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MACROECONOMIC POLICY QUESTIONS: EXTERNAL DEBT CRISIS AND DEVELOPMENT

Developing country debt situation as of mid-1996

Report of the Secretary-General

CONTENTS

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CONTENTS (continued)

I. INTRODUCTION

1. The General Assembly has held annual discussions on the external debt crisis and development since the depth and pervasiveness of the crisis became apparent in the mid-1980s. The discussions have aimed to advance the international community's policies to assist those developing and transition economies with unsupportable foreign debt burdens to emerge from under their debt overhang. Those policies, known collectively as the "international debt strategy", have evolved as international perceptions changed and they appear to be taking another major step forward in 1996. At the time of writing, however, certain important decisions were still pending, and thus the assessment of the international debt situation to be given in the present report will have to be a provisional one.

2. The assessment, in brief, is that promising policy departures are likely to be adopted, although implementation of those new policies will take some time. Also, while the debt situation of the targeted countries could be regularized by the new initiatives (i.e., arrears removed and regular debt-servicing of smaller obligations resumed), the vulnerability to future debt crises will remain for many countries.

3. One year ago, when the General Assembly adopted by consensus resolution 50/92 of 20 December 1995, a new appreciation of the need for a change in the international debt strategy was already in the air. Even though new debt-relief terms had been agreed only a year before for debt owed to government creditors (the Naples terms in the Paris Club), it was increasingly accepted that further relief would be needed for some countries. Moreover, the ministerial meetings of the Bretton Woods institutions in October 1995 requested the Executive Boards of the International Monetary Fund (IMF) and the World Bank to develop concrete proposals to address this situation and report on them at the next set of ministerial meetings in April 1996. 1/ Indeed, in its resolution 50/92, the General Assembly requested that the Secretary-General report to the Assembly at its fifty-first session on the outcome of the April 1996 meeting of the Development Committee (see paras. 6-8).

4. In the light of these developments, the present report highlights in section V the debt situation of a new grouping of countries that have become the focus of the new initiative, a grouping that has been named the "heavily indebted poor countries". The section describes the status as of mid-1996 of the proposals to address the debt difficulties of many of the heavily indebted poor countries. The report, of course, also reviews the debt situation in the developing countries more broadly and policy measures being brought to bear on the debt difficulties that many countries still face.

5. Resolution 50/92 was a comprehensive statement of policy needs to alleviate the debt burden of developing countries and accelerate their development. It addressed policy recommendations to Governments of developing and developed countries and the international community. It concerned issues of macroeconomic policy, international trade policy, encouragement of private financial flows, extension of concessional financial assistance, and other economic and social policy matters. Developments in some of these areas are the focus of other

reports to the General Assembly (especially the forthcoming report on global financial integration: challenges and opportunities and A/51/291 on net transfer of resources between developing and developed countries), as well as the reports of international institutions that are to be taken as background documentation to the work of the Assembly (see General Assembly resolution 50/227, annex I, para. 32). The present report thus focuses on debt concerns per se and their international management. As in previous reports in this series on debt, it was prepared in cooperation with the United Nations Conference on Trade and Development (UNCTAD) and drew as well upon the information and analysis of IMF and the World Bank.

II. OUTCOME OF THE DEVELOPMENT COMMITTEE MEETING OF 23 APRIL 1996

6. In paragraph 14 of its resolution 50/92, the General Assembly requested that it be informed of the outcome of the April 1996 meeting of the Development Committee, the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the transfer of real resources to developing countries. The Committee reached conclusions on three main issues at its April meeting, one of which - the external debt of the heavily indebted poor countries - is discussed in some detail in section V of the present report. The other issues were the replenishment of the funds of the International Development Association (IDA), the concessional lending arm of the World Bank and the report of the Task Force on Multilateral Development Banks that the Committee had established earlier. 2/

7. Negotiations on the eleventh replenishment of IDA had been very difficult, but an agreement was reached in March 1996, which the Development Committee endorsed. It would allow IDA to lend $22 billion over three years, beginning in July 1996. 3/ The Committee acknowledged that that was a significant achievement and it praised the countries that became new IDA donors, encouraged others to take similar action and thanked the countries that made supplementary or increased contributions; all told, however, it left IDA "with seriously constrained financial capacity to respond to countries' improved policy performance". 4/ Ministers also "stressed the importance of fair burden-sharing among IDA donors and called upon donors to honour their commitments on a timely basis". 5/ Ministers concluded that in the light of the difficulties encountered, prospects for IDA funding should "be a key issue for discussion by the Committee in a year's time". 6/

8. The report of the Task Force on Multilateral Development Banks was welcomed and praised for its careful assessment of the performance of the five institutions studied (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank and the World Bank). The Committee "generally agreed with the report's conclusions and recommendations, recognizing that not all apply equally to each institution". 7/ The multilateral development banks were urged to "act upon relevant recommendations as a matter of priority" and the Presidents of the banks were invited to "advise the Committee, in about two years' time" on progress in implementation of the major recommendations. 7/ Expressing great appreciation

and gratitude to the Chairman, Mr. Abdlatif Al-Hamad, the Committee then requested that the report be published and widely distributed. 8/

III. THE INTERNATIONAL DEBT STRATEGY: AN UPDATE

9. The international debt strategy in its current form has two fundamental parts: (a) the adoption by the debtor country of internationally supported programmes of adjustment and reform; 9/ and (b) debt restructuring, either rescheduling or partial cancellation of debt-servicing obligations due over a period of time or reductions in the stock of debt itself (equivalent to reductions in debt servicing for the remaining life of the loans). The latter are only accorded to countries meeting certain qualifications, including having the required "track record" in terms of macroeconomic adjustment policy. 10/ Restructuring is negotiated on a case-by-case basis, thereby reflecting the various circumstances of involved creditors and debtors, albeit within boundaries set by a standardized menu of options. The main operations under the international debt strategy in 1995 and the first half of 1996 may be briefly summarized.

A. Bilateral official creditors

10. Restructuring of intergovernmental loans and officially guaranteed private export credits usually takes place through the Paris Club. There, agreements are concluded between the debtor country Government and representatives of creditor countries with export credit facilities. Traditionally, the debt servicing due over a limited period, often a year or 18 months (and including outstanding arrears) would be rescheduled over a decade, including a grace period on principal payments, albeit with interest continuing to be collected on outstanding balances throughout the rescheduling period. The debt relief embodied in this type of agreement is in the delay of principal payments; no payments are cancelled. The extent of Paris Club debt rescheduling would be based on the debtor country's balance-of-payments financing requirements and availability of new official and private financing, as assessed during negotiations on IMF-supported adjustment programmes.

11. Although Paris Club members usually account for the bulk of the debt owed by a country to official bilateral creditors, a number of creditor countries have not participated in Paris Club meetings (including members of the Organization of the Petroleum Exporting Countries and formerly centrally planned economies). The Russian Federation is currently exploring the possibility of joining the Paris Club, in view of its considerable claims on many countries that seek debt relief. 11/

12. In recognition of the excessive debt burden of a number of low-income countries, Paris Club creditors adopted concessional rescheduling terms that went beyond delay of payments to partial cancellation of payments. In June 1988, they introduced the "Toronto terms", reducing by one third the servicing due during specified periods on the affected debt of severely indebted low-income countries. The Paris Club saw 28 agreements signed under the Toronto terms with 20 countries, rescheduling almost $6 billion of debt. The

concessionality of these terms were improved upon under the "London terms" (also known as "enhanced Toronto terms"), agreed in December 1991, which raised the percentage of relief on the servicing of Paris Club debt to 50 per cent. 12/ Under the latter terms, 25 agreements were signed with 23 countries, rescheduling over $9 billion of debt. 13/

13. In December 1994, Paris Club creditors adopted the "Naples terms", building on the previous London terms, but improving them in several respects. First, they raised the maximum debt-service reduction from 50 per cent to up to 67 per cent for eligible low-income countries. Second, in exceptional circumstances, creditors could offer concessional rescheduling of the stock of eligible debt, not just the principal falling due during a limited period. In addition, Naples terms provide more flexibility than previous terms on the coverage of debt that could be rescheduled. For instance, debt previously rescheduled on concessional terms (i.e., Toronto or London terms) became subject to further rescheduling to raise the original level of concessionality to the new level provided by Naples terms. Countries that have either a per capita gross national product of less than $500 or a ratio of debt to exports of more than 350 per cent on a net present value basis (defined below) are eligible for the new terms.

Agreements for low-income countries

14. Between January 1995 and June 1996, 22 countries signed agreements with the Paris Club. 14/ Of the 22 countries, 19 were granted the new concessional treatment. In virtually all cases, all eligible debt that was never rescheduled or that was rescheduled on non-concessional terms was reduced. Most of them obtained the most generous relief, namely a 67 per cent reduction in the debt servicing being treated, while only three countries - Cameroon, Guinea and Honduras - received a 50 per cent reduction. Only four countries had the stock of affected debt treated (instead of the servicing due over a limited period): Uganda, in February 1995; Bolivia, in December 1995; and Mali and Guyana, both in May 1996.

15. Despite these increasingly generous terms, the overall reduction in debt-servicing obligations has been less than the debt-relief ratios per se indicate. Paris Club creditors reschedule only that part of the medium and long term, official and officially guaranteed debt that was contracted before a specified date, known as the "cut-off date". This date is fixed in the first Paris Club rescheduling signed by the debtor country. The standard policy of the Club has been to leave the cut-off date unchanged. This has often limited the amount of bilateral debt becoming eligible for Paris Club treatment. Also, in most cases, the newer Paris Club agreements covered the debt servicing already restructured under Toronto terms, although they usually only re-rescheduled such debt servicing instead of further reducing it. 15/ Most debt agreements have excluded debt restructured more recently under London terms. 16/

16. For a number of low-income countries expected to return to the Paris Club over the next year or so, the time is arriving when they could receive a restructuring of the stock of their eligible Paris Club debt (provided they have maintained a good track record with IMF and fully implemented the interim Paris

Club agreements). Hence, there might be an acceleration in the number of stock operations under Naples terms in the months ahead.

Agreements for middle-income countries

17. Only a small number of recently rescheduling countries have been middle-income countries. Over the period from January 1995 to June 1996 for instance, only 4 of the 22 rescheduling countries belonged to that category. Among them were Croatia and the former Yugoslav Republic of Macedonia, which signed their first agreements with the Paris Club in 1995.

18. One of the most notable features in the treatment applied to the debt of middle-income countries has been the increasing use of graduated repayment schedules, whereby, following a short grace period, payments take place with a progressively increasing amortization schedule. Graduated payment schedules enable debtor countries to avoid the bunching of debt service obligations which takes place at the end of the grace period in conventional reschedulings.

19. Some bilateral rescheduling agreements were completed outside the Paris Club. The Islamic Republic of Iran reached agreements with creditors to restructure arrears on short-term debt and maturing letters of credit. Moreover, bilateral agreements were reached between Honduras and Costa Rica; Haiti and Venezuela; and Algeria and Saudi Arabia.

B. Private creditors

20. During the period under review, restructuring of developing countries' debt to commercial banks has mainly continued under the two-pronged approach applied since the beginning of the 1990s. 17/ Debt of middle-income developing countries has mainly been restructured through "Brady-type" operations, involving debt or debt-service reduction. These operations entail agreeing with a committee of the creditor banks to offer to all the involved banks a menu of comparable options, including the buy-back or conversion of the outstanding loans into new securities bearing either lower interest rates or reduced face value. The securities are typically backed by some form of collateral to guarantee repayment of principal and sometimes interest (the collateral is usually in the form of debtor-Government purchase of United States treasury bonds having the same maturity as the new securities). The second prong entails buy-back operations for low-income countries with the assistance of official creditors and donors, particularly the Debt Reduction Facility of IDA.

21. In the first category of operations, Peru reached an agreement in principle with its commercial bank creditors in October 1995 to restructure $4.2 billion of principal and $3.5 billion of interest arrears. The menu of options for creditor banks includes a buy-back and a 45 per cent discount bond. In April 1996, Panama signed a $3.5 billion "Brady-type" debt accord with its commercial creditors involving $2 billion of principal and $1.5 billion of interest arrears. The agreement reduces the country's external commercial bank debt by 31 per cent. It involves the exchange of around 82 per cent of existing debt for interest reduction bonds, 14 per cent for par bonds and 4 per cent for discount bonds. The par and discount bonds have a life of 30 years, with all

the principal being repaid at maturity. The interest reduction bonds have a life of 18 years with a five years grace period.

22. In addition, in May 1996, Viet Nam agreed in principle with its commercial bank creditors to restructure its $900 million bank debt (over half of which is in interest arrears). The majority of the debt is owed to Japanese banks. The menu of options includes a cash buy-back and par and discount bonds, both with 30-year maturities. The accord, involving a 50 per cent debt reduction, is an important step towards Viet Nam's integration into international financial markets.

23. Among other low-income countries, Sierra Leone completed in August 1995 an agreement to buy back $235 million of commercial bank debt. The operation took place in two stages. In May 1995 a first buy-back of about $160 million was finalized, at 15 cents per dollar. The second tranche of about $73 million was purchased in August at a price of 8 cents per dollar. The cost of the operation was covered by the World Bank's Debt Reduction Facility, 18/ the European Union and European bilateral donors. Moreover, in December 1995, Nicaragua bought back $1.1 billion of its outstanding bank debt (81 per cent of the total) at a price of 8 cents per dollar. Including some $300 million in overdue interest claims, the total amount involved in the operation was $1.4 billion. The total cost of the operation was financed by a grant from the Debt Reduction Facility, a loan from the Inter-American Development Bank and grants from the Governments of the Netherlands, Sweden and Switzerland.

IV. DEBT INDICATORS

24. The gross external debt of capital-importing developing countries grew by an estimated $120 billion in 1995, topping $1.7 trillion by the end of the year. That was a 7.4 per cent increase over the previous year and left the total dollar value of debt 81 per cent more than it had been a decade before (see table 1). In a change from the earlier years of the 1990s, long-term lending by official creditors rose faster than private lending, largely as a result of the international rescue package for Mexico and a smaller one for Argentina. 19/ While the growth of private credit flows dropped in Latin America and the Caribbean, as a temporary fallout of the Mexican crisis, they expanded significantly further in Asia, particularly in East Asia's emerging markets, reflecting investors' increased discrimination among borrowers through a closer evaluation of economic fundamentals. As a result, Asia registered the largest rise in the debt stock among geographical regions, and its share in the debt stock of developing countries reached nearly 40 per cent of the total last year.

25. Meanwhile, Africa's share of the total debt stock gradually declined from around 22 per cent in 1990 to about 18 per cent last year (see figure). 20/

26. Overall, long-term debt remains fairly equally distributed between official and private creditors, with the latter holding about 47 per cent of the total in 1995. However, the distribution varies substantially by region. On one extreme, close to 60 per cent of Latin America's long-term debt is owed to private creditors; on the other hand, the share of private creditors in Africa is less than 26 per cent, reflecting the traditionally limited market access of that region. In Asia, private creditors' share rose from 40 to 46 per cent between 1990 and 1995.

Table 1. External debt of capital-importing developing countries, 1985-1995

(In billions of United States dollars)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995[a]
All countries[b]											
Total external debt	934.2	1 026.5	1 157.7	1 153.0	1 167.8	1 284.3	1 347.4	1 404.7	1 482.2	1 603.1	1 721.4
Long-term debt	793.2	890.2	1 008.0	997.9	996.7	1 080.4	1 120.4	1 150.6	1 204.6	1 307.3	1 400.2
Concessional	167.1	191.3	229.2	240.0	278.6	307.1	328.6	341.1	360.2	394.5	..
Bilateral	124.5	142.9	172.2	179.7	212.5	231.9	244.9	251.8	263.5	283.5	..
Multilateral[c]	42.6	48.4	56.9	60.3	66.1	75.2	83.7	89.3	96.7	111.1	..
Official, non-concessional	164.2	202.0	244.0	240.9	215.5	271.7	284.3	286.5	293.1	312.0	..
Bilateral	66.8	81.2	97.8	102.4	107.3	114.1	120.9	125.9	126.1	136.3	..
Multilateral	61.3	83.0	107.8	106.2	79.6	127.3	134.5	133.8	140.8	149.6	..
IMF	36.1	37.8	38.5	32.3	28.6	30.3	28.8	26.7	26.1	26.1	35.8
Private creditors	461.8	496.9	534.8	517.0	502.6	501.6	507.6	523.0	551.3	600.8	652.3
of which:											
Bonds[d]	34.8	37.8	40.6	43.6	46.1	103.7	110.4	121.4	155.0	209.8	..
Commercial banks[d]	244.8	272.5	300.2	296.5	286.5	210.6	202.9	193.9	174.3	141.6	..
Short-term debt	141.1	136.3	149.7	155.0	171.2	204.0	227.0	254.1	277.6	295.8	321.1
Memo items:											
Principal arrears on long-term debt	16.4	23.9	28.0	37.4	41.7	52.4	56.2	64.1	68.8	78.4	90.8
Interest arrears on long-term debt	6.2	8.7	15.1	18.1	29.0	39.6	42.4	39.0	38.0	35.2	34.9
Latin America											
Total external debt	410.0	430.4	471.4	458.1	454.2	476.5	490.6	504.7	531.0	562.4	606.7
Long-term debt	364.4	393.8	426.4	409.0	394.6	399.0	402.9	409.2	432.0	457.0	494.3
Concessional	33.9	36.3	42.3	44.9	46.3	49.1	52.2	54.1	56.2	59.7	..
Bilateral	28.9	30.8	36.5	38.9	40.1	42.4	45.2	46.8	48.5	51.2	..
Multilateral	5.1	5.5	5.8	5.9	6.2	6.7	7.0	7.3	7.7	8.5	..
Official, non-concessional	61.2	75.4	95.0	98.1	100.4	116.4	120.9	121.1	123.2	125.3	..
Bilateral	20.7	23.6	31.0	37.0	38.9	45.0	48.4	51.8	51.8	52.0	..
Multilateral	25.9	35.4	45.9	44.8	45.9	53.3	55.4	54.5	57.5	59.9	..
IMF	14.5	16.3	18.1	16.3	15.6	18.1	17.1	14.8	13.9	13.4	26.8
Private creditors	269.3	282.2	289.1	266.0	247.9	233.5	229.8	234.0	252.6	272.1	281.4
of which:											
Bonds[d]	17.8	17.6	16.8	18.1	19.1	76.0	79.1	81.8	108.9	156.4	..
Commercial banks[d]	173.5	189.0	200.8	190.3	178.6	102.7	97.4	95.4	76.1	40.0	..
Short-term debt	45.7	36.5	45.0	49.2	59.6	77.5	87.7	95.6	99.0	105.3	112.4
Memo items:											
Principal arrears on long-term debt	6.9	9.6	12.6	15.3	18.6	25.3	25.0	25.5	22.5	21.5	22.5
Interest arrears on long-term debt	2.7	3.5	8.3	8.6	16.6	25.7	27.7	21.4	15.6	9.6	7.0

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995[a]
Africa											
Total external debt	198.3	224.0	258.3	262.0	268.9	279.7	283.0	278.5	281.8	303.5	313.8
Long-term debt	160.8	185.1	226.3	230.3	234.4	244.8	248.7	241.9	240.3	259.8	267.4
Concessional	48.1	55.4	66.1	69.2	73.1	79.6	87.5	91.3	96.1	106.1	..
Bilateral	34.3	39.0	45.5	46.8	47.9	51.1	55.5	57.3	59.0	63.1	..
Multilateral[c]	13.9	16.4	20.6	22.3	25.2	28.4	32.0	34.0	37.1	43.0	..
Official, non-concessional	47.0	60.4	75.2	74.0	76.6	79.2	81.5	79.3	77.9	87.6	..
Bilateral	28.9	38.7	48.3	48.3	51.3	51.8	53.2	51.6	49.1	56.9	..
Multilateral	10.0	14.2	18.8	18.3	18.7	21.2	22.6	22.7	23.8	24.9	..
IMF	8.1	7.6	8.1	7.4	6.6	6.1	5.7	5.0	5.0	5.8	3.6
Private creditors	65.7	69.2	84.9	87.1	84.7	86.1	79.7	71.2	66.3	66.0	69.1
of which:											
Bonds[d]	5.6	5.0	5.2	4.7	4.5	3.6	3.1	5.1	2.9	3.3	..
Commercial banks[d]	20.5	22.1	30.9	32.8	31.4	30.8	28.9	22.4	21.4	21.4	..
Short-term debt	37.5	38.9	32.1	31.7	34.75	34.9	34.3	36.6	41.5	43.7	46.4
Memo items:											
Principal arrears on long-term debt	8.2	13.3	13.3	19.9	19.9	22.2	22.0	25.3	30.9	34.8	41.7
Interest arrears on long-term debt	3.3	5.1	6.6	8.9	11.1	11.6	11.7	13.9	17.8	20.1	21.2
Sub-Saharan Africa[e]											
Total external debt	79.6	93.0	112.4	114.5	120.3	135.9	141.4	144.3	149.0	156.0	159.0
Long-term debt	70.2	83.0	100.1	100.9	103.7	115.9	119.7	120.4	122.1	130.2	132.3
Concessional	27.9	33.4	41.7	44.0	47.4	55.3	60.3	63.2	66.8	73.5	..
Bilateral	17.4	20.4	24.8	25.3	25.9	29.4	30.9	31.7	32.5	33.7	..
Multilateral[c]	10.5	13.0	16.9	18.7	21.5	25.9	29.5	31.5	34.3	39.8	..
Official, non-concessional	22.5	27.5	33.9	33.0	32.3	35.7	34.8	33.8	32.4	34.7	..
Bilateral	11.7	14.9	19.2	19.3	20.6	23.7	23.8	23.7	22.7	25.5	..
Multilateral	4.7	6.2	8.1	7.7	7.0	7.5	7.2	6.9	6.8	6.1	..
IMF	6.0	6.4	6.6	6.0	4.7	4.4	3.8	3.2	3.0	3.1	0.9
Private creditors	19.9	22.0	24.5	23.9	24.1	24.9	24.6	23.3	22.9	21.9	..
of which:											
Bonds[d]	0.4	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	..
Commercial banks[d]	6.7	7.4	8.2	7.8	8.0	8.5	8.1	7.7	7.7	7.7	..
Short-term debt	9.4	10.0	12.3	13.6	16.6	20.1	21.7	23.9	26.8	25.8	26.7
Memo items:											
Principal arrears on long-term debt	4.2	5.6	8.2	11.0	13.7	16.8	20.7	23.2	26.7	28.2	32.6
Interest arrears on long-term debt	1.9	2.6	3.8	5.4	7.4	8.9	10.9	12.5	15.2	15.9	16.6

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995[a]
Asia											
Total external debt	254.6	290.6	332.3	337.0	377.9	421.6	463.3	504.8	545.0	612.6	670.4
Long-term debt	206.1	241.5	273.3	275.0	312.6	347.4	376.1	406.7	437.0	489.1	534.0
Concessional	66.2	77.7	94.4	99.3	131.5	149.7	158.2	166.1	178.4	198.0	..
Bilateral	44.2	53.3	66.6	69.9	99.6	112.6	116.7	121.2	129.7	142.0	..
Multilateral[c]	22.0	24.4	27.9	29.3	31.9	37.1	41.5	44.8	48.7	56.0	..
Official, non-concessional	39.6	47.0	51.8	48.9	49.9	56.9	62.7	68.3	75.8	82.1	..
Bilateral	11.6	12.6	11.8	10.8	10.8	11.5	13.5	17.1	20.82	22.0	..
Multilateral	18.0	23.7	30.5	31.3	33.6	39.9	43.6	44.5	48.6	53.8	..
IMF	10.0	10.6	9.5	6.9	5.6	5.5	5.6	6.7	7.0	6.3	4.3
Private creditors	100.4	116.8	127.0	126.8	131.2	140.8	155.2	172.4	182.8	208.9	245.4
of which:											
Bonds[d]	11.1	14.9	17.9	17.4	17.3	18.2	21.7	25.6	30.0	35.6	..
Commercial banks[d]	37.4	44.8	48.6	51.3	54.0	54.6	55.6	55.8	58.7	60.0	..
Short-term debt	48.5	49.1	59.0	62.0	65.3	74.2	87.1	98.1	108.0	123.5	136.4
Memo items:											
Principal arrears on long-term debt	0.8	0.1	0.0	0.8	1.5	2.2	4.7	7.3	7.8	11.1	12.9
Interest arrears on long-term debt	0.1	0.0	0.0	0.2	0.9	1.5	1.9	2.2	2.3	2.7	2.9
Least-developed countries											
Total external debt	54.1	63.5	77.4	81.8	86.1	96.1	100.4	103.7	106.8	115.1	117.3
Long-term debt	47.9	57.1	69.4	72.4	75.1	83.2	86.1	87.7	90.5	97.2	98.7
Concessional	33.5	39.6	48.9	52.6	55.4	62.1	66.1	68.9	72.8	79.0	77.7
Bilateral	21.3	24.8	30.3	32.1	32.5	34.6	35.3	35.9	36.9	38.3	34.3
Multilateral[c]	12.3	14.8	18.6	20.5	22.9	27.5	30.8	33.0	35.9	40.7	43.4
Official, non-concessional	13.8	17.1	19.9	19.1	18.9	20.3	19.2	18.0	17.0	17.5	20.3
Bilateral	8.3	10.8	13.0	12.9	13.6	15.4	15.3	15.0	14.4	15.3	18.9
Multilateral	1.5	2.1	2.2	2.0	1.8	1.7	1.1	0.6	0.3	0.0	0.0
IMF	4.0	4.2	4.7	4.2	3.5	3.2	2.8	2.4	2.2	2.3	1.4
Private creditors	9.1	10.7	13.0	13.3	13.5	14.3	14.1	13.7	13.5	13.5	13.5
of which:											
Bonds[d]	0.0.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks[d]	2.6	2.9	3.4	3.2	3.2	3.4	3.0	2.9	2.9	3.0	3.0
Short-term debt	6.3	6.4	7.9	9.4	11.0	12.9	14.3	16.0	16.3	17.9	18.6
Memo items:											
Principal arrears on long-term debt	4.0	5.1	7.6	9.7	11.8	14.7	17.9	19.9	22.8	26.0	30.3
Interest arrears on long-term debt	1.8	2.3	3.5	4.5	6.2	7.6	9.1	10.4	12.2	14.1	15.1

Source: United Nations/Department for Economic and Social Information and Policy Analysis, based on data of IMF, the Organisation for Economic Cooperation and Development (OECD) and the World Bank.

[a] Estimate.

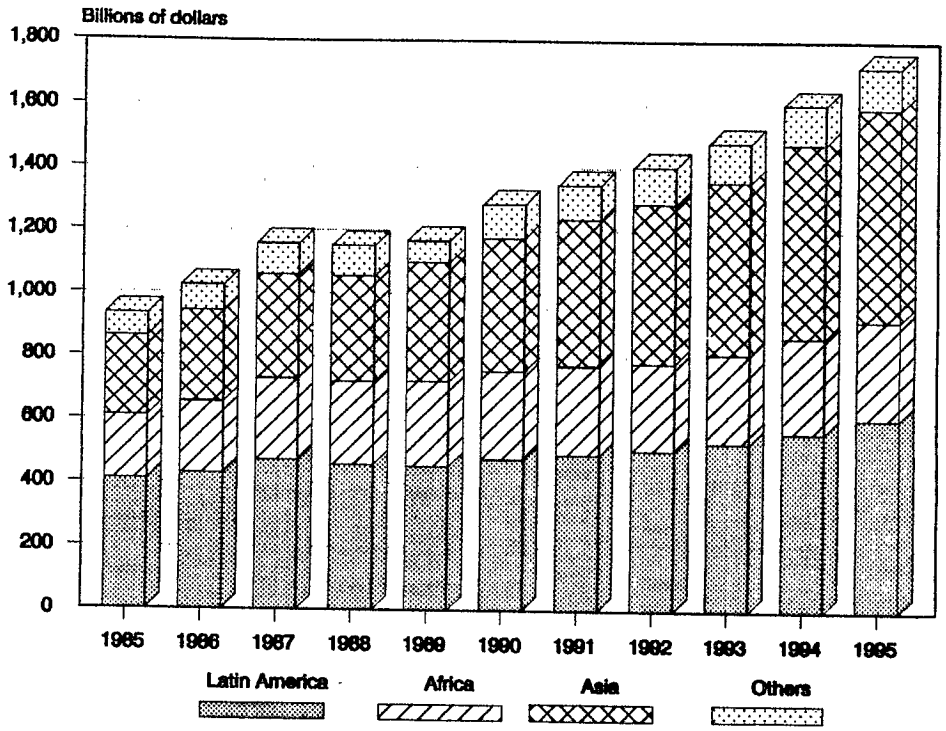
[b] Debt of 122 economies, drawn primarily from the data of the debtor reporting system of the World Bank (107 countries). For non-reporting countries, data are drawn from the creditor reporting system of OECD (15 economies), excluding, however, non-guaranteed bank debt of offshore financial centres, much of which is not the debt of the local economies.

[c] Including concessional facilities of IMF.

[d] Government or government-guaranteed debt only.

[e] Excluding Nigeria and South Africa.

Figure. Foreign debt of the capital-importing developing countries, 1985-1995



Source: United Nations/Department for Economic and Social Information and Policy Analysis, based on IMF, OECD and World Bank data.

27. A rising dollar value of debt outstanding by itself does not indicate if the debt situation has improved or worsened. Indicators are commonly used to help make this assessment in terms of the capacity of countries to generate income and export earnings necessary to service their accumulated debt. The most common are the ratio of external debt to the gross national product; the ratio of external debt to exports of goods and services; and the ratio of debt service to exports.

28. Based on these indicators, the overall debt situation of developing countries appears to have improved somewhat last year (see table 2). In particular, the average ratio of external debt to exports for all countries fell to the lowest level since the beginning of the debt crisis. Once again, however, indicators vary extremely both among and within regions. In Latin America, despite a considerable improvement during the last decade, the debt-to-export ratio remains at critical levels; moreover, the debt-to-gross national product ratio increased last year, partly as a result of the recession in parts of the region. In addition, the debt service-to-exports ratio - at 30 per cent - remains considerably above the 20-25 per cent range considered as a rule-of-thumb for sustainability. The increase in that ratio reflected higher debt service on restructuring agreements concluded in past years and clearance of arrears. Debt indicators in Asia - traditionally much lower than those of the other main regions - improved across the board, as growth in the gross national product and exports outpaced the rise in external debt.

29. In Africa, improvement in the indicators arising from the combination of some debt forgiveness and export-led recovery tended to be offset by the increase in total debt in 1995. Consequently, despite some improvement in the debt-to-gross national product ratio, it remains by far the highest among all regions. Also, the debt-to-exports ratio is the highest in this decade. Moreover, the already high debt service-to-exports ratio should be seen in the context of a continued build-up of arrears, as the ratio is based on the estimated debt service actually paid. The severity of the situation is even clearer in sub-Saharan Africa (excluding Nigeria and South Africa), where most indicators are above critical levels and accumulated arrears (on principal and interest) on long-term debt accounted for almost one third of the region's external debt at the end of 1995 (see table 1). A similar conclusion could be reached for the debt of the least developed countries taken as a group: for them, arrears were close to 39 per cent of total debt and the ratios in table 2 remain at very high levels despite slower growth of debt itself. 21/

30. The picture of the developing country debt situation seen from these aggregate indicators is usefully supplemented by indicators at the country level. Indeed, the analysis of the number of developing countries classified by the World Bank as "severely indebted" (see table 3) leads to an even less encouraging overall picture: the list of countries with a fragile debt situation is still extremely long. Most of these countries are in active debt crisis; others have emerged from debt crises or have not undergone an outright crisis but are still judged vulnerable under the World Bank's criteria.

Table 2. Debt indicators and debt-service payments for capital-importing developing countries, 1985-1995

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995[a]
Debt indicators (percentage)											
Ratio of external debt to GNP											
All countries	44.1	47.0	49.3	43.8	40.1	39.1	39.5	38.1	37.5	37.0	36.8
of which:											
Latin America	62.2	63.7	65.7	56.7	50.1	44.9	45.5	42.7	40.0	37.1	39.6
Africa	57.8	66.7	72.8	72.0	73.6	70.4	72.4	69.7	71.0	76.4	72.4
Asia	26.0	28.6	30.4	26.3	26.6	27.2	27.8	27.9	28.6	28.5	26.8
Memo items:											
Sub-Saharan Africa	75.9	77.7	87.0	86.9	91.3	98.9	103.0	108.3	114.2	135.8	120.9
Least-developed countries	58.4	63.6	71.1	75.2	76.6	82.6	86.0	91.5	91.9	98.5	89.8
Ratio of external debt to exports											
All countries	179.9	198.8	185.6	158.6	143.2	138.9	138.9	132.4	130.2	122.8	115.1
of which:											
Latin America	326.1	392.7	384.7	332.5	293.2	277.3	281.8	276.0	274.5	258.4	254.0
Africa	208.9	262.3	273.1	263.9	252.4	223.1	229.5	218.7	232.9	248.7	248.8
Asia	101.9	105.6	94.0	78.0	78.0	77.4	76.7	73.5	71.8	67.7	63.1
Memo items:											
Sub-Saharan Africa	259.7	302.5	338.8	327.7	320.7	327.1	352.0	356.6	386.0	384.5	366.3
Least-developed countries	281.5	358.3	372.4	375.5	356.0	368.0	408.2	412.8	436.6	435.3	410.8
Ratio of debt service to exports											
All countries	23.5	24.5	21.8	19.9	17.3	15.7	14.6	14.5	14.6	12.9	12.9
of which:											
Latin America	38.6	44.4	38.2	39.6	32.1	26.3	26.2	28.9	30.0	27.5	30.3
Africa	26.1	29.1	23.8	26.0	24.3	24.0	23.2	22.3	22.4	19.0	19.6
Asia	15.7	15.5	15.4	11.7	10.7	9.9	8.8	8.6	9.2	8.1	7.7
Memo items:											
Sub-Saharan Africa	21.3	24.8	23.1	22.3	19.3	17.7	17.6	15.3	14.4	16.7	19.3
Least developed countries	15.9	22.1	17.6	17.2	16.1	14.1	14.6	11.2	11.2	11.3	16.8

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995[a]
Debt-service payments (billions of dollars)											
All countries											
Total debt service	122.2	126.5	135.8	144.9	141.3	144.9	142.0	153.6	166.1	168.8	192.8
Interest payments	67.7	63.1	62.0	70.7	66.4	65.1	66.8	64.5	64.0	72.0	86.4
of which: non-concessional	65.2	60.1	58.9	67.1	62.4	59.9	61.6	58.5	57.5	64.7	..
Latin America											
Total debt service	48.5	48.6	46.8	54.5	49.8	45.2	45.6	52.8	58.0	59.9	72.3
Interest payments	35.0	30.4	28.6	33.2	25.7	22.4	23.9	22.8	22.9	27.0	35.1
of which: non-concessional	34.6	29.9	28.1	32.6	25.3	21.5	23.0	21.9	21.9	25.9	..
Africa											
Total debt service	24.7	24.8	22.5	25.8	25.9	30.1	28.6	28.3	27.0	23.2	24.7
Interest payments	10.9	10.5	9.4	11.2	11.6	12.4	11.6	11.1	9.5	10.3	11.1
of which: non-concessional	10.4	9.9	8.9	10.5	10.8	11.3	10.8	9.7	8.1	8.5	10.2
Asia											
Total debt service	39.3	42.7	54.4	50.7	51.9	54.2	53.3	59.0	69.6	73.4	81.8
Interest payments	17.2	17.2	18.7	20.2	23.5	24.0	25.5	24.8	26.5	29.7	34.5
of which: non-concessional	15.9	15.6	17.0	18.2	21.2	21.2	22.4	21.5	22.8	25.6	..
Memo items:											
Sub-Saharan Africa											
Total debt service	6.5	7.6	7.7	7.8	7.2	7.4	7.1	6.2	5.6	6.8	8.4
Interest payments	3.0	3.2	3.0	3.2	3.0	3.1	3.1	2.7	2.4	2.8	2.6
of which: non-concessional	2.7	2.9	2.7	2.8	2.6	2.7	2.6	2.2	1.9	2.2	..
Least-developed countries											
Total debt service	3.1	3.9	3.7	3.7	3.9	3.7	3.6	2.8	2.7	3.0	4.8
Interest payments	1.4	1.5	1.4	1.6	1.4	1.4	1.5	1.2	1.2	1.3	1.3
of which: non-concessional	1.1	1.1	1.0	1.1	1.0	0.9	0.9	0.6	0.6	0.6	0.6

Source: United Nations/Department for Economic and Social Information and Policy Analysis, based on data of IMF, OECD and the World Bank.

Note: Country coverage is the same as in table 1.

[a] Preliminary estimate.

Table 3. Developing countries classified as severely indebted by the World Bank a/

Low-income countries b/	Middle-income countries b/
Burundi c/	Algeria
Cambodia	Angola c/
Cameroon c/	Argentina
Central African Republic c/	Bolivia c/
Congo c/	Brazil
Côte d'Ivoire c/	Ecuador
Equatorial Guinea c/	Gabon
Ethiopia c/	Jamaica
Ghana c/	Jordan
Guinea c/	Mexico
Guinea-Bissau c/	Morocco
Guyana c/	Panama
Honduras c/	Peru
Kenya c/	Syrian Arab Republic
Liberia c/	---
Madagascar c/	Cuba d/
Mali c/	Iraq d/
Mauritania c/	
Mozambique c/	
Myanmar c/	
Nicaragua c/	
Niger c/	
Nigeria c/	
Rwanda c/	
Sao Tome and Principe c/	
Sierra Leone c/	
Somalia c/	
Sudan c/	
Togo c/	
Uganda c/	
United Republic of Tanzania c/	
Viet Nam c/	
Yemen c/	
Zaire c/	
Zambia c/	

Afghanistan d/	

Source: World Bank, World Debt Tables, 1996, vol. 1, pp. 53 and 54.

(Footnotes on following page)

(Footnotes to table 3)

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a/ Countries in which the ratio of the present value of debt servicing to exports is above 220 per cent or the ratio of the present value of debt servicing to the gross national product is above 80 per cent.

b/ Countries are classified as low-income if their 1994 gross national product per capita is $725 or less and middle-income if their 1994 gross national product per capita is more than $725 but less than $8,956.

c/ Countries classified as a member of the heavily indebted poor countries group.

d/ Countries not reporting to the World Bank's debtor reporting system.

31. The concept of debt stock used in the Bank's calculations of the severely indebted countries is an advance over the simple total of outstanding debt. Because the debt-servicing burden of a given stock of debt differs according towhether the country has a large or small percentage of concessional loans, the Bank measures the stock of debt as the present value of the stream of scheduled debt-service payments over the life of the debt, discounted by current market interest rates. 22/ By this measure, if two countries have the same dollar value of debt but one has mainly concessional loans with long repayment terms and the other mainly has loans on commercial terms, then the present value of the first country's debt will be lower than the second country's present value. The point is that after re-calculating the stock of debt using present value measures, a large number of low-income countries are still seen to have extremely high debt levels.

32. In its 1996 edition of World Debt Tables, the Bank listed 52 developing countries as severely indebted, defined as having either a ratio of present value of debt service to the gross national product over 80 per cent, or a ratio of present value of debt service to exports over 220 per cent, each ratio averaged over the three years, 1992-1994. The list increased from 49 countries in the previous year's edition, with five new countries (Cambodia and Togo among low-income countries and Algeria, Gabon and Mexico among middle-income ones) and only two "graduating" from the list (Lao People's Democratic Republic from the former group and Uruguay from the latter).

33. It is also worth noting that 16 of the 52 countries listed this year are middle-income countries, reminding us that the vulnerability to debt crisis is not limited to low-income countries. Finally, while African countries are disproportionately represented, 20 of the 52 countries are not from the African continent. Indeed, the continuing scope of the problem appears to have fully justified the General Assembly's call, as in resolution 50/92, for new efforts towards its resolution.

V. TOWARDS A COMPREHENSIVE APPROACH TO THE DEBT PROBLEM OF HEAVILY INDEBTED POOR COUNTRIES

34. In its early stages, in the early 1980s, the international debt strategy assumed that the crisis was a liquidity problem, sparked by the combination of high international interest rates and low commodity prices caused by a recession in the developed economies. The initial response was therefore additional lending aimed at financing existing debt obligations, coupled with adjustment programmes to restore macroeconomic balance. But the persistence of the crisis eventually indicated that it was a solvency issue, needing a variety of responses including significant debt reduction for many countries. Since then, the strategy evolved and a wide range of measures has been adopted, achieving considerable progress. Still, the preceding analysis underlines the inadequacy of existing mechanisms for securing a sustainable external position over the medium term in a large number of countries.

35. Indeed, for many countries, particularly low-income ones, even as some debt obligations were being written off, others were being serviced indirectly with some of the proceeds of new loans and the cash flow from official development

assistance. Meanwhile, the additional lending was adding to the stock of outstanding debt. Many low-income countries had thus become insolvent, but whereas private creditors who bear the losses stop lending to insolvent debtors, donors and official creditors were unwilling to let the net transfer of financial resources to these countries deteriorate as much as it would with a cut-off of funds.

36. Thus, an additional dimension had to be added to the international assistance strategy for these countries: in the short term, traditional concessional lending and debt relief would maintain a certain flow of resources in support of adjustment and development programmes, but the promise would be held out that if the programmes bore encouraging results, the debt overhang itself would be addressed. This strategy was embodied in the Naples terms for Paris Club debt restructuring for certain low-income countries, which offered to negotiate a reduction in the stock of debt based on a country's "track record" after a period of years of annual debt-servicing concessions.

37. The newest development is to acknowledge that the debt-stock treatment needs to be extended to debt owed to multilateral organizations as well as bilateral and private creditors if some countries are ever to regain solvency. In addition, attention has focused on the heavily indebted poor countries as a new grouping of countries, many of which are to be target recipients of the new treatment (see table 4). In 1994, the multilateral debt of the heavily indebted poor countries reached $62 billion, or about 26 per cent of their total external debt of $241 billion. At the same time, multilateral debt service represented over 46 per cent of the total debt service of these countries. Three multilateral financial institutions, IMF, the World Bank and the African Development Bank, accounted for over 80 per cent of the heavily indebted poor countries' multilateral debt.

38. Debt owed to multilateral creditors could not be formally restructured or subjected to cancellation or reduction owing to the "preferred-creditor" status enjoyed by the institutions (borrowers agree to service debt to these institutions before other obligations). One mechanism did exist to ease the servicing of multilateral debt and that was to use some of the cash flow from new loans from the concessional windows of the institutions to indirectly pay debt-service obligations on their outstanding non-concessional loans. 23/

39. The largest multilateral source of concessional loans, only a small part of which is used for debt operations, is IDA, the soft-loan window of the World Bank. It accounted for 44 per cent of the multilateral debt of heavily indebted poor countries in 1994. The main IMF vehicle for concessional lending to heavily indebted poor countries is the Enhanced Structural Adjustment Facility (ESAF). The share of concessional debt owed by these countries to IMF rose from 56 per cent in 1993 to 72 per cent in 1995. In turn, the heavily indebted poor countries accounted for 69 per cent of total IMF concessional lending in 1995. Concessional lending from the African Development Bank is through the African Development Fund. All three facilities have recently had difficult replenishment exercises (the one for ESAF was expected to be agreed by the time of the Annual Meetings of the Boards of Governors of IMF and the World Bank in the fall of 1996). 24/ All three facilities would have a role to play in the new framework for debt relief.

Table 4. IMF and World Bank assessment of "debt sustainability" of 41 heavily indebted poor countries

Sustainable	Possibly stressed	Unsustainable	Not yet determined
Angola	Bolivia	Burundi	Liberia
Benin	Cameroon	Guinea-Bissau	Nigeria
Burkina Faso	Congo	Mozambique	Somalia
Central African Republic	Côte d'Ivoire	Nicaragua	
Chad	Ethiopia	Sao Tome and Principe	
Equatorial Guinea	Guyana	Sudan	
Ghana	Madagascar	Zaire	
Guinea	Myanmar	Zambia	
Honduras	Niger		
Kenya	Rwanda		
Lao People's Democratic Republic	Uganda		
Mali	United Republic of Tanzania		
Mauritania			
Senegal			
Sierra Leone			
Togo			
Viet Nam			
Yemen			

Source: IMF Survey, 15 July 1996, p. 230.

New framework of action to resolve the debt problems of heavily indebted poor countries

40. The staff of the World Bank and IMF proposed at the April 1996 meetings of the Interim and Development Committees a formal framework for action to resolve the debt problems of the heavily indebted poor countries. The proposal, which was welcomed by the two committees, is centred on the following six principles: (a) overall debt sustainability is to be targeted on a case-by-case basis; (b) action is envisaged only when the debtor has demonstrated its ability - through a track record - to put the exceptional support to good use; (c) new measures should build as much as possible on existing mechanisms; (d) additional action should be coordinated among all creditors involved, with broad and equitable participation; (e) any action by multilateral creditors should preserve their financial integrity and preferred creditor status; and (f) new external finance should be on appropriately concessional terms.

41. The initiative offers eligible countries a commitment by the creditor community to alleviate their debt burden in order to bring it to sustainable levels, conditional on an extended period of sound policy performance. This would be achieved through a reduction in the net present value of the claims on the indebted country. In each case, the various bilateral and multilateral creditors would provide relief proportional to their exposure to the indebted country. The underlying idea is that assisting these countries in reducing their external debt burden should help increase investor confidence and remove an important impediment to growth.

42. The proposed framework involves two stages. The first stage would build on the existing three-year track record of adjustment programmes needed to qualify for a stock-of-debt operation from Paris Club creditors. At the end of that period it would be determined whether Naples terms, together with at least comparable relief by other bilateral and commercial creditors, would be sufficient to bring the country to a sustainable external debt service position, allowing it to exit the rescheduling process. In the case of a negative conclusion, the country would have to undertake a second three-year adjustment programme supported by the Fund and the Bank to obtain the necessary debt relief.

43. During the second stage, Paris Club creditors would grant flow rescheduling of up to a suggested 90 per cent, as required, on a case-by-case basis, subject to a satisfactory implementation of the programme. In addition, from the beginning of the second stage, donors and multilateral institutions could provide additional assistance in the form of grants or concessional loans which, in some cases, could be used for debt service payments. A country pursuing the second phase of adjustment would be promised relief from both bilateral and commercial creditors in an amount sufficient to ensure debt sustainability at the end of the period. Multilateral institutions would then commit to provide the additional assistance necessary to reduce the present value of their claims to a level consistent with overall debt sustainability.

44. Eligibility for the initiative would be based on income levels (below the IDA operational threshold) and an assessment of the country's debt sustainability. In turn, the criteria for sustainability were defined as a debt

service-to-exports ratio in the range of 20-25 per cent, and a ratio of 200-250 per cent for the present value of debt to exports. To these criteria a set of "vulnerability factors" was added, such as the country's reserve position, its dependence on a single or limited number of commodity exports, its vulnerability to external shocks and the impact of its debt service on its fiscal position. Preliminary results of the analysis carried out at the Bank and the Fund classified the debt of 8 of the 41 heavily indebted poor countries as "unsustainable" and that of 12 other countries as "possibly stressed" (see table 4). Thus, about 20 countries would currently qualify for action under this initiative.

45. Table 5, however, presents debt-burden indicators for the 41 heavily indebted poor countries for the period 1992-1994. During that period, only five countries had a ratio of present value of debt to exports lower than 200 per cent, and only six scored better than the sustainability threshold for the debt service-to-exports ratio. As heavily indebted poor countries' debt is largely public debt, the fiscal burden of external debt service is particularly important for these countries. While in 25 countries such burden exceeded 50 per cent of government revenues in 1994, in 13 it even topped total fiscal revenues. Furthermore, in 22 countries, scheduled debt service represented over 50 per cent of government current expenditure. In sum, for quite a large number of heavily indebted poor countries, present debt burdens appear hardly sustainable.

46. Whatever the size of the target group of countries to be assisted by this initiative, it requires additional financial efforts from both bilateral and multilateral creditors. The simple reallocation of resources already designated for development purposes would simply be unfair to other countries that did not develop unsustainable debt burdens. In this regard, pressure has mounted on multilateral financial institutions to make larger contributions through greater use of their own resources. This too, however, has an opportunity cost.

47. In any event, whatever action is taken by multilateral creditors, it should not undermine their standing in financial markets. This means, in effect, that the originally contracted loans by the institutions must be fully serviced by the debtors, with the resources they use for that purpose being provided under the new initiative. Among the proposed measures for the World Bank and other multilateral development banks is to establish a "multilateral debt-reduction fund", built up with resources from the Bank's net income and other multilateral and bilateral contributions. In the case of IMF, ESAF loans would be the likely vehicle to indirectly refinance harder IMF loans outstanding. For countries needing more relief than available from standard ESAF loans, additional options are under consideration, including the extension of the maturities of ESAF claims (repaying a concessional loan over a longer period reduces its present value) and the provision of grants to help service the obligations.

Table 5. Debt burden indicators for the heavily indebted poor countries, 1992-1994
(Percentage)

Country	Debt to exports		Debt to GNP			Scheduled debt service to	
	Nominal value	Present value[a]	Nominal value	Present value[a]	Debt service to exports	Government current expenditure	Government revenue
Angola	302	278	204	188	32	63	98
Benin	272	142	82	43	11	45	46
Bolivia	457	332	85	62	46	35	31
Burkina Faso	201	104	38	20	12	24	28
Burundi	891	388	111	48	40	31	33
Cameroon	303	250	79	65	36	68	111
Central African Republic	464	243	79	41	22	39	68
Chad	400	195	70	34	13	23	48
Congo	434	370	292	249	52	47	63
Côte d'Ivoire	557	486	263	228	64	79	91
Equatorial Guinea	435	308	177	126	14	105	111
Ethiopia	608	383	77	49	38	30	31
Ghana	392	242	84	52	27	37	29
Guinea	402	255	94	59	31	82	74
Guinea-Bissau	1934	1280	328	217	106	123	144
Guyana	479	345	563	405	31	102	92
Honduras	347	271	134	104	41	65	54
Kenya	307	225	114	84	39	36	29
Lao People's Democratic Republic	791	214	149	41	7	6	6
Liberia	374	339	142	128	8	...	...
Madagascar	694	495	160	114	71	100	166
Mali	523	288	115	63	31	65	75
Mauritania	469	327	226	158	60	113	87
Mozambique	1367	1039	444	337	95	141	183
Myanmar	600	442	38	28	32	6	7
Nicaragua	2879	2579	804	720	172	409	415
Niger	544	322	82	48	45	52	110
Nigeria	277	250	109	99	38	75	105
Rwanda	1142	533	93	44	47	22	80
Sao Tome and Principe	2082	1101	788	418	97	78	183
Senegal	253	166	77	50	23	48	50
Sierra Leone	835	637	203	156	93	99	111
Somalia	4711	3745	321	254	150	...	...
Sudan	3384	3057	188	169	87	196	189
Togo	367	226	112	69	25	54	99
Uganda	1285	733	99	56	89	33	31
United Republic of Tanzania	1005	719	317	228	79	62	74
Viet Nam	638	524	198	162	44	17	15
Yemen	239	189	176	139	30	12	24
Zaire	706	594	136	114	46	624	608
Zambia	592	465	217	170	49	152	186

Source: UNCTAD, Trade and Development Report, 1996, based on data from World Bank, World Debt Tables, 1996, vol. 1 and IMF, Official Financing for Developing Countries, December 1995.

Note: Exports include goods and services. Fiscal indicators are for 1994.

[a] The present value of debt is used to account for differing borrowing terms and is calculated by discounting future debt service, defined as the sum of interest payments and principal repayments over the next 40 years. The discount rates used are the interest rates charged by the OECD countries for officially supported export credits (commercial interest reference rates), except for IBRD loans and IDA credits, which are discounted using the latest IBRD lending rates, and obligations to IMF, which are discounted at the special drawing rights lending rate.

VI. CONCLUSION

48. The external debt crisis emerged in the early 1980s. The 1990s are half over and "external debt crisis and development" is necessarily still on the agenda of the international community. Indeed, the number of severely indebted developing countries is not declining, despite increasingly concessional terms for addressing the debt difficulties of a significant number of countries. The solution of the crisis for the countries still caught in it, as is now widely recognized, involves a combination of sound adjustment measures and a stable economic, political and social environment that promotes investor confidence, coupled with adequate debt relief, official financial support and a buoyant and open world economy.

49. The new initiative at IMF and the World Bank to advance the resolution of the external debt problems of heavily indebted poor countries is a most welcome step forward. It endorses the need for a concerted and comprehensive approach, with broad and equitable participation of all creditors, including multilateral creditors, aimed at achieving debt sustainability. It also recognizes that measures beyond current mechanisms are required. Moreover, it is important to underline that preliminary analysis undertaken to determine sustainability levels and hence eligibility for the initiative is indicative of need and should not prejudge the potential inclusion of other countries in the programme. Some flexibility, both in terms of the use of debt indicators for eligibility and the time-frame of enhanced multilateral measures, may be required to assist countries with a satisfactory policy track record to resume sustainable growth and normal external financial relations.

50. More generally, two additional areas of concern remain to be addressed if the debt overhang of heavily indebted poor countries is to be gradually eliminated. First, it is essential that an adequate replenishment of the soft-loan windows of multilateral financial institutions is implemented in order to provide the necessary resources on terms that are affordable to these countries and without sacrifices being imposed on other countries. Second, the focus over the years on commercial bank debt, Paris Club debt and now multilateral debt still leaves one form of debt to be adequately addressed, namely that owed to bilateral creditors that have not participated in the Paris Club. A coherent framework to deal with this debt appears critical for a number of heavily indebted poor countries in Africa.

51. With the signing in July 1996 of a Paris Club agreement for Peru, the debt-restructuring process for middle-income countries has largely been completed. However, as indicated in table 3, several middle-income countries still display the indicators of a fragile external financial position. As is clear from developments in some of these countries in the past few years, they remain highly vulnerable to external shocks and domestic policy mistakes can be extremely costly. Central to avoiding new crises seems to be limiting exposure to the more volatile forms of finance before an economy is ready and maintaining the confidence of international financial investors. Individual countries have a central responsibility in this regard, but the international community is also undertaking to play a greater role, as described in a companion report to the present session of the General Assembly. 25/

Notes

1/ Communiqués of the IMF Interim Committee, 8 October 1995, para. 9, and the IMF/World Bank Development Committee, 9 October 1995, para. 8.

2/ Communiqué issued by the Development Committee on 23 April 1996.

3/ For more detail on the agreement and its implementation, see A/51/291.

4/ Communiqué issued by the Development Committee on 23 April 1996, para. 2.

5/ Ibid., para. 4.

6/ Ibid., para. 5.

7/ Ibid., para. 14.

8/ Ibid., para. 15.

9/ These usually involve monetary stabilization, fiscal austerity, a shift to more liberal trade and investment regimes, privatization and measures aimed at increasing domestic saving and investment rates.

10/ For a summary of the major components of the current debt strategy, see the report of the Secretary-General entitled "The developing country debt situation as of mid-1995" (A/50/379 and Corr.1), table 1.

11/ Russian claims on developing countries inherited from the Soviet Union were valued by the Russian Federation at $173 billion at the end of 1993. About two thirds of the heavily indebted poor countries are indebted to the Russian Federation and, on the basis of creditor country valuation, the Russian claims account for around one quarter of their total debt. Both the coverage and valuation of many of these claims, however, are disputed by debtor countries (see IMF, Official Financing for Developing Countries (Washington, D.C., December 1995), pp. 93-99).

12/ For more details, see World Bank, World Debt Tables, 1992/93, vol. 1 (Washington, D.C., December 1992), pp. 75-78.

13/ See World Bank, World Debt Tables, 1991/92, vol. 1, p. 62, for a summary of the Toronto terms agreements, and World Debt Tables, 1994/95, vol. 1, p. 64, for a summary of the London terms agreements.

14/ There were 17 agreements in 1995 for 16 countries: Guinea, Cambodia, Togo, Uganda, Guinea-Bissau, Chad, Croatia, Nicaragua, Bolivia, Senegal, Haiti, Mauritania, Macedonia, Algeria, Cameroon, Gabon and again Bolivia; there were six agreements in 1996: Zambia, Honduras, Sierra Leone, Mali, Guyana and Burkina Faso.

15/ In the cases of Bolivia, Chad, Guinea-Bissau, Guyana, Mali and Uganda, however, the debt servicing already reduced under Toronto terms was further cut

down to reach a percentage of relief of 67 per cent of the original claims. This is known as the topping up principle.

16/ Except in cases of the agreements with Bolivia, Guyana, Mali and Zambia, where the reduction on the debt already cut down under London terms was topped up to 67 per cent.

17/ Traditional rescheduling agreements with groups of creditor banks are also occasionally still arranged (e.g., one was agreed in 1994 and another in 1995).

18/ The Debt Reduction Facility was established at the World Bank in 1989 for low-income countries (more precisely, countries only eligible to borrow from IDA). It provides grants for use in buy-backs of commercial bank debt at deep discount, using contributions from the net income of the Bank and from donors.

19/ Owing to its heavy borrowing in the past few years, including the 1995 rescue package, Mexico overtook Brazil as the largest debtor among developing countries.

20/ These developments in debt mirror the capital flow and net transfer developments in the same period (see A/51/291, sect. I).

21/ The least developed countries, as a group, are not usually a formal focus of international policy on external debt relief, as they are in the realm of trade policy or official development assistance. However, 27 of the least developed countries are classified as "severely indebted low-income countries" (as in table 3) and 29 are classified as heavily indebted poor countries (as in table 4).

22/ The present value calculation gives the dollar value today of a security that would yield the equivalent income stream as the debt servicing flows over time.

23/ Actually, one programme, the IDA "Fifth Dimension" programme, accords refinancing directly in the form of supplementary IDA credits to help pay the debt-servicing charges on outstanding World Bank loans for a group of low-income countries.

24/ For a review of these developments, see A/51/291, sect. II.

25/ See the forthcoming report of the Secretary-General on global financial integration: challenges and opportunities.
