

International Debt

The outstanding external debt of developing countries exceeded US \$1 trillion at the end of 1986. Most of the external debt of the large debtor countries is owed to commercial banks and other private creditors.

The external debt of the least developed countries, particularly of certain countries in sub-Saharan Africa, poses a number of unique problems requiring special attention because of the limited debt-service capacity of these countries. Moreover, since the level of indebtedness of these countries is relatively small in absolute terms (approximately US \$85 billion for all sub-Saharan Africa), the situation has often received less attention than it deserves. Most of the debt of the poorest countries is owed to governments and international financial institutions. Canada is particularly concerned about the problem of the poorest countries.

While much effort has been directed at alleviating the debt problem, progress has been tentative. Potential financial crises have been successfully averted and the systemic threat to the world financial system, while still present, has been reduced considerably. Several of the most heavily indebted countries have implemented strong adjustment programs, crucial to restoration of their credit worthiness. The World Bank and the International Monetary Fund have played key roles in assisting debtor countries. The Paris Club group of official creditors and commercial banks have supported debtor countries in their adjustment programs, through debt rescheduling and new financing. Finally, the decline in international interest rates over the past two years has also contributed in an important way to alleviating the large debt burden confronting many developing countries.

However, the progress made during the past 18 months in the implementation of the debt strategy vis-a-vis the middle-income debtors has been uneven. The sluggish growth in the world economy and the persistence of low commodity prices have hampered the effectiveness of the strategy. It is apparent that the

current debt strategy needs to be re-energized.

The debt strategy put forward by US Treasury Secretary James Baker in October 1985 remains the most comprehensive approach for dealing with the debt problem. The Baker initiative is built on the case-by-case approach to the debt problem. Specifically, the Baker initiative emphasized the essential need for: the implementation by debtor countries of economic policy reforms; a continued central role for the IMF and an enhanced role for the multilateral development banks, particularly the World Bank; and increased lending by commercial banks.

While most debtors and creditors continue to accept the Baker framework, in the future, attention must increasingly be focused on improving its implementation. Among the major challenges that lie ahead are: promoting greater action by creditor governments and international financial institutions in providing financial resources for growth and adjustment; engaging commercial banks more effectively in providing financing to debtor countries which implement appropriate adjustment programs; and, providing incentives to debtor countries to reinforce successful economic adjustments.

The Agricultural Crisis

In recent years, world farm production has increasingly outstripped demand with the result that stocks have been growing and world market prices declining. The situation affects most major internationally-traded agricultural commodities. Since 1981, stocks have increased by 85 per cent and are now equivalent to two years world trade volume and, world wheat prices have fallen by almost one-half.

The financial position of farmers exposed to low world prices has suffered seriously. Costs of farm support programs have increased considerably and constitute a major charge against countries' treasuries.

The underlying causes of the problem are high on the international agenda. The main cause is recognized to be the incentive to over-