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SUMMARY RECORD OF THE 19th MEETING

Chairman: Mr. PIRIZ-BALLON (Uruguay)

later: Mr. GUERRERO (Vice-Chairman) (Philippines)

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The meeting was called to order at 10.20 a.m.

AGENDA ITEM 82: EXTERNAL DEBT CRISIS AND DEVELOPMENT (A/47/82, A/47/83, A/47/225-S/23998, A/47/312-S/24238, A/47/344, A/47/351-S/24357, A/47/375-S/24429, A/47/396 and A/47/499; A/C.2/47/L.4)

1. Mr. JI Chaozhu (Under-Secretary-General for Economic and Social Development), introducing the report of the Secretary-General on the external debt crisis and development (A/47/396), said that, over the past decade, many international policy approaches had been attempted in order to bring the debt-servicing obligations of heavily indebted developing countries back within their debt-servicing capacity; however, most of those approaches had failed. While the combined effect of shrinking debt, falling interest rates, arrears and a measure of success in expanding export earnings had brought the debt-servicing ratio down from 40 per cent in the mid-1980s to the still high level of around 30 per cent in 1991, that was not enough to enable indebted countries to recover from 10 years of sluggish economic activity and declining living standards.

2. Nevertheless, there had been some hopeful signs in recent years. While fiscal restraints on the Governments of adjusting countries had eroded social safety nets and prevented sufficient funding of well-targeted adjustment assistance to low-income groups, the international community had become more sensitive to the social costs of adjustment in debt-crisis countries, and the nature of the debt problem was better understood by both creditors and debtors. Moreover, debtor countries had embarked on domestic adjustment programmes to stabilize and reorient their economies for a return to sustained economic growth and a sustainable current-account balance.

3. During the past 12 months, interest rates had fallen substantially, certain major debtor countries had reached debt and debt-service reduction agreements with their commercial bank creditors, and borrowers in some of the major heavily indebted countries had returned to the international financial market. At the end of 1991, the Paris Club had adopted more concessional terms for restructuring debt owed to official creditors by low-income, heavily indebted countries, most of which were in Africa. In spite of those developments, many countries had yet to conclude their negotiations with banks and official creditors, and the terms of debt restructuring were still less favourable to debtor countries than they could be.

4. When countries found that they could not service their debt to multilateral institutions, their only alternative was to go into arrears. While procedures had been instituted in recent years to help countries return to good standing, there was no formal and general mechanism to short-circuit that process and help countries avoid falling seriously behind in their payments during periods of economic difficulty.

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(Mr. Ji Chaozhu)

5. In the past, there had been a widening gap between payment due and actual payments. The major conclusion of research undertaken by the World Bank and other institutions was that the expected debt servicing after a debt agreement was somewhat larger than it had been before the agreement. Although the contractual debt servicing was smaller, the probability that debt servicing would be fully met became higher. Moreover, all new loans contracted with multilateral institutions in conjunction with the agreement must be fully serviced.

6. The key benefit from current bank agreements did not lie in directly improving the expected cash flow vis-à-vis existing foreign creditors; it lay, instead, in reducing the gap between contractual and expected debt servicing. That regularized the debt-servicing situation and, coupled with progress in domestic stabilization and adjustment, helped countries regain access to markets for new private credit-flows.

7. In the area of bilateral official debt, the Paris Club had been less willing than the banks to reduce the gap between contractual and expected servicing of debt. Even the new enhanced terms in the treatment currently available only to low-income countries applied, at most, to debt servicing falling due over one to three years. While up to half of that debt servicing might be written off, debt servicing due in the fourth year and beyond had to be restructured at a subsequent meeting of the Paris Club.

8. In order to end the debt crisis of the developing countries by the mid-1990s, the international community should further strengthen the international debt strategy with a view to eliminating debt overhang more quickly; developing countries must persist in their efforts to implement economic adjustment policies and diversify their economy; industrial countries should restore more rapid economic growth to stimulate the growth of world trade and raise international commodity prices; protectionism must be kept at bay and obstacles to the growth of exports from developing countries should be removed; and industrial countries should coordinate programmes that would in the medium term consolidate fiscal balances and strengthen financial systems, which would lead to lower and more stable long-term interest rates.

9. Mr. MASOOD (Pakistan), speaking on behalf of the Group of 77, said that the problem of external debt and debt servicing of the developing countries continued to impose severe constraints on their economic growth and development. The external indebtedness of many developing countries was further compounded by persistently low and declining real commodity prices, structurally distorted markets, fluctuations in interest rates, increasing protectionist measures, substantial transfers of resources from developing to developed countries, the inadequate liquidity situation of the international monetary system, and currency instability.

10. The Group of 77 welcomed the positive results of the initiatives that had been taken to reduce the external debt burden. The Group endorsed the

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(Mr. Masood, Pakistan)

internationally supported programmes of stabilization, structural adjustment, debt and debt-service reduction, debt-for-equity swaps and rescheduling. However, the response of the international community to the debt problem had been sporadic, piecemeal and inadequate.

11. Only a comprehensive and durable solution to the external debt problem, which took account of the need to reduce significantly the stock and service of all types of debt of all classes of debtor countries and to include anticipatory measures to prevent the proliferation of the debt problem, would alleviate the developing countries' debt-service burden. In the absence of such measures, their development efforts would be thwarted, which would heighten the risk of social and political turmoil. A durable solution must include the strengthening and liberalization of the international trading system as the most important source of real growth and development and, hence, of the resources needed by debtor countries to meet their financial obligations.

12. The developing countries were concerned at the absence of a formal mechanism to restructure the debt owed to multilateral creditors. Existing debt-reduction initiatives did not take account of developing countries that had undertaken growth-oriented adjustment programmes and had made enormous sacrifices in order to follow pragmatic economic development plans. The international community should elaborate a new strategy to address the requirements and concerns of such countries and to make current debt-reduction measures more equitable.

13. The United Nations should continue to provide regular and frequent opportunities to review the status of the external indebtedness of developing countries, and to stimulate discussions on the efficacy, adequacy and equity of the measures taken to solve that problem.

14. Mr. BARNETT (United Kingdom), speaking on behalf of the European Community and its member States, said that it was important to recognize that indebtedness by itself was not necessarily a problem; it only became a problem when the burden of debt exceeded a country's capacity to pay. Therefore, problems of external indebtedness had to be viewed in the wider context of the economic situation of each individual country. In order to reduce debt burdens and bring those burdens and payment capacities into line, a wide range of action was required, including debt-relief measures and various measures to increase revenue in debtor countries.

15. The European Community welcomed the fact that many debtor countries had begun to implement policies designed fundamentally to reform their economies. Such policies should aim at sustainable growth and include better taxation systems, a realignment of priorities in national budgets, and measures to encourage an increase in domestic savings and the return of flight capital. Although structural adjustment could have short-term adverse consequences for some segments of the population, it was an essential measure for reversing

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(Mr. Barnett, United Kingdom)

economic decline. However, the adverse impact of structural adjustment on the weakest groups in society should be kept to a minimum.

16. The successful experience of a number of middle-income countries in dealing with their debt problems had confirmed that the key ingredient for graduation from reliance on exceptional funding was the sustained implementation of sound economic policies. Supported by significant debt and debt-service reduction agreements, countries like Mexico had once again secured access to private financing and had improved their prospects for future growth. The realignment of priorities within government budgets was also important: allocations to sectors of vital importance to long-term development, notably human resources and environment, should come first, while cuts should be made in outlays such as military expenditure.

17. An early and successful outcome of the Uruguay Round of multilateral trade negotiations was particularly important for the maintenance of a favourable international economic environment. Without a free and open trading system, developing countries would be significantly handicapped in their efforts to increase export earnings. Other important factors included commodity prices, the growing demand for the limited pool of world savings and the high interest rates that had resulted from persistently high budget deficits in certain countries, and the restructuring needs of other countries in transition to a market economy.

18. Developed countries, including the European Community and its member States, must continue to pursue policies that took account of the need to facilitate growth in developing countries. Despite the recent turmoil in the currency markets, the European Community would continue to pursue policies with a view to ensuring non-inflationary growth and curbing excessive public deficits. The adjustment policies being carried out by many developing countries should enable them to begin to contribute to the promotion of a favourable international economic environment in their own right.

19. The provision of adequate external support to debtor countries in the process of reform had two aspects: reduction of debt and debt-service burdens, and the provision of appropriate new financial resources. Since the situation of individual countries varied widely, such support must be provided on a case-by-case basis. The developed countries must increase the capital flow to developing countries, inter alia, through the provision of adequate levels of official development assistance (ODA).

20. When appropriate support for debtor countries was considered a distinction could be made between various categories of debtors. The first category of debtors was that of middle-income countries with debt obligations mainly to private banks. Under the Brady Plan, a number of countries had already concluded agreements with their creditor banks.

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(Mr. Barnett, United Kingdom)

21. With respect to the restructuring of bilateral official debts of middle-income countries, the European Community and its member States welcomed the special treatment accorded to lower-middle-income countries, which provided for longer maturities and the possibility of partial debt conversion. It had also welcomed the call by the Group of Seven for creditors to recognize the special problems of some lower-middle-income countries on a case-by-case basis.

22. Particular attention should be given to the poorest and most heavily indebted countries that were pursuing appropriate adjustment policies. The European Community therefore welcomed the agreement by the Paris Club to begin implementing significantly improved terms for those countries in December 1992, which would substantially increase the possibility of their returning to external viability. In particular, it welcomed the commitment of creditors to address the stock of debt of those countries with a proven record of economic and financial responsibility. Creditors must further reduce the debt stock of heavily indebted low-income countries. The Paris Club should continue its discussions in order to take measures to meet the needs of the poorest and most heavily indebted countries. The European Community and its member States also attached great importance to the enhanced use of voluntary debt conversions, including debt conversions for environmental protection.

23. The problems of Africa deserved special attention. In 1992, the debt-service ratio of some African countries was likely to rise as a result of the accumulation of arrears and continuing low growth in export earnings. Under the United Nations new agenda for the development of Africa in the 1990s, the international community was committed to seek durable solutions to the African debt crisis in support of Africa's own economic reform efforts. The European Community had already extended large-scale forgiveness to the concessional debts of many African countries, and continued to be a major contributor to the Special Programme of Assistance for Sub-Saharan African Countries Affected by Drought and Desertification. That Programme adopted an integrated approach and combined debt-relief measures, bilateral balance-of-payments assistance and multilateral funding mechanisms, most notably the International Development Association (IDA) and the Enhanced Structural Adjustment Facility.

24. Mr. Guerrero (Philippines), Vice-Chairman, took the Chair.

25. Mr. DUGAN (United States of America) said that his delegation shared the consensus that debt problems could not be isolated from other aspects of economic growth and development and could not therefore be solved by debt relief alone. Sustainable levels of growth, accompanied by reform efforts, were essential to the resolution of debt, necessitating increased external resources, not only from official donors but also in reform of private flows. Alternative sources of non-debt capital flows included measures initiated by the debtor countries themselves to open up their markets, both to spur private investment and to encourage the return of flight capital.

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(Mr. Dugan, United States)

26. Significant progress had been made under the voluntary, market-based international debt strategy in the area of commercial bank debts, in the form of debt reduction or refinancing agreements, which had accounted for 92 per cent of the outstanding commercial bank debt of the 16 major debtor countries. That, in combination with other positive developments, had brought the aggregate debt-service ratio for the developing countries as a whole down from 22 per cent in 1986 to 14 per cent in 1991.

27. International capital markets had responded positively to that combination of economic reforms and an improved debt situation, leading to the emergence of a new market for developing country debt, which would subject both borrowers and lenders to market forces, and boosting secondary market trading from $10 billion in 1987 to current levels of $150-200 billion.

28. Particularly impressive progress had been made by Latin America, whose private capital inflows had grown tenfold to $40 billion between 1989 and 1991, accompanied by average growth for the region of 3 per cent, a two thirds decline in inflation and the doubling of its official reserves.

29. A valuable contribution was also being made by IDA, whose debt reduction facility was reducing the commercial bank debt burdens of those poorest countries which were undertaking economic reforms.

30. With regard to the official debt of the poorest countries, the new "enhanced Toronto terms" of the Paris Club, providing for 50 per cent debt-service reduction on payments falling due during the rescheduling period, had already benefited eight countries. In addition, the Munich Economic Summit had encouraged the Paris Club to recognize the special situation of some highly indebted, lower-middle-income countries on a case-by-case basis.

31. Along with other creditor Governments, the United States had undertaken significant bilateral official debt-reduction programmes, forgiving almost $2.7 billion owed by a total of 25 countries around the world and implementing official debt-reduction measures totalling $263 million under the Enterprise for the Americas Initiative, in favour of three countries which met certain economic reform criteria. He expected several additional countries to qualify for debt reduction under the Initiative over the following months.

32. In conclusion, he stressed that debt and debt-service reduction efforts were only one element in stimulating economic growth in the developing countries, but that appropriate economic reforms and continued assistance from official bilateral and multilateral sources were also essential.

33. Mr. RAO (World Bank), commenting on the international economic environment, said that in view of the sluggish conditions, growth in the developing countries had been very poor through 1991, although modest growth was expected to resume in 1993, with most regions doing slightly better. The collapse of Eastern Europe and the former Soviet Union was expected to end.

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(Mr. Rao, World Bank)

East Asia continued to have robust growth, and Latin America was emerging from the debt crisis. United States dollar interest rates had declined precipitously, helping to reduce the debt service owed on variable rate debt. The future of world trade would depend on whether a breakthrough was achieved on the Uruguay Round negotiations.

34. Turning to external financial support, he said that the debt burden of many severely indebted countries was being reduced by measures focused mainly on official debt, which accounted for most of those countries' indebtedness. The concessional options of the December 1991 "enhanced Toronto terms" of the Paris Club amounted to 50 per cent forgiveness in present value terms, from which eight countries had thus far benefited. However those terms fell well short of the "Trinidad terms" proposed in September 1990, and were insufficient to restore external viability to a number of countries, for some of which even the "Trinidad terms" would be inadequate.

35. For many middle-income countries, the 10-year-old debt crisis was largely over. Those countries now had firm domestic policies, commercial debt and debt-service reductions (DDSR), with a resurgence of portfolio flows signalling a return of investor confidence. The share of developing-country commercial debt covered by commercial debt-reduction agreements would soon reach 70 per cent. Some of the relief was in the form of a reduction in the future stream of interest payments. The six completed agreements would reduce debt by the equivalent of 37 per cent of the total commercial bank debt of the countries concerned. Several middle-income countries had re-established market access without a comprehensive DDSR agreement.

36. However, resolution of commercial debt problems had yet to be achieved through DDSR agreements for smaller middle-income countries, and external viability remained elusive for many low- and lower-middle-income countries, whose debt was primarily official and whose debt burdens were unsustainably high. With the exception of Poland and Egypt, the Paris Club had not yet offered any debt-reduction terms to the lower-middle-income countries, which the July 1992 Munich Summit had recommended should be examined on a case-by-case basis. The French Government had recently called for a fund to be established to convert the official debt repayments of some countries into financing for development projects.

37. For the reforming republics of the former Soviet Union, commercial banks and the Paris Club had agreed to four quarterly roll-overs of principal due in 1992 on loans contracted before 1991, providing cash-flow relief to those countries in 1992 of something over $7 billion. Debt rescheduling was essential to help those countries in their transition to a market economy; the Paris Club was negotiating a debt-restructuring package that would spread repayments over 10 years.

(Mr. Rao, World Bank)

38. Domestic economic foreign policies were essential to restore a debtor country's creditworthiness and generate growth. Particularly severely indebted low-income and lower-middle-income countries would have to rely primarily on domestic savings supplemented by external concessional service. Given the scarcity of ODA, those countries would have to demonstrate that aid was being put to productive use. That required sustained commitments to structural adjustments, as well as progress on issues of poverty, the environment, human resource development and governance. Middle-income countries emerging from the debt crisis would have a wider choice of external financing opportunities in the 1990s than in the preceding decade. Private external finance was becoming more contingent on borrower creditworthiness. After several years of domestic policy reform combined with officially supported DDSR, a small but important group of middle-income debtors had achieved remarkably greater access to private finance, led by a dramatic increase in portfolio investment flows.

39. He drew five policy lessons from the 10-year-old debt crisis. Firstly, lending and borrowing decisions should take into account the possibility of adverse external shocks; that had not been done in the 1970s, when many developing countries had ignored the possibility of the international economic environment turning less favourable. Secondly, official action had been central to overcome the "free-rider" problems that complicated debt rescheduling and reduction negotiations. Market mechanisms to ensure coordinated collective action were frustrated by the number and diversity of creditors involved. Official intervention was the key to avoiding systemic collapse of the international financial system. Thirdly, building risk-sharing contingencies into financial contracts was much less costly than renegotiating contracts when things went wrong. Given the predominance of syndicated loans to sovereign borrowers in the 1970s, there had been little risk-sharing through other forms of finance. The recent boom in equity flows to some developing countries was a welcome development. Fourthly, external finance for low-income countries must be on appropriate terms, and thus largely from official concessional sources. Reliance on external borrowing at market-related terms - whether from commercial or official sources - had created problems in several countries. Fifthly, domestic resources and policies, not external borrowing, were the key to economic development. Borrowers needed to examine carefully their ability to invest the borrowed funds productively, and the vulnerability of the country, both in its degree of indebtedness and its capacity to adjust quickly in the face of adverse economic development. He added that debt and external finance problems would be the special focus of the World Bank's annual review entitled Global Economic Prospects, which would be available in the coming spring.

40. Mrs. HEPTULLA (India) said that the Secretary-General's report on the external debt crisis and development (A/47/396) stressed the magnitude of the problem and was cautiously optimistic on the external debt crisis facing developing countries, as well as on the turnaround in the related reverse transfer of resources from developing to developed countries. Her delegation

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(Mrs. Heptulla, India)

shared the views expressed in the report that the number of countries benefiting remained quite limited and that the net inflow of financial resources could not be regarded as an indication of a basic trend in the environment of the developing countries. The official debt-reduction arrangements made with two middle-income countries had not been extended to low-income indebted countries. The impact of commercial debt restructuring was uncertain and had not led to an increase in bank lending. The "enhanced Toronto terms" were limited in scope and implied a long series of repeated rescheduling.

41. The so-called case-by-case approach often masked an inadequate creditor country response guided by political and not economic criteria, which had not led to significant debt reduction. The scale and scope of debt reduction should be increased. Rescheduling provided only temporary relief; reduction was the cure. Labouring under severe balance-of-payments contraints, in the aftermath of the Gulf crisis, India had had to secure new loans by using its gold reserves. The international debt strategy must include debt reduction and increased financial flows for low-income countries which continued to service their debt in timely fashion. Such measures would prevent the proliferation of the debt crisis.

42. The developing countries, including India, had had some success in short-term stabilization and long-term restructuring, but the complex interrelationships between trade, finance, investment and debt set an upper limit to such efforts. Interest rates, exchange rates and trade, especially the terms of trade, determined the developing countries' ability to repay. According to the report, despite the marginal decline in market interest rates, the net impact might be temporary, as interest rates in developed countries would rise with economic recovery. The currency in which debt was denominated was also a crucial consideration. The declining terms of trade of commodities had virtually wiped out any other benefits from a supportive environment. She wished the report had examined the impact of currency fluctuation on debt, both directly and through the multiplier effects on trade and investment. The developing countries had long demanded to take part in decisions on interest rates, money and finance. Her delegation thus endorsed the idea of an international conference on the financing of development. During recent informal discussions with the Bretton Woods institutions, useful ideas had been exchanged on macroeconomic surveillance and coordination which could be further discussed during the forthcoming debate on such a conference.

43. Regarding trade, a cloud of uncertainty hung over the Uruguay Round of multilateral trade negotiations. The insufficient liberalization of trade in agriculture and the unjustified protection of domestic suppliers of textiles made it difficult for developing countries to gain access to markets and to increase export earnings. The development dimension should be borne in mind in framing trade rules and it was necessary to avoid unjustified barriers to trade, including grey-area measures and anti-dumping legislation.

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(Mrs. Heptulla, India)

44. The developing countries were in great need of concessional finance, commercial financial flows and non-debt creating flows of foreign direct investment in order to build up their economic capacity and hence their capacity to repay debts. She welcomed the reiteration of the pledge to meet the internationally agreed commitment of 0.7 per cent of GNP for ODA, and hoped for an increase in real terms under the replenishment of IDA resources, as well as an increase in financial flows under the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility to provide medium-term concessional flows to lower-income countries. Commercial flows to and foreign direct investment in developing countries should be encouraged. The present capital flows were of speculative funds, the costs of credit were high-interest premiums, and those flows had not led to commensurate new investments in plant and machinery. Her delegation agreed with the Secretary-General's recommendation that one agreement, rather than regular rescheduling, should be considered for official debt, along the lines of the restructuring of commercial debt. A comprehensive and durable solution was needed, to help the developing countries eliminate the risk of social, political and other crises which could be caused by external indebtedness.

45. Ms. SAUNDERS (Jamaica), speaking on behalf of the 12 Caribbean Community (CARICOM) States that were States Members of the United Nations, said that, while the total stock of debt owed by developing countries had not grown during 1991, debt servicing of the Latin American and Caribbean region expressed as a proportion of export earnings had risen nearly five percentage points to 30 per cent over the same period because of the payment of arrears and the stagnation of export earnings. Without significant debt relief, sustainable economic viability remained a distant prospect. She thus welcomed recent progress in diminishing the burden of official and commercial debt, as well as the measures taken by the World Bank and International Monetary Fund to replace non-concessional with concessional debt. However, the agreements concluded thus far were not enough: bolder approaches addressing all types of debt and debtor countries were now an imperative.

46. Agreements concluded under the Brady Initiative regarding debt to international commercial banks differed little from conventional rescheduling and had made remaining debt more difficult to restructure. With regard to debt to official bilateral creditors, the "enhanced Toronto terms", while significantly more generous than the previous terms, still fell short of what was warranted. The 1990 "Houston terms" had afforded some relief for lower-middle-income countries; full implementation of the "Trinidad and Tobago" terms would represent a further step in the right direction.

47. It was a matter of particular concern that insufficient attention was currently devoted to the issue of multilateral debt. With prospects for future debt-service relief via the Paris Club diminishing, Caribbean countries were faced with medium-term debts to multilateral institutions which must be discharged on the basis of the original contracts, since those institutions did not reschedule. As commercial credit had dried up, those institutions had

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(Ms. Saunders, Jamaica)

become the main source of external loan funds for many countries. Consequently, a number of countries now found that they had become net transferors of resources. Serious consideration should be given to permitting those institutions to restructure or defer debt-servicing payments in appropriate cases; while other mechanisms, such as refinancing schemes, should be strengthened, and their scope widened. The operating modalities of the international financial institutions should also be further reviewed, with a view to minimizing their involvement in the basic economic and financial strategies and detailed micromanagement of the economies of recipient countries.

48. On the crucial issue of the relationship between the United Nations and the international financial and trade institutions, Caribbean delegations fully supported the call for integrating those institutions into the United Nations system, as an essential step towards improving overall macroeconomic coordination and enhancing international development cooperation.

49. Members of the Caribbean Community had embarked with determination on the task of economic restructuring, a necessary process, but one that had brought with it social hardships whose impact had been most severely felt in those sectors that were most critical for social and economic development. Meanwhile, financial flows had been lower in real terms in 1991 than in 1990. Donor countries should thus renew their efforts to reach the internationallly agreed ODA target of 0.7 per cent of GNP.

50. On the other hand, net private flows to developing countries in 1991 had been the highest since 1982. More needed to be done to encourage that positive trend. The process would be greatly enhanced by the convening of an international conference on the financing of development, as proposed by the Secretary-General. It could not be too strongly stated that a favourable international economic environment was an urgent necessity to mitigate the short-term effects of readjustment, as well as an important buttress for medium- and long-term strategies. A successful conclusion of the Uruguay Round could do much to improve the international trading environment and to contribute to world-wide economic recovery.

51. Ms. YANG Yanyi (China) said that 10 years after the start of the external debt crisis, following costly efforts by indebted developing countries and, to a lesser extent, by the official creditors, international financial institutions and commercial banks, there were at last signs of a slight decrease in the total debt of Africa and Latin America, together with a stronger repayment capacity and an increase in net financial flows of resources to those countries. However, it would be premature to say that the debt problem and the shortfall of resources facing developing countries were now a thing of the past. Even the increase in resource flows to a small number of Latin American countries was largely attributable to factors such as high interest rates and currency devaluation. During the past year, only a few indebted developing countries had reached new agreements with commercial

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(Ms. Yang Yanyi, China)

banks on debt relief. The reduction of official debt remained limited both in volume and in scope. The new debt-relief measures recently adopted by the official creditors of the Paris Club still fell far short of the drastic action needed to reduce the debt burden of the poorest heavily indebted countries and to reverse the worsening trend in their economies.

52. Unless appropriate policies were adopted, developing-country debt would continue to be a thorny problem in the 1990s, threatening the prospects for stable and sustained development of the global economy. A number of points must be carefully addressed with a view to tackling the debt problem. Firstly, greater efforts were needed to revitalize the economic growth and development of developing countries, a process that was a key to a long-term solution of the debt problem. Debt servicing should be made conditional on development. It would be in no one's interest to seek a solution of the debt problem at the expense of growth and development. The debtor countries should thus continue to pursue growth-oriented structural adjustment and economic reform in the light of prevailing conditions in their countries. At the same time, with a view to avoiding political and social turmoil, efforts should be made to ensure social stability and raise living standards.

53. Secondly, further measures should be taken to create a favourable and supportive international environment for the indebted developing countries. New resource flows must be increased through official credits and access to the international capital market. It was also important to lower interest rates, strengthen the multilateral free trade system, stabilize commodity prices, open up markets and create conditions conducive to repayment of debt.

54. Thirdly, new ways must be found of reducing the debt, with debt strategies taking into account the interests of the various categories of indebted countries in a comprehensive and balanced manner. The decision to extend the "enhanced Toronto terms" to a number of lower-middle-income debt-distressed countries should be implemented and the scope of extension expanded. The Paris Club should comprehensively adopt the "Trinidad and Tobago terms" for the low- and lower-middle-income countries and give adequate debt relief to heavily indebted middle-income countries.

55. Fourthly, the creditor Governments should adjust their policies and review their domestic laws and regulations with a view to reducing the restrictions imposed on loans to the developing countries and encouraging commercial banks to participate actively in the debt strategy.

56. Lastly, the international financial institutions, while helping new debtor countries implement economic adjustment, should also substantially increase financial assistance to other debtor countries and provide technical assistance in improving debt management. The tenth replenishment of IDA resources should represent a drastic increase over its predecessor in real terms.

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57. Ms. DOWSETT (New Zealand) said that, while the situation appeared to have improved, the debt crisis was far from over in many developing countries. Continued efforts were required by both debtor and creditor nations to implement the international debt strategy in the search for a sustainable solution to international debt. The commitment of debtor countries to the strategy had been the single most important factor in any success achieved thus far, and she stressed the continued importance of sound domestic economic policies, particularly in the context of the tight international capital markets and strong competition for concessional finance of the 1990s.

58. The second key factor in ensuring the success of the debt strategy had been the use of tailor-made and growth-oriented approaches to debt reduction, which had helped restore creditor confidence and the financial standing of heavily indebted countries. While New Zealand was still a net importer of capital, its firm commitment to improving the situation of developing countries was given practical effect through its membership of the International Monetary Fund (IMF) and the World Bank and by its contribution to bilateral and multilateral aid flows, such as the fifth replenishment of the Asian Development Fund and the forthcoming tenth replenishment of IDA resources.

59. A third crucial factor was the maintenance of a favourable international economic environment, achieved not through the total elimination of foreign debt but through economic policies designed to make that debt easier to manage. As a country with a high ratio of net public debt to GDP, New Zealand was determined to overcome its indebtedness by boosting its foreign trade. It therefore attached great importance to the strengthening and liberalization of the international trading system through such measures as halving current levels of industrial-country production, which would enable developing countries to boost their imports by some $50 billion, with significant benefits to consumers and taxpayers in the developed world as well.

60. Lastly, the lower interest rates permissible in a robust world economy underpinned by global trade liberalization would considerably improve the creditworthiness and financial prospects of developing countries. Efforts were therefore urgently needed, at domestic, national and international levels, to create an economic context conducive to dynamic and sustainable growth in all debtor countries.

61. Mr. MANALO (Philippines) said that, in spite of the optimism expressed by many creditor countries, by Bretton Woods officials, and by the Secretary-General in his report (A/47/396), the external debt problem had not been solved. Some developing countries, particularly in Africa, still had debt stocks exceeding their GNP. In the Philippines, foreign debt as a percentage of GNP was expected to reach 56 per cent by the end of 1992. Forty per cent of the country's annual budget and one third of its export revenues were absorbed by debt servicing. Though it had declined in recent years, debt as a percentage of exports of goods and services was still expected to close at 180 per cent by the end of 1992.

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(Mr. Manalo, Philippines)

62. If developing countries did not have to service such a heavy external debt, they could devote more funds to bolstering their social and economic services. Millions more children could attend school; infant mortality could be drastically reduced; health care facilities could be expanded and improved and new technology purchased.

63. Developing countries would continue to service their external debt burden, even though debt servicing would draw away funds that could have been devoted to economic growth and development. They would continue to suffer from financing gaps between development plans and programmes and resource inflows. Many would continue to pay debts as they pursued structural adjustment efforts and programmes to alleviate the poverty of their peoples. The Governments of such countries would continue to pay, because their word was their bond.

64. Many creditor countries recognized the gravity of the situation faced by low-income least developed countries and by heavily indebted middle-income countries. In recognition of that predicament, they had resorted to debt relief measures such as the debt rescheduling envisioned in the "Houston terms" - a lengthy process which, while reducing the payments pressure, prolonged the agony; debt discounting for purposes determined by creditors and non-governmental organizations - purposes praiseworthy in themselves but not necessarily consonant with the debtor countries' immediate priorities; or the provision of further loans, which were usually devoted to the payment of old debts. Such measures did almost nothing to reduce the debt burden, and sometimes even increased and perpetuated it.

65. The debt and debt-service reduction (DDSR) agreements concluded between indebted countries and international commercial bank creditors were laudable initiatives. Yet they were not enough, for they did not guarantee significant debt reductions. The first Philippine DDSR negotiations had led to a reduction of only 2 per cent. Furthermore, many developing countries also suffered from an inadequate trade income. As the Secretary-General had pointed out in paragraph 34 of his report (A/47/396), trade was the most important international factor determining the prospects that the heavily indebted developing countries would emerge from their debt crises. The Philippines was thus committed to seeking sustained multilateral responses to expand and liberalize trade, particularly through enhanced access to developed-country markets. It was also committed to allowing freer play of market forces in its domestic economy, so as to attract direct foreign investment and the technology such investment would bring.

66. The Philippines took a pride in the judgement of the international community that its debt problem had been prudently managed. It had avoided confrontation, eschewing emotionalism and radicalism, paying its debts as they matured, and opting for negotiated respite when necessary. But its debt problem remained. Like the least developed countries, many middle-income countries hoped to see governmental creditors take measures to cancel debt and provide incentives to commercial banks to do likewise.

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(Mr. Manalo, Philippines)

67. Recent consensus resolutions and the debt-relief measures advocated in chapter 33 of Agenda 21 provided an appropriate framework in which to address the external debt problem. Nevertheless, much work on that item remained to be done in the Second Committee; for the recent positive steps taken to address the debt crisis, while effective, might not be sustainable. Additional debt relief measures must be explored, so as to ensure predictable and productive flows of external finance to sustain the development process.

68. Mr. KRASAVCHENKO (Russian Federation) said that, while the problem of external debt remained acute for many countries, the international debt strategy appeared to be taking effect, largely thanks to efforts by the United Nations. He welcomed, in particular, the growing awareness by creditor and debtor countries of their shared responsibility for the elaboration of practical solutions to the debt crisis, at global, regional and national levels. Debtor countries increasingly accepted that stable economic development must be achieved through their own efforts; international donors could do no more than create more favourable conditions for such efforts.

69. The Russian Federation stressed the need for non-standard approaches to the problem of external indebtedness, such as the conversion of debt obligations into investments in the national economy or development and environmental projects or their repayment in local currency. In view of the relative insolvency of many debtor countries, particular attention was merited by arrangements for those countries to sell their debt obligations at an agreed discount with support from international financial institutions, primarily IMF. The implementation of such measures would help reduce the debt burden of those countries at no risk to creditors and without jeopardizing financial stability, provided that the discounts and nominal value of the debt obligations were set at realistic levels.

70. There was apparent consensus on basing an effective debt strategy on a combination of general principles and a case-by-case approach, requiring concerted action at the global level, primarily within the framework of the United Nations Conference on Trade and Development, and use of the existing mechanisms for multilateral coordination of external financing and debt settlement.

71. The global nature of the debt problem necessitated the participation of all States and groups of countries in the search for its solution. Among those groups were the countries with transition economies, which posed special problems, since they were simultaneously major creditors vis-à-vis the developing countries and debtors to the West. A possible solution would be a combination of debt-relief measures by the countries with transition economies in favour of their debtor countries and commensurate debt-relief measures towards them by their own creditors.

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(Mr. Krasavchenko, Russian Federation)

72. In the case of the Russian Federation, debt problems were an additional destabilizing factor in its relations both with the republics of the former Soviet Union and with its creditors. The crisis had become particularly acute in 1991, with a 35 per cent decline in exports set against a precipitous growth in overdue indebtedness. As a result, the Russian Federation had been forced to reschedule its debt through the Paris Club in a series of short-term agreements and it therefore stressed the need for a long-term solution to the problem, with the restructuring of its external debt. At the same time, talks were under way with the former republics of the Soviet Union on Russia becoming the sole successor to the debts and assets of the Soviet Union.

73. The credits of the former Soviet Union amounted to approximately $150 billion, $27 billion of which was overdue, and in view of the current state of its economy the Russian Federation was forced to make use of that reserve. At the same time, the Russian Federation was seeking methods of resolving its external debt problem through a combination of debt-forgiveness and rescheduling measures. In conclusion, he expressed the conviction that the debt problem could only be properly solved through a balanced consideration of the interests of both debtors and creditors.

74. Mr. MOUSSA (Cameroon) said that the debt problem had attained particularly disturbing proportions in Africa, whose debt-service burden amounted to $27.4 billion, representing over 102 per cent of Africa's GNP. The need for bold corrective measures had rightly been stressed in the United Nations new agenda for the development of Africa in the 1990s.

75. While certain remedial measures had been undertaken under the Brady Plan and the "Toronto terms" and at a bilateral level by many countries and institutions, they were often inadequate or fragmented and their implementation imposed severe constraints on the countries concerned, necessitating immense efforts to increase savings and investment and to slow inflation and entailing arduous sacrifices. At the same time, despite highly favourable developments in the international political climate, the economic environment was growing increasingly hostile, with deteriorating terms of trade, falling commodity prices, rising prices of imports and more and more obstacles to access to markets and credit.

76. In addition, the budget cut-backs necessitated by debt repayment and service were adversely impacting on such sectors as health, education, employment and housing, with potentially explosive political consequences, not only for the developing countries but also, owing to the interdependent nature of the world economy, for the prosperity of the industrialized countries and the financial stability of the world as a whole.

77. The fragmentary nature of attempts to solve the debt crisis was illustrated by the exclusion of middle-income countries, like Cameroon, from debt-relief measures. While Cameroon welcomed the provisions of chapter 33 of Agenda 21, extending the benefits of debt relief to middle-income countries,

(Mr. Moussa, Cameroon)

as well as bilateral credit initiatives by the French Government in favour of middle-income sub-Saharan countries, the scope of the debt problem necessitated a global approach. For that reason, his delegation supported the convening of an international conference on the financing of development and the establishment of an advisory commission on debt and development, to ensure that developing countries were furnished with the necessary supplementary financial resources both to revitalize their economies and to set in motion a process of sustainable development consistent with the decisions of the United Nations Conference on Environment and Development.

The meeting rose at 12.40 p.m.