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CONTAINS CONFIDENTIAL  
INFORMATION

May 14, 1985

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

Attached for the information of the Executive Directors is a report on the meeting, held in Paris on April 22, 1985, to consider Costa Rica's request for a consolidation of service payment obligations on its external debt.

Mr. Elson (ext. 8500) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

Report on Costa Rica's External Debt Renegotiation

Prepared by the Western Hemisphere Department

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

Approved by Eduardo Wiesner and Manuel Guitian

May 13, 1985

Representatives of Costa Rica and ten creditor countries 1/ met in Paris under the aegis of the Paris Club on April 22, 1985 to consider Costa Rica's request for a consolidation of service payment obligations on its external debt owed to, or insured or guaranteed by, official creditors. Observers from the Governments of Denmark, Kuwait, the Netherlands, Sweden and Switzerland, the World Bank, the Inter-American Development Bank, the Secretariat of UNCTAD and the Fund 2/ also attended the meeting, which was chaired by Mr. Trichet of the French Treasury.

Mr. Federico Vargas, Minister for External Debt Negotiations and head of the Costa Rican delegation, outlined the economic and financial difficulties faced by Costa Rica and stressed the strong determination of his Government to reduce the domestic and external imbalances as a means of achieving a satisfactory balance of payments situation over the medium term. In this context, he attached particular importance to the achievement of the targets of the program supported by the current stand-by arrangement from the Fund. At the request of the Chairman, the Fund representatives reviewed Costa Rica's recent economic performance and described the program supported by the Fund arrangement, as approved by the Executive Board on March 13, 1985,3/ and Costa Rica'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 Costa Rica and stressed the importance they attach to the full implementation of that program.

In the Agreed Minute, dated April 22, 1985, 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

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1/ Austria, Brazil, Canada, France, the Federal Republic of Germany, Italy, Japan, Spain, the United Kingdom and the United States.

2/ As authorized by EBD/85/101 (4/18/85), the Fund staff representatives were Mr. Elson (WHD), Ms. Dillon (ETR), and Mr. Taplin (Office in Europe).

3/ EBS/85/31, Supplement 2 (3/14/85).

official loans to Costa Rica with an original maturity of more than one year, contracted before July 1, 1982 and falling due from January 1, 1985 to March 31, 1986 (the consolidation period) or in arrears as of December 31, 1984. Debt service resulting from Costa Rica's 1983 consolidation agreement with the Paris Club 1/ remains outside the purview of the present reorganization.

Under the terms of the proposed reorganization, 90 percent of the eligible principal and interest falling due during the consolidation period will be rescheduled or refinanced over ten years and be repaid after a grace period of five years in ten equal and successive semi-annual installments beginning on February 15, 1991 and ending on August 15, 1995. The remaining 10 percent of eligible debt service obligations is to be paid in three installments, one of 2 percent on June 1, 1986 and two of 4 percent each on June 1, 1987 and June 1, 1988. In the case of amounts in arrears as of December 31, 1984, 90 percent 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 February 15, 1989 and ending on February 15, 1993. The remaining 10 percent will be repaid in three installments, one of 3 percent each on September 30, 1985 and December 31, 1985, and one of 4 percent on July 31, 1986. The interest rate conditions in respect of these financial arrangements will be determined bilaterally between the Government of Costa Rica and the government or appropriate institutions of each participating creditor country on the basis of the appropriate market rate.

The provisions of the Agreed Minute do not apply to those countries for which the relevant payments due to them from Costa Rica are less than SDR 1 million. Amounts owed to these countries, as well as amounts due to participating creditor countries on debts not covered by the provisions of the Agreed Minute, should be paid on the original due dates, and payments already due and not paid are to be made as soon as possible and in any case not later than September 30, 1985.

The above debt reorganization provisions will apply on the condition that the Government of Costa Rica continues to have an arrangement from the Fund in the upper credit tranches. In order to assure comparable treatment of public and private external creditors on their debts, the Costa Rican 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. Costa Rica 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 Costa Rica 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.

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1/ SM/83/51 (3/8/83).

In response to Costa Rica's request, the Agreed Minute stipulates that the participating creditor countries agreed in principle to a meeting to consider the reorganization of Costa Rica's debt service payments falling due after March 31, 1986 and relating to loans or credits concluded prior to July 1, 1982 provided that Costa Rica continues to have an arrangement from the Fund involving the use of Fund resources in the upper credit tranches and that Costa Rica 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 delegations of each of the participating countries and of Costa Rica 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 November 30, 1985, on the basis of the principles set forth in the Agreed Minute.

The amount of debt relief provided under this agreement appears to be broadly consistent with the assumptions made in the stabilization program supported by the stand-by arrangement approved on March 13, 1985 and will be reviewed with the Costa Rican authorities in the context of the forthcoming Article IV consultation discussions and mid-term review of the arrangement.