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INFORMATION

December 28, 1992

To: Members of the Executive Board
From: The Acting Secretary
Subject: Bulgaria - Report on External Debt Renegotiation

Attached for the information of the Executive Directors is a report on the meeting held in Paris on December 14, 1992 to discuss Bulgaria's request to alleviate its external debt service obligations.

Mr. Kuhn (ext. 36555) or Ms. Sahay (ext. 37181) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

BULGARIA

Report on Bulgaria's External Debt Renegotiation

Prepared by the European I Department and the
Policy Development and Review Department

Approved by Massimo Russo and J. Ferrán

December 24, 1992

Representatives of Bulgaria and fourteen creditor countries 1/ met in Paris in the framework of the Paris Club on December 14, 1992 to discuss Bulgaria's request to alleviate its external debt service obligations. Observers of Australia, Norway, and the United States as well as from the Fund, 2/ the World Bank, the Secretariat of the United Nations Conference on Trade and Development, and the Commission of the European Communities also attended the meeting, which was chaired by Ms. Ariane Obolensky of the French Treasury.

The delegation of Bulgaria, which was headed by the Minister of Finance Mr. Kostov, described serious economic and financial difficulties faced by Bulgaria, and its strong determination to reduce the economic and financial imbalances within the framework of the program supported by the stand-by arrangement with the Fund. The Fund representatives described the major elements of the adjustment program undertaken by Bulgaria and supported by the stand-by arrangement that was approved by the Executive Board of the Fund on April 17, 1992.

In the Agreed Minute of December 14, 1992, the representatives of the participating creditor countries agreed to recommend to their Government or their appropriate institutions that they provide rescheduling or refinancing on loans from and commercial credits guaranteed by the Governments of the participating creditors countries or their appropriate institutions which were extended to the Government of Bulgaria or to the Bulgarian Foreign Trade Bank (BFTB) or covered by the guarantee of the Government of Bulgaria or of the BFTB, pursuant to a contract or other financial arrangement concluded before January 1, 1991. Debt service due as a result of the previous consolidation agreements concluded or to be concluded according to

1/ Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, and the United Kingdom.

2/ The Fund staff representatives were Mr. Singh, Mr. Demekas (both EUR1), and Mr. Kuhn (PDR).

the Agreed Minute dated April 17, 1991 is not affected by the present reorganization.

The debt relief will apply as follows: with respect to loans and credits with an original maturity of more than one year, 100 percent of principal and interest (excluding late interest) due as of November 30, 1992 and not paid, and 100 percent of principal and interest payments (excluding late interest) due from December 1, 1992 to April 30, 1993 with repayments to be made in eight equal and successive semiannual installments beginning August 15, 1999 and ending February 15, 2003.

The detailed arrangements for the rescheduling or the refinancing of the debt service, including the rate and the conditions of interest to be paid, will be determined by bilateral agreements between Bulgaria and the Government or appropriate institutions of each participating creditor country which are to be concluded before April 30, 1993. The Government of Bulgaria agreed to inform the Chairman of the Paris Club of the content of these bilateral agreements.

The Government of Bulgaria undertook to negotiate rescheduling or refinancing arrangements with all other public and private external creditors and to seek to secure from creditors, including banks and suppliers, debt relief on terms at least as favorable as those set forth in the Agreed Minute. The Government agreed not to seek to secure from any creditor country not participating in the Agreed Minute repayment terms more favorable than those set forth in this Agreed Minute and agreed not to accord any such creditor country repayment terms more favorable than those accorded to the participating creditor countries.

The Agreed Minute also provides that the Government of Bulgaria will ensure free and unrestricted access to foreign exchange for the servicing of debts owed by Bulgarian banks other than the BFTB or by other public and private debtors in Bulgaria to or guaranteed by the participating or observer creditor countries or their appropriate institutions.

The provisions set forth in the Agreed Minute do not apply to creditor countries with respect to which debt service falling due during the reorganization period, including arrears, is less than SDR 1 million. They also do not apply to debt service obligations including contracts payable on cash terms due to the participating creditor and observer countries and which are not covered by the Agreed Minute. The payments owed to these countries should be made on the original due dates and those already due and not paid should be paid not later than February 28, 1993.

The provisions of the Agreed Minute will apply provided that Bulgaria continues to have an arrangement with the Fund in the upper credit tranches. For this purpose, Bulgaria agreed that the Fund inform the Chairman of the Paris Club regarding the status of Bulgaria's relations with the Fund.

In response to a request by the representatives of the Government of Bulgaria, the participating creditor countries agreed in principle to a meeting to consider the matter of Bulgaria's debt service payments falling due after April 30, 1993, pursuant to a contract or other financial arrangement concluded before January 1, 1991, and provided that (a) Bulgaria continues to have an arrangement with the Fund in the upper credit tranches; (b) it has reached agreement with other creditors meeting the conditions described above; (c) all the bilateral issues related to the April 17, 1991 Agreement Minute have been settled; and (d) all the payments due up to April 30, 1993 to the participating or observer creditor countries according to the April 17, 1991 Agreed Minute have been made.

As a result of this agreement, Bulgaria obtained exceptional financing estimated at US\$220 million for the period April 1, 1992 to April 30, 1993. The debt relief obtained from the Paris Club is consistent with what was assumed under the economic program supported by the stand-by arrangement from the Fund.

