

## CANADA AND THE INTERNATIONAL DEBT STRATEGY: PAST AND PRESENT

### **Introduction:**

Some developing countries have long experienced difficulties meeting their international financial obligations, but it was not until the early 1980s that this began to threaten the international financial system as a whole. The Latin American debt crisis of the 1980s was a wake-up call for the international community. A variety of measures were adopted to help relieve the onerous pressures of debt servicing for affected middle-income countries (which held large amounts of mainly commercial but also official bilateral debt).

For its part, the Paris Club of official bilateral creditors rescheduled the Latin American (and other problem) debt owed to them, extending the maturity and grace periods. Under the Brady plan, commercial banks agreed to reduce their outstanding loans to middle-income developing countries which had in place macroeconomic adjustment programs. In many cases, financing was provided by official sources (IFIs, bilateral donors) to help the debtor country provide collateral and meet other up-front costs of debt reduction agreements.

By the early 1990s, these and other measures had helped restore middle-income countries to financial viability; indeed, many can now boast of new capital inflows. The focus of debt relief efforts has thus switched to low-income countries, mainly in Africa, which continue to experience serious difficulties in servicing their high stocks of external debt owed mainly to official bilateral and multilateral creditors.

### **Current Problem Debtor Profile:**

The World Bank/IMF have identified 41 heavily-indebted poor countries (HIPC), of which 33 are in Sub-Saharan Africa. According to various studies, up to 20 of the HIPC have debt sustainability problems.

The total external debt stock of the HIPC was US\$164 billion in 1994, with the following average profile: 17% owed to private creditors (e.g. commercial banks); 64% to official bilateral creditors (e.g. governments and export credit agencies); and 19% to multilateral institutions (e.g. IMF, World Bank, AfDB). Actual debt profiles vary widely, however, so appropriate action for relief must be determined on a case-by-case basis. Debt relief mechanisms - which already exist to some degree for all categories of debt - may need to be strengthened for problem HIPC debtors if these countries are to be returned to financial viability.

### **Canada's Record on International Debt:**

Canada has been involved in a variety of unilateral, bilateral and multilateral debt relief initiatives since the debt crisis emerged in the early 1980s. Total debt forgiven to date amounts to over \$2.5 billion: