

## **RESTRUCTURED EXTERNAL PUBLIC CONTRACTUAL DEBT (PARIS CLUB)**

The Paris Club is an informal institution - without recognized legal existence - that brings together a group of creditor countries, mainly OECD members, with the objective of negotiating the government debts of countries in financial difficulties. In order to have its debt renegotiated at the Paris Club, a country must adhere to the essential condition of adopting a stabilization program approved by the International Monetary Fund - IMF.

In November 1983, in light of the Brazilian external debt scenario at the start of that decade (Phase I – PBF), the country decided to formalize a global agreement with representatives of 16 countries in the Paris Club framework (Agreed Minute on the Consolidation of the Debt of Brazil - Agreed Minute/General Agreement), with the objective of consolidating its debt with those creditors. The agreement with the Paris Club resulted in specific bilateral agreements between the debtor country and each one of the creditors involved, setting down specific conditions for each agreement, including interest rates applicable to the refinancing operation, due dates and other aspects. The entire operation involved four phases with similar characteristics, with the sole exception of phase IV which incorporated several alterations. The various phases were negotiated simultaneously with discussion of the terms of the Brazilian Financing Plan with private creditors.

Phase IV, regarding the negotiating process, had a basic characteristic that differentiated it from previous renegotiations: end of the centralization of deposits at the Central Bank and transfer of the benefits obtained in the renegotiation process to the original debtors. The outlook regarding negotiations with international private banks, which resulted in issue of Brady bonds (for greater detail, see the text "Restructured External Public Securities Debt (BIB, IDU and Brady Bonds)", was important to the closing of a new agreement with the Paris Club member countries.

The General Agreement was signed in 1992 and allowed for restructuring of part of the public sector debt, including maturities between January 1992 and August 1993, and arrears up to December 1990 on credits due to foreign governments and foreign government agencies. For the first time, this agreement encompassed liabilities originating in previous restructuring processes. The agreement involved 25 agencies in 13 different countries and rescheduled the debt for a period of 14 years (final payment on 12/31/2006), with a three year grace period.

With the strong performance of the Brazilian economy, coupled with abundant international liquidity and rising international reserves, in early 2006, the National Treasury perceived that the time had come for anticipating payment of the remaining debt balance, corresponding to US\$ 1.74 billion.

Anticipated payment was a component of the strategy aimed at reducing and improving the external public debt profile, which also included prepayment to the International Monetary Fund and elimination of the C-Bonds inherited from the 1990s. The truth of the matter is that continued existence of liabilities classified as "restructured debt" had a negative influence on the country's relations with creditors and investors, while also adversely affecting our sovereign risk rating.