

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/83/185

CONFIDENTIAL

August 26, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Report on Peru's External Debt Renegotiation

Attached for the information of the Executive Directors is a report on the meeting held in Paris on July 25 and 26, 1983 to consider Peru's external debt renegotiation.

Att: (1)

INTERNATIONAL MONETARY FUND

Report on Peru's External Debt Renegotiation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations Department
and the Legal Department)

Approved by E. Wiesner and W.A. Beveridge

August 25, 1983

Representatives of Peru and 20 creditor countries ^{1/} met in Paris under the aegis of the "Paris Club" on July 25-26, 1983 to consider Peru's request for a consolidation of service payment obligations on its external official and officially guaranteed or insured debt. Observers from the Governments of Australia and Israel, the World Bank, the Inter-American Development Bank, the Secretariat of UNCTAD, the Organization for Economic Cooperation and Development, and the Fund ^{2/} also attended the meeting, which was chaired by Mr. Jurgensen of the French Treasury.

Mr. Carlos Rodriguez Pastor, Minister of Economy, Finance, and Commerce and head of the Peruvian delegation, outlined the economic and financial difficulties faced by Peru and stressed the strong determination of the Peruvian Government to reduce the domestic and external imbalances to return to a situation characterized by much lower inflation, overall balance of payments equilibrium, and high and sustained economic growth. In this context, he attached particular importance to the achievement of the targets of the program supported by the current extended arrangement with the Fund. At the request of the Chairman, the Fund representatives reviewed Peru's performance under the first-year program of the extended arrangement and described the second-year program, as approved by the Executive Board on May 20, 1983,^{3/} and Peru's financing requirements under that program. The representatives of the governments of the participating creditor countries took note of the adjustment measures set forth in the economic and financial program of the Government of Peru and stressed the importance they attach to the continuing and full implementation of that program.

^{1/} Argentina, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Mexico, New Zealand, the Netherlands, Norway, South Africa, Spain, Switzerland, Sweden, the United Kingdom, and the United States of America.

^{2/} As authorized by ESD/83/191 (7/18/83), the Fund staff representatives were Messrs. Taplin (Paris Office), van Houten (WHD), and Hino (ETR).

^{3/} EBS/83/85 (4/27/83) and Sup. 1 (5/18/83).

In the Agreed Minute, dated July 26, 1983, the representatives of the participating creditor countries agreed to recommend to their governments or appropriate institutions the reorganization of principal and interest on their guaranteed or insured commercial credits and official loans to Peru with an original maturity of more than one year, contracted before January 1, 1983 and falling due from May 1, 1983 to April 30, 1984. Debt service resulting from Peru's 1978 consolidation agreement with the "Paris Club"^{1/} remains outside the purview of the present reorganization but, explicitly in the case of Peru, debts arising from contracts that may be repaid in commodities were included in the framework of the agreement. Under the terms of the proposed reorganization, 90 percent of the maturities eligible and not yet paid will be rescheduled or refinanced over eight years and be repaid after a grace period of three years in ten equal and successive semiannual installments beginning on April 30, 1987 and ending on October 31, 1991. One half of the remaining 10 percent of eligible maturities is to be paid according to the original schedule--except for amounts already due and unpaid, which must be paid by October 31, 1983--and the other half on December 31, 1984. The interest rate conditions in respect of these financial arrangements will be determined bilaterally between the Government of Peru and the government or appropriate institutions of each participating creditor country on the basis of the appropriate market rate. The two creditor countries that participated as observers (Australia and Israel) did not sign the Agreed Minute because the relevant payments due to them from Peru during the consolidation period are less than SDR 1 million--the conventional de minimis threshold below which payment obligations are not covered by the agreement.

The above debt reorganization provisions will apply on the condition that the Government of Peru continues to have an arrangement with the Fund in the upper credit tranches. In order to assure comparable treatment of public and private external creditors on their debts, the Peruvian delegation stated that its Government will seek to secure from external creditors, including banks and suppliers, rescheduling or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity. Peru is to accord to each of the participating countries treatment no less favorable than that which it may accord to any other creditor for the consolidation of debts of a comparable term. The Government of Peru undertook to negotiate promptly rescheduling or refinancing arrangements with all other creditor countries on debts of a comparable term and to keep the Chairman of the creditor group informed of the content of these and all other bilateral agreements with the creditors referred to above. The Government of Peru also undertook to pay by October 31, 1983 all debt service due and not paid, and owed to or guaranteed by the governments of the participating creditor countries or their appropriate institutions, and not covered by the Agreed Minute.

^{1/} SM/78/279 (11/21/78).

In response to Peru's request, the Agreed Minute stipulates that Peru's debt service payments falling due from May 1, 1984 to February 28, 1985 will be rescheduled or refinanced over eight years including a three-year grace period provided that Peru continues to have an arrangement with the Fund involving the use of Fund resources in the upper tranches and that Peru has complied with all the conditions set out in the Agreed Minute, in particular as regards the conclusion of bilateral agreements with the participating creditor countries and comparability of treatment accorded to individual creditors or groups of creditors. The percentage of principal and interest to be consolidated as well as other modalities will be determined at a meeting to be held after the Executive Board of the Fund has approved the third-year program under the existing extended arrangement.

The delegations of each of the participating countries and of Peru agreed to recommend to their respective governments or appropriate institutions that bilateral negotiations be initiated at the earliest opportunity and concluded with the least delay, in any case before December 31, 1983, on the basis of the principles set forth in the Agreed Minute.