

INTERNATIONAL DEBT

The Summit is expected to consider in detail the problem of indebtedness of developing countries. The outstanding external debt of developing countries exceeded US \$1 trillion at the end of 1986. Latin America's debt, which totals almost US \$400 billion has continued to attract the most attention. Brazil, Mexico, Argentina and Venezuela account for three quarters of the region's debt. 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), this situation has often received less attention than it deserves. In many of these countries, declining terms-of-trade have made the possibility of servicing their external debt increasingly difficult in the short term. Most of the debt of the poorest countries is owed to governments and international financial institutions.

The plight of the poorest countries is now recognized as a distinct problem. Canada is particularly concerned about this problem and intends to emphasize the need to address it in detail in the course of the discussions at Venice.

While much effort has been directed at alleviating the debt problem, progress has been mixed. 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. This is crucial to the restoration of their creditworthiness. 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 reschedulings and new financing where needed. 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.

Despite these positive developments, the implementation of the elements of the debt strategy has been uneven. Moreover, the situation differs substantially among debtor countries. Sluggish economic growth and low commodity prices, pose continuing constraints to the implementation of the debt strategy. It is now 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 built on the case-by-case approach to the debt problem adopted at the Williamsburg Summit. Its distinguishing feature is the assertion 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.

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.