

in the stock market was quick and favourable to its stock price.³⁹ Furthermore, there may even have been a net benefit to the bank if the cost of debt forgiveness was more than offset by the increase in the bank's equity holdings. The same argument holds for the multilaterals in raising capital in financial markets; writing off bad loans may, in fact, decrease the costs of raising capital in international markets. Furthermore, the ability of multilateral development banks to float bond issues is based, not so much on the profitability of the loans being made, but by the fact that the bonds are backed by the industrial country member governments.

Another argument that has been put forward against further debt reduction is that such an action would hinder a country's future access to international capital markets, since it would no longer be viewed as creditworthy. It is difficult to support this hypothesis. It is the debt overhang itself and poor domestic economic management that prevent the successful return of a country to international financial markets. The most effective way to welcome back indebted countries is to reduce the debt burden to a sustainable serviceability level and to support domestic economic reforms. In much the same way, debt reduction under domestic bankruptcy cases facilitates the return of the debtor to bank loans.⁴⁰ The IMF itself has noted that, aside from sound fiscal, monetary and structural reform policies, debt reduction and restructuring have improved the creditworthiness and removed the negative perceptions of debt overhang in a number of countries such as Mexico, Argentina and smaller, more fragile economies such as Bolivia. The IMF goes on to note that in "countries with heavy external indebtedness and significant arrears, debt-restructuring operations and the normalization of creditor relations can be expected to improve access to international capital markets."⁴¹ In other words, debt reduction has enhanced the future creditworthiness of these countries, not harmed it. This is no guarantee that the poor countries of the world will experience normal access to capital markets in the near future, but combined with appropriate domestic economic policies, debt reduction can facilitate the process.

Both the World Bank and the IMF are well aware of the benefits of reducing

³⁹Garg (1993), p. 34. Kenen backs this observation, noting: "When Citicorp and the other U.S. banks set aside larger loan-loss reserves, their stock prices rose; investors were ready to reward the banks for being more realistic." See Kenen (1990), p. 11. Unal, et al. (1993) show that the Mexican Brady Plan generally had the same positive effect on creditor bank stock prices.

⁴⁰Sachs (1990), p. 28.

⁴¹International Monetary Fund (1993), pp. 75-8. The World Bank also notes that the recent debt renegotiations have contributed to the improvements of some countries in their access to voluntary bank lending since uncertainties about the country's future debt-servicing abilities are reduced. See World Bank (1992), p. 68.