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SUMMARY RECORD OF THE 25th MEETING

Chairman: Mr. PAPADATOS (Greece)

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The meeting was called to order at 10.15 a.m.

AGENDA ITEM 83: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/45/380, 531, 584 and 656; A/C.2/45/L.5)

1. Mr. NAVAJAS-MOGRO (Bolivia), speaking on behalf of the Group of 77, said that, as had recently been stated in the Declaration of the Ministers for Foreign Affairs (A/45/584), external debt remained a major obstacle to growth and economic development in the developing countries. The debt-service burden and the decline in net capital flows received had seriously limited their efforts to eradicate poverty. It had caused an enormous net transfer of resources from developing to developed countries which deprived the developing countries of funds that would normally have been earmarked for investment and domestic consumption. According to the World Bank, the total external debt of 111 developing countries had reached the astronomical sum of $US 1,165 billion in 1989, representing 200 per cent of the value of their exports, and 44 per cent of their gross domestic product (GDP).

2. While significant efforts to resolve the external debt problem had been made since 1989, those efforts were far from sufficient. The position of the Group of 77 on that question was well known. A relationship must be established between debt service and the development needs of debtor countries. A comprehensive and durable solution to the debt problem necessarily entailed a considerable reduction in the total volume and service of all types of debt for all groupings of debtor developing countries. The success of efforts by Governments in those countries to revive economic growth and sustained development would depend largely on the implementation of innovative measures.

3. The report of the Personal Representative of the Secretary-General on Debt (A/45/380) was a step in the right direction, in particular the systemic approach to debt relief outlined in paragraph 186 of the report.

4. As evidenced by its statement during the preparation of the international development strategy for the fourth United Nations development decade, the Group of 77 also agreed to a large extent with the portions of the report which recognized the need to establish a general climate of growth in both debtor and creditor countries; to increase opportunities for exports by debtor countries; to reduce interest rates in the developed countries and encourage savings in developing countries; to revise tax and accounting regulations; and to provide new and additional resources to developing countries on concessional terms. The Group of 77 supported the proposals on increasing resources for concessional loans by IMF and other multilateral financial institutions; implementing measures which would enable debtor developing countries to benefit from discounts on the secondary markets; and creating a special entity of the Bretton Woods institution to handle all aspects of debt-reduction operations.

5. However, the Group of 77 also believed that the international community, particularly, the developed countries, must make the necessary effort in order to reduce interest rates, increase the flow of external resources to the developing countries, improve the terms of trade, stabilize commodity prices and reduce

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(Mr. Navajas-Mogro, Bolivia)

protectionist barriers. As the developed countries sought to increase their rate of non-inflationary growth, they must also exercise increased multilateral macro-economic vigilance in order to correct imbalances in the world economy, and they must seek to involve the developing countries to a greater extent in multilateral macro-economic policies. Medium- and long-term debt rescheduling measures must take into account the development and structural adjustment programmes of each of the countries concerned. Creditor countries must provide debtor countries with the resources necessary for debt reduction, including special financing mechanisms to protect the debtor countries from the effects of adverse external factors during the implementation of their structural adjustment programmes.

6. Commercial banks must adopt realistic positions in negotiating with debtor countries and rapidly conclude debt-reduction and debt-moratorium agreements tailored to the circumstances of each country. New, innovative systems must be adopted, such as recycling the service of official debt. Multilateral financial institutions must continue to seek ways and means of debt relief in order to safeguard their prestige on the financial markets. Lastly, the possibility of establishing an advisory commission on debt and development must continue to be explored.

7. Mr. TRAXLER (Italy), speaking on behalf of the 12 States members of the European Community, welcomed the options proposed in the report (A/45/380) for reducing the international debt burden. It was clear from the report that the co-operative debt strategy was indeed working, but that it was taking longer than expected.

8. The strategy must involve not only management of the debt itself, but also correction of the underlying economic imbalances and structural distortions which had caused it. Encouraging progress had been made in countries where structural adjustment policies had been applied with determination and vision. Mexico and Chile were two shining examples of countries which were on the road to economic recovery.

9. Unfortunately, the debt strategy was having to operate in an international economic environment characterized by greater instability and risk since the Iraqi occupation of Kuwait. As a result of the occupation, the growth rate of the industrialized countries had dropped by at least one half percentage point. It was estimated that the impact on developing countries would be even more severe. Higher interest rates and the reduction in world liquidity would augment the burden of the developing countries.

10. Against that backdrop, creditor countries must continue to aim for sustainable, not inflationary growth; pass on higher oil prices to consumers; and provide increased, well-targeted aid and debt relief packages to indebted countries. Commercial banks should act expeditiously in negotiating with countries on new financial agreements.

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(Mr. Traxler, Italy)

11. Debtor countries, on the other hand, must pursue sound adjustment policies, which included establishing a favourable and stable economic environment and a legal framework conducive to investment, and taking a market-oriented approach to economic management.

12. The past year had seen continued progress in the negotiations between a number of middle-income countries and their creditor banks, in which the case-by-case approach had proved to be particularly effective. For example, the debt of Costa Rica, Mexico, the Philippines and Uruguay was being restructured, while Chile was pursuing a programme of market-debt conversion. Venezuela had concluded an agreement on debt and debt-service reduction, Morocco had reached an agreement on a bank financing package, and Jamaica had concluded a rescheduling agreement.

13. Proposals for debt relief to the lower middle-income countries had been put forward by France and Spain at the Houston Summit. Donor countries of the Organization for Economic Co-operation and Development (OECD) were converting bilateral aid loans to grants and financing debt service with grants. As a result, some $5.5 billion in debt had been forgiven or converted during the period 1988/1990. That represented roughly one quarter of the bilateral concessional debt of low-income countries. It was hoped that creditors which were not part of the Development Assistance Committee (DAC) would follow that example and convert their substantial outstanding concessional debt to grants. Several member countries of the European Community had already written off official development assistance (ODA) debt to the poorest and/or least developed countries. The Twelve had written off or planned to write off more than $8 billion, an official debt owed by countries in sub-Saharan Africa. The terms of the Toronto agreement on concessional relief for poor debtors should also be applied to non-concessional debt. Under the new Lomé Convention between the European Community and the African, Caribbean and Pacific countries, there were no longer special loans or replenishment requirements for Stabex. That meant that grants constituted 90 per cent of the total available resources. At least 1,150 billion ECUs had been set aside in order to support economic reforms in highly indebted ACP countries.

14. Resources had also been set aside in bilateral co-operation agreements with non-ACP countries for balance-of-payments assistance to highly indebted developing countries pursuing economic adjustment programmes. Recently, in the Development Committee and the Interim Committee of the World Bank/IMF France, the Netherlands and the United Kingdom had made proposals concerning severely indebted low-income countries which were implementing adjustment programmes. Those initiatives were designed to reduce debt overhang and restore normal financial flows, including foreign investment. They recommended writing off all or most non-ODA bilateral official debt, generous debt-service rescheduling and linking debt relief to sound economic policies. It was hoped that the Paris Club would consider the proposals at the earliest possible date. In the Development Committee and the Interim Committee, Belgium had also proposed measures which combined overall debt relief with the conversion of debt-service payments into local currencies.

15. Low-income countries were currently benefiting from a number of measures which were not directly related to debt relief. Those measures included concessional

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(Mr. Traxler, Italy)

assistance programmes aimed at increasing the availability of external resources, for example, those established by the World Bank and IMF to support countries with serious balance-of-payments difficulties. Funds disbursed by the World Bank's Special Programme of Assistance (SPA) to support adjustment programmes in 23 low-income African countries were expected to total $4.2 billion over the 1988-1990 period. About 70 per cent of that funding was in the form of grants. Low-income countries were also benefiting from allocations of reflows and investment income by the supplemental International Development Association (IDA) adjustment credit programme. That programme would provide about $80 million to nine severely indebted countries by the end of the year. The Twelve strongly supported the Programme of Action of the Second United Nations Conference on the Least Developed Countries and its debt provisions, which called on multilateral institutions to consider debt-relief measures for the least developed countries. Concern had also been expressed about the situation of lower middle-income countries which were mainly indebted to official creditors. The Twelve welcomed the decision by the Paris Club to extend maturities and allow new forms of debt conversion for such countries.

16. While the Twelve were convinced that the debt strategy was producing results, they were also aware that commercial banks were still reluctant to participate in the financing of debt-relief schemes for heavily indebted countries. The future prospects of many debtor countries would also depend on their access to financial markets and on future trends in oil prices. Creditor countries had a primary responsibility for promoting economic growth in debtor countries. IMF estimated that $30 to $35 billion in official resources could reduce annual debt service for middle-income countries by approximately $6 billion in the 1990-1993 period. The benefits to be derived from such debt-service reduction would be felt not only in terms of debt relief but also in terms of the creation of a climate more conducive to private investment.

17. The repatriation of capital, direct foreign investment and resumed lending by export credit agencies had a positive effect on the economies of debtor countries, and the Twelve recognized that prolonged internal and external imbalances in the industrialized countries significantly affected investment flows to developing countries. If the debt strategy was to be strengthened, new lending by commercial banks must be increased.

18. For middle-income countries, debt reduction alone could not bring about a resumption of growth; significant amounts of new commercial loans were also required. Governments should develop incentives to stimulate new commercial lending to developing countries. The seven major industrialized countries, meeting in Paris in 1989, had urged banks to take realistic approaches in their negotiations with debtor countries and to conclude agreements on financial packages without delay.

19. In addition to their debt problems, low-income countries would continue to suffer from structural weaknesses, so that support from official creditors remained crucial. While domestic reforms were necessary for real progress to be achieved, official creditors must also do more. Bilateral and multilateral creditors must

(Mr. Traxler, Italy)

co-operate more closely in the search for a solution that encouraged the necessary national adjustments without rewarding accumulations of arrears. Some low-income countries outside Africa had yet to adopt significant adjustment programmes, and they would need donor support when they did so. Moreover, low-income countries would continue to need donor support once the special programmes currently under way ended. In that connection, the Twelve fully supported the provisions set out in the Paris Declaration and Programme of Action on external flows of resources to the least developed countries.

20. Until recently, discussions on debt had focused on the market-traded debt of middle-income countries and official assistance for the adjustment programmes of low-income countries. It was now recognized that exclusive concentration on those two groups of countries could be detrimental to other developing countries which also merited support. On the one hand, some countries had relatively moderate debt burdens but were experiencing debt-servicing difficulties. On the other hand, some countries - such as India, Indonesia and Pakistan - had managed their economies prudently and retained their access to financial markets but were saddled with a relatively heavy debt burden. Official resources must not be diverted away from those countries. He welcomed the fact that the international community had begun to address the problems of lower middle-income countries, whose debt to official creditors had almost tripled, to over $200 billion, and whose average ratio of debt to GNP had risen from less than 50 to nearly 90 per cent.

21. Working together, the international community had made substantial progress in tackling the debt problems of the 1980s. States must continue to lay the ground for sustained growth in the developing countries as financing was directed towards trade, programme and private-sector financing. Domestic policies of the developing countries would be the essential precondition for flows of external financing. As market access became the main criterion fo development in many developing countries, the European Community was making a decisive contribution to the growth of trade and, in particular, to the developing countries' rising stake in world commerce. The single European market of 1992 would stimulate further growth in world trade, benefiting the developing countries. While the Twelve were determined to pursue the agreed targets for ODA, such assistance must be accompanied by trade liberalization measures that would increase the developing countries' export revenues.

22. Mr. NIKAI (Japan) said that the report provided a thorough analysis of the current situation which fully acknowledged the diversity of debtor countries and the importance of the shared responsibilities of creditor, debtor and international organizations.

23. While there was no magic cure for the debt crisis, any debt strategy must comprise persistent national and international efforts to increase debtor countries' economic viability and creditworthiness. Given that the success of such efforts depended upon the political stability of the countries concerned and the consistency of their economic programmes, the current move towards democratization in a number of Latin American countries was a welcome development.

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(Mr. Nikai, Japan)

24. In formulating a successful debt strategy, the need for debtor countries to undertake growth-oriented structural reform must be recognized. In general, they must implement macro-economic policies to increase domestic savings, reduce inflation and foster capital formation while enhancing economic efficiency. Measures to stimulate foreign investment and other non-debt-creating flows of capital were also required. He welcomed the consensus which had emerged in the United Nations on the critical role of national policies in dealing with the problems of growth and development, including external indebtedness. The international community now provide adequate financing and a sound international economic environment conducive to a resumption of economic growth in debtor countries. The strengthened debt strategy provided a good framework for such efforts, and it was to be hoped that international financial institutions would continue to assist debtor countries engaged in the adjustment process.

25. The international community should give special consideration to the most economically vulnerable countries, such as the least developed countries of sub-Saharan Africa. In that connection, he welcomed the expanded application of the Toronto scheme, the recent decision of the Paris Club to reschedule the official debts of lower-middle-income countries and lengthen repayment periods on a case-by-case basis, and the establishment of a debt-reduction facility for IDA-only countries. The need for adequate new capital to finance development efforts and economic reforms must also be borne in mind, particularly in the case of countries whose debts were primarily to official creditors. If debt reduction led to a reduction in the new capital they received, it was questionable whether such reductions would truly contribute to a resumption of sustained growth. Finally, it must be recalled that many developing countries were making great efforts to repay their external debts without resorting to debt restructuring. Recognizing the difficulties they faced, his delegation strongly believed that the international community should continue to support their efforts by providing the necessary financial assistance.

26. Mr. MOHIUDDIN (Bangladesh) fully endorsed the statement made by the representative of Bolivia on behalf of the Group of 77. The progressive deepening of the debt crisis continued to pose a grave threat to the political, social and economic orders in debt-distressed countries. The report of the Personal Representative of the Secretary-General on Debt highlighted the strong correlation between slow economic growth in developing countries and debt. Virtually none of the severely indebted countries had been able to return to a satisfactory balance-of-payments position despite undertaking painstaking adjustment efforts. Even more serious was the fact that investment and vital social expenditures in those countries had been curtailed, with tragic and inevitable consequences for disadvantaged groups of the population.

27. His delegation strongly believed that the problem called for a comprehensive approach. The current debt strategy must be reviewed and strengthened and every effort made to ensure that measures to address the crisis were adequate and timely. The restoration of productive investment should be a key element of the strategy, for without increased investment, higher growth levels could not be attained. New investments were also needed to consolidate the gains of

(Mr. Mohiuddin, Bangladesh)

stabilization and structural adjustment programmes undertaken by indebted developing countries. The debt strategy must also be articulated within a specific medium-term framework to ensure predictable flows of resources for development.

28. Effective debt relief must also play an essential role in a durable solution to the debt crisis by preventing debt from acting as a brake on the economies of indebted developing countries. The Brady Plan had constituted a major step towards a consensus on the orientation of a credible debt strategy. The concerns raised by the Personal Representative of the Secretary-General in connection with the implementation of the Plan had underscored some genuine concerns which must be urgently addressed in order to enhance the impact of the Plan.

29. His delegation agreed that the participation of all creditors, including Governments and multilateral institutions, was required and that greater and more regular levels of resources and better co-ordination were necessary to manage the crisis. In addition, private banks must be encouraged by means of appropriate fiscal incentives and other regulatory supports.

30. Bilateral and multilateral official creditors must play a key role in the strategy. The position taken by the seven major industrialized nations at the Toronto economic summit had represented a major advance on the part of official creditors regarding the non-concessional debt of the poorest countries. Likewise, the sensitivity displayed at the Second United Nations Conference on the Least Developed Countries in extending the Toronto options to all least developed countries was most welcome. However, the manner in which those options had been exercised since 1988 had been marked by problems related to the degree and timing of concessionality and additionality. Such problems must be addressed. He therefore welcomed the recent request made by the seven major industrialized countries to the Paris Club to review the manner in which existing options were put into effect. Such a review should examine ways of overcoming those limitations. The proposals put forward by the Netherlands, the United Kingdom and France on those and other related matters were important initiatives that would significantly help to ease the burden of official debt among the least developed countries.

31. Cancellation of the ODA debt of least developed countries must also be an integral part of a realistic strategy to deal with the debt of those countries. He endorsed the suggestion made by the Personal Representative of the Secretary-General in that regard and urged that comprehensive action should be taken by multilateral institutions, which held 40 per cent of the least developed countries' total long-term debt. All possible options must be explored which did not adversely affect the financial viability of those institutions. The refinancing scheme developed by the World Bank as part of its Special Programme of Assistance could be used extensively to provide relief for a variety of types of multilateral debt and could serve as a point of departure for additional measures. That model could also be applied to regional development institutions, and he urged that additional funds should be mobilized to that end.

32. The successful resolution of the debt crisis was inextricably linked to trade policies. No strategy could succeed if debtor countries lacked adequate market

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(Mr. Treiki, Libyan Arab Jamahiriya)

still been subjected to economic colonialism by the financial institutions and transnational corporations. While price fluctuations were undermining the commodities market, the prices of manufactured goods continued to rise. Commodity-producing countries should form a consortium or a league, like the Organization of Petroleum Exporting Countries (OPEC); the latter protected not only its own members but also the commodity-producing countries. As a result, the industrialized countries had attacked OPEC, hoping to destroy it. In 1971, OPEC had attempted to establish a price policy, but when oil prices had risen the oil-producing countries had come under attack. While it was true that the price of oil was high, it did not compare with that of mineral water: a bottle of water cost more today than a bottle of oil.

40. Deliberate attempts were being made to undermine the financial capacity of the developing countries by lowering the prices of their commodities. The situation was worsened by the debt crisis, which had risen to over $US 1,300 billion. The debt of the African countries stood at $US 250 billion, and the combined GNP of 39 African countries was less than the defence budgets of certain developed countries. The problem of the developing countries was exacerbated by the outflow of capital, which was greater than the amount they received in assistance and loans. The international community should shoulder its responsibilities in that area.

41. The combined income of the Arab countries did not exceed the military budget of the United States, proving that the petroleum producers were poor countries. Libya was an obvious example: in 1952, upon gaining its independence from the Fascist régime of Italy, Libya had had only one secondary school, no institute of higher education and only one hospital. When it finally gained control of its own resources it was subjected, like other developing countries, to blockades and attacks. Instead of providing the anticipated assistance and aid, the former colonial Powers had applied heavy pressure on the natural resources of the developing countries, and, with the collusion of the financial institutions, had provided "tied" aid, thereby increasing the difficulties of those countries.

42. It must be understood that the current crisis had various causes and was not due exclusively to the rise in oil prices. The crisis would be solved only by attending to the interests of the entire international community and by analysing the oil question in the context of the problem of commodities and not in isolation. Libya had granted loans to a value of $US 3 billion to other developing countries and had established more than 100 joint ventures in Africa, Latin America and Asia, despite the economic difficulties it had faced, primarily as a result of the blockade. His delegation was therefore prepared to give careful consideration to the entire question of commodities and to base that consideration on the shared interests of all countries. In all likelihood, that view would be shared by the other Arab oil-producing countries.

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(Mr. Paulinich, Peru)

39. In June 1990, a Regional Conference on External Debt had been held at Caracas under the sponsorship of the Latin American Economic System (SELA) at which agreement had been reached on a Latin American and Caribbean proposal for a solution to the region's debt problem. The meeting had been the first of its type for debtor countries and should be viewed as a serious and responsible effort on the part of the countries of Latin America and the Caribbean to find realistic and lasting solutions to the problem.

40. The recent appointment by the Secretary-General of a personal representative on debt clearly marked a new phase in the consideration of the item in the United Nations. Following the adoption of the historic Declaration on International Economic Co-operation and the agreement reached on the proposed text of the international development strategy for the 1990s, it would seem that the international community had reached a consensus on the subject. In that context, the proposals contained in the report of the Personal Representative of the Secretary-General on Debt (A/45/380) were of particular importance.

41. His Government had sought to integrate Peru in the international financial community by adopting an adjustment programme aimed at correcting macro-economic imbalances, but having as its core objective the improvement of the social situation of the Peruvian people. That task called for effective collaboration with the international community. His delegation believed the Committee should support the strategy proposed in the report before it.

42. Mr. AWOONOR (Ghana) said that the real purpose of the debt strategy pursued by the developed countries had been to avoid any defaults likely to cause systematic disruption to their financial and monetary régime. Analysis would show that much of the debt accrued from the manipulation of so-called obligations on paper and the growth of debt had been boosted by high interest rates, adverse terms of trade and low commodity prices. The large fiscal and trade imbalances which some leading industrial countries had showed during the 1980s had introduced a new element of instability in the financial and monetary system and contributed to the precipitous rise in interest rates.

43. The development capacity of the developing countries had been severely constrained by their huge debt-service burdens, the consequent curtailment of domestic investment and the erection of protectionist barriers in the markets of the developed countries. The capacity of debtor developing countries to service their debts had been seriously affected by the worsening terms of trade, and in particular by the drop in commodity prices, which, in 1988, had entailed a loss to Africa alone of $19 billion.

44. Although Africa's external debt was smaller than that of other regions, it was large in relation to the size of the African economies and the continent's debt service ratios averaged 47 per cent and in some cases exceeded 100 per cent. Africa's total external debt represented about 64 per cent of the region's GDP. Over 30 African countries were pursuing structural adjustment programmes and desperately needed resources to cope with their monumental development problems; those problems were being compounded by the recent rise in oil prices.

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(Mr. Awoonor, Ghana)

45. Ghana supported, in principle, the measures proposed by the Secretary-General's Personal Representative on Debt relating to low-income debt, although it would have preferred to see the resources of trust funds not tied to specific programmes. The proposals constituted a sound basis for the development of more comprehensive solutions.

46. Mr. WOLFF (Colombia) said that, while the report by the Personal Representative of the Secretary-General on Debt (A/45/380) merited careful analysis, his delegation would have preferred bolder proposals aimed at the earliest possible solution of the debt crisis. However, it welcomed many of the report's recommendations, in particular those calling for a systemic treatment of the debt problem, the participation of all creditors, the maintenance of the case-by-case approach, the strengthening of the Brady Plan, the cancellation of bilateral debt servicing for the poorest countries and the recommendation of similar action for the other indebted countries, new debt-relief measures to be taken by the developed countries, the guarantee of an adequate flow of public and private funds to developing countries with the goal of providing 0.7 per cent of GDP as official development assistance, the reduction of interest on private debts through appropriate incentives and revised tax and accounting regulations, and a moratorium for those sub-Saharan countries worst affected by the Gulf crisis.

47. The situation of the most heavily indebted countries had deteriorated to an alarming degree and their debt-service burden had become a major obstacle to progress and development, with very serious consequences for low-income groups. The problem of debt had widened the gap between the rich and the poor in the world and condemned millions of people to a degrading existence. Those bleak prospects, and the systematic rejection by the creditor countries of any new strategies rendered futile the search for new solutions. For that reason, his delegation could only insist on the full application of the Toronto terms and on the revision of the Brady Plan, as the deficiencies of that initiative had been acknowledged by the creditor countries themselves.

48. Colombia welcomed the innovative, generous and purposeful ideas contained in the packages and initiatives proposed by the Governments of the United States, the United Kingdom and the Netherlands. The different programmes contained in those initiatives and those proposed in document A/45/380 were mutually complementary and their implementation should be co-ordinated by one of the international financial institutions.

49. Reactivation of growth and development would not be possible until the problem of external debt had been solved. Rising interest rates, worsening terms of trade, the reduction of external resource flows, the resurgence of protectionism and the slow growth of the world economy were increasing debt-service burdens and a significant improvement was needed in the international economic environment in order to prevent the further spread of debt problems to countries which had so far escaped their pernicious consequences.

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50. Mr. ANDREEN (Sweden) said that those countries which had undertaken strong adjustment programmes had achieved positive results in dealing with their debt problems, underscoring the importance of adjustment as a vital element in the debt strategy. Continued support was needed, through external financing and other debt-relief measures, to assist countries with their adjustment programmes.

51. Efforts to achieve long-term growth and development were being frustrated by the debt burden. Although some middle-income countries had made progress in solving their debt problems, many countries still faced serious financial difficulties and required increased participation by the commercial banks to support their continued efforts.

52. The Nordic countries welcomed the debt-relief measures proposed by the Paris Club for the severely indebted lower middle-income countries as well as the Toronto options for severely indebted lower-income countries. The external viability of those countries, however, remained highly uncertain and careful consideration should be given to recent proposals on further debt reduction for those debt-distressed lower-income countries that had implemented economic adjustment programmes with the International Monetary Fund (IMF). Corresponding measures had already been implemented by some of the Nordic countries and his delegation looked forward to a review of those proposals in the Paris Club.

53. Multilateral creditors, including IMF, should be encouraged to make substantial financial contributions and Governments should make prompt use of the IMF structural adjustment facilities on concessional terms. Additional resources, to supplement international development assistance credits and grants from some of the Nordic countries, were needed to help low-income "IDA - only" countries to service their World Bank debt. Similarly, countries which had engaged in strong economic recovery programmes should be given support by the international financial institutions and the donor countries in settling their arrears to IMF or other multilateral creditors.

54. As they had been cancelling their ODA loans to the least developed countries for more than 10 years the Nordic countries welcomed the announcement of similar action by a number of donors in 1989 and supported the World Bank facility which incorporated buy-back operations into the strategy for settling non-guaranteed commercial debt.

55. A flexible and open multilateral trading system, capable of resisting protectionist pressures, was of vital importance in addressing the debt problem. In view of the pressing need for futher debt relief and increased development assistance, the Nordic countries attached great importance to the attainment of the ODA target of 0.7 per cent of GNP. In response, a strong commitment was required from the debt-distressed developing countries to pursue adjustment policies aimed at the revival of growth. ODA and other forms of debt relief must not replace the need for each developing country to make efficient use of its own resources. Large resources could be released from military budgets, which constituted a considerable proportion of the economies of those countries.

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56. Mr. PEREZ DEL CASTILLO (Observer for the Latin American Economic System) said that increasing debt and the high cost of debt servicing were the major obstacles to the economic revitalization of the developing countries. A recent study made by the Latin American Economic System (SELA) indicated that, if current economic policies and negative transfers of financial resources to the developed countries persisted, the average annual growth rate of the GDP of the Latin American and Caribbean countries between 1990 and 1995 would not exceed 2 per cent. That meant increased poverty and unemployment, the reduction of investment to the low levels of recent years, the maintenance of negative transfers of resources abroad at current levels, environmental deterioration and the renunciation of policies promoting well-being and social development. Undoubtedly, that situation would give rise to political and economic instability and would jeopardize the consolidation of democracy in the region.

57. Despite the application of the Brady Plan in some countries of the region, the total amount of external debt of Latin America and the Caribbean would remain around $US 430 billion in 1990. In view of the magnitude of the region's debt problem, the progress which had been made under the Brady Plan had been insufficient. The Plan was highly selective and was limited in so far as it did not provide any solution for official debt, either bilateral or multilateral. Since it relied on voluntary action on the part of banks its implementation was unpredictable, and the resources of the International Monetary Fund (IMF), the World Bank and Japan on which it relied were totally inadequate. Finally, the slowness with which the Brady Plan was being implemented did not augur well for a definitive solution of the debt problem in the near future.

58. For most countries of the region, the withholding of interest payments had become the sole way of compensating for a lack of external financing. Official financing was the only source of external financing on which the countries of the region could rely; at the same time, they were confronted with a negative transfer of resources not only to bilateral creditors but also to international financial institutions. Since 1987, the region had had annual debit balances on the order of $US 2.5 billion with international financial institutions and about $US 150 million with bilateral creditors. The principal coefficients of indebtedness which were applied to all countries of the region remained at levels higher than those defined as critical by multilateral financial institutions.

59. Between 1982 and 1990, the Latin American and Caribbean region had transferred abroad approximately $US 300 billion in debt-servicing payments yet, despite that enormous outflow of resources, the region's debt had grown by more than $US 100 billion.

60. The principal means for the countries of Latin America and the Caribbean to revitalize growth was to allocate domestic savings to productive activities. Mindful of that situation, in June 1990 the 26 States members of SELA had held a Regional Conference on External Debt and had adopted a Latin American and Caribbean proposal for a solution to the region's external debt problem (A/45/334), which had been circulated at the current session of the General Assembly. The proposal was also being submitted to IMF and the World Bank. Perhaps even more important than the adoption of the proposal had been the adoption of the regional plan of action,

(Mr. Perez del Castillo)

which specified ways of following up the Regional Conference and provided for the establishment of a ministerial committee of Latin America and the Caribbean on external debt, which would be open to the participation of all interested member States.

61. The report of the Special Representative of the Secretary-General on Debt (A/45/380) provided an interesting analysis of the evolution and effects of external debt, and of methods for dealing with it. The report emphasized the joint responsibility of debtors and creditors to find a solution to the external debt problem. The suggestions it contained bore a great similarity to the SELA proposal.

62. The report made no reference to a substantial element of the debt of Latin American and Caribbean countries, namely, the heavy burden of debt servicing to international financial institutions and its proposals regarding the strengthening of the Brady Plan would do nothing to correct the Plan's limitations, for example, its selectivity and slowness. It was also questionable whether the establishment of a new international agency was the best way to support the Brady Plan. The report mentioned the advantages of debt-to-equity swaps and other forms of debt conversion despite the fact that, in most cases, they had been of marginal use in reducing external debt and had entailed severe macro-economic consequences.

63. The report repeated the message of international financial institutions, creditor banks and industrialized nations regarding the economic behaviour and reforms which the developing countries must undertake in order to solve the debt problem. While the internal adjustment of the economies of debtor countries were an important part of a durable solution of the debt problem, a more favourable international environment and a better response from the other parties involved in the debt problem were also required. The industrialized nations must make a concerted effort to co-operate with debtor countries, especially in the light of the severe impact of the events in the Persian Gulf on the economies of most debtor countries. The report also referred to other techniques for reducing the debt burden and providing new money, without acknowledging that developing countries were perfectly capable of determining how best to allocate resources. Finally, since the report did not rely on follow-up mechanisms or make specific references to bodies in which the diverse proposals of the Special Representative of the Secretary-General could be negotiated, it might well prove to be just one more academic reference document.

64. An initial step in alleviating the burden of the various types of debt required co-ordination with the Governments of the principal industrialized countries. The renegotiation of debt with commercial banks would be facilitated by a greater flexibility in bank regulations, which would encourage arrangements to reduce debt and debt servicing, or to limit or reduce favourable treatment of banks which were reluctant to participate in renegotiation packages. For example, banks could be allowed to absorb, over a 10-year period, the losses resulting from their participation in measures to reduce debt. Moreover, changes in the clauses of loan contracts were necessary.

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(Mr. Perez del Castillo)

65. The working principles of the Paris Club must be reformulated in order to give greater scope to the renegotiation of bilateral debt. The economic and social conditions in many Latin American and Caribbean countries justified the flexible application for them of the Toronto initiative for dealing with the debt problem, including the substantial cancellation of all bilateral debt on concessional terms and at market rates.

66. For a number of countries of the region, the debt owed to multilateral financial institutions constituted a substantial part of their overall external debt. The current negative flows of resources to such institutions should be reversed and maturities should be extended and countries' efforts to restructure their debt with multilateral financial institutions should be supported. The possibilities of reducing the financial and operating costs of such institutions should also be explored.

67. Mr. BHATIA (International Monetary Fund) said that, as the 1980s drew to a close, the external debt of most developing countries had become a manageable problem. First, in the case of severely indebted upper middle-income countries, there had been continued progress in negotiations on financial packages. In addition, Paris Club creditors had continued to provide rescheduling of official bilateral debt on appropriate terms, including longer rescheduling maturities; that had been supplemented by new bilateral loans, including export credits. An encouraging recent development had been the limited resumption of spontaneous private sector flows to some severely indebted middle-income countries. Those countries had also witnessed higher domestic investment, and an increase in the growth rate of their GDP.

68. Secondly, with regard to lower middle-income countries, official bilateral creditors had provided debt rescheduling and new loans for countries implementing adjustment programmes. While there was a need to implement more comprehensive medium-term adjustment programmes in the lower middle-income countries, those countries would remain heavily dependent on official sources of financing. It was therefore encouraging that the Houston Summit had requested the Paris Club to continue reviewing additional options to address debt burdens, especially since almost one third of the medium- and long-term official debt of those countries was owed to bilateral official creditors.

69. Finally, the severely indebted low-income countries continued to benefit from debt-relief measures. During 1988-1990 alone, the amount of debt forgiven by major donor countries in the Organisation for Economic Co-operation and Development (OECD) was estimated at $5.5 billion and, as a result, in 1990 those countries' cash debt service would be reduced by $100 million, or nearly 1 per cent of their exports. In addition, those countries had benefited from generous rescheduling. Between 1988-1989, 17 of the 27 rescheduling low-income countries had experienced a reduction in their debt ratios; the share of concessional debt in their total medium- and long-term debt had increased from 42 per cent in 1982 to 52 per cent in 1988, and had probably continued to increase. The World Bank had provided $100 million towards the Debt Reduction Facility of the International Development Association (IDA); to date, 15 severely indebted countries had requested use of the

(Mr. Bhatia, IMF)

Facility. Furthermore, those countries continued to benefit from other concessional facilities. Of the 27 severely indebted low-income countries, 19 were currently pursuing adjustment programmes supported by international financial institutions.

70. The progress made so far underscored the importance of collective decisions and co-ordinated actions by all parties involved. However, strong economic policies remained the key to improved economic performance and a return to external viability. Debt relief alone could not enable the heavily indebted countries to resume growth on a sustainable basis; new investment required additional savings, and structural transformation of economies implied that countries implemented appropriate structural adjustment policies. It was necessary to persist with the current strategy while seeking ways to reduce the relative burden of debt.

71. The Gulf crisis had added a new dimension to the difficulties of the indebted countries. However, those difficulties did not represent a new dimension of the debt problem and should not be regarded as an additional justification for devising new schemes of financial assistance. Growth-oriented policies should continue to be emphasized to allow countries to grow out of their debt problem. Debt and debt servicing should be brought back into a sustainable relationship with a country's national product and foreign exchange earnings. Developing countries would continue to need foreign flows of resources in order to meet their development needs; such resources should be provided preferably in the form of grants and other non-debt-creating flows but also as concessional and other forms of debt. The indebted countries should be encouraged to adopt growth-oriented policies in order to be able to service their debt while improving the economic well-being of their peoples, and the industrialized countries should be encouraged to provide supportive financial assistance and to open their markets to imports from developing countries. If those parameters could be ensured, a lasting solution to the debt problem would not be far behind.

The meeting rose at 12.50 p.m.