by the Minister} in 1994, the operations of the electric power generation and distribution company were taken over by a private consortium. In 1994 also, the Grand

As mentioned by the Minister

Hotel de l'Indépendance was totally privatized. The Government has also signaled its intention to reduce its participation in the capital of mining companies and has committed itself in the context of the Financial Sector Adjustment program, to reduce the State participation in financial institutions. In sum, all indications point toward sustained actions to reduce the direct role of the State in the economy

The Minister has recognized that
 The successful transformation of the Guinean economy requires that the country be provided with a proper legal and judicial framework for private activities to develop. Guinean authorities have made important strides on this key aspect of reform. The 1992 promulgation of the Land Tenure Code is being bolstered by upgrading of the land registry, albeit hesitatingly. An Economic Activity Code is being finalized which will deal with corporate and bankruptcy laws, and with financial aspects of economic activity and industrial ownership. To ensure a better application of the laws, a High Council of Magistrates has been created which includes a Disciplinary Council, with the mandate to reinforce the ethical standards of the legal profession; preliminary indications from private sector managers suggest an improved quality of judicial decisions.

Addressing the deplorable socioeconomic conditions of the population inherited from the First Republic is both a moral imperative and a means to prepare the basis for sustained growth in the long term. Despite constraints in resources, the Guinean authorities have improved budgetary allocations and efficiency in use of resources for the primary health sector and for primary education. As a result health coverage has improved and gross enrollment rates in primary schools have increased to 40 percent of the relevant age cohort. Still, spending in these fields remains extremely low, particularly on a per capita basis, and the quality of service deficient. In addition, the increased urbanization of the country requires significant investments in associated infrastructure, particularly in sanitation and access to clean water so that the investments in primary health produce their

intended impact . The improvements in socioeconomic indicators will require not only sustained policy implementation but also the availability of the necessary financing for recurrent costs ~~so that investments in these sectors can have their intended impact~~

In the last four years, the fall in the price of aluminum and the consequent impact on fiscal and export revenues has clearly revealed the high degree of exposure of the Guinean economy to the vagaries in the market of one commodity. Consequently, to support its effort toward development and growth, Guinea has to diversify its production and export base. In the medium term, however, mining and agriculture will remain the most prospective sectors of the economy.

To complete the transformation of the Guinean economy, sound economic management and effective implementation are necessary. To achieve this, the Government of Guinea needs to address the issue of the public administration. Low productivity, rent-seeking behavior among some economic agents, and questionable work habits inherited from the First Republic, have led to poor civil service performance. The task of reforming the public administration goes beyond controlling the number of civil servants and the size of the wage bill: it involves changing ingrained habits and instituting performance as criteria for promotion. The Government has recently taken steps to eliminate abuses in the remuneration system and in the rolls. Although encouraging, these measures can only be the first step of a program to enhance public administration. Next steps should include the introduction of a systematic monitoring of presence and performance, the ~~yearly~~ *annual* determination of net hiring needs prior to the elaboration of the budget and the design of a long term plan to improve the skills of the public service.

The steps the by the Guinean authorities under the reform program are in the right direction. However, they have not yet been sufficient to achieve the necessary

transformation of the economy, radically improve its long-term prospects and contribute significantly to the eradication of poverty. The Bank believes that the Government's objective is the achievement of self-sustaining growth, and the steady improvement in the welfare of the population. We share this vision and stand ready to support a program aimed at realizing the potential of the economy.

The program of the Bank in the coming years will continue to be predicated on ~~the implementation of~~ sound economic management. This would lead us to support an annual program of some US\$250 million, concentrated in the education, and water and sanitation sectors, of which some 30% would be adjustment funding.

are unpassed by
 We ~~have taken note of~~ the new ministerial team's commitment to break with the management patterns and uneven performance of the recent past, *justifies* ~~and believe that, for the~~ Government to adhere to its stated intentions, at this critical juncture, *will justify* support from the international community, in the form both of debt relief and fresh *funding* commitments.

CLUB DE PARIS - REPUBLIQUE DE GUINEE**25 Janvier 1995**

ALLOCUTION DU REPRESENTANT DE LA CNUCED

La République de Guinée, depuis 1985, a entrepris des réformes profondes pour remodeler son économie et l'engager sur une voie de croissance plus assurée. Cependant, la Guinée doit faire face à des obstacles structurels qui demandent beaucoup de persévérance, d'efforts et de ressources pour être surmontés. Ainsi, le niveau de pauvreté est alarmant, avec un revenu par tête d'habitant qui frôle les 500 \$. Le pays est aussi doté d'un niveau très bas de l'éducation, même élémentaire, et d'un état précaire de l'infrastructure de base.

A cela s'ajoute la forte dépendance sur le secteur minier, en fait principalement sur l'exploitation de la bauxite, ce qui rend l'économie guinéenne encore plus fragile. Les efforts entrepris pour diversifier la production des produits non miniers ont enregistré des progrès très modestes.

Depuis 1986, les termes de l'échange ont détérioré cumulativement de plus de 32%. En termes réels donc, les ressources gagnées par les exportations ne cessent de décroître en valeur, tandis que les besoins en importations ne cessent d'augmenter. D'autre part, le budget du gouvernement est largement financé par les apports financiers étrangers et le niveau de la dette extérieure reste très élevé.

Bref, la fragilité de l'économie guinéenne, encore fortement dépendante des conditions externes, demeure une donnée importante pour la poursuite des politiques économiques.

Les programmes économiques adoptés en 1991 ont certes connu des dérapages, étant donné les soubresauts dûs aux chocs à la fois internes et externes. En 1993/94, cependant, le gouvernement a relancé le programme de réformes structurelles et de stabilisation macroéconomique. Des mesures ont été prises notamment dans les domaines de réformes fiscales et financières, de restructuration des entreprises publiques, d'amélioration du fonctionnement du service public et du système judiciaire. De plus, pour amener le déficit budgétaire à un niveau acceptable, le gouvernement a dû réduire de façon dramatique ses dépenses budgétaires, faute de pouvoir augmenter substantiellement ses recettes dans l'immédiat.

Des résultats notables ont été accomplis: le taux de croissance réelle a augmenté de 2.4% en 1991 à 4.5% en 1993 et 4% en 1994. Le déficit budgétaire par rapport au PIB a été réduit de plus de 8% en 1991 à un peu plus de 7% en 1994. Le taux d'inflation a diminué de près de 20% en 1991 à 4.5% en 1994.

Le gouvernement s'engage à moyen terme à accélérer la diversification de la base productive du pays, étant donné le potentiel de ressources agricoles et minières pas entièrement exploitées. Le gouvernement s'engage aussi à intensifier ses efforts pour alléger le grave problème de pauvreté et renforcer le développement des ressources humaines.

Cependant, à court et moyen terme, le gouvernement doit pouvoir s'appuyer sur l'aide extérieure pour financer la croissance de l'économie. Les besoins d'investissements, surtout en matière d'infrastructure de base, sont immenses, tandis que l'épargne domestique, du secteur public en particulier, ne peut augmenter que de manière progressive.

Le poids de la dette constitue une lourde charge pour l'économie. En excluant la dette due à la Russie, la dette extérieure totale en 1994 équivaut aux trois-quarts du PIB. Le service de cette dette représente plus de 37% des recettes d'exportations, ce qui, à tout égard et surtout pour un pays pauvre, est un fardeau très difficile à soutenir. Le service de la dette rééchelonnable due aux créanciers du Club de Paris est estimé à plus du tiers du service total de la dette extérieure. Il est à noter que la dette totale due aux créanciers du Club représente aussi à peu près le tiers du total de la dette extérieure.

On peut espérer que les créanciers ici présents contribuent de façon notable aux efforts de redressement et de développement de la Guinée. En accord avec les nouveaux termes que le Club a adoptés à l'égard des pays les plus pauvres et les plus endettés en Décembre dernier, une réduction de deux-tiers sinon du stock de la dette, au moins des arriérés et des échéances courantes pour la période allant du début 1995 à mi-1996 (comme demandé par le gouvernement guinéen) permettrait à la Guinée de résoudre durablement son problème de dette.

THE CHAIRMAN OF THE PARIS CLUB

Paris,

*Draft
23/1/95*

Mr Minister,

Thank you for your letter dated January 19, 1995, which I have transmitted to the representatives of the Creditor Countries.

The issues you are raising are of great importance, and the table attached to your letter is also very helpful. I am definitely convinced that we need to work deeper on this issue.

As regards your request to attend the rescheduling meeting for Guinea, I am sure you will understand that it is technically very difficult to properly organize on such short notice a contact with Russia this week.

in any way want to schedule 1st + foremost.
Nevertheless, as I suggested to you when we met in Moscow last year, I remain convinced that it is essential that ~~we manage to schedule~~ a technical meeting in Paris between your experts and the Paris Club Secretariat in order to discuss Russia's situation and strategy as a creditor. ~~This should take place without delay, possibly as early as next week if it is suitable to you or to your experts.~~ *as soon as possible*

I am at your disposal to set a formal date for such meeting among our experts.

Please accept, Mr Minister, the assurances of my highest esteem and my best personal regards,

Christian NOYER

Mr Andrei VAVILOV
Prime Vice Minister of Finance
Ministry of Finance
of the Russian Federation
MOSCOW