

INTERNATIONAL DEBT

The debt burden of developing countries has been a prominent issue of discussion at recent Summit meetings. This debt totals about US\$1.3 trillion.

The external debt of developing countries emerged as an acute problem in 1982, when Mexico announced that it could not meet its debt service payments. The situation of debtor countries had been deteriorating for some time. Growth in industrialized countries had declined and demand had weakened. This slowdown, combined with inappropriate policies in borrowing countries, induced a sharp downturn in the growth rates of debtor countries and weak export performance. To deal with the debt problem, the international community has adopted an evolving strategy based on stretching out repayment terms and providing new lending to enable debtors to allow their economies to grow and adjust. In 1988-1989 the strategy has evolved to include voluntary debt reduction by commercial banks.

The year 1985 marked a major turning point in the debt strategy. U.S. Treasury Secretary James Baker launched an initiative to strengthen the debt strategy with a call for new lending by commercial banks and international financial institutions (IFIs). The revised strategy reinforced the case-by-case approach adopted at the 1983 Williamsburg Summit. The distinguishing feature of this revised strategy was that policies to encourage domestic economic adjustment in debtor countries should also allow for adequate rates of economic growth. Specifically, the Baker initiative emphasized the essential need for debtor countries to implement 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 to debtor countries to facilitate their policy and economic growth reforms.

In Tokyo in 1986 and again in Venice in 1987, Summit leaders endorsed the cooperative debt strategy and called for closer cooperation among international financial institutions.

The Toronto Economic Summit in June 1988 saw a further evolution of the debt strategy regarding the debt of the poorest countries. The Summit countries approved a proposal based on a Canadian compromise for concessional Paris Club reschedulings of the poorest countries' debts. (The "Paris Club" is an informal group which coordinates rescheduling of debt owed to governments of industrialized countries.) Under

the Toronto agreement, individual creditor countries could choose from several options. Three options were defined by the creditor governments: partial write-offs, longer repayment terms and lower than market interest rates. To date such reschedulings have been granted to the Central African Republic, Equatorial Guinea, Guinea, Madagascar, Mali, Niger, Senegal, Tanzania and Uganda. It is expected that Mauritania, Benin, Zaire, Togo and Chad will also benefit from concessional reschedulings. In addition, a number of donor governments, notably the United Kingdom, the Federal Republic of Germany, France and Canada, have agreed to forgive the official development assistance debt owed by some or all sub-Saharan African countries.

At the annual meetings of the IMF and the World Bank in September 1988, the international community agreed to collaborate further to help resolve the problems posed by those countries which have failed to meet their financial obligations to these institutions. Canada agreed to chair the first support group which was set up to help Guyana marshal the necessary external financing to implement its adjustment program and clear its arrears to the IFIs. On May 5, 1989, the Government of Canada announced the successful completion of the special financing package for Guyana.

1988 saw the gradual development of a consensus that the international debt strategy would have to be adapted, once again, to make it easier for debtor countries to resort to voluntary debt reduction, as opposed to debt rescheduling or refinancing. To this end, various proposals were put forward including those of French President Mitterrand, of former Japanese Finance Minister Miyazawa and of the Group of Eight Latin American countries. On March 10, 1989, U.S. Treasury Secretary Nicholas Brady outlined a number of proposals for the further evolution of the debt strategy. On the basis of these proposals, both the IMF and World Bank have agreed to provide resources to indebted countries to encourage voluntary debt reduction by commercial banks. IMF programs have already been approved for Mexico, Costa Rica and the Philippines.

The newly revised debt strategy following on the Brady proposals reaffirms the central importance of sound economic policies in debtor countries. The commercial banks are expected to provide financial support through a wide array of new funding initiatives. Their participation in