



## **Annex to the Deauville communiqué**

### **A new Paris Club approach to debt restructuring**

The Paris Club of official creditors is a central element of the existing framework for crisis resolution. In the context of the current efforts to make the resolution of crises more orderly, timely and predictable, the Paris Club can make a contribution.

The debt of heavily indebted poor countries is already addressed under an existing international initiative. For other countries experiencing serious debt problems, Finance Ministers encourage the Paris Club to improve its methods. They endorse appropriate action to achieve lasting debt sustainability, while ensuring that debt restructuring remains the last resort. Given the need to preserve access to private capital, the Paris Club should tailor its response to the specific financial situation of each country rather than defining standard terms under this new approach.

When a country approaches the Paris Club, the sustainability of its debt would be reviewed and analysed in coordination with the IMF. For a country, which has unsustainable debt and is committed to policies that will avoid a return to the Paris Club, as well as to seeking comparable treatment from its other external creditors, including the private sector, the Paris Club would define a process to provide debt relief in stages. These stages would be designed to have a strong link with economic performance and public debt management. A satisfactory track record in implementing an IMF program and in paying Paris Club creditors would be needed, after which the debt restructuring would be carried out in several steps linked to IMF conditionality.

Under this approach, the Paris Club could draw on a wide range of options to facilitate the return to debt sustainability, including:

- ◆ debt reduction in exceptional cases when its need is clearly demonstrated,
- ◆ an active policy of adjusting the “cut-off date” (claims contracted after that date are not eligible for restructuring in the Paris Club),
- ◆ over time, use of flexible instruments such as debt buybacks and swaps.

In this context, coordination between official and other creditors, notably private creditors, is particularly important. The Paris Club has

taken a number of steps to increase transparency of its procedures over the past years notably through meetings with private sector representatives and the information provided on its web site. This dialogue should continue and could take the form of early discussions with the private sector on the issue of the comparability of treatment of their respective claims.

Finance Ministers urge the Paris Club to adopt such an approach in future restructuring cases and will review its implementation in Spring 2004.

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