Executive Summary

The LDC debt crisis first came to the attention of the general public 12 years ago with Mexico's announcement that it would not be able to honour its international debt obligations, followed by similar announcements by other heavily-indebted developing countries. After early attempts at rescheduling the debt of many heavily-indebted LDCs, it became clear that these countries were suffering from protracted insolvency problems and not simply short-term illiquidity. The international community did develop a number of debt-reduction schemes that addressed the problem of excessive commercial and bilateral debt. Today, a number of countries, mainly in Latin America and East Asia and the Pacific, have taken advantage of these schemes and, along with pursuing domestic economic reforms, are in a comfortable debt-servicing position. Many have re-entered international capital markets by successfully floating new bond issues, hosting increased foreign direct investment flows, and attracting private equity flows as well as modest amounts of new commercial bank lending.

Despite these successes and the lack of media attention, the debt crisis is still not completely over, although the systemic risk to the international financial system has subsided considerably. Many developing countries were, in fact, in a worse debt-servicing position in 1992 than they were in 1980, two years before the crisis broke. In particular, the so-called severely-indebted low-income countries (SILICs), mainly in sub-Saharan Africa, have watched their total stock of debt increase dramatically over the past few years. Programmes designed to reduce outstanding debt have lessened the magnitude of these countries' current debt-servicing problems, but the debt overhang (or cumulative stock of debt) now averages well over 400% of total exports of goods and services, severely limiting the ability of these countries to invest domestically to enhance future economic growth prospects. Moreover, there has been an increase in the proportion of debt held by multilateral financial institutions. Currently, no debt-reduction programmes are available to address the increase in this form of debt.

Little will likely be said about LDC debt over the medium-term, as global economic growth will bolster the export revenues of most LDCs, enhancing their debt-servicing prospects. However, the increasing debt overhang means that the debt issue could again move to centre stage if global economic recovery is weaker than anticipated and/or good domestic economic performance is not sustained. The international community could then be asked again to come up with ideas to reduce developing country debt. This time, however, it would be the reduction of multilateral, not commercial and bilateral debt, which will have to be addressed creatively. And it will be sub-Saharan Africa, not Latin America, which will capture