

THE STRATEGY FOR RESOLVING THE ISSUE OF THE INHERITED FOREIGN DEBT OF ALBANIA

Introduction

Receiving credit lines from abroad makes it possible for a country to invest and consume more than the Current Domestic Production allows. This has an impact in the finance and capital generation not only mobilizing the internal savings, but also using the savings of countries with excess in capital. Borrowing from abroad brings into a fast growth. Anyway, if a country receives credit from abroad, the management of the debt must be one of the main policies. An improper and excessive external debt creates obligations for the debt management that also creates difficulties for establishing the economical policies in the future and for the economical growth.

This is one of the reasons why the management of the debt has been one of the priorities of the Economic Program of the Government beginning from 1997. The objective of the Debt Management Policy is to achieve the benefits of the foreign credit lines without creating difficulties in the macroeconomic stability of the trade payment balance. This goal will be achieved by means of a program that is being implemented in the Ministry of Finance and will be further extended in two other institutions that are connected to the External Debt, the Bank of Albania and the Ministry of Economic Collaboration and Trade. This is the goal that the Albanian Government is attempting to achieve and it is included in the agreement ESAF between the Albanian Government and the IMF, as well.

In this content, the resolution of the issue of the External Inherited Debt of Albania to foreign creditors up to 1992 will be one of the objectives of the job. This will not only accomplish with the obligations of the Albanian Government according to the Agreement ESAF, but also will strengthen the overall collaboration with the European and other countries.

Background

Despite the fact that, based on the former Constitution, Albania could not get credit lines from abroad, it entered in such goods exchanging relationship with the European and other countries, mainly socialist ones that were in fact credit relationships. In the conditions of a centralized economy and the deficiency of a Free Exchange Market; as a result of the trading and economic import–export transactions of the former state owned enterprises covering the foreign trade, mainly during '80-ies; because of the crisis the country was suffering from that was bringing to production decline, reduce of the exports, increase of the need for imports, impossibility of the trade payment balance to cover these imports; a part of the importing trading transactions were not paid to private foreign companies and firms. This debt was increased after '90 because of the

obligations deriving from some credits given to the Albanian Government (or being guarantied by this Government) by Banks or Group of Banks which conditions were trading ones in general.

The incapability of the respective Albanian institutions in managing properly the funds of these credits, the situation our country was going through, the unconsolidated and inexperienced private business and the commercial conditions of those credits brought to the fact that the obligations of the Albanian Government regarding the interest and the principal remained unpaid. A summary of the obligations of the Albanian Government towards foreign countries and institutions is attached.

The institutional development for resolving the issue of the external inherited debts.

The institutionalization of the solution of this problem first started on 1993. The Governmental Committee for Negotiating the External Debt was created after the Decision of the Council of Ministers No. 429, dated 30/08/1993. This was obligatory and very urgent because Albania was owing money to private banks of European countries, banks that could totally isolate the Albanian Government with their pressure. These banks had very strong positions in the financial market and could stop all the financial transactions of Albania with abroad.

The solution of this part of the debt was done that time through the Club of Paris and was referring to the short term public debt (maturity of less than a year), which was insured by the insurance companies of the respective exporting countries; a part of the debt towards the BHF bank of Frankfurt; and the long term debt towards France that was representing a credit received on 1990 from Credit Lyonnais for the construction of the Hydro Power Station of Banja. 100 % of the unpaid amounts in principal and interest (delayed interests excluded) that Albania was owing on 30/09/1993 was postponed.

After discussions between the Committee of the Debt and the Representative Committee of the Crediting Banks concerning the considerable obligations towards the biggest banks in the world, the resolution for this part of the debt with the Club of London was achieved. The obligation towards these banks amounted to approx. US\$373m and was deriving mainly from the Currency Exchange and from the Letters of Credit and lines of finance as well. This debt was resolved and Albania has no obligation after the repayment of 20% of it.

After resolving these problems the job off this Committee declined and ceased later on, because the foreign creditors claiming for repayment were from East European countries that had no role in delivering aids to Albania or had entered no relationships with Albania (China, Russia, etc.). A part of the debt had to do with private companies or firms as well.

In the new Economic Program of the Government arising from the elections of 1997, the solution of these problems was set as an objective. The first step was the recreation of the Committee for Negotiating the External Debt. This was done with the Decision of the Council of Ministers No. 428, dated 20/10/1997.

A step in quality was done in this direction because:

- 1 60% of the 7 members of the Committee are Ministers or Senior Leaders of Financial Institutions of Albanian Government (the Governor of the Bank of Albania).
- 2 The compound of the Committee was not done in nominative basis (determining their names) but based on their functions. This will make it possible that the Committee will normally work even if the governing line changes.
- 3 The duties, the functions and the responsibilities of the Committee were established. The most important ones are the determinations of the strategy for resolving the external debt, the preparation of the required legal framework, gathering the necessary information and reconciling the claims of the foreign creditors.
- 4 The establishment of the concrete duties for the bodies and the institutions concerning the resolution of these issues such as the Ministry of Finance and the Bank of Albania.

Starting from January 98, the Committee has exercised its power regularly for the resolution of the issue of the inherited external debt.

The development and the completion of the legal framework

One of the most important objectives of the above Decision of the Council of Ministers was the preparation of the required legal framework for the transfer of the inherited debt from the enterprises and the institutions owing it to the Albanian Government behalf represented by the Ministry of Finance. This was obligatory, as the pressure of the foreign creditors towards the former-foreign trade enterprises by mean of Courts was relevant. In some cases the bank accounts of these enterprises were sequestrated in order to repay the inherited obligations towards foreign companies and firms.

In this conditions the proclamation of the Moratorium became crucial, because this law would have an impact not only in the public administration but also in the judiciary system, avoiding the obligatory court orders and their execution. At the same time the deadline for preparing the legal framework for transferring the debt from the Institutions and the Enterprises owing it to the

Albanian Government represented from the Ministry of Finance, would have been created. The House of Parliament approved the Moratorium with the law No.____, dated _____. The Moratorium affects only the unpaid duties of the former foreign trade enterprises generated up to 31/12/1998. According to the Moratorium all the Civil Court matters in judgement at any level of the judiciary system and the court decisions taken after the date in which the law comes into power will be canceled. This obligations will be repaid according to criteria determined by special laws, like the strategy for resolving the external debt that will be approved with this law.

In addition to what was mentioned above, the function of the Committee itself as well as the application of all the duties it has been charged with are closely connected with the regulation of its work, the relationships between the Ministry of Finance and the Bank of Albania, which are the two main institutions that treat the issues of the foreign debt, the respective instructions on the procedures of the reconciling of the inherited foreign debt.

These issues have already been solved and the Comitty has approved and is in the process of application the following:

- The regulation of the functioning of the Comity
- Instructions on the procedures for the reconciliation of the inherited foreign debt of Albania.
- Agreements between the Ministry of Finance and the Bank of Albania.

Main approaches in the solving of the inherited Foreign Debt of Albania

Based on all legal provisions in power, as well as other act issued and approved by this Comity, the main directions of the work for the solving of the inherited foreign debt are:

1. Re-establishment of the contacts of the Albanian Government, represented by the Governmental Comity on the Foreign Debt Negotiations with all respective competent authorities that are the representatives of the foreign creditors. Through such contacts, it should be made evident the good wish and will that the Albanian Government has for the solution of the inherited foreign debt problems, that is consider as a main factor that will further hold and reinforce the political and economical relationships with the other countries. We must say also that the solving of the inherited foreign debt problems with this creditors in our country must consider also the fact of the economical and political difficulties that our country is passing through.
2. Re-establishment of the contracts with the club of Paris as an organism ad-hoc with the participation. Because of the aggravated macroeconomic situation in our country and the big debts that are directly connected with the export credit officially guaranteed, is important to request facilities for the reschedule of the foreign debts, supported at the help that the

Arrangement ESAF II with the IMF gave to Economical Program of our Government.

In this point of view this procedure are finally realized, considering also the objectives that we have made for this purpose at the Arrangement ESAF II. So the contacts with the Secretary-ship of the Paris Club are achieved from this February and finally the Paris Club at his reunion of July 22 1998, when participate 16 creditor countries, considering the request of the Albanian Government, the macroeconomic situation, the economic reforms program supported at the Arrangement ESAF, approve Reference Terms for the reduction and the reorganization of the Albanian foreign debts with the countries members of the Paris Club.

3) Consolidation of the differences of the foreign debts with the official representatives of the foreign creditors. One of the most important steps that goes before the solution of the Inherited Foreign Debts Problems is also the consolidation of this debts with the proper authorities This is achieved by:

I the creation of the expert group from the Finance Ministry and the Albanian Bank and also experts from the other financial institutions, only in the cases that this institutions posses the proper documents or have execute other Arrangements.

II the exact definition of the object of the consolidation of the Foreign Debt that derive:

- As a result of the application of the Arrangements in the occasion of the commercial exchange between Albania and other countries.
- from the unguaranteed and unconfirmed import-export transactions, made by our ex-enterprises of the foreign business with the foreign companies.
- In the occasion of the achieved arrangements made between Albanian Banks as representatives of our country. And other Foreign Banks
- From the import-export transactions guaranteed from the international organisms or from the institutions of the Albanian Government.

This debt will include only the obligations ascertained or requested that refer to all the operations made until December 31, 1992

III For the consolidation of the deposited debt according to the cases mentioned before as basic documents will serve the documents specified from the proper institutions that really connect with the Foreign Debts, that are the Finance Ministry, and the Albanian Bank. These will be approving by the Committee.

IV At any case the process of the consolidation will be called ended, and will have the legal power after the approval from the Governmental Committee of the Foreign Debts.

4) The references term for the solution of the Foreign Debt. The most difficult but also the most important moment is the conclusion of the bilateral arrangements for the reschedule of the Foreign Debt with every creditor. The security of the facilities of the Debt and the terms of the payment are depended from the macroeconomic conditions in which is our country. That's why our country with a limited quantity of incoming requests a special treatment for the preparation and application of the Reference Terms, for the solution of the Foreign Debt. The solution of the problem of the Foreign Debt is focused according two viewpoints:

I concerning the solution of the Foreign Debt to the members of the Paris Club. Considering the fact of the need of the facilities to the solution of the Foreign Debt, for the countries that have the level of the incoming very low, where is include also our country, are applied some options from the Paris Club. For the countries nonmember of ODA generally are applied two versions:

-The partial liquidation of the Debt that reaches 50% of the value. And the other part is reschedule with the interest of the market 23years that include also 6 years grace .

-The reduction of the norm of interests. This has to do with the reduction of the present net value at the level 50%. The payment is made for 23 years without the grace period.

- The last version is applied for our country. This is also confirmed with the announcement of the Chief Of Paris Club for the References Terms in the solution of the Foreign Debt

II concerning the solution of the Foreign Debt to the other creditors that are not members of the Paris Club. In the reschedule of this part of Debt must follow two alternatives

-It will be a proposal to all the creditors of this group to apply the ToR (References Terms) of Paris Club that are approved for all the countries nonmember. This is the recommendation of the Paris Club but also of the IMF.

-The transformation of the inherited Debt into a National Debt, in basis of the governmental arrangements with the facilities conditions , where the grant element will result from ToR and will be applied in a figure no lower than 35%.

THE APPLICATION OF THE STRATEGY AND THE DEAD-LINE

All the authorities , competencies, and the responsibilities for the applications of the strategy for the solution of the Foreign Debt certainly belong to the Governmental Committee for the Negotiation of the Foreign Debt. In this occasion the Committee being a decision-maker organ will be also a crucial part that will have directly connections with the Finance Ministry and with the Albanian Bank, as the most important institutions .

The detailed arrangements for the reschedule or the funding of the Foreign Debt will be followed by other bilateral arrangements which will be concluded from the government or from the proper institutions of every creditor country, with the Albanian Government that is represented from the Negotiating Committee of the Foreign Debt., according to the following principles:

1)-The governments of every creditor country (member of Paris Club) or their proper institutions:

- We have to fund the debts, putting in Albanian Republic disposal some new funds in basis of the existence schedules of payment. This may be achieved during the period of the reorganization. This funds will be paid by the Albanian Government in basis of the conditions defined by the ToR (Reference Terms)
- or we have to reschedule the correspondent payments

2) All the other issues related to the reschedule or the funding of the Foreign Debts will be clarified in the bilateral relationships between the governments of the creditor countries. or other proper institutions, with the Albanian government. This must be ended until June 30 1999

3) Is determined from the Paris Club, that other representatives of the creditor countries as Russia and Italy, and Albanian Government agree to recommend to their Governments or their respective institutions that bilateral negotiation start as soon as possible and be based on the principles mentioned above.

In any case, all the achieved agreements after the bilateral negotiations, before their signing will be presented for approval at the Council of Ministers and then ratification at the Parliament.