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THE TORONTO ECONOMIC SUMMIT
4. DEBT OF MIDDLE INCOME COUNTRIES

The debt burden of many developing countries, which has in total reached more than US\$1 trillion, has been a prominent issue on the agendas of recent Summit meetings. The indebtedness of the middle income countries, principally in Latin America, comprises almost half that amount.

Since the issue of developing country debt first emerged as a major problem in 1982, the international community has adopted a strategy to deal with this issue based on stretching out repayment terms and providing new lending to enable debtors to grow and adjust.

In 1985, U.S. Treasury Secretary Baker launched an initiative to strengthen the debt strategy with a call for \$20 billion in new money from the commercial banks and \$9 billion from the international financial institutions. Built on the case-by-case approach to the debt problem adopted at the 1983 Williamsburg Summit, the distinguishing feature of the strategy is the provision that domestic adjustment must also allow for adequate rates of economic growth in debtor countries. 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.

In Venice in 1987, Summit leaders endorsed the US cooperative debt strategy initiative, and welcomed closer cooperation among international financial institutions.

The international debt strategy has made important progress in dealing with the problem of developing country debt. 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 the eventual restoration of their creditworthiness.

The World Bank and the International Monetary Fund have played key roles in assisting debtor countries through consultation and policy advice, and of course, lending to support economic reforms. Formal agreement is expected shortly