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SUMMARY RECORD OF THE 10th MEETING

Chairman: Mr. MONGBE (Benin)

later: Mr. Arellano RESENDIZ (Vice-Chairman) (Mexico)

later: Mr. MONGBE (Chairman) (Benin)

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The meeting was called to order at 10.05 a.m.

AGENDA ITEM 92: EXTERNAL DEBT CRISIS AND DEVELOPMENT (A/48/182, A/48/291-S/26242, A/48/338, A/48/345, A/48/353-S/26372)

1. Mr. OSSA (Department of Economic and Social Information and Policy Analysis) said that, despite the great strides made in the international treatment of the external debt of the developing countries, there was still a debt crisis in many countries. The policies that addressed the debt crisis raised highly technical questions; they were generally implemented with the assistance of multilateral institutions such as the International Monetary Fund, the World Bank and the Paris Club, but the General Assembly had wanted Member States to be able to participate actively in the debate and developmental issues and the political dimensions of the debt crisis to be explicitly taken into account.

2. The crisis was but one manifestation of a broader crisis in economic adjustment and development that had begun more than a decade earlier following profound changes in the international economic environment. More than anything else, it was the deterioration in the terms of trade that had precipitated the debt crisis in many countries in the early 1980s. The lessons of reform had been learned during the 1980s and early 1990s, and had led to a better understanding of the social and political strains of adjustment, particularly after long periods of economic distress. The need for social safety nets had come to be widely recognized, particularly in General Assembly resolution 47/198 on the international debt crisis.

3. For developing countries, as well as for the former centrally planned economies that had experienced severe economic shocks, the new policies would be successful only in a more supportive international economic environment. The industrial countries must open up their markets and external financing must be geared to each reforming country’s level of development.

4. Various agreements had been concluded with international commercial banks in order to reduce the debt stock and debt service; that had alleviated the debt problems of a growing number of countries which had regained access to international capital markets. The terms were still relatively costly, but could be eased for borrowers with good "track records". Several low-income countries had settled their difficulties in servicing their commercial bank debt, generally by buying back their debt at a discount with concessional international resources, but many of them still had difficulty in servicing their debt and would remain dependent, in the medium term, on non-debt-creating capital flows. On the whole, however, that method worked fairly well.

5. The debt problem of the poorest developing countries was, however, far from being resolved. Despite debt reduction agreements, in sub-Saharan Africa the total external debt was still approximately 3.5 times higher than the yearly exports, and in Latin America it was 2.5 times higher. Those ratios were far too high. The African countries, whose commercial bank debt was small, owed large amounts to Governments or multilateral institutions and the realistic prospects of their repaying their debt were considered slim. Indeed, in order

(Mr. Ossa)

to honour their obligations, those countries would have to reduce public services drastically, and that would be politically and socially intolerable. Increased debt payments would also have the effect of paralysing productive investment, which would, in turn, compromise future capacity to pay. Several creditor Governments had accepted that analysis and cancelled some government obligations, particularly the repayment of official development assistance (ODA) accorded to the least developed low-income countries.

6. The Paris Club had also accepted the principle of debt and debt-service reduction for low-income countries, although that reduction was still insufficient. Creditor Governments had, moreover, virtually agreed to a two-thirds write-off of the debt for low-income countries, as proposed by the United Kingdom Government several years earlier (known as the "Trinidad terms"). At the present juncture, a consensus on improving the Paris Club terms was expanding, but it still remained elusive. The General Assembly should therefore provide the required political impetus in that regard.

7. Even if the Trinidad terms were adopted, however, the debt-servicing burden would still be too heavy for many countries (according to the World Bank, 40 per cent of a sample of 33 low-income countries). In some cases, official development assistance might have to be written off completely, but even that would not always be sufficient, and moreover, middle-income countries were not eligible to benefit from the Trinidad terms.

8. One outstanding problem involved debts to international financial institutions, which were "preferred creditors". The international community had devised only very limited means of adjusting debt-servicing payments to those institutions. There were no provisions for the rescheduling or reduction of such debts, although, at times, a bilateral donor offered to repay the arrears.

9. From the outset, it had been apparent that the solution to the debt crisis called for concerted action by debtor and creditor Governments, private banks and international organizations. In some developing countries, the debt crisis had been settled, but in other countries it was still a very large and difficult part of daily experience. In those countries, there was no prospect of there being sufficient growth for them to discharge their obligations. Additional debt relief was therefore necessary and, to that end, a new political impetus was required.

10. Mr. BARRERO (Colombia), speaking on behalf of the Group of 77 and the People’s Republic of China, said that the most recent indicators showed relative abatement of the external debt problem. The situation seemed to be less desperate than it had been in previous years. In several countries, the evolution had been favourable even though the social and political costs of progress had been high. The poorest group of countries, on the other hand, was still a long way from resolving the problem and the international community had not done all it should have to help them. The situation was particularly acute in the sub-Saharan African countries, whose debt stock was equivalent to more than three years of exports. That clearly showed the ineffectiveness of the measures adopted. In heavily indebted countries, the need to allocate a substantial portion of their national budgets to external debt servicing

(Mr. Barrero, Colombia)

paralysed development efforts, depriving vast sectors of the population of an enormous volume of resources which might have been used to satisfy basic needs. In other words, the debt problem should be viewed in terms of its political and social dimensions, and the political solution to the problem would require the collaboration of debtor and creditor countries, multilateral institutions and commercial banks. The debt stock and debt servicing of developing countries must be substantially reduced and the solution adopted must be equitable, durable, comprehensive and development- and growth-oriented. It should, moreover, be applicable to all types of debt and debtor countries.

11. Additional measures were required. Debt reduction should cover a greater proportion of the debt, in certain cases the total debt. Eligibility criteria should be less rigid so that a larger number of countries could benefit. The schedule of completion should be more flexible in order to bring about a rapid resolution of the problem in the most affected countries. Innovative measures, including debt-for-equity swaps, debt swaps for the protection of the environment and debt-for-development swaps, should be considered.

12. A permanent solution to the debt problem, however, required an environment favourable to the growth of developing countries. To that end, the industrialized countries must liberalize trade, significantly increase the transfer of productive capital and adopt policies aimed at the growth of the international economy. At the same time, in order for such efforts not to be wasted by social and political instability, social programmes were necessary to protect vulnerable groups from the impact of the economic reforms implemented in debtor countries.

13. The Group of 77 wished to underline the importance of the continuous and active involvement of the United Nations system through its ongoing review of the situation of the external debt of developing countries.

14. Mr. VAN DE CRAEN (Belgium), speaking on behalf of the European Community and its member States, said that the external debt crisis - or rather, the complex of problems associated with external debt, since the international financial system was no longer in danger - called for diverse approaches. Several countries, particularly in Latin America, had considerably reduced their debt problem through internal adjustment efforts. As a result of recent improvements in the situation, the international debt strategy, in particular the practices of the Paris Club, had made it possible to consider more closely the problems of the poorest and most indebted countries. However, those countries, especially the countries of sub-Saharan Africa, had not yet been able to overcome their difficulties.

15. The total amount of external debt was once again increasing after reaching its peak at the end of the 1980s and the beginning of the 1990s, but debt servicing would remain manageable if the increase could be offset by solid economic growth, as in Asia or, if solvency was maintained on the international financial markets, as in Latin America - an impossible task for many developing countries, particularly the poorest among them.

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(Mr. van de Craen, Belgium)

16. Commercial debt was no longer a threat to banks and, thanks to a broad range of debt-relief measures within the framework of the London Club, the majority of the large debtor countries had recovered and once again had prospects of obtaining credit. Moreover, some large Latin American countries had improved their macroeconomic policies and thus their financial stability. Further progress needed to be made, however, if the countries of Central and Eastern Europe were to obtain from the London Club treatment comparable to that which they had obtained from the Paris Club.

17. The industrialized countries, including those of the European Community, had made additional efforts. Some had agreed to bilateral debt cancellations, for example, with the countries of sub-Saharan Africa. The problem of official debt, however, differed from that of private debt; as far as the latter was concerned, the suspension of export credits had undoubtedly had a negative effect on the allocation of new credits. In addition, it was important to take into account the real political difficulties which the creditor countries were experiencing with regard to the budgetary impact of official debt-relief measures for the debtor countries.

18. Multilateral debt was growing in volume and debt servicing was posing more and more problems for IMF, the World Bank and the regional development banks. The international financial institutions were obligated by their charters to follow very strict policies, which made them preferential creditors. The solutions they had found to the problem of arrears often entailed formulating adjustment and economic recovery programmes that, if successful, could provide access to new lending.

19. Debt servicing remained a heavy burden for developing countries and continued to absorb on average one fifth of their budgets, even though many were paying only a small fraction of the interest due and repaying almost nothing of the principal. Sometimes borrowed capital did not contribute sufficiently to economic growth, as was frequently the case in the least developed countries. The European Community and its member States were well aware of the difficulty of the task. They believed that recovery and adjustment programmes should be applied more consistently and more strictly, as the Group of Seven major industrialized countries had reaffirmed at Tokyo. The search must continue within the Paris Club for opportunities to improve debt-relief modalities for the poorest and most indebted countries, on a case-by-case basis, inter alia, through earlier and more generous initiatives.

20. Some non-governmental organizations were requesting complete cancellation of all official debt, but the multilateral organizations, which were more realistic, believed that such decisions should be taken in the appropriate forums - the Paris Club, the World Bank and IMF. Even the most generous formulas, such as the so-called Trinidad and Tobago terms, could never provide a solution for the most indebted economies unless they were accompanied by reforms.

21. The European Community and its member States wished to emphasize that the international debt strategy had produced positive results for a number of countries and they reaffirmed their intention to continue to work towards

(Mr. van de Craen, Belgium)

solutions that were even more concessional and, above all, more lasting. There seemed to be no need to initiate a new round of negotiations to arrive at another resolution which would not really contribute anything new to the debate.

22. Ms. YANG Yanyi (China) noted that the total debt of developing countries had reached US$ 1,400 billion by 1992, and that the foreign debts of African countries accounted for US$ 290 billion of that figure. The debt problem was particularly serious for the countries of the sub-Saharan region, although it had not yet been completely solved even for middle-income countries. The Governments of creditor countries, the international financial institutions and the commercial banks had taken a variety of measures to help the debtor developing countries to overcome the crisis, but the results were far from satisfactory. Few countries were in fact able to benefit from the enhanced Toronto terms, and even the Trinidad and Tobago terms were not sufficient to solve the problems of many debtor countries. The debt burden continued to undermine development efforts and remained a major obstacle to the economic recovery and growth of developing countries.

23. The debt problem was not just a problem of the debtor countries; it was also a global problem that had bearing on the sustained, steady and healthy development of the world economy as a whole. China therefore recommended a strategy based on efforts to achieve economic growth and development of the debtor countries, since to attempt to solve the debt problem at the expense of development would be to treat the symptoms rather than the cause of the disease. That was not in the interests of either the debtor countries or the creditor countries.

24. The debtor countries should carry out economic adjustment and restructuring programmes in the light of their specific national conditions, and those programmes should be geared to growth and sustainable development. Strong international support should be provided to debtor countries and a favourable international climate should be created. Official development assistance should be increased to a level of 0.7 per cent of the GNP of the rich countries. The multilateral free-trade system should be strengthened and the conditions of access to markets should be improved so that trade rather than aid would become the major source of capital for debtor countries. The debt strategy should include, among other things, a drastic reduction of debt and debt-servicing. As official development assistance (ODA) debt was the main component of the foreign debt burden of heavily indebted low-income and lower middle-income countries, the Trinidad and Tobago terms should be adopted and expanded to cover all the countries in those two groups. The relationship between debt relief and the provision of funds should be appropriate, since debt relief could in no way replace new allocations of funds. The international financial institutions, in particular the World Bank and IMF, should also reduce the debt burden of the debtor countries and help them to revitalize their economies. In fact, the debt owed to the multilateral financial institutions represented a growing share of the ODA debt of low-income and lower middle-income countries. It was to be hoped that the problem could be resolved promptly and in a flexible manner. All parties concerned with the debt problem should work together to formulate new debt strategies with a view to overcoming the debt crisis in a comprehensive, effective and durable manner. The United Nations could not shirk its

(Ms. Yang Yanyi, China)

responsibility to assist in the search for a solution to the debt problem. The discussion in the Second Committee and the resolution to be adopted on that question should reflect the importance which the international community attached to the debt problem.

25. Mr. OLISEMEKA (Nigeria) said that the world was currently moving at two different speeds and that that threatened to tear apart the new world order.

26. Ten years had elapsed since the debt crisis had arisen and some valuable lessons had been learned with regard to the definition of the crisis, its nature and magnitude, and the various remedies that had been proposed and adopted. The little progress that had been made on the debt question had only served to arrest serious damage to the international financial system. Sustainable micro-economic policies had been adopted in certain debtor countries, while others had had structural adjustment programmes imposed upon them.

27. In that context, the United Nations remained the only institution in which the serious problems of developing countries could be addressed and disparities between rich and poor countries could be reduced. The Organization had contributed to the adoption of debt-relief measures. In that regard, his delegation endorsed the report of the Secretary-General (A/48/345) and recommendations contained therein.

28. The economies of developing countries continued to suffer from the effects of the debt burden, which were exacerbated further by the adjustment process, the flow of financial resources from developing to developed countries, the decline in official development assistance, deteriorating terms of trade, the fall in commodity prices as well as protectionist policies.

29. Africa’s debt, which amounted to US$ 282 billion or 350 per cent of the region’s aggregate export revenues, was virtually equal to its entire annual economic output. The $25 billion that Africa had devoted to debt servicing in 1990 was greater than the total aid received by African countries in the previous year. Initiatives had been taken towards alleviating the debt burden; specifically, the group of seven most industrialized countries had written off or reduced certain categories of Africa’s debt. In 1990, such debt cancellations had totalled $7.6 billion. However, it was generally recognized that conventional debt management initiatives, even the more generous enhanced Toronto terms and Trinidad terms, did not reduce the burden on African countries enough for them to resume growth along a macroeconomically stable path.

30. Any solution of the debt crisis should not only cover all types of debt and debtor developing countries but should also give special consideration to those countries which continued to meet their debt obligations on time. The international trading system must be strengthened and liberalized and countries must demonstrate political will. A comprehensive and integrated approach needed to be taken to the crisis and concerted action was required with respect to all categories of external debt: bilateral, multilateral and commercial. However, priority attention should be given to bilateral debt in view of its predominance in Africa’s external obligations.

(Mr. Olisemeka, Nigeria)

31. The Paris Club had undertaken significant measures in that area. However, the debt reduction mechanisms, eligibility criteria and the time-frame for implementation could be improved. The Trinidad terms should be considered only as a benchmark, and further reductions should be envisaged.

32. In Africa, multilateral debt accounted for more than 25 per cent of total external debt and over 40 per cent of total debt-service payments. In some low-income countries that percentage was up to 50 per cent. That problem could be solved by replenishing International Development Association and African Development Fund resources. A distinction should be made between arrears resulting from a liquidity crisis and those caused by a solvency crisis.

33. Commercial bank arrears, which accounted for only 15 per cent of the external debt of sub-Saharan Africa, caused considerable problems since they had an adverse effect on trade financing. One solution could be to adopt regulatory and tax measures and to put pressure on Governments to induce banks to agree to debt reduction.

34. A durable solution must include strengthening and liberalization of the international trading system which was the most important source of real growth and development. The political will required to do that must be in direct proportion to the challenge.

35. Mr. AVANESOV (Russian Federation) said that the international community was perfectly justified in focusing increasing attention on solving the external debt problem; that would require a complex strategy involving various multilateral funding agencies - the Paris Club, the London Club, the International Monetary Fund and the World Bank. In that context, the United Nations could also play a useful role by putting forward general recommendations and studying the experience of the international community in order to promote the search for agreed solutions particularly by highlighting the approaches that had proved most successful.

36. The report of the Secretary-General on the international debt strategy as of mid-1993 (A/48/345) complemented the documents of the World Bank and IMF on the issue and contained many pertinent comments especially on the international debt strategy and debt indicators. While the overall situation was becoming more encouraging, there were still substantial differences between regions and countries; in Russia, for example, the external debt was considerably hampering market reforms. Although the signing of agreements on the restructuring of both official and commercial debt had brought much-needed relief to his country, the stock of debt was still rising. His Government was working with the multilateral financial institutions to find a solution to the problem because solving the debt problem of Russia and the other countries in transition would not only contribute substantially to the economic and financial recovery of those countries but would also help to stabilize the world economic situation.

37. The debtor countries, lending countries and Bretton Woods institutions should work together in order to solve the debt problem. He pointed out in that regard, that it was the responsibility of debtors to repay their loans and that Russia was settling its debt problems in cooperation with its creditors according to its means and established international practice.

38. Mr. BABA (Uganda) said that the many initiatives that had been taken to address the debt problem had failed, especially in Africa where over $10 billion a year were spent on debt-servicing payments. In order to develop, the poorest and low-income countries, especially those of sub-Saharan Africa needed the support of the international community in the form of a reduction and elimination of the debt burden. The terms agreed to by the Paris Club had served to provide temporary relief but had not definitively resolved the crisis; that would call for a significant write-off of the debts along the lines of the Trinidad terms.

39. Another strategy would be to renew the purchasing power of the poorest and low-income countries, for that would be in the interests of both creditor and debtor countries. In that context, measures could also be taken with respect to all categories of external debt. Multilateral debt, which accounted for almost 25 per cent of total external debt and 40 per cent of total debt-service payments of the sub-Saharan African countries, should also be rescheduled.

40. The debt crisis continued to be the main obstacle to Africa's economic recovery and it discouraged foreign direct investment in the region. A modest amount of debt relief had been granted to some countries of the region. However, in order to prevent the situation from worsening, more appropriate measures were needed and that called for political will.

41. Mr. BIAOU (Benin) expressed support for the statement made by the representative of Colombia, speaking on behalf of the Group of 77.

42. The report of the Secretary-General (A/48/345) was a useful supplement to the World Economic Survey 1993 which indicated that the external debt of developing countries had increased rapidly to $1,419 billion in 1992.

43. According to the calculations of the World Bank, Africa's external debt had risen from $56 billion in 1980 to over $200 billion in 1992. Over the same period, the ratio of total debt to exports of goods and services had increased from 27 per cent to 363 per cent.

44. Profoundly concerned by that matter, the Assembly of Heads of State and Government of the Organization of African Unity had asked the OAU secretariat to prepare the necessary studies for the examination and reassessment of the situation with respect to the external debt of Africa. It had also decided to convene a meeting of the OAU Contact Group with a view to drafting recommendations on what measures should be taken. Furthermore, it had asked the international community to strengthen existing mechanisms and/or establish new ones, and had urged the seven major industrialized countries to adopt strong new initiatives.

45. The new strategy should take into consideration the multilateral debt, for which no official restructuring mechanism yet existed. The suggestion regarding an ad hoc group of donors, made in paragraph 47 of the Secretary-General's report (A/48/345), was of interest in that regard.

46. The Bretton Woods institutions should review their guidelines, taking into account the evolving circumstances, and should institute an official,

(Mr. Biaou, Benin)

transparent mechanism for restructuring the multilateral debt. Furthermore, the United Nations was the ideal forum for tackling the problem of the debt; the Commission for Sustainable Development would be analysing various factors determining the flow of financial and economic resources, including debt reduction. Appropriate decisions could be taken by other bodies as well, such as, for example, the Paris Club which, in December 1991, had adopted the enhanced Toronto terms, from which 17 countries, Benin among them, had benefited. His country welcomed the initiatives taken by certain creditor countries with a view to reducing or writing off the debt of the least developed countries and of low- and middle-income countries, and other creditor countries should consider analogous measures.

47. Any resolution of the debt problem would require political will and the assignment of priority to such measures as writing off the debt of the least developed countries, reducing the debt burden of other developing countries, appropriating a portion of debt-servicing funds for financing economic and social projects, strengthening South-South cooperation, establishing a tripartite coordinated approach involving creditor countries, debtor countries and financial institutions and wider use of debt conversions for investments in the environment.

48. Mr. JOMAA (Tunisia) supported the views expressed by the representative of Colombia on behalf of the Group of 77. As pointed out in the Secretary-General's report, the external debt of developing countries had reached approximately $1,400 billion by the end of 1992, some $200 billion more than in 1989. All current proposals for reducing the debt, and for rescheduling the debt of developing countries, whether by the Brady Plan, the agreement of the Paris Club or the terms developed at Toronto, were far from satisfactory.

49. Tunisia, one of the middle-income countries, welcomed the initiatives taken on behalf of the poorest countries and suggested that they should be extended to include middle-income countries as well. In that regard, his delegation would have liked to see more emphasis placed on those countries in the Secretary-General's report (A/48/345). It hoped that the report to be submitted the following year would be more complete and would take up that aspect of the issue.

50. Any lasting solution would require a global strategy involving reduction of the stock of and servicing of all kinds of debt for all categories of indebted countries. Various other measures could also be taken: total or partial forgiveness of the official debt of the least developed countries, recycling of the debt by the creation of a special fund fuelled by debt-servicing, which would make it possible to finance employment-generating development projects, use of the debt to finance certain environmental clean-up and protection projects, and creation of new financial cooperation instruments, such as, for example, a European-Maghreb Development Bank. The problem of the African debt called for sustained, global action based on the proposals set out in the African Common Position with regard to the external debt. Tunisia expressed concern at the approach adopted in the Secretary-General's report, of addressing the question of the African debt from a subregional perspective (sub-Saharan Africa as one group, the remaining African countries as another).

51. Mrs. MONTEITH (Jamaica), speaking on behalf of the member States of the Caribbean Community (CARICOM), said that she supported the statement of the Group of 77.

52. Despite notable progress in some areas, the debt crisis was currently far worse than it had been in 1982. With few exceptions, all measures designed to resolve it had failed. Recent estimates put the total stock of debt at $1,400 billion as of the end of 1992. That figure represented an upward trend after a period of relative stability in the late 1980s. Furthermore, certain Caribbean countries had made changes in economic policy by undertaking structural adjustment measures, the social consequences of which had been quite severe. Furthermore, the debt crisis was preventing developing countries from achieving their development goals.

53. In the Latin American region, the debt-to-GNP and debt-to-exports ratios had declined slightly. Jamaica welcomed the initiatives that had brought some relief in the areas of official and commercial debt. Nevertheless, as indicated in the Secretary-General’s report (A/48/345), the region’s debt-servicing ratio of 30 per cent was still the highest among the geographical groups and was twice the average for all developing countries.

54. The multilateral debt, which offered few possibilities for rescheduling, demanded an approach which incorporated boldness and realism. A review was needed of the operating modalities of those institutions to allow for debt-servicing payments to be restructured or deferred, and for other mechanisms, such as refinancing, to be strengthened.

55. Similarly, the conditions applied to loans provided by international financial institutions should be better adapted to developing countries. The adjustment process must extend over a longer time-period, must minimize social distress and promote growth. Greater coordination was needed between the United Nations and international commercial and financial institutions to strengthen international cooperation with a view to development. Furthermore, the agenda for development should address the problem of the external debt from a global perspective which would consider the economic and social dimensions, and provide solutions.

56. Resolving the debt crisis under the auspices of the United Nations would be the best example of how international cooperation could overcome a development problem. Achieving sustainable development would require the creation of a favourable international trading environment and increased development assistance. Serious consideration should be given to holding an international conference on the financing of development.

57. Mr. Arellano Resendiz (Mexico), Vice-Chairman, took the Chair.

58. Mrs. ULLOA (Ecuador) pointed out that Latin America had succeeded in lowering its ratio of external debt to GNP by reducing its indebtedness and taking on new loans cautiously. None the less, although it had diminished, the debt-to-export ratio remained high, and the debt-servicing ratio remained higher than that of other regions.

(Mrs. Ulloa, Ecuador)

59. The developing countries had made sacrifices in implementing structural adjustment programmes, but had not received sufficient support from the International Monetary Fund and the World Bank. Sustainable development was achieved through adequate financial assistance, provided in a democratic and transparent manner. Negotiations on the restructuring of the region's high multilateral debt needed to take place.

60. Some of the methods proposed by international bodies with a view to resolving the debt crisis were constructive. What mattered at present was not to rehash those ideas, but to put them into practice as rapidly as possible. However - and it was a point that could not be overemphasized - priority must be given to satisfying the most basic social needs, regardless of circumstances.

61. Mr. KARIM (Bangladesh) said that the debt crisis constituted a major obstacle to the growth and development of the developing countries, and as a result, some countries, far from experiencing an economic revival, had seen their economies grow worse. The debt-service burden had increased steadily over the past years, particularly in the least developed countries, where it equalled nearly three quarters of their GDP. While his country welcomed the initiatives of some creditor countries to write off a portion of the debt of the least developed countries, it also recognized that those measures had proved inadequate in reducing their debt overhang. It was therefore essential that all bilateral official debt of the least developed countries should be fully cancelled and that their debt stock and servicing obligations owed to multilateral financial institutions and commercial banks should be reduced substantially.

62. Productive investment should be the cornerstone to any debt-reduction strategy. That strategy should integrate government, commercial and multilateral institutions and should be backed by increased export and unhindered market access. Innovative measures such as debt-for-nature swaps and debt-for-development swaps should be operationalized and their scope broadened. Limitations of the Toronto terms should be reviewed and implementation of the Trinidad terms should be ensured. Any solution to the debt crisis required a strong political will.

63. Mr. PONIKIEWSKI (Poland) said that it was widely perceived, at least for the middle-income countries, that the external debt "crisis" had evolved into a "problem" which could now be brought under control. In fact, the case-by-case approach was beginning to show results. It was accompanied by a growing recognition of the need for official and commercial creditors to reduce debt and for debtor countries to undertake bold adjustment efforts. Debt-reduction agreements should be tailored to the servicing capacity of a debtor country, taking into account social restraints.

64. Yet while that situation had improved, the international trading environment had not been favourable to the success of the liberalization efforts of the developing countries and the economies in transition, which were feeling the pressure of protectionist measures. In that respect, one could only hope that the Uruguay Round would come to a rapid conclusion.

(Mr. Ponikiewski, Poland)

65. Moreover, while debt-burden indicators, which reflected the debt-servicing capacity of countries, had improved at the aggregate level, in his country, debt stock, most of which was denominated in marks, was so great that debt servicing would be a burden for the next several years. While his country had signed an agreement with the Paris Club on the reduction of its official debt, it had not yet been able to conclude a similar agreement with the London Club commercial banks. In its negotiations with the London Club, his country's positions were clear: all elements of debt should be included in a comprehensive package; debt service arising from any agreement had to be consistent with the financial restraints facing Poland; and finally, any agreement had to be compatible with his country's other international commitments, in particular those resulting from the agreement with the Paris Club. His country welcomed the statements of the representative of Belgium on behalf of the States members of the EEC and hoped to conclude an agreement with the London Club in the near future.

66. Mr. HORIN (Ukraine) noted that the debt crisis had been on the agendas of United Nations bodies which dealt with economic issues for many years and that an international debt strategy had been formulated which was beginning to show results. As the Secretary-General noted in its report (A/48/345), the strengthening of international policy on several fronts had led to an amelioration of the debt crisis of many countries and to a reduction of the ratio of external debt to gross national product to the 1982 level. Positive trends in that area were indisputably linked to greater cooperation between debtor and creditor countries. In fact, it was more and more widely recognized that structural-adjustment programmes were essential to social and economic development. In other terms, despite the established effectiveness of the international debt strategy, the international community needed now to introduce innovative mechanisms to complete its objectives. An equitable solution to the debt crisis which took into account the interests of all country groups, including economies in transition, would contribute to the economic development of all countries. It was essential that the debt burden should be reduced if all countries were to be integrated into the world economy. The particular situation of countries in transition required a specific strategy which should include significant debt reductions and various types of debt conversions. The time had come to study the options for debt reduction in those countries, in order to give them the means to proceed with the conversion of their military industry.

67. In his country, the debt problem existed at two levels: on the one hand, as a successor State of the former USSR, Ukraine had to service its share of the external debt, while it had property and assets abroad whose absolute value was much greater. Unfortunately, after more than two years of negotiations, the problem of distributing those assets had not yet been resolved since, according to some, the shared past had only yielded the right to an anaemic and bloated economy, an obsolescent infrastructure and an environment in a critical state. On the other hand, changes in his country's economy had caused other problems to surface, many of which had been unpredictable. The need to import energy resources had created an external debt that Ukraine could not currently repay. In all, like most of the States which were former members of the Soviet Union, it was losing hard currency. Its economy was caught in a vicious cycle of increasing external debt and a lack of resources needed for development. The

(Mr. Horin, Ukraine)

solution to Ukraine’s debt crisis depended significantly on the availability of credits, increased foreign aid to realize economic reforms and a significant reduction of domestic energy consumption. Moreover, the Russian Federation, a major supplier of energy, was in no hurry to negotiate with the other successor States of the USSR and was demanding immediate repayment of all new debts. It was interesting to note that it had adopted such a categorical position with respect to the members of the Commonwealth of Independent States, while it itself had received extensions in the repayment of its debts with respect to the West.

68. Given those circumstances, Ukraine was in great need of outside financing. It hoped to develop a relationship with the Paris Club and the London Club and with international financial institutions. It also hoped to obtain a credit for a transformation programme.

69. Mr. Mongbe (Benin) resumed the Chair.

70. Mr. BHATIA (International Monetary Fund) emphasized the crucial role that IMF had played in the development and implementation of the debt-reduction strategy. While it was well known that the Paris Club provided debt restructuring only after the country concerned had entered into a stand-by or other longer-term arrangement with IMF, it was a lesser known fact that IMF was involved in the restructuring of debt owed to commercial banks. Indeed, IMF financed, through stand-by or other medium-term arrangements, operations involving debt and debt-service reduction on the basis of three fundamental criteria: the scope of the economic policies of the country concerned, its prospects for growth, and assurances that such operations represented an efficient use of national resources.

71. Foreign debt should no longer be described as a crisis but simply as a problem. Indebtedness was no longer systemic or global, but rather regional and country-specific, and, moreover, concerned only some components of debt. In the case of commercial bank debt, most of the heavily indebted middle-income countries had succeeded in restructuring their debt. The problem still remained in some lower middle-income and low-income countries where economic and political difficulties had delayed a solution. With regard to official bilateral debt, the Paris Club had responded in various ways to differentiated debt situations. There again, the bilateral debt of many low-income or lower middle-income countries continued to be high, so that their obligations were beyond their debt-servicing capacity; in fact, for low-income rescheduling countries as a group, total financial assistance had been about as large as those countries’ own earnings from exports of goods and services in every year since 1986. Lastly, in the case of multilateral debt, although the share in total developing country debt had increased, debt-service obligations had increased only modestly as the result of a shift towards concessional lending.

72. The following lessons could be learned from that experience: progress had been achieved chiefly in countries which had instituted stabilization and reform programmes; the mechanisms currently in place for providing debt relief from both commercial banks and official creditors was functioning well for middle-income countries; and the lending institutions were taking into account

(Mr. Bhatia, IMF)

the profile of existing debt and the limited capacity of low-income countries to service non-concessional loans, and were focusing on financing operations oriented towards direct investment.

73. Mechanisms currently existed to deal decisively with the debt situation of individual countries, including low-income countries, provided that there was sufficient flexibility. The Group of Seven had recently requested the Paris Club to consider providing for earlier reductions in debt stock. In a number of cases, substantial reductions in the debt owed to official creditors would be required to reduce debt-service payments to manageable levels. With regard to commercial debt, the availability of concessional assistance to facilitate buy-backs at deep discounts would be helpful to many low-income countries.

74. As for the multilateral debt, IMF disagreed with the Secretary-General's view that, even after debt-relief measures, a significant number of countries would be left with unsustainable debt burdens. In fact, for the low-income countries debt to the Fund and the World Bank was essentially on concessional terms, so that, in all but a few cases, debt service had declined to manageable proportions. Furthermore, in so far as the strategy relied on medium-term adjustment policies combined with new lending on appropriate terms, it could not be said that new lending only postponed the day of reckoning. Finally, it should be noted that if the Fund were to introduce restructuring mechanisms for its own loans, it would undermine the revolving character of its resources and the burden would fall on the other users of the Fund.

75. If the Committee decided to adopt a resolution on the topic, it should be one that encouraged the Paris Club to use the flexibility provided under the current strategy to offer larger debt relief, urged donors to provide concessional assistance, and encouraged debtor countries to persevere in the implementation of strong and growth-oriented adjustment programmes.

76. Mr. OLANIYAN (Organization of African Unity) said that the debt crisis was a major impediment to the efforts of the African countries to overcome economic recession and promote development. Sub-Saharan African debt accounted for 12 per cent of the total volume of external debt of developing countries; it was, however, not the volume of debt that caused the problem but the burden of debt-service payments. Although the debt-service ratio had declined from 27.9 per cent in 1985 to 19 per cent in 1992, it still constituted an extraordinary burden for the world's poorest continent. Africa was currently spending four times more on debt-servicing than on the health services it provided for its 600 million people. Private investment would be crucial to solving the crisis, but the efforts of the African countries in that direction had not yielded tangible results and foreign investors were unwilling to take risks in countries that had been classified as bad debtors.

77. The Organization of African Unity welcomed the various initiatives taken by the United Nations, which had culminated in the adoption of plans aimed at easing the debt burden of developing countries. However, as the UNCTAD secretariat had pointed out, the fact that the external debt of those countries had not been significantly reduced suggested that the arrangements were not entirely satisfactory. The majority of the members of the Paris Club had

(Mr. Olaniyan)

decided to apply the less ambitious Toronto terms rather than the Trinidad and Tobago terms proposed by the United Kingdom. Moreover, most creditor Governments had difficulty in recommending debt forgiveness. It was obvious, therefore, that the current arrangements needed to be further refined and that appropriate complementary measures would have to be taken to alleviate the debt-servicing burden of the developing countries.

78. For a lasting solution to the debt crisis in Africa, it was essential to strengthen the foreign trade of African countries, to increase the number of export commodities through support for the establishment of the Commodity Diversification Fund, to fix better prices and to increase financial flows to the industrial sectors of the African countries to enable them to produce industrial products for exports.

79. Mr. HORIGUCHI (Japan) noted, in connection with the report of the Secretary-General (A/48/345), that solving the debt problem would not *ipso facto* eliminate external financial restrictions and resolve development problems. The problem was one which should be addressed in a comprehensive manner, taking into account all the aspects of economic growth and development. Debtor countries should adopt the necessary structural adjustment measures, supported by a favourable international economic environment and appropriate external assistance. His delegation welcomed the vigorous efforts made by a number of developing countries to address the adverse economic and social effects of structural adjustment policies. At the international level, he reaffirmed the importance of achieving a resumption of non-inflationary growth in the developed countries and a successful and early conclusion of the Uruguay Round. Assistance to debtor developing countries should help them to achieve access to private financing for their future growth. At the same time, the official financial assistance provided by the international community might well act as a catalyst. Japan had announced the establishment of a Fund for Development, through which a total of $120 billion would be expended over five years in the form of both official development assistance and private funds.

80. It should also be emphasized that the debt situation varied from region to region and from country to country, as did the economic environment in which the debtor countries existed. The international community should bear that in mind in providing assistance.

81. In conclusion, he said that Japan attached the highest importance to cooperation in solving external debt problems and hoped that progress would be made at the current session.

82. Mr. AMAZIANE (Morocco) said that, while some delegations maintained that the matter was no longer relevant and that no resolution should be adopted on the subject, it was in fact up to the indebted countries to decide. The crisis was still raging in Africa.

83. The total debt had increased very little between 1991 and 1992, owing above all to the exceptional growth in many Asian countries and, overall, the external debt indicators in the developing countries had improved because of the vitality of the economies of the Asian countries and the reduction in the debt of the

(Mr. Amaziane, Morocco)

Latin American countries. The external debt of the African countries was, however, having a devastating effect on the region, where the debt-to-GNP ratio and debt-to-export ratio were nearly three times that of the averages for the developing countries, mainly because most of the African countries remained dependent on exports of commodities, the prices of which were declining.

84. The international community had finally taken measures to reduce the intensity of the debt crisis and to eliminate the threat it represented for the international financial system. Noteworthy in that connection were the Brady Plan, the Houston terms, the Toronto terms and the enhanced Toronto terms. Nevertheless, many developing countries, particularly in Africa, had been unable to extricate themselves from debt, and increased international action would certainly be required. Creditor developed countries should adopt the Trinidad and Tobago terms for low-income countries. In addition, the international community should grant special treatment to lower middle-income developing countries which had introduced structural adjustment programmes so that they could mitigate the adverse effects of those reforms on the most disadvantaged social groups. Indebted countries could become solvent again only if solutions to the debt crisis were accompanied by measures to revitalize economic growth. Indeed, only a more stable and less uncertain international trade system could ensure substantial and predictable export revenue. Moreover, developed countries needed to adopt macroeconomic policies which would increase the stability of financial flows and ensure low interest rates, while developing countries must pursue structural adjustment policies accompanied by safety nets to protect the most vulnerable population groups.

85. The outlook for the flow of official development assistance was hardly encouraging in view of the role that such assistance played in alleviating the financial constraints of low-income countries. It was to be hoped that that was the result of a difficult economic phase rather than a deliberate policy on the part of donor countries.

86. Morocco had been carrying out a structural adjustment programme since 1983; as a result it had reduced imbalances substantially, ended its regular reliance on IMF resources and put an end to the cycle of restructuring. Despite two consecutive years of drought, it intended to pursue its restructuring efforts and to maintain its rigorous financial policy, while according priority to social development activities.

87. Mr. MUCHANGA (Zambia) said that the external debt crisis was no longer a threat to the international financial institutions and to the development of some developing countries. It continued, however, to threaten the development prospects of the African countries, whose exports were not growing rapidly and whose debt burden had not been relieved by debt and debt-service reductions. The debt-to-GNP ratios and the debt-to-export ratios in the African countries were nearly three times the average for all developing countries.

88. The officially accepted initiatives of the Paris Club were far from adequate when it came to resolving the debt crisis of the African countries and promoting their lasting recovery. In his own country, excessive payment obligations were delaying economic reforms, thus accentuating the austerity

(Mr. Muchanga, Zambia)

measures which the population had to endure. Debt and debt-service reduction should be consistent with sustained economic growth. The debt-to-export ratio should be brought below 20 per cent and, as called for in the New Agenda for the Development of Africa in the 1990s, donor support needed to grow at 4 per cent in real terms in order to revitalize growth in Africa.

89. Efforts to deal with multilateral debt also needed to be accelerated. The "fifth dimension" programme operated by the International Development Association and the rights accumulation programme of IMF had helped to solve the African debt crisis. Unfortunately, because of their external account deficits, a number of African countries were losing their right to borrow from the Bretton Woods institutions. That was a problem which must be resolved on an urgent basis.

90. A number of bilateral creditors were reluctant to embrace the Trinidad terms. It was to be hoped that many Governments would soon adopt that debt-reduction strategy, because the crisis in Africa was currently sapping the strength of the international system. The international community could not afford to let that crisis worsen.

91. Mr. THAKUR (India) said that some delegations felt that the debt question could only be dealt with on a case-by-case basis; that several rescheduling arrangements had been worked out; and that the process must be allowed to follow its course. Yet, the aggregate debt of the developing countries had only increased and the number of countries that had benefited from rescheduling remained limited. It was therefore essential to adopt an overall international strategy, incorporating measures for debt reduction and providing increased financial flows to low-income countries which continued to meet their obligations.

92. His own country had altered the structure of its debt by choosing medium- and longer-term financing in lieu of short-term capital and it had placed a cap on external borrowing, which was being diverted to basic industries with potential for saving, or even earning, foreign exchange. It had adopted a far-reaching programme of macroeconomic stabilization and structural reform. Its efforts had yielded some results. The deficit, like inflation, had been reduced, foreign currency reserves had increased, and there had been an acceleration in the growth of GDP. However, as the balance of payments would remain precarious for several more years, his country needed debt reduction and concessional flows, especially since its share of credit from the International Development Association had declined in recent years.

93. Efficient domestic policies were a necessary but not sufficient condition for sustained growth and the alleviation of poverty. Without the necessary infrastructure and a stable balance of payments, direct foreign investment would be limited. Furthermore, experience had shown that, in low-income countries, supply responded to adjustment programmes more slowly than expected. It was thus essential to address the debt issue as part of an overall package to improve the international economic climate.

(Mr. Thakur, India)

94. For the first time in decades, there were real prospects for truly universal economic and social cooperation. The conquest of hunger, ill health, and illiteracy was a feasible goal provided that the international community pooled its knowledge and its resources.

The meeting rose at 12.50 p.m.