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INFORMATION

December 23, 1988

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

There is attached for the information of the Executive Directors a report on the meeting held in Paris on October 28, 1988 on Madagascar's request for a rescheduling of its external debt service obligations.

Mr. Carstens (ext. 8388) or Ms. Le Gall (ext. 8968) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Report on Madagascar's External Debt Renegotiation

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by G. E. Gondwe and H. B. Junz

December 22, 1988

Representatives of Madagascar and 12 creditor countries 1/ met in Paris on October 28, 1988 in the framework of the Paris Club to discuss Madagascar's request for the rescheduling of part of its external debt service obligations. Observers from three other countries, 2/ the Fund, 3/ the OECD, UNCTAD, the EC, and the World Bank also attended the meeting, which was chaired by Mr. Samuel-Lajeunesse of the French Treasury.

The delegation of Madagascar, which was headed by Mr. Rakotomavo, Minister at the Presidency in Charge of Finance and Economy, described the serious economic and financial difficulties faced by Madagascar, and the strong determination of its Government to reduce the economic and financial imbalances in the context of the adjustment program supported by the stand-by arrangement from the Fund. This arrangement, which covers a ten-month period, was approved on September 2, 1988 (EBS/88/145). The Fund staff representative (AFR) outlined the major elements of the program adopted by the Government of Madagascar. The representatives of the participating creditor countries noted with satisfaction Madagascar's steady and substantial progress toward financial adjustment and economic recovery, and they welcomed the authorities' continuing adjustment efforts, particularly with regard to the revitalization of the productive sectors of the economy and the improvement of public finances and foreign exchange management. They took note of Madagascar'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, to warrant exceptional treatment of the debt.

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

2/ Israel, the Netherlands, and Norway.

3/ The Fund staff representatives were Messrs. Carstens (AFR), Johnson (ETR), and Arbulu (PAR).

The representatives of the participating creditor countries agreed to recommend to their governments or appropriate institutions that debt relief be provided, through rescheduling or refinancing, on loans from, or commercial credits guaranteed or insured by, the governments or the appropriate institutions of the participating creditor countries that were extended to the Government of Madagascar with original maturities of more than one year and contracted prior to July 1, 1983, including repayments in principal and interest due as a result of the consolidation agreements concluded in 1981, 1982, and 1984.

The restructuring covers 100 percent of principal and interest (excluding late interest) due from April 1, 1988 to December 31, 1989 and not paid, and 100 percent of principal and interest (excluding late interest) due as of March 31, 1988 and not paid, on loans and credits specified in the preceding paragraph. The representatives of the participating creditor countries each recommended to their authorities the provision of debt relief under one of three options. France chose to cancel one third of the debt service obligations to be consolidated and to reschedule the balance over 14 years, including an 8-year grace period. Belgium, Spain, and the United States of America opted to consolidate at market rates over a 25-year period, with a 14-year grace period. Austria, Canada, the Federal Republic of Germany, Italy, Sweden, Switzerland, and the United Kingdom elected to consolidate on the basis of the appropriate market rate reduced by 3.5 percentage points, or by 50 percent if 50 percent was less than 3.5 points, with a repayment period of 14 years, including an 8-year grace period. Japan followed the second option with respect to official development aid loans and the third option with respect to other credits.

As regards official development aid loans, the Agreed Minute provides that amounts to be rescheduled or refinanced according to the options 1/ would be repaid over a 25-year period, with a 14-year grace period, with conditions and rates of interest as favorable as those applying to those applying in the original loan agreements.

The detailed arrangements for the rescheduling or refinancing of the debts will be accomplished by bilateral agreements to be concluded by the governments or appropriate institutions of each participating creditor country with the Government of Madagascar. These bilateral agreements are to be concluded with the least delay and, in any case, before the end of August 1989.

The provisions of the Agreed Minute will remain in effect on condition that the Government of Madagascar continues to have an arrangement with the Fund in the upper credit tranches. The provisions of the Agreed Minute will also continue to apply from July 1, 1989 to December 31, 1989 provided that the Executive Board of the Fund approves before March 31, 1989 an arrangement under the enhanced structural

1/ For France, this applies to the two thirds that is not canceled.

adjustment facility with the Government of Madagascar. For this purpose, the Government of Madagascar agreed that the Fund would inform the Chairman of the Paris Club regarding the status of its relations with the Fund.

To facilitate the implementation of the Agreed Minute and of those of May 22, 1985 and of October 23, 1986, the Government of Madagascar will deposit in the special account established with the Banque de France the equivalent of at least SDR 3.9 million at the end of each month, commencing in November 1988 and continuing through December 1989.

In order to secure comparable treatment of public and private external creditors, the Government of Madagascar undertook to secure from external creditors, including banks and suppliers, rescheduling or refinancing arrangements on terms comparable with those set forth in the Agreed Minute for credits or comparable maturity, making sure to avoid inequity between different categories of creditors. The Government of Madagascar will inform in writing the Chairman of the Paris Club not later than August 31, 1989 of the progress made for this purpose in negotiation with other creditors.

The Government of Madagascar agreed to secure from each creditor country not participating in the Agreed Minute rescheduling or refinancing arrangements on terms comparable with those set forth in the Agreed Minute, and undertook not to accord any such creditor country repayment terms more favorable than those accorded to the participating creditor countries.

The provisions set forth in the Agreed Minute do not apply to creditor countries with principal and interest falling due during the reorganization period on debts specified in paragraph 1 (including arrears) of less than SDR 250,000. 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 January 31, 1989.

The Government of Madagascar agreed to pay all debt service due and not paid as at the date of the Agreed Minute, and owed to or guaranteed by the governments of the participating or observer creditor countries or their appropriate institutions, and not covered by the Agreed Minute, as soon as possible, and in any case not later than January 31, 1989. Late interest will be charged on those amounts.

The participating creditor countries agreed in principle to a meeting to consider the matter of Madagascar's debt service payments falling due after December 31, 1989 relating to loans or credits contracted prior to July 1, 1983 provided that (i) Madagascar continues to have an appropriate arrangement with the Fund, (ii) Madagascar has reached with the banks and other creditors restructuring arrangements that meet the conditions described above, and (iii) Madagascar has complied with all conditions set out in the Agreed Minute.

The amount of debt relief obtained by Madagascar for the period April 1988 to December 1989 under this rescheduling is estimated at SDR 189 million, of which SDR 161 million is being rescheduled and SDR 28 million is being cancelled. As a result of the debt cancellation and the reduction in the applicable interest rate, Madagascar will save an estimated SDR 3.7 million annually in interest payments during the grace period. The debt relief from the Paris Club creditors is broadly consistent with the program that is being supported by the stand-by arrangement from the Fund.