United Nations

A/56/262

General Assembly

Distr.: General
2 August 2001

Original: English

Fifty-sixth session
Item 107 (d) of the provisional agenda*
Macroeconomic policy questions: external debt crisis and development

The external debt and debt-servicing problems of developing countries, including those resulting from global financial instability

Report of the Secretary-General**

Contents

* A/56/150.

** The footnote requested by General Assembly resolution 54/248 was not included in the submission.

01-49141 (E) 190901

Tables

I. Introduction

1. In its resolution 55/184 of 20 December 2000, the General Assembly, noting with concern the continuing debt and debt-servicing problems of heavily indebted developing countries, requested the Secretary-General to provide the General Assembly at its fifty-sixth session with a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries, including, inter alia, those resulting from global financial instability. The present report has been prepared in response to that request. It first looks at the overall debt situation of the developing countries and economies in transition, the recent evolution of conventional debt indicators and changes in the pattern of external financing of the developing countries and in the nature of their external debt problems. Section III deals with recent developments in external debt owed to official creditors, and the progress made by the international community in alleviating the debt burden in the context of the Heavily Indebted Poor Countries (HIPC) Initiative and the Paris Club. The report goes on to discuss recent developments in financial obligations of developing country debtors vis-à-vis private creditors and international capital markets, and takes up the issue of how to involve the private sector in the prevention and resolution of financial crises. The report concludes, in section V, with a number of policy recommendations.

II. The external debt situation of developing countries

A. Recent developments

2. The year 2000 has seen some improvements in the external debt indicators of developing countries and transition economies. With the total stock of debt virtually unchanged in nominal terms, and gross national product (GNP) growth rates exceeding 5 per cent in both developed and transition economies, debt to GNP ratios improved in all regions, and provisional figures for debt to exports ratios even show larger improvements (table 1). However, these improvements should be interpreted with care. Cross-country differences in growth in export earnings were particularly large in 2000 owing to the differential effects of commodity price developments and of strong growth in the United States of America and recovery in East Asia. Moreover, debt service continues to represent a heavy burden for many developing countries, in particular in sub-Saharan Africa and Latin America, as well as among the transition economies, and arrears on interest payments have actually risen in Latin America and East Asia in 2000. Such difficulties can be expected to be aggravated considerably by the sharp slowdown in the global economy in the current year, which has had a particularly severe effect on many highly indebted countries.

3. An outcome of increased volatility of international financial conditions and frequent crises in emerging markets is the tendency to build up reserves as a safeguard against a rapid exit of capital and speculative attack on currencies. Indeed, developing countries are increasingly advised to hold reserves not only to meet imports but also their short-term liabilities.[1] For all developing countries and transition economies taken together, the stock of reserves rose by $67 billion or more than 9 per cent in 2000. At the end of the year, international reserves were almost double the amount of short-term debt; at the beginning of the past decade this ratio was less than one. Reserve build-up in 2000 was highly concentrated in East Asia, where reserves rose to more than three times the stock of short-term debt. While increased stock of international reserves may enhance, to a certain extent, the room for manoeuvre in cases of short-term liquidity problems, they entail considerable costs because for a large number of developing countries and transition economies such reserves are borrowed at rates well above the interest earned on them.

B. The changing profile of developing country debt

4. In the course of the past decade there have been important shifts in the structure of overall external financing of developing countries, in part as a consequence of capital account liberalization and measures to attract foreign direct investment (FDI) and portfolio flows. Non-guaranteed borrowing by the private sector has risen rapidly compared to public and publicly guaranteed debt. Moreover, syndicated bank lending, which had been the most important source of external financing for Governments in the 1970s and early 1980s, has been increasingly replaced by international bond issues.

5. The share of medium- to long-term borrowing in total financial inflows has been falling considerably, from 70 per cent in 1990/91 to around 20 per cent in

1999/00. While most of this decline occurred in the aftermath of the East Asian crisis, there was already a general trend in the early 1990s; the average share of such borrowing in total financial flows in the 1990s was 30 per cent compared to 58 per cent in the 1980s. FDI has become the single most important type of capital inflow to developing countries, accounting for about two thirds of all resource flows during the 1990s.[2] The fastest growth in all types of financial flows to developing countries and transition economies over the past decade was in portfolio equity investments, which rose sixfold to reach an annual average of more than $40 billion at the end of the decade. Both FDI and portfolio equity flows are highly concentrated in a small number of emerging markets. In most developing countries, particularly low-income countries, these types of financial flows are unlikely to reduce dependence on commercial borrowing or official inflows.

6. Official lending from both bilateral and multilateral sources followed a downward trend during the 1990s. This trend was reversed in 1997/98, when official creditors stepped in to support the crisis-ridden emerging markets in East Asia. By contrast, net commercial long-term loans, which had fallen dramatically after the debt crisis of the first half of the 1980s, rose sharply in the first half of the 1990s, from less than $20 billion per annum in 1990/91 to almost $100 billion in 1996/97. Thereafter these flows have shown a high degree of volatility. They became negative in 1999 before recovering in 2000.

7. The composition of commercial debt flows has also undergone important changes with potential consequences for resolving debt-servicing problems. First, a much larger share is now in the form of bilateral bank lending, often by a single financial institution to a developing country private debtor. Second, bond issues rapidly gained importance in the 1990s as a source of commercial credit; their share in total debt flows rose from less than 4 per cent in the 1980s to 7.6 per cent in 1990/91 and to more than 50 per cent in 1999/00. But such issues by developing countries have fallen sharply since 1997.

8. These developments in the pattern of financial flows are reflected in the changing structure of developing country debt (table 2). The share of private debt in the total long-term debt of developing and transition economies rose from 51.1 per cent in 1989 to 57.5 per cent in 1999. The rising share of commercial debt has been almost entirely due to the increasing importance of international bond issues; the share of bonds in long-term commercial debt of all developing and transition economies rose from 8.5 per cent in 1989 to 40 per cent in 1999 (table 3). The share of bonds in all long-term debt rose from around 8 per cent in 1989 to 23 per cent in 1999. The main factor behind this development has been sovereign bonds as countries returned to private capital markets to retire their Brady debt. The share of sovereign bonds in total commercial debt rose from 8.5 per cent at the end of the 1980s to 30.4 per cent at the end of the 1990s, while the corresponding share of bank debt fell from almost 60 per cent to less than 20 per cent in the same period. The share of international bond debt by private issuers from developing and transition economies also rose in the 1990s; while such debt was almost non-existing before the mid-1980s, it represented 9.6 per cent of total commercial debt and 5.5 per cent of the total long-term debt in 1999.

9. For middle-income countries international bond debt accounted for 28.2 per cent of total external debt in 1999, compared to 5.5 per cent in the low-income countries. In the latter group more than 70 per cent of the external debt was due to official creditors, almost the same ratio as in the 1980s. However, the share of official bilateral debt fell from 47.6 to 40.5 per cent between 1989 and 1999, while that of multilateral debt rose from 21.2 per cent to 30.6 per cent. Debt reduction in the context of the Paris Club and increased crisis lending by multilateral institutions appear to have played a role in this shift.

C. The changing significance of traditional debt indicators

10. The increasing share of portfolio equity flows and FDI in external financing of developing and transition economies has important implications for the analytical significance of conventional debt-service indicators. Financial transfers related to non-debt financial instruments are, by definition, not reflected in these indicators, but their balance-of-payments implications could be quite similar. With the increasing importance of portfolio equity flows and FDI in total financial flows, debt and debt service ratios tend to lose significance as indicators of external financial vulnerability and of flexibility in the allocation of foreign exchange reserves.

11. The increased importance of such flows can also bring greater instability to balance of payments. Although in most cases payments of dividends tend to be cyclical as company profits are higher when output and exports are growing faster, repatriation of such capital income is difficult to predict and is a potentially more volatile item in the current account than international interest payments. Similarly, evidence suggests that even FDI flows can respond rapidly to changes in short-term economic conditions, particularly since non-repatriated earnings on existing stocks of FDI have become an increasing source of FDI inflows in recent years. Although it is often presumed that these earnings are automatically reinvested in physical capital, existing statistical measures cannot distinguish between their use for such a purpose and their investment in financial assets including government and private debt instruments. Moreover, even when FDI is connected to the acquisition of some productive assets, these may be used as collateral for borrowing and capital outflows.[3]

12. Finally, the analytical significance of conventional indicators relating debt to exports needs to be reassessed in light of the spread of global production sharing. Export-to-gross domestic product (GDP) ratios have risen in many countries without a corresponding increase in domestic value-added in export industries because of locating different stages of production of a given final product in different developing countries. This also makes difficult comparisons in terms of debt/export or debt-service ratios since the import content of exports differs considerably across time and countries. Therefore, export value figures would need to be adjusted for different degrees of import content in order to serve as a meaningful indicator for the availability of foreign exchange for meeting current external financial obligations. But there are serious practical difficulties in making such an adjustment and estimating exports in value-added terms.

III. Official debt

A. The Heavily Indebted Poor Countries (HIPC) Initiative

1. Recent progress

13. Since it was launched in 1996, the HIPC Initiative has received broad support from the international community as a comprehensive and coordinated approach designed to help countries to exit once and for all from debt problems. However, there has been increasing concern over the effectiveness of this Initiative in removing the debt overhang of the poorest countries. The shift from the original Initiative (HIPC I) to the Enhanced HIPC Initiative (HIPC II) has brought some improvement. However, expectations that this Initiative will put an end to repeated debt rescheduling for the countries concerned have been further scaled down because of continued problems regarding underfunding, restrictions over eligibility, inadequate debt relief, excessive conditionality and cumbersome procedures.

14. By mid-2001, of the 41 countries categorized as HIPCs, only two (Uganda and Bolivia) had reached completion point, receiving the full extent of debt relief possible under the Initiative. Twenty-three countries had reached the decision point. Four countries have been deemed non-eligible for debt relief beyond that provided by traditional mechanisms. It is expected that before the end of 2001 only a few more will reach the decision point.

15. Among the 23 countries that had reached decision points by mid-2001, 19 are from Africa and four from Latin America.[4] According to the World Bank and the International Monetary Fund (IMF), they are eligible for receiving debt relief totalling $34 billion in nominal terms. Together with traditional debt relief mechanisms and additional bilateral debt reduction, a total of $53 billion should be provided to these countries. This represents approximately 70 per cent of the total debt relief expected to be delivered under the Initiative.

16. Under HIPC II, countries that reach decision points are entitled to interim assistance by both the World Bank, IMF and some other creditors, notably the Paris Club. However, the actual benefits may be quite limited as the delivery of the main components of debt relief packages, including debt stock reduction from the Paris Club, remains conditional on the finalization and successful implementation of the Poverty Reduction Strategy Papers (PRSPs), which set out the country's macroeconomic and structural reform policies, as well as concrete poverty-reduction goals.

17. Most of the countries that had not reached decision point by mid-2001 were engaged in, or had recently emerged from, internal or cross-border armed conflicts. Consideration is being given to accommodate

the special circumstances of such countries in the implementation of the Initiative by shortening the time required for reaching both the decision point and the completion point, as well as by "front-loading" interim assistance to minimize human suffering.

18. Since the second half of 2000, several bilateral creditors have announced the provision of more generous debt relief than that agreed under HIPC terms. The Government of the United Kingdom of Great Britain and Northern Ireland announced in December 2000 that it would cancel claims outright or hold in trust all payments made by HIPC countries to the United Kingdom since December 2000, returning them to the countries concerned. Italy recently decided to cancel 100 per cent of commercial and concessional credits of HIPCs. The Finance Minister of Canada put forward a proposal during the meeting of the Group of Eight in Okinawa, Japan, in 2000 to have a moratorium on debt-servicing payments from countries that have reached their decision point, conditional on an acceptable track record of reform. This proposal is similar to the recommendation made in the report of the Secretary-General to the General Assembly at its fifty-fifth session on recent developments in the debt situation of developing countries (A/55/422). And at the Third United Nations Conference on the Least Developed Countries, in May 2001, the participating Governments undertook, in the Brussels Declaration, "to make expeditious progress towards full cancellation of outstanding official bilateral debt within the context of the Enhanced HIPC Initiative. ... [and] to provide debt relief to post-conflict countries within the flexibility provided under the HIPC framework" (A/CONF.191/12, para. 9). They further declared that the debt sustainability of least developed countries (LDCs), including non-HIPC LDCs, would continue to be subject to review, and that consideration might be given to granting a moratorium on debt-service payments in exceptional cases.

2. Paris Club contribution to the HIPC process

19. In the revised HIPC framework, the majority of the 23 countries which by mid-2001 had reached decision point are receiving enhanced debt relief from Paris Club creditors. Uganda and Bolivia benefited from supplementary debt stock reduction after reaching their completion points, allowing the agreed share of Paris Club creditors in the debt relief operations under the HIPC Initiative to be attained. This also implied cancellation of part of post-cut-off date debts, and a departure from the Paris Club principle to treat only pre-cut-off date debt. This will also be needed for a number of other cases in which the stock of normally eligible Paris Club debt is not sufficient to deliver the necessary relief and to meet the debt sustainability targets agreed under the HIPC Initiative.

20. The first countries to conclude new Paris Club flow rescheduling agreements on Cologne terms (which provide for a 90 per cent reduction in present value terms of debt service due on eligible debts) were Mauritania and the United Republic of Tanzania in 2000. Cameroon, Chad, Guinea, Guinea-Bissau, Madagascar, Malawi and the Niger followed in the first half of 2001. Four HIPCs had their existing Paris Club agreements "topped up" to Cologne terms through supplementary debt relief (Benin, Burkina Faso, Mali and Senegal).

21. A number of other HIPCs are expected to secure similar agreements later in the year, either for debt stock reduction as they reach their completion points under the enhanced HIPC framework as Bolivia did in June 2001, or for flow reschedulings on Cologne terms under existing agreements or in the context of new support arrangements concluded with IMF. Two HIPCs, Honduras and Mozambique, are currently benefiting from a moratorium on debt service.[5]

22. Of the HIPCs which have yet to reach the decision point, Ethiopia in April 2001 obtained a flow rescheduling on Naples terms (which provide for a 67 per cent reduction in present value terms in debt service due on eligible debts), and is expected to attain that point and become eligible for additional relief under Cologne terms later in 2001. Two of the four HIPCs that are expected to achieve debt sustainability after receiving relief under traditional mechanisms were also involved in debt rescheduling with the Paris Club. In November 2000 Kenya obtained a non-concessional rescheduling of arrears and debt-service payments totalling $300 million on Houston terms for a 12-month consolidation period up to the end of June 2001. Yemen, which had rescheduled its debts with the Paris Club on Naples terms twice previously, in June 2001 agreed with the Paris Club on a debt stock operation under the same terms; following this agreement, that country is expected not to require further rescheduling.

23. HIPC countries are now receiving clearly more favourable treatment in the Paris Club. In flow reschedulings under Cologne terms, creditors have in general chosen the simpler, outright debt reduction option under which eligible maturities due during the consolidation period are written off by 90 per cent. Treatment of other payments due has varied from case to case. However, all previously rescheduled debts have normally been included in the consolidation. The debt reduction extended in flow reschedulings under Cologne terms corresponds to the interim relief provided by the group of Paris Club creditors under the HIPC Initiative. In general, debt-service obligations during the consolidation period have been significantly reduced.

24. Moreover, the majority of Paris Club members have pledged debt relief beyond the assistance required of them under the enhanced HIPC Initiative. Most of them have pledged to offer 100 per cent relief on all pre-cut-off date debt; several have, in addition, pledged 100 per cent relief also on post-cut-off date debt. However, a debtor country may have to wait for a considerable time before it can fully benefit from such relief; in most cases the additional relief beyond Cologne terms will be provided only at completion point. One reason for postponing these additional measures is the concern for equitable burden-sharing among creditors; another is that most of the additional bilateral relief is subject to the conditionality provided for in the overall HIPC framework.

3. Outstanding issues in the implementation of the HIPC Initiative

25. There continues to be substantial concern in the international public debate regarding the appropriateness of the terms of debt relief under the HIPC Initiative. It is often argued that many countries will have great difficulty in complying with the conditionality associated with debt relief. Furthermore, the debt relief provided may not only be insufficient to produce a sustainable external debt situation for many countries, but it is likely to come from the existing aid flows, thereby not increasing the overall financing available to developing countries as a whole.

26. Under HIPC II the provision of debt relief has been directly linked to the alleviation of poverty with a view to ensuring that the poorest parts of the population benefit from the Initiative. While this link has received considerable support, the preparation and finalization of Poverty Reduction Strategy Papers (PRSPs) is generally seen as a complicated process involving extensive consultations among many actors, including civil society in the debtor countries, before it is approved by creditors and the sponsoring institutions. In some cases the formulation and implementation of PRSPs are likely to require institutional and administrative capacity that exceeds that of most of the HIPCs. This can lead to a further lengthening of the procedure leading to the actual provision of debt relief. Moreover, the poverty reduction goals formulated in the PRSPs may be unrealistic, motivated by an effort to meet the expectations of creditors, and leading to excessive conditionality. There may also be trade-offs between poverty reduction and other policy targets. Indeed, in a study prepared by the United States General Accounting Office, PRSPs have been found to contain inconsistencies between the poverty reduction goals and macroeconomic objectives.[6]

27. The process leading to the completion point and compliance with conditionality tends to be excessively time-consuming. Indeed, while HIPC II envisages a "floating" completion point, the preparation and finalization of a PRSP may take up to two years, after which the successful implementation of the poverty reduction strategy has to be demonstrated by a one-year satisfactory track record. Considering the serious economic problems facing HIPCs, and the urgency with which they need improved access to external finance, various propositions have been put forward to make the process more flexible and to accelerate its pace. These include "front loading" of debt relief, at the decision point, and greater flexibility in applying the condition of satisfactory track record.

28. As experience with the HIPC Initiative advances, attention is shifted to debt sustainability beyond the completion point. Various analyses undertaken in this respect have cast further doubts over whether the Initiative will be able to achieve a once-and-for-all exit of HIPCs from debt problems, avoiding repeated debt rescheduling. It is now widely acknowledged that, in a number of cases, debt sustainability analysis has significantly overestimated export earning and growth potentials of HIPCs in comparison with their historical trends, because exogenous factors such as movements in commodity prices and exchange rates, and the demand for exports, were not properly taken into account. In some cases the potential contribution of

domestic policies to growth and capital formation has also been overestimated. Projections have been over-optimistic with regard to the foreign exchange reserves that could serve as a buffer against export-earning shortfalls in complying with debt-service payments, as part of these reserves had to be put aside for payments to non-Paris-Club creditors, including in some cases other HIPCs. Indeed, a report prepared by the staff of the World Bank and IMF confirmed that the projections by the very same institutions had been unrealistic in a number of cases.[7] The report examined the sensitivity of long-term debt sustainability of countries that have reached decision point to shortfalls in export earnings and new concessional financing compared to the projections in the original debt sustainability analyses. It concluded that the room for a significant deterioration without impacting long-term debt sustainability and poverty reduction is limited, and that countries that have reached decision points are likely to have resort again to unsustainable borrowing.

29. In June 2000, the United States General Accounting Office came to the conclusion that unless strong and sustained economic growth was achieved, the Initiative would unlikely lead HIPCs to a lasting exit from debt problems.[8] But recent findings suggest that a one-off debt reduction within the enhanced HIPC framework is unlikely to put all the countries concerned on a path of sustained growth. Since the risk of a new debt build-up remains, it is urgent to design contingency measures and safeguards for the countries that are about to reach completion points. In order for a country to maintain long-term debt sustainability in the face of possible external shocks which may require new external financing, a higher level of official development assistance (ODA) will be necessary. Additional debt relief based on a comprehensive reassessment of the debt problems of an HIPC at the completion point could be retained as an option in exceptional cases where exogenous factors cause fundamental changes in a country's economic circumstances. Moreover, periodic post-completion point monitoring of the external debt situation could serve as an early warning system for potential problems.

30. While ODA flows on levels higher than those reached in the past decade will be necessary for a number of HIPCs if they are to attain long-term debt sustainability and rapid growth, there are increasing concerns that the benefits from debt relief under the HIPC Initiative might be offset by a reduction of aid flows. This could mean lower ODA for low-income countries not included in the Initiative, and it could seriously reduce the overall resource transfers to low-income countries. Besides, there are concerns that the provision of HIPC debt relief might hurt countries' credit standing in financial markets and therefore reduce their access to private sources of external finance. This appears to have been a reason for the initial refusal of Ghana, one of the 41 HIPCs, to apply for debt cancellation under the Initiative.

31. Recent developments in aid flows seem to confirm such concerns. ODA flows have been on a declining trend since the beginning of the 1990s.[9] With the exception of some of the Nordic countries and the Netherlands, the OECD countries have reduced their assistance almost by half over the last 10 years and a reversal of this trend is not in sight. Only four countries have so far attained the United Nations aid target of 0.7 per cent of donors' GNP, and only five have fulfilled and maintained their promise to devote 0.2 per cent of their GNP to aid flows to LDCs. The Organisation for Economic Cooperation and Development (OECD), in its *Development Co-operation 2000 Report*, confirmed that "so far there has been little evident increase in ODA for regular development programmes and projects",[10] and the World Bank has pointed out that "There is some danger that the relief provided under the program may not represent additional resources from donors. Debt forgiveness now accounts for 20 per cent of bilateral grants to HIPCs. Given donors' limited aid budgets, funds that go toward forgiveness of future debt service due may be obtained by cutting other forms of aid. Also, some donors place restrictions on the use of resources freed up by debt relief. Thus recipient governments' budget savings may be less than the full reduction in debt servicing."[11]

32. Moreover, the contribution of multilateral institutions to debt relief under the HIPC Initiative could reduce the funds which would otherwise be available for financial support to other member countries. For instance, World Bank profits normally earmarked for financing the International Development Association (IDA) will be used to finance the World Bank component to debt relief under the HIPC Initiative. This implies that without a correspondingly higher replenishment of IDA, HIPC debt relief will to some extent be funded by other poor developing

countries. In addition, the predominant method of delivering relief on IDA debt will be through forgiveness of a proportion of IDA debt as it comes due. IDA will be reimbursed for the cost of this debt relief only to the extent that resources are available in the World Bank HIPC Trust Fund.

33. Briefly, without a sizeable increase in the total net transfers to developing countries through ODA, the HIPC Initiative may shift a significant part of available concessional funds from the poor to the poorer countries, a redistribution that is certainly not in the spirit of the goal to reduce poverty by half by 2015.

B. Other recent renegotiations of official debt

34. Operations in connection with the provision of enhanced debt relief under the HIPC Initiative have accelerated the pace of debt renegotiations in the Paris Club during the second half of 2000 and first half of 2001. However, there was also an increasing number of new Paris Club agreements on non-concessional terms. Such agreements were concluded for eight countries up to July 2001 (Ecuador, Gabon, Georgia, Kenya, Nigeria, Pakistan, the former Yugoslav Republic of Macedonia and Ukraine). There were as many cases in a single year as the total of non-concessional agreements concluded during the preceding four years, indicating the deepening of financial and debt-servicing problems in developing countries. Countries in transition are also increasingly encountering such problems.

35. Ecuador, Nigeria, Gabon and Pakistan all returned to the Paris Club in 2000 and early 2001, after having concluded stand-by arrangements with IMF. Nigeria and Pakistan are currently classified as severely indebted low-income countries, but in principle retain access to International Bank for Reconstruction and Development (IBRD) funding and are thus not eligible for concessional reschedulings in the Paris Club. Kenya, although in principle eligible for such rescheduling, only requested rescheduling on non-concessional terms. Georgia and Ukraine sought debt relief in the Paris Club framework for the first time. Ecuador, Nigeria and Pakistan as well as Kenya all were extended Houston terms (under which commercial credits are rescheduled at market interest rates over a period of 18 years, including a grace period of three years), while Georgia obtained a rescheduling of such credits over a period of 20 years.[12] All of these agreements contained a swap clause, which allows for the conversion of part of debts for obligations in local currency.

36. Ecuador concluded a new agreement with the Paris Club in September 2000, after the successful completion of a debt exchange operation with private creditors. It consolidated some $880 million in arrears and amounts falling due to Paris Club creditors during a 12-month period starting in May 2000. Coverage of debts was comprehensive and the agreement also provided for a deferral of payment of part of late interest and post-cut-off date debts. Creditors agreed in principle to review the case for a further restructuring of their claims falling due after April 2001.

37. The agreements concluded with Nigeria and Gabon in December 2000 mainly concerned the regularization of arrears. Nigeria's previous rescheduling with the Paris Club had been in 1991, and Gabon's in 1995. The agreement for Nigeria consolidated an amount of some $23.4 billion, of which $21 billion in arrears at the end of July 2000. The rest dealt with principal and interest payments falling due during the 12-month consolidation period going up to the end of July 2001. As a result of the agreement, Nigeria's debt service due to Paris Club creditors in 2001 was reduced to around $1 billion. In anticipation of a follow-on IMF programme, creditors agreed in principle to consider possible options in further restructuring of Nigeria's debts falling due after the end of the consolidation period. As is standard in Paris Club agreements, this possible future restructuring would include a comparability-of-treatment provision.

38. The agreement with Gabon, an IBRD-only, upper-middle-income country classified as severely indebted, followed the approval by IMF of an 18-month stand-by arrangement in October 2000. Rescheduling was limited to $532 million in arrears of principal and interest at the end of September 2000, out of total arrears of $686 million. Gabon agreed to pay current maturities on all external debts as they fall due. The amount rescheduled is to be repaid over 12 years, including a grace period of three years.

39. Pakistan had returned to the Paris Club in January 1999 following an absence of almost 20 years. The former agreement having expired, the country in January 2001 obtained a new rescheduling of some $1.8 billion of arrears that had accumulated up to the

end of November 2000 and of maturities falling due up to September 2001.

40. Georgia, a low-income country classified by the World Bank as moderately indebted, in March 2001 concluded its first agreement with the Paris Club following a three-year Poverty Reduction and Growth Facility (PRGF) arrangement with IMF earlier in the year. The agreement covers the first two years of this period and it consolidates principal repayments due of around $58 million. Creditors agreed in principle to consider further restructuring of Georgia's debts falling due during the remainder of its PRGF programme in case of financing needs.

41. In September 2000, the former Yugoslav Republic of Macedonia concluded an agreement on deferral of payments offered by Paris Club creditors in the context of the Kosovo conflict. A similar agreement had been concluded with Albania earlier in the year.

42. Ukraine met with its Paris Club creditors following bond restructuring arrangements with its private creditors in 1999 and 2000. An agreement with the Paris Club was concluded in July 2001 allowing Ukraine to obtain rescheduling of principals in arrears and the principal due during a 20-month period to the beginning of September 2002. The amount rescheduled is to be repaid over 12 years, including a grace period of three years. The agreement concerned debts of some $580 million.

43. Debt renegotiations in the Paris Club can be expected to continue at a rapid pace in the near future, as the HIPC Initiative advances and other debtor countries are expected to request follow-on rescheduling once they have reached new longer-term agreements with IMF. Before the onset of the financial crisis of 1997/98, it was thought that most middle-income countries as well as some low-income countries had graduated or were at the point of graduating from Paris Club reschedulings. Some HIPCs may now be on their way to do so under HIPC II, but the case seems to be far from settled for some other low-income and debt-distressed middle-income countries. Some of these countries have recently re-entered the rescheduling process (such as Ecuador, Indonesia and Pakistan) and prospects for others are as yet unclear (e.g. Gabon, Nigeria and the Federal Republic of Yugoslavia). Meanwhile, some transition economies are also facing debt-servicing problems and seeking Paris Club relief.

44. Past experience indicates that rescheduling of official bilateral debts tends to be a lengthy and repetitive process, with agreements becoming increasingly complex and requiring considerable technical capacities in the debtor countries. The nature of a debt problem may vary from acute balance-of-payments difficulties (instances of "illiquidity") to longer-term structural, financial and resource transfer problems (cases of "insolvency").[13] The need for repeated reschedulings of official bilateral debts appears to be related to the fact that the Paris Club approach was originally designed to address liquidity problems — hence the importance attached to the cut-off date in Paris Club agreements. This date is defined when a debtor country first meets with its creditors in the Paris Club, and is not subject to change in subsequent agreements; credits granted after this date are not eligible for rescheduling.

45. However, Paris Club practices have over the years evolved in an attempt to deal with debt problems of a structural nature. This has led to increased extension of concessional terms offering some degree of relief on debt-service or debt-stock, culminating in the Enhanced HIPC Initiative. In non-concessional reschedulings, maturities have been lengthened and graduated repayment schedules — with amortization rising over time — have become a standard feature. But in the case of some debtor countries these measures do not appear to be sufficient to ensure graduation from the rescheduling process over the near future. A first step towards a rethinking of approaches of official debt relief for debt-distressed non-HIPC countries could be assessment of the long-term external debt sustainability, taking into account such factors as their prospects for economic growth and export expansion as well as various borrowing scenarios.

IV. Commercial debt

A. Private capital flows

46. Provisional figures for 2000 point to a stagnation of private capital flows, including FDI and portfolio investment, to developing and transition economies. The outlook for 2001 is uncertain, owing to the difficulty in forecasting the impact on financial flows of economic slowdown and monetary developments in major industrialized countries, but it appears highly likely that overall private capital flows to developing

countries will be less than their 2000 level. There is, thus, a continuing shortfall of net private external financing for developing and transition economies in comparison with the levels attained in 1996-1997.

47. The most important factor in the decline of net financial flows to developing and transition economies has been low levels and, for some regions, contraction of bank lending (table 4). In 1998 and 1999 repayments to banks in the Bank for International Settlements (BIS)-reporting area exceeded new loans, and the total exposure of those banks has decreased by more than $150 billion since 1997. This contraction, which reflects mainly developments in South and East Asia, slowed in 2000. For developing and transition economies taken together, repayments over the first three quarters of the year practically matched new lending. However, net lending to Latin America increased by 4 per cent in the first three quarters of 2000, most of this being accounted for by Mexico.

48. These developments reflect partly the increased risk assigned by international banks to emerging markets, and partly the efforts of debtors in these markets to reduce their foreign exposure. In most countries in East Asia affected by the 1997/98 crisis, net repayments have continued against the background of large current-account surpluses. In the Republic of Korea, by contrast, the strong recovery in output growth has led to a resurgence of capital inflows.

49. Recent financial crises have also been followed by a lengthening of the maturity profile of outstanding bank loans to the countries affected. The proportion of claims of BIS-reporting banks against those countries with a residual maturity of one year or less fell from 65 per cent in late 1993 to about 50 per cent in 1998. Since then, movements have been less marked, though there has been a continuing decline in the proportion of loans with a short residual maturity for some of those countries. The share of short residual maturities was also significantly reduced for the Russian Federation, from 46 per cent in mid-1998 to 26 per cent in mid-2000, partly as a result of restructuring exercises. In Brazil, the corresponding share fell from 63 to 54 per cent during the same period. Elsewhere the degree of concentration of bank debt at short-term maturities has varied, the share of such maturities for African and West Asian countries, for example, being about 55 per cent and that for Eastern European countries only 40 per cent.

50. Regarding external financing of developing and transition economies in the form of debt instruments, including bonds, developments in 2000 deviated from the general long-term trend observed since the beginning of the past decade. Net issues of such instruments fell in the first three quarters of 2000, for the third consecutive year, to around $31 billion — more than 60 per cent less than in 1997 (table 5). Gross issues stagnated at around $79 billion, 37 per cent below their 1997 level, while gross issues by borrowers from developed countries rose by 80 per cent between 1997 and 2000. As in bank lending, the decline has been sharpest in Asia. Although net issues to countries in the region recovered somewhat in 2000, their value was still only 10 per cent of the level in 1997. Net issues by Latin American countries, which since 1998 have accounted for two thirds of all net issues by developing and transition economies, amounted to slightly more than $20 billion in 2000, equivalent to one half of the 1997 level.

51. As in the two preceding years, the total value of gross issues of debt securities by developing countries and transition economies in 2000 was more than double the value of net issues, owing to substantial refinancing of maturing securities. In East and South Asia, new issues since 1998 have been almost entirely offset by such refinancing.

52. The difficulties of many developing countries in placing international bond issues since the Asian financial crisis were also reflected in substantially higher credit spreads for their corporate and sovereign debt. While there were large differences in yield spreads across countries, a general trend towards a lowering of spreads set in during the last quarter of 1998 and continued into 2000, while spreads of high-yield debt of developed-country borrowers denominated in dollars and euros were moving upwards. However, this trend came to a halt in the third quarter of 2000 with new episodes of emerging-market financial crisis, this time in Argentina, which had failed to recover from the recession that began after the Russian default, and in Turkey, which was implementing an exchange-rate-based stabilization programme. These difficulties, which clearly indicate the continuing fragility of emerging markets, have resulted in a reassessment of the credit risk in such markets. As a consequence, yield spreads of emerging-market borrowers generally increased in the fourth quarter of 2000. In Latin America and in some Asian

and European countries this rise continued in the early months of 2001, most sharply in Turkey and Argentina (by 630 and 580 basis points, respectively). Subsequently, there were some indications that international capital markets were again more willing to accept debt issues by developing countries, as dollar and euro interest rates were reduced and IMF had agreed on financial rescue packages for Argentina and Turkey. However, more recent difficulties in these countries have led to a new assessment of risks and rise in spreads.

53. As of mid-2001 the outlook for private financial flows to developing and transition economies remained very uncertain. One reason for this uncertainty is that the extent and the terms of access of emerging markets to private external financing are closely linked to conditions in the major industrial countries. So far the reduction in interest rates associated with the slowdown in the major industrial countries has not had any favourable impact on capital flows to emerging markets, in large part because of deterioration of the export and growth prospects of the latter. There is a tendency for lower interest rates to be offset by increases in risks spreads. This is of particular importance for Latin America. While the region continues to face large financing constraints and remains dependent on capital inflows, it continued in 2000 to experience a negative net resource transfer. Contagion is also a source of uncertainty, both among emerging markets, and owing to destabilizing influences transmitted from industrial countries. These are generally difficult to forecast as they may have little connection with the fundamentals of potential borrowers.

B. Recent bond restructuring exercises

54. Under current institutional arrangements there are no well-established mechanisms for an orderly restructuring of international sovereign bonds. Nevertheless, a number of agreements were concluded by middle-income countries in 2000 and the first half of 2001. Following the restructurings by Pakistan (November 1999), Ukraine (July 1999 and February 2000), and the Russian Federation (February 2000) Ecuador was able to reduce its Brady debts by 40 per cent and exchange $6.65 billion defaulted Brady bonds for global bonds with a 30-year maturity. The relative strength of the dollar helped Mexico in buying back $2.5 billion of non-dollar Brady debt. In October 2000 Poland retired about 20 per cent of its outstanding Brady bonds, in a buy-back operation of over $943 million, financed from the proceeds of the sale of the State-owned telecommunications company to a consortium of international investors.[14] Similarly, Jordan retired $235 million of its outstanding Brady bonds in the second half of 2000 with proceeds from privatization.

55. Recent arrangements have shown that the restructuring of international sovereign bonds is a difficult exercise owing, in part, to the absence of an internationally agreed framework for such operations.[15] In some of the cases, negotiations were based on collective action clauses (CACs) included in the documents. In others bondholders agreed to negotiate a restructuring in face of the threat of default. In such exercises debtors have no guarantee of receiving significant debt relief. A case in point is the restructuring of Argentine bond debt in June 2001, which was the biggest operation of this kind so far, covering $30 billion, of which $8 billion was exchanged with international investors. The contribution of the creditors consisted only in agreeing on a substantial lengthening of maturities, but the operation did not involve any debt relief; on the contrary, the value of the outstanding bond debt increased by around 7 per cent, while the interest cost of the new bonds is 300 to 400 basis points higher than that of the previous ones.

56. The secondary market for Brady bonds now facilitates management of the maturity structure of outstanding debt. Mexico, Argentina and Brazil have all been engaged in transactions in this market. For example, in January 2001 Mexico issued a 10-year $1.5 billion bond with around 8.7 per cent yield to maturity, and the receipts covered its anticipated debt service for the year. Subsequently, it exchanged $2.3 billion of outstanding Par and $1 billion of Discount Brady bonds, representing around 27 per cent of its total outstanding Brady bonds, with 18-year global dollar bonds; this operation allowed Mexico to recover $1.5 billion in United States Treasury collateral and achieve a saving in net present value terms of some $115 million. In March 2001 Mexico issued a seven-year global bond denominated in euro with a view to using the proceeds to retire existing debt, and in May 2001 a 10-year $1 billion global bond which served to reduce foreign debt by $50 million.

57. Argentina, with issues of Par, Discount and Floating Rate Brady bonds has engaged in several Brady swaps to restructure debt since 1997. Its recent voluntary debt restructuring also included Brady Par and Discount bonds among the credits eligible for exchange and allowed the Government to recover around $816 million worth of United States Treasury discount bonds that had served as collateral. The increase in the value of the bonds over their acquisition costs produced a fiscal receipt of around $400 million.

58. Despite repeated reschedulings and swap operations, Argentina has been unable to attain a sustainable external debt situation. Its debt and debt-service indicators, after some improvement in the first half of the 1990s, deteriorated again in the second half of that decade and returned to their 1985/86 level. The situation is similar for some other countries among the so-called "Baker-15", namely Algeria, Brazil, Colombia, Peru and Venezuela, where debt service as a percentage of exports was higher in the late 1990s than in the mid-1980s. In Brazil, whose debt-to-GNP ratio shows a rising trend, repeated swaps put a lid on debt service until the mid-1990s by postponing maturities, but since 1997 debt service has begun to absorb a higher share of export earnings than even during the debt crisis of the 1980s. Most Baker-15 countries have not been able to avoid repeated rescheduling and swap operations. This is all the more disappointing in view of large-scale asset sales to non-residents through privatization designed to improve the external debt situation as well as government finances.

C. Official lending and private sector involvement in crisis resolution

59. In the aftermath of the Asian financial crisis in 1997/98 a number of proposals were made for reform of the international financial architecture in order to prevent such crises and manage them better when they occur. A key area of reform is the involvement of the private sector in the resolution of debt crises. One much discussed proposal in this context is the establishment of a framework for the application to international debts of key insolvency principles, in particular temporary standstill on debt servicing and lending into arrears, designed to provide debtors with a breathing space as well as access to credits needed to continue their operations. Such principles would be especially relevant to international currency and debt crises resulting from liquidity problems because they are designed primarily to address financial restructuring rather than liquidation.

60. It is generally agreed that market discipline can work only if the creditors bear the consequences of the risks they take. Indeed, emphasis has been placed recently on making official assistance to crisis stricken countries conditional on private sector participation. This would include a commitment not to lend or grant official debt relief unless private markets similarly roll over their maturing claims, lend new money or restructure their claims. This strategy aims not only at preventing moral hazard as it pertains to private creditors, but also at ensuring an acceptable form of burden sharing between private and official creditors. Its underlying principle is that public assistance should not be made available unless debtors get some relief from private creditors, and no class of private creditors should be exempt from burden sharing. The question how far provision of liquidity by IMF should go in cases of capital-account crises is a crucial one not only because Fund resources are limited, but also because the provision of such financing may conflict with the objective of involving private creditors and investors in the management and resolution of emerging-market crises.

61. The Executive Board of IMF has recognized that IMF lending should have a catalytic role in involving the private sector, and such involvement should, in principle, be voluntary. However, it has also agreed that in circumstances where no agreement on a voluntary standstill can be reached with creditors, members may find it necessary, as a last resort, to impose one unilaterally. However, there is no agreement over empowering IMF, through an amendment of its Articles of Agreement, to impose a stay on creditor litigation in order to provide statutory protection to debtors imposing temporary standstills. While it is generally accepted that the Fund may signal its acceptance of a unilateral standstill by lending into arrears, no explicit guidelines have been established on when and how such support would be provided.

62. Although the issue has been discussed in many forums, including international financial institutions and the United Nations General Assembly, a coherent approach to involving the private sector in the resolution of financial and debt crises is still missing. There remains strong opposition from some major industrialized countries, and from participants in

private markets, to mandatory mechanisms for "binding in" or "bailing in" the private sector. Considering that such mechanisms would alter the balance of negotiating strength between debtors and creditors and create moral hazard for debtors, they advocate, instead, voluntary and contractual arrangements between debtors and creditors to facilitate debt workouts, such as the insertion of collective action clauses (CACs) in bond contracts. A number of developing countries also seem to be unwilling to impose temporary standstills at times of crisis, preferring voluntary arrangements and large amounts of contingency financing as a defence against contagion and instability. They also fear that the inclusion of CACs could impair their access to international markets.

63. Under certain circumstances it might be possible to reach agreement on voluntary standstills with creditors but, as recognized by IMF, in the face of a broad-based outflow of capital, it may be difficult to reach agreement with the relevant resident and non-resident investors. Moreover, certain features of the external debt of developing countries render it extremely difficult to rely on such mechanisms. These include the wide dispersion of creditors and debtors and the increasing variety of debt contracts associated with the growing integration of international capital markets and greater reliance on securitized debt. As a result, the scope of voluntary mechanisms is highly limited for involving the private sector in crisis resolution.

64. It appears that an effective and viable strategy for private sector involvement in financial crises in emerging markets would be to combine voluntary mechanisms designed to facilitate debt restructuring with internationally sanctioned temporary standstills to be used when needed. These need to be accompanied by provision of international liquidity aiming primarily to help debtor countries to maintain imports and economic activity rather than to maintain open capital account and allow private creditors and investors to escape the crisis without losses. In general, normal access to Fund facilities, appropriately adjusted to allow for the expansion of world output and trade, should meet such needs. While in some cases additional financing may be required, it should also be recognized that once exceptions are allowed on grounds of preventing global spillovers and systemic instability, such an approach could easily become the rule, thereby aggravating the moral hazard problem. In this respect, the minimum strategy could be to require private participation once official financing is raised above the normal lending limits, or a threshold level.

V. International policy conclusions

65. The report of the Secretary-General submitted to the General Assembly at its fifty-fifth session (A/55/422) contained a number of policy proposals for a rapid resolution of the debt problems of low-income and middle-income countries with regard to both official and commercial debt. While some progress has been made in certain respects (e.g., the acceleration of the HIPC process), as indicated by the discussions above, problems remain unresolved in most areas. Thus, the international policy conclusions to be drawn from the preceding discussion are not very much different from the proposals made in the previous report.

66. While the Enhanced HIPC has brought some improvement over HIPC I, the Initiative needs fundamental changes to make tangible progress in resolving the debt problems of poor countries. These include measures to accelerate the actual provision of debt relief by facilitating the process of preparing and implementing PRSPs which, for many countries, constitute an excessively high hurdle. In view of serious economic problems facing HIPCs and their need for rapid access to adequate external finance, proposals to accelerate the debt-relief process including "front loading" of debt relief from decision point onwards could be given serious consideration. Some Governments of the Group of Seven major industrialized countries have proposed or taken action for imposing a moratorium on debt-service payments by all HIPCs that have reached decision point, and such an action proposed in the previous report by the Secretary-General deserves further consideration.

67. Evidence is increasingly suggesting that the debt sustainability exercises undertaken in the context of HIPC have been overly optimistic regarding the estimation of the level of indebtedness that countries would be able to sustain after receiving debt relief. This underscores the importance of making an independent assessment of debt sustainability. Again, such an assessment should not be restricted to HIPC countries but should also encompass other debt-distressed low-income and middle-income countries.

On the other hand, given the general economic and financial fragility of HIPC countries, it also appears necessary to design urgently contingency measures and safeguards for countries that are about to reach completion points in order to prevent them from falling back into the debt trap because of adverse changes in exogenous factors, including their export and borrowing prospects.

68. A crucial factor for the success of the HIPC Initiative is the additionality of debt relief in comparison with overall pre-debt-relief transfers. This requires ODA to be raised in accordance with the needs of recipient countries.[16] Moreover, in order to ensure that the HIPC Initiative does not lead to reduction in the multilateral financing to other poor countries, donors should provide the necessary resources to maintain past levels of lending to these countries.

69. A key issue for both HIPC and non-HIPC debtors is the Paris Club principles and procedures. Although Paris Club practices have evolved over time, including recent moves to introduce flexibility with respect to cut-off dates, they still fall short of addressing the debt problems of many countries in a way that would ensure graduation from the lengthy and repetitive rescheduling. An important step towards a rethinking of approaches of official debt relief in the context of the Paris Club could be to broaden the debt eligible for write-off.

70. It is generally agreed that increased instability in international financial markets has been a major factor aggravating the external debt problems of emerging-market economies. Changes in the pattern of external financing and in the profile of international debt instruments discussed above have introduced not only new channels of transmission of financial market impulses to developing countries, but also new difficulties in resolving their external debt problems, as became apparent in recent operations of debt restructuring. The international community has not yet made significant progress in providing orderly debt workout mechanisms to ensure that creditors and investors bear the consequences of the risks they have taken, and that the burden of crises be distributed equitably between debtors and creditors and among different classes of creditors. While a measure of flexibility may be necessary to accommodate the specific requirements of different cases, an effective framework appears to involve both voluntary and mandatory mechanisms as well as judicious use of official financing.

Notes

[1] See UNCTAD, *Trade and Development Report, 1999* (United Nations publication, Sales No. E.99.II.D.1), Part Two, chap. V, sect. C.2.

[2] The figures referred to in this section are taken from the World Bank, *Global Development Finance 2001* (Washington D.C., May 2001). It should be noted that the World Bank data are only net long-term flows affecting countries' external liabilities, i.e., gross disbursements minus repayments. Capital outflows from developing countries, short-term borrowing and net use of IMF credit are excluded. These estimates of net long-term flows differ substantially from those on a balance-of-payments basis.

[3] See S. Claessens, M. Dooley and A. Warner, "Portfolio capital flows: hot or cool", *World Bank Discussion Paper, No.228* (Washington, D.C., The World Bank, 1993).

[4] The African countries are: Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, São Tome and Príncipe, Senegal, Uganda, United Republic of Tanzania and Zambia, and the Latin American are: Bolivia, Guyana, Honduras and Nicaragua.

[5] The moratorium for Honduras is in effect until the end of March 2002. For Mozambique, debt-service payments were suspended until the country reaches completion point.

[6] United States General Accounting Office, *Debt Relief for Poor Countries Faces Challenges*, Report to Congressional Committees, June 2000.

[7] See, e.g., "The challenge of maintaining long-term external debt sustainability", prepared by staff of the World Bank and the International Monetary Fund (Washington, D.C., 17 April 2001).

[8] United States General Accounting Office, op. cit.

[9] See UNCTAD, *Trade and Development Report, 1999*, Part Two, chap. V, sect. B, and UNCTAD, *Capital Flows and Growth in Africa* (TD/B/47/4-UNCTAD/GDS/MDPB/7) (New York and Geneva, 2000).

[10] OECD, *Development Co-operation 2000 Report* (Paris, 2000), p. 81.

[11] World Bank, *Global Development Finance 2001, Analysis and Summary Tables* (Washington, D.C., May 2001), p. 103.

[12] Under Houston terms as well as in the agreement for Georgia, ODA debts are rescheduled over 20 years, including a grace period of 10 years.

[13] Cf. "Finding solutions to the debt problems of developing countries", report of the Executive Committee on Economic and Social Affairs of the United Nations, December 1999.

[14] For more details on commercial debt restructuring in 2000, see World Bank, *Global Development Finance 2001, Analysis and Summary Tables*, pp. 153-156.

[15] For details on recent cases of sovereign bond restructuring, see also A. de la Cruz, "The new international financial architecture. Has 1999 changed anything?", paper presented at the UNCTAD/Debt Management and Financial Analysis System (DMFAS) Conference on Debt Management, Geneva, April 2000; B. Eichengreen and C. Ruhl, "The bail-in problem: systemic goals, ad hoc means" (mimeographed), University of California at Berkeley, and World Bank (Washington, D.C., May 2000); L. C. Buchheit, "Sovereign debtors and their bondholders", United Nations Institute for Training and Research (UNITAR) Training Programmes on Foreign Economic Relations, Document No. 1 (United Nations, Geneva, 1999; and IMF, *Report of the Acting Managing Director to the International Monetary and Financial Committee on Progress in Reforming the IMF and Strengthening the Architecture of the International Financial System* (Washington, D.C., April 2000), box 5.3.

[16] Detailed model calculations for these requirements in Africa, where most of the HIPCs are located, have been made by the UNCTAD secretariat in its report entitled *Capital Flows and Growth in Africa* (TD/B/47/4-UNCTAD/GDS/MDPB/7).

Table 1

External debt of developing countries and transition economies

(Billions of United States dollars)

	All developing countries			*Sub-Saharan Africa*			*Middle East & North Africa*			*Latin America & Caribbean*		
	1990	*1999*	*2000*	*1990*	*1999*	*2000*	*1990*	*1999*	*2000*	*1990*	*1999*	*2000*
Total debt stocks	1459.9	2572.7	2527.5	176.9	216.4	206.1	183.8	216.8	203.6	475.4	813.9	809.1
Long-term debt	1180.1	2086.4	2061.1	149.4	165.0	165.4	137.6	163.2	151.6	379.7	673.0	674.0
Public and publicly guaranteed debt	1114.6	1549.9	1526.9	144.1	157.7	156.9	136.1	159.3	146.8	354.7	430.0	428.6
Private non-guaranteed debt	65.5	536.4	534.2	5.3	7.3	8.5	1.5	3.9	4.8	25.1	243.0	245.4
Short-term debt	245.1	407.4	402.3	20.9	44.3	34.0	44.4	50.6	49.4	77.4	120.4	126.3
Debt service paid	164.1	389.6	376.7	10.9	14.3	14.6	24.3	25.6	23.7	45.6	162.3	167.3
Arrears on debt service	112.4	129.5	..	26.8	57.8	..	11.1	12.8	..	50.2	11.0	..
Interest arrears	52.7	40.4	32.0	9.3	19.7	11.6	2.9	2.5	2.5	25.6	2.6	2.7
Principal arrears	59.6	89.1	..	17.5	38.1	..	8.2	10.3	..	24.6	8.5	..
Gross national product	4726.3	6333.7	6756.1	280.7	306.7	311.9	402.6	597.1	651.8	1067.1	1947.7	2102.9
International reserves	224.8	721.5	788.2	15.4	32.2	33.6	40.6	67.6	74.3	58.8	152.4	153.3
Debt indicators *(percentage)*												
Debt service / exports of goods and services	18.1	21.4	17.0	12.9	13.9	12.8	14.9	13.7	10.9	24.4	41.6	35.7
Total debt / exports of goods and services	160.7	141.5	114.3	209.4	210.8	180.2	112.5	115.9	93.8	254.5	208.6	172.6
Debt service / GNP	3.5	6.2	5.6	3.9	4.6	4.7	6.0	4.3	3.6	4.3	8.3	8.0
Total debt / GNP	30.9	40.6	37.4	63.0	70.5	66.1	45.7	36.3	31.2	44.6	41.8	38.5
Short-term debt / reserves	109.0	56.5	51.0	136.0	137.5	101.2	109.2	74.8	66.5	131.8	79.0	82.4

Table 1 (concluded)

External debt of developing countries and transition economies

(Billions of United States dollars)

	East Asia & Pacific			South Asia			Europe & Central Asia		
	1990	1999	2000	1990	1999	2000	1990	1999	2000
Total debt stocks	274.0	674.8	660.9	129.9	164.8	164.5	219.8	486.1	483.3
Long-term debt	222.8	539.1	526.4	113.0	155.2	156.7	177.7	390.8	387.0
Public and publicly guaranteed debt	195.7	361.9	356.8	111.3	145.0	145.6	172.7	296.1	292.3
Private non-guaranteed debt	27.0	177.3	169.6	1.7	10.3	11.2	4.9	94.7	94.7
Short-term debt	49.2	113.5	112.3	12.4	7.2	5.9	40.9	71.4	74.4
Debt service paid	39.8	111.7	95.7	11.5	14.8	13.9	32.1	60.9	61.5
Arrears on debt service	4.9	20.9	..	0.1	1.0	..	19.4	26.0	..
Interest arrears	1.9	5.9	7.7	0.0	0.2	0.2	13.0	9.5	7.3
Principal arrears	3.0	15.0	..	0.0	0.7	..	6.3	16.5	..
Gross national product	920.8	1854.8	2025.7	401.9	579.8	621.3	1678.6	1059.2	1042.6
International reserves	86.3	337.8	363.7	8.9	38.7	43.1	..	101.8	120.3
Debt Indicators *(percentage)*									
Debt service / exports of goods and services	15.7	15.8	10.8	28.9	15.7	13.1	..	18.0	14.6
Total debt / exports of goods and services	108.4	95.5	74.8	327.4	174.6	156.0	..	143.8	114.4
Debt service / GNP	4.3	6.0	4.7	2.9	2.6	2.2	1.9	5.8	5.9
Total debt / GNP	29.8	36.4	32.6	32.3	28.4	26.5	13.1	45.9	46.4
Short-term debt / reserves	57.0	33.6	30.9	139.1	18.7	13.7	..	70.1	61.8

Source: The World Bank, *Global Development Finance 2001*, Washington, D.C., 2001.
Note: Two dots (..) mean data unavailable.

Table 2

Profile of developing country debt

(Share of different types of creditors in percentage of total debt)

	Private creditors			*All official creditors*			*Bilateral official creditors*			*Multilateral official creditors*		
	1982	*1989*	*1999*	*1982*	*1989*	*1999*	*1982*	*1989*	*1999*	*1982*	*1989*	*1999*
All developing countries	61.2	51.1	57.5	38.8	48.9	42.5	27.4	32.7	25.5	11.5	16.2	16.9
Low-income countries	33.8	28.0	28.9	66.2	72.0	71.1	45.0	47.6	40.5	21.2	24.4	30.6
Middle-income countries	68.7	60.6	66.3	31.3	39.5	33.8	22.5	26.6	21.0	8.8	12.9	12.8

Source: UNCTAD secretariat calculations, based on The World Bank, *Global Development Finance 2001,* CD-ROM.

Table 3

Shares of bonds and commercial bank loans in long-term commercial debt of developing countries

(Percentage)

	All commercial debt			*Bond debt*			*Commercial bank credit*			*Other credit*[a]		
	1982	*1989*	*1999*	*1982*	*1989*	*1999*	*1982*	*1989*	*1999*	*1982*	*1989*	*1999*
All developing countries												
All debtors	100.0	100.0	100.0	5.4	8.5	40.0	75.0	68.1	53.3	19.6	23.4	6.8
Private debtors	26.2	9.6	44.7	0.0	0.0	9.6	26.2	9.6	35.1	-	-	-
Public debtors	73.7	90.4	55.3	5.4	8.5	30.4	48.8	58.4	18.2	19.6	23.4	6.8
Low-income countries												
All debtors	100.0	100.0	100.0	2.1	3.9	19.1	64.2	60.2	65.2	33.7	35.8	15.8
Private debtors	21.3	14.6	46.3	0.0	0.0	8.3	21.3	14.6	38.0	-	-	-
Public debtors	78.7	85.4	53.7	2.1	3.9	10.8	42.9	45.6	27.2	33.7	35.8	15.8
Middle-income countries												
All debtors	100.0	100.0	100.0	5.8	9.4	42.7	76.5	69.5	51.7	17.7	21.1	5.6
Private debtors	26.9	8.7	44.5	0.0	0.0	9.7	26.9	8.7	34.7	-	-	-
Public debtors	73.1	91.3	55.5	5.8	9.4	33.0	49.6	60.8	17.0	17.7	21.1	5.6

Source: UNCTAD secretariat calculations, based on The World Bank, *Global Development Finance 2001*.

[a] Credits from suppliers of goods, and bank credits covered by a guarantee of an export credit agency.

Table 4

External assets of banks in the Bank for International Settlements reporting area* vis-à-vis developing countries and transition economies, 1997–2000

	1997	*1998*	*1999*	*2000*[a]	*Stock at Sept. 2000*
	(Percentage rates of increase[b]*)*				*(Billions of US dollars)*
Total[c]	**8.6**	**-7.7**	**-6.9**	**0.1**	**855**
of which in:					
Latin America	11.3	-2.8	-5.4	4.3	292
Africa	19.6	0.3	0.8	-1.4	40
West Asia	16.5	18.0	1.6	1.6	78
East and South Asia	1.1	-21.7	-17.1	-3.4	297
Central Asia	35.5	17.6	28.0	-5.5	3
Eastern Europe	19.4	-0.4	-1.5	-6.7	89
Other Europe[d]	27.1	9.4	15.6	18.2	56
All borrowers[e]	15.4	3.0	2.7	7.4	10 125

Source: Bank for International Settlements, *International Banking and Financial Market Developments*, various issues.

* Including certain offshore branches of United States banks.

a First three quarters.

b Based on data at the end of the period after adjustment for movements of exchange rates.

c Excluding offshore banking centres, i.e. in Latin America: Bahamas, Barbados, Bermuda, Cayman Islands, Netherlands Antilles and Panama; in Africa: Liberia; in West Asia: Bahrain and Lebanon; and in South-East Asia: Hong Kong (China), Singapore and Vanuatu, but including residual amounts which could not be attributed to countries.

d Bosnia and Herzegovina, Croatia, Malta, Slovenia, the former Yugoslav Republic of Macedonia, and Yugoslavia.

e Including multilateral institutions.

Table 5

International issuance of debt securities [*] by developing countries and transition economies,[**] 1997–2000

(Billions of United States dollars)

	Gross issues [a]				*Net issues*			
	1997	*1998*	*1999*	*2000*	*1997*	*1998*	*1999*	*2000* [b]
Total	**123.6**	**78.3**	**79.2**	**78.6**	**82.1**	**37.4**	**34.1**	**31.4**
of which in:								
Latin America	64.0	43.0	48.0	43.0	41.1	22.5	26.4	20.6
East and South Asia	39.8	10.8	16.7	18.4	25.4	-0.7	-1.1	2.5
Europe	11.4	20.4	10.3	13.3	11.1	15.1	6.5	6.0
Memo item:								
World	1 508.6	1 657.2	2 305.0	2 611.8	560.4	681.1	1215.4	1 138.2

Source: UNCTAD secretariat calculations, based on the Bank for International Settlements, *International Banking and Financial Market Developments*, various issues.

* International money market instruments and international bonds and notes, classified by residence of issuer.

** Other than offshore financial centres.

a Gross issues include gross issuance of money market instruments and announced issues of international bonds and notes.

b First three quarters.