

SM/82/158

CONTAINS CONFIDENTIAL  
INFORMATION

August 2, 1982

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

Attached for the information of the Executive Directors is a report prepared by the staff representatives on the meeting on Madagascar's debt renegotiation, held in Paris on July 12 and 13, 1982.

Att (1)

Other Distribution  
Department Heads

INTERNATIONAL MONETARY FUND

Report on Madagascar's External Debt Renegotiation

Prepared by the African Department

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

Approved by O.B. Makalou and S. Kanesa-Thanan

July 30, 1982

Representatives of Madagascar and eleven creditor countries <sup>1/</sup> met in Paris under the framework of the "Paris Club" on July 12-13, 1982 to discuss Madagascar's request for a rescheduling of its external debt service obligations. Members of the Fund staff <sup>2/</sup> and observers from Israel, the Netherlands, the United States, the World Bank, the Secretariat of the United Nations Conference on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development (OECD) also attended the meeting, which was chaired by Mr. Jean-Claude Trichet, a senior official of the French Treasury.

The Malagasy delegation outlined the serious economic and financial difficulties faced by their country and the strong determination of their Government to reduce economic and financial imbalances and to reach the targets of the program underlying the stand-by arrangement with the Fund. The Fund representatives, at the request of the Chairman, described the economic situation of Madagascar and the major elements of the adjustment program undertaken by the Government of Madagascar and supported by the stand-by arrangement with the Fund approved by the Executive Board on July 9, 1982 (SM/81/223 and Supplements 1, 2 and 3). The representatives of the governments of the participating creditor countries expressed their satisfaction with the measures of adjustment set forth in the economic and financial program undertaken by the Government of Madagascar and stressed the importance they attach to the continuing and full implementation of this program, in particular the revitalization and restructuring of the productive sector of the economy and the improvement of public finances and foreign exchange management.

In the Agreed Minute of July 13, 1982 the representatives of the eleven creditor countries agreed on recommendations to be made to their governments or appropriate government agencies, with respect to loans to Madagascar with original maturities of more than one year and contracted prior to January 1, 1982. The creditors agreed on a consolidation period from July 1, 1982 to June 30, 1983, i.e. broadly until the end of the present stand-by arrangement. Eighty-five per cent of the principal and interest payments falling due during this period will be consolidated and repaid in

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<sup>1/</sup> Austria, Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, Spain, Sweden, Switzerland and the United Kingdom.

<sup>2/</sup> The Fund staff's representatives were Messrs. Kratz (AFR), Brau (ETR), Ley (Office in Europe) and G ldsbrough (AFR).

10 equal semi-annual payments beginning on March 31, 1987, i.e. after the end of a grace period of approximately four years. The remaining 15 per cent of principal and interest will be paid as follows: 5 per cent as originally scheduled, 5 per cent on June 30, 1984 and 5 per cent on June 30, 1985.

In addition, the creditors agreed to provide debt relief with regard to arrears (amounts in principal and interest due and not paid as of June 30, 1982) on the above-mentioned type of credit and official loans but also including those with an original maturity of one year or less. Repayment by Madagascar of the corresponding amounts will be as follows. 30 per cent of the total amount before December 31, 1982 and 70 per cent of the total amount in six equal and successive semi-annual payments, the first to be made on March 31, 1983 and the final on September 30, 1985. Arrears arising from the previous rescheduling of debt, covered by the Agreed Minute of April 30, 1981, are not included and all such arrears are to be paid not later than September 30, 1982. Repayment by the Government of Madagascar of arrears originating before January 1, 1981 to observer countries which did not attend the April 30, 1981 meeting of the group of creditors will be made according to the Agreed Minute of that meeting and, in the case of payments overdue under that schedule, not later than September 30, 1982.

The rate and conditions of interest to be paid in respect of these financial arrangements will be determined bilaterally between the Government of Madagascar and the governments of each participating creditor country.

In order to secure comparable treatment of public and private external creditors on their debts, the representatives of the Government of Madagascar stated that their Government will seek to secure from private external creditors, particularly banks, rescheduling, financing or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity, making sure to avoid inequity between different categories of creditors. The Government of Madagascar will accord to each of the participating countries treatment no less favorable than that which it may accord to any other creditor country for the consolidation of debts of a comparable term. The Government of Madagascar undertakes to negotiate promptly rescheduling or refinancing arrangements with all other creditor countries on debts of a comparable term.

In response to the request of the representatives of the Government of Madagascar, the participating creditor countries agreed in principle to consider subsequently the matter of Madagascar's debt service payments falling due after June 30, 1983 provided (i) that Madagascar continues to have a stand-by arrangement with the Fund involving the use of Fund resources subject to upper credit tranche conditionality. For this purpose, the Government of Madagascar agrees that the Fund informs the Chairman of the Paris Club regarding the status of Madagascar's arrangement with the Fund, (ii) that Madagascar has concluded bilateral agreements with the creditor countries according to the Agreed Minute and (iii) that Madagascar has reached with banks and other creditors effective arrangements meeting the conditions described above.