# International Debt and Financial Situation

The outstanding external debt of developing countries exceeded U.S. $900 billion at the end of 1985. Sixty per cent of this debt cannot be serviced as originally scheduled. Latin America's debt, exceeding U.S. $360 billion, has attracted the most attention. Brazil, Mexico, Argentina and Venezuela account for three quarters of the region's debt. Much of the external debt of these countries is owed to banks and other private creditors. Failure to service external debt could disrupt the smooth functioning of the international trade and payments system.

Some small lower income countries, mostly in Africa, face unique challenges servicing their debt even though the amount outstanding is comparatively small (U.S. $75 billion). Most of it was borrowed from governments and international lending institutions at concessional terms. The problems require, in addition to greater economic adjustment, increased concessional financing support from aid donors.

Considerable progress was made in 1982-84 in improving the external financial situation of debtor countries. Over this period their deficit on trade in goods and services was reduced from over U.S. $100 billion to less than U.S. $40 billion. Economic recovery in the industrialized countries, as well as strong measures undertaken by debtors with the support of the International Monetary Fund, contributed to this progress. The case-by-case approach, which balances domestic adjustment and renewed external financial flows, has proved to be the mainstay of the international debt management strategy.

The economic environment for the debtor LDC (Less Developed Countries) in 1985 was difficult. Export volume growth slowed, commodity prices remained weak and new external financing through normal market channels has been virtually non-existent. Debtor countries will, however, benefit from recent exchange rate adjustments and declining interest rates. The sharp fall in oil prices this year should have a beneficial effect on the economies of developing countries, with the exception of the oil-exporting debtor countries (e.g. Mexico, Nigeria, Indonesia, Venezuela).

U.S. Treasury Secretary Baker put forward at the Seoul IMF/World Bank annual meetings last October a debt management initiative stressing three essential elements: the implementation by debtor countries of policies of reform and structural adjustment; a continued central role for the Fund and an enhanced role for multilateral development banks, particularly the World Bank; and, increased lending by commercial banks. The plan seeks to promote financing in support of growth-oriented adjustment strategies.

All of the major international banks have indicated their support for the principles in the Baker plan, and their willingness to participate on a case-by-case basis, in concert with the other players, to implement the strategy. Creditor governments also have a key role to pay in supporting and coordinating the various elements in the new debt strategy.