

Debt Rescheduling

One pressing item on Poland's international agenda is its foreign debt. During the 1970s, the communist government tried to borrow its way out of economic difficulties, and many western countries and commercial lending institutions were happy to oblige. As a consequence, the Polish government owed about \$US 25 billion to the West by the beginning of the 1980s. Bad investments, political turmoil, martial law, and economic stagnation made repayment impossible. The debt continued to snowball through the accrual of unpaid interest, and reached approximately \$US 45 billion by the beginning of 1991.

Poland's foreign debt falls into two distinct categories: about \$US 34 billion is official debt owed to western governments, the remainder is owed to commercial banks. Up to November of 1989, Poland had managed to service its bank debts and maintain them within reasonable limits. The official debts, however, had mushroomed out of control.

Poland approached western creditor governments (known as the Paris Club) and asked them to write-off 80% of the debt. After long and difficult negotiations, a deal was ratified on April 19, 1991. The members of the Paris Club agreed to a 50% reduction in the net present value of the official debt. Within that total, creditors have been given three choices:

- to write off part of the total debt;
- to accept lower interest payments while leaving the debt's face value unchanged; or
- to allow a reduction of interest payments along with some roll-up of interest into capital.

The agreement also created two stages of debt relief. The first stage, accounting for about 30% of the reduction in net present value, covers the period up to March 31, 1994 and involves reducing Polish payments by 70-80%. This satisfies the Polish government's desire for relief during the immediate period while it tries to stabilize the Polish economy. The bill for interest payments will rise in the fourth year of the agreement, and concessions on the debt service bill will likely average 30-40%.

Poland will pay about \$US 0.5 billion to its official creditors under these terms in both 1992 and 1993. Thereafter, annual payments will increase to about \$US 0.9-1.5 billion. This contrasts strongly with about \$US 7 billion a year that would have been payable without the agreement.

While Poland's agreement with the Paris Club eases the debt situation, it fails to address two other issues. Poland owes about \$US 10.5 billion to western commercial banks (the London Club) which have been extremely unwilling to contemplate any reduction or relief. Finally, Poland's relationship with its former partners in the CMEA must be considered. At the close of 1991, it was estimated that Poland owed a total of just under 1 billion transferable roubles to its former partners in the Soviet bloc excluding the successor states to the Soviet Union. As for the latter, the most recent estimates suggest that Poland owes them a total of 4.9 billion transferable roubles plus \$US 1.8 billion and is owed 7.3 billion transferable roubles. The disintegration of the CMEA and the collapse of the Soviet state makes the ultimate fate of these obligations uncertain.