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Department of Foreign Affairs and International Trade

POLICY STAFF PAPER

NO. 94/09

Still an Albatross? The LDC Debt Crisis Revisited

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(May 1994)

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Still an Albatross? The LDC Debt Crisis Revisited

Executive Summary

The LDC debt crisis first came to the attention of the general public 12 years ago with Mexico's announcement that it would not be able to honour its international debt obligations, followed by similar announcements by other heavily-indebted developing countries. After early attempts at rescheduling the debt of many heavily-indebted LDCs, it became clear that these countries were suffering from protracted insolvency problems and not simply short-term illiquidity. The international community did develop a number of debt-reduction schemes that addressed the problem of excessive commercial and bilateral debt. Today, a number of countries, mainly in Latin America and East Asia and the Pacific, have taken advantage of these schemes and, along with pursuing domestic economic reforms, are in a comfortable debt-servicing position. Many have re-entered international capital markets by successfully floating new bond issues, hosting increased foreign direct investment flows, and attracting private equity flows as well as modest amounts of new commercial bank lending.

Despite these successes and the lack of media attention, the debt crisis is still not completely over, although the systemic risk to the international financial system has subsided considerably. Many developing countries were, in fact, in a worse debt-servicing position in 1992 than they were in 1980, two years before the crisis broke. In particular, the so-called severely-indebted low-income countries (SILICs), mainly in sub-Saharan Africa, have watched their total stock of debt increase dramatically over the past few years. Programmes designed to reduce outstanding debt have lessened the magnitude of these countries' current debt-servicing problems, but the debt overhang (or cumulative stock of debt) now averages well over 400% of total exports of goods and services, severely limiting the ability of these countries to invest domestically to enhance future economic growth prospects. Moreover, there has been an increase in the proportion of debt held by multilateral financial institutions. Currently, no debt-reduction programmes are available to address the increase in this form of debt.

Little will likely be said about LDC debt over the medium-term, as global economic growth will bolster the export revenues of most LDCs, enhancing their debt-servicing prospects. However, the increasing debt overhang means that the debt issue could again move to centre stage if global economic recovery is weaker than anticipated and/or good domestic economic performance is not sustained. The international community could then be asked again to come up with ideas to reduce developing country debt. This time, however, it would be the reduction of multilateral, not commercial and bilateral debt, which will have to be addressed creatively. And it will be sub-Saharan Africa, not Latin America, which will capture

the attention of the international financial community and the media.

Résumé

La dette des PMA a initialement été portée à l'attention du grand public il y a douze ans lorsque le Mexique a annoncé qu'il ne pourrait honorer ses obligations financières internationales et que des annonces similaires ont subséquemment été faites par d'autres pays en développement lourdement endettés. Après les premiers efforts pour rééchelonner la dette de plusieurs PMA lourdement endettés, il est devenu clair que ces pays avaient un problème d'insolvabilité sur le long terme et non seulement un problème d'illiquidité à court terme. La communauté internationale a alors élaboré un certain nombre de régimes de réduction de la dette tenant compte du problème de l'aide commerciale et bilatérale excessive. Aujourd'hui, un certain nombre de pays — surtout en Amérique latine, en Asie de l'Est et dans la région du Pacifique — ont tiré avantage de ces régimes et se trouvent maintenant en mesure d'assurer le service de leur dette tout en poursuivant des réformes économiques internes. Plusieurs de ces pays sont revenus sur les marchés financiers internationaux en lançant de nouvelles émissions d'obligations, en faisant un meilleur accueil aux investissements étrangers directs et en attirant des participations privées ainsi que des montants modestes en nouveaux prêts bancaires aux conditions du marché.

Malgré ces succès et l'inattention des médias, la crise de la dette n'a pas été surmontée, bien que les risques pour le système financier international soient diminués considérablement. En 1992, plusieurs pays en développement étaient en fait moins en mesure d'assurer le service de leur dette qu'ils ne l'étaient en 1980, soit deux ans avant le déclenchement de la crise. Les «pays à faible revenu surendettés», surtout ceux de l'Afrique sub-saharienne, ont vu l'encours global de leur dette s'accroître sensiblement dans les dernières années. Même si les programmes conçus pour réduire l'encours de la dette ont atténué l'effet des problèmes de service de la dette que connaissent actuellement ces pays, les dettes accumulées représentent maintenant en moyenne plus de 400 p. 100 des exportations totales de biens et de services. Par conséquent, la capacité de ces pays d'investir intérieurement est très limitée ce qui restreint l'avenir de leurs accroissements économiques. Il y a également eu accroissement de la part de la dette remboursable aux institutions financières multilatérales. Il n'y a actuellement aucun programme de réduction de la dette pour contrer l'accroissement de cette forme de dette.

On parlera probablement peu des PMA sur le moyen terme puisque la croissance économique globale va stimuler les recettes d'exportation de la plupart

de ces pays et améliorer ainsi leurs possibilités de service de la dette. Toutefois, l'accumulation croissante des dettes signifie que la question de l'endettement pourrait à nouveau prendre une importance centrale si la reprise économique globale était plus faible que prévue ou que l'économie nationale ne pouvait maintenir une bonne performance. La communauté internationale pourrait alors être invitée à chercher encore une fois des idées pour réduire la dette des pays en développement. Mais cette fois-ci, il faudrait trouver des solutions innovatrices pour réduire la dette multilatérale plutôt que la dette commerciale et bilatérale. Et ce seront les pays de l'Afrique sub-saharienne plutôt que ceux de l'Amérique latine qui retiendront l'attention de la communauté financière internationale.

" . . . is the debt crisis over? The answer is that the international financial system is no longer at risk but much remains to be done."[1]

1. Introduction

It has been almost 12 years since the international financial community was shocked by Mexico's announcement that it would be unable to honour its international commercial debt obligations. Thus began the LDC debt crisis. Subsequently, the international community introduced a number of debt-restructuring and debt-reducing strategies designed to decrease the debt burden of developing countries, while enhancing the ability of these countries to pay back remaining obligations.

Despite the use of debt and debt-service reduction mechanisms, the LDC debt issue is still with us, although reshaped with a different regional focus and considerably less threatening to the international financial system. The current external debt position of developing countries as a group has, in fact, continued to worsen in absolute terms, and also as a proportion of the export revenue of these countries. The nominal stock of developing country external debt increased from US $658 billion in 1980 to US $1,662 billion in 1992. By the end of 1993, the total stock of external debt was expected to increase further to US $1,770 billion, an increase of 169% since 1980 (see Table 1). Aggregate net real resource flows to the developing world have increased since the mid 1980s, the worst point of the debt crisis, ironically adding to the overall debt stock of the developing countries.

Within the group of LDCs, however, experiences have not been uniform. Some countries have had their debts reduced and have introduced reform measures which have resulted in a reduction of their overseas financial burden, as well as their successful return to private international capital markets. The continuation of appropriate domestic economic policies makes it likely that these countries will use new resource flows primarily for productive investments which will further assist in helping these countries grow out of their debt problems. Other countries, however, have been unable to reduce the stock of debt effectively, have been less

[1]International Monetary Fund (1993), p. 73.

successful in terms of domestic economic management, and continue to experience onerous debt-service payments.

Table 1
Total Developing Country Debt by Income Level, Region and Indebtedness, 1980, 1986-93
(billions of US $ and % change)

By Country Group	1980	1986	1987	1988	1989	1990	1991	1992	1993	% change 1980-93
All developing countries	658.1	1,217.6	1,381.2	1,373.2	1,411.3	1,518.4	1,605.9	1,662.2	1,770.0	169.0%
Low-income	138.0	310.3	377.4	396.3	413.4	449.9	479.3	501.6	542.3	293.0%
Middle-income	520.2	907.3	1,003.8	976.9	998.0	1,068.5	1,126.7	1,160.5	1,227.7	136.0%
Sub-Saharan Africa	84.0	138.5	165.2	166.3	173.8	191.1	195.5	194.3	199.0	136.9%
East Asia and Pacific	96.5	199.8	223.6	225.3	227.2	259.8	293.8	320.2	366.7	280.0%
South Asia	39.3	82.7	96.6	101.8	108.7	119.0	126.2	133.4	145.3	269.7%
Europe and Central Asia	94.9	202.0	237.4	237.4	256.5	286.4	310.5	329.1	351.3	270.2%
Middle East & North Africa	86.0	160.4	184.1	186.6	194.2	188.4	191.4	189.0	194.7	126.4%
Latin America & Caribbean	257.4	434.2	474.3	455.7	451.0	473.7	488.4	496.3	513.0	99.3%
SILICs	68.9	156.7	188.1	193.6	198.5	201.9	206.2	204.1	207.9	201.7%
SIMICs	252.5	466.9	527.0	512.9	521.8	557.1	575.2	570.8	584.2	131.4%

Notes: (1) Data for 1993 are estimates.
(2) See the Appendix for definitions.
Source: World Bank (1993c), Vol. 1.

2. Debt and Debt-Servicing Reduction Mechanisms

In the years since the beginning of the crisis, a number of debt-reduction and debt-servicing reduction mechanisms have been introduced by the international community to assist developing countries in reducing their debt burdens, while strengthening the weakened international financial system.[2] Programmes were developed for different groups of debtors, depending on the type of debt (commercial or bilateral), the severity of a country's indebtedness, and the per capita income level of the country. The main programmes addressing commercial debt have been the Baker Plan, the Brady Plan and the Debt Reduction Facility of the International Development Association (IDA). For bilateral government-to-government debt, the group of developed country creditors known as the Paris Club has renegotiated payment schedules and, in some cases, reduced principal amounts under special terms for the poorest developing countries.

[2]Debt-reduction mechanisms reduce the stock (or principal) of outstanding debt. Debt-servicing reduction mechanisms do not reduce the debt principal, but reduce the payments that must be made, thus relieving the country of its debt-servicing burden. This is commonly done by capitalizing any outstanding payments, increasing the period over which loans are amortized and by extending grace periods.

2.1 Commercial Debt

In the three year period following the beginning of the debt crisis, the commercial banking community was ill equipped to address the problem. The main response was to attempt to protect the value of commercial loans in developing countries. To achieve this end, bank advisory committees would recommend the restructuring of debt on more favourable terms to the developing countries, and would provide new financing to protect the book value of the loans and ensure that they kept performing. Normally these restructurings followed the granting of the International Monetary Fund's (IMF) seal of approval in which countries agreed to programmes designed to help stabilize their economies by improving fiscal and current account deficits, ultimately leading to an expected improvement in their ability to service the external debt. New voluntary lending from the banks dried up, although involuntary lending as part of the bank packages was extended to enhance the quality of outstanding obligations. This approach was insufficient.

The first concerted international effort, the Baker Plan, was announced in Korea at the joint meetings of the World Bank and IMF in October 1985. The announcement was significant since it was the first official recognition by the U.S. government that indebted countries were suffering from solvency problems, not simply temporary liquidity shortfalls. The Baker Plan called for the World Bank to put up US $20 billion over three years, an amount that was to be matched by commercial creditors. Outstanding interest and principal payments were to be capitalized. The result, however, was little more than a bookkeeping entry and offered indebted countries little debt relief, despite the fact that the World Bank nearly doubled its exposure to the Severely Indebted Middle-Income Countries (SIMICs) from 1985 to 1987, although by only US $12.9 billion, well short of the US $20 billion originally envisaged.[3]

It was also during the period of the Baker Plan that debt-equity and other debt swaps became common, and a secondary market for developing country debt emerged. In addition, selected developing countries, such as Bolivia, Chile and Mexico, were allowed by commercial bank creditors to buy back some debt at a discount or to exchange debt at a discount for other instruments. In 1988, for example, Mexico exchanged public sector debt at a sizeable discount for new and collateralized 20-year Mexican bonds, resulting in a reduction in total external debt of US $1.1 billion.[4] Still, countries were not always in a better position after such

[3]Culpeper (1993), p. 1240. See the Appendix for the definition and a list of SIMICs.

[4]Powell (1990), p.11.

market-based debt reduction schemes compared with the period preceding such swaps, since the price on the remaining debt could actually increase by an amount great enough to eliminate all benefits made from the debt reduction.[5]

The Brady Plan, launched in March 1989, was designed to eliminate the free rider problem inherent in market-based reduction plans by ensuring that most (if not all) commercial banks would reduce outstanding claims.[6] Unlike its predecessor, the Baker Plan, it was the first comprehensive programme that went beyond simple restructuring of outstanding principal and interest payments. It offered commercial banks a menu of options which would reduce their exposure in developing countries, while guaranteeing that the balance would be honoured. Banks agreed to reduce the debt obligations of developing countries (mainly through lower yields or discounted principal amounts) in return for "credit enhancement" of the remaining balance. The menu-based approach differed from open-market debt buybacks since it included most (if not all) commercial creditors, thus avoiding the free-rider problem inherent in the market-based buybacks. The menu of choices also allowed commercial banks to choose the best option according to their specific circumstances, level of risk tolerance, domestic banking regulations, etc. This, in essence, meant that other creditors, principally the IMF and World Bank, would put up guarantees on the remaining debt which could be called by commercial banks if debtors failed to honour these obligations.

Since the inception of the Brady Plan, about one-half of the total commercial bank debt of developing countries has been rescheduled. Seven countries have undergone a debt restructuring under the Plan, reducing the face value of eligible debt from US $111 billion to US $94 billion. The programme has saved these developing countries about US $39 billion in debt and debt-service reductions.

[5]According to Rogoff, the efficiency problem with debt reduction schemes that are not comprehensive is that countries pay the average price of the debt in retiring marginal debt. To illustrate this point, Rogoff uses the example of Bolivia before and after its March 1988 debt buyback. In September 1986, Bolivia debt was trading for 6 cents on the dollar with total outstanding debt of US $670 million, equal to a total market value of US $40.2 million. Using some of its own resources, as well as resources donated by Spain, the Netherlands and Brazil, Bolivia paid US $34 million to purchase US $308 million of its debt at a price of 11 cents on the dollar. By April 1988, the value of the remaining debt (US $362 million) had also risen to 11 cents, for a total market value of US $39.8 million. Thus, in essence, Bolivia only retired US $0.4 million of debt based on current market valuation. The commercial banks, on the other hand, received a windfall of almost US $34 million, since the value of the remaining claims increased. By contrast, over the September 1986 to April 1988 period, the prices of debt for all other highly indebted countries fell by a weighted average of 30%. See Rogoff (1992), pp. 479-80. The positive aspect of the Bolivian buyback was that the principal reduction was taken as a sign of good domestic management, thereby helping to create an environment of creditworthiness that encouraged capital inflow, including returning flight capital.

[6]In this context, the free rider problem occurs when a creditor does not wish to sell its outstanding claims at a discounted amount on the secondary market, well aware of the fact that the unit value of remaining claims is likely to increase the more discounted debt is retired.

Mexico (US $47.2b of commercial debt renegotiated), Argentina (US $29.3b) and Venezuela (US $19b) have been the largest beneficiaries of the programme. Earlier this year, Brazil also finalized an agreement with its commercial creditors to reschedule US $49 billion under the Brady Plan.[7]

One of the results of the Brady Plan has been that commercial debt has been swapped for multilateral guaranteed debt and some new IFI financing. In addition, commercial creditors have continued to reduce their exposure in developing countries by other means, such as selling discounted loans in the secondary market and debt-equity swaps, although these have slowed in the last couple years owing to the reduced discount on much of the outstanding debt.[8] For the developing countries, the Brady reschedulings have not provided significantly more short-term cash flow relief than previous approaches, but they have provided a more stable, long-term payment reschedule.[9]

Through its concessional lending window, the International Development Association (IDA), the World Bank established the Debt Reduction Facility in 1989. Initially capitalized with US $100 million of net income from the World Bank, the facility was designed to enable low income countries to buy back their commercial debt at a discount, with financing provided by the IDA and bilateral grants. To date, five countries have used this facility, purchasing outstanding debt obligations totalling US $623 million at a price ranging from 10% to 16% of face value. An additional six countries are in the process of utilizing this facility, which has been extended to July 1995 with the recapitalization of another US $100 million from World Bank net income.[10]

[7]See Gilpin (1994). Other countries that have benefitted from the Brady Plan are the Philippines, Costa Rica, Uruguay, Nigeria and Jordan. The Dominican Republic and Bulgaria have also reached agreements in principle with their bank steering committees and are expected to conclude these agreements sometime this year. Poland, Peru, Ecuador and Panama have also entered into discussions with commercial creditors. See Clark (1994), p. 44.

[8]See World Bank (1993c), Vol. 1, pp. 40-2 for a brief overview of these mechanisms.

[9]Clark (1994), p. 62.

[10]The countries that have used this facility, along with dates, face value of purchased debt, percent of face value paid, and actual purchase price, are:

Country	Date	Buy Back Amount (US $)	% of face value	Actual Cost (US $)
Niger	1991	107m	18.0	19.3m
Mozambique	1991	124m	10.0	13.4m
Guyana	1992	69m	14.0	10.0m
Uganda	1993	153m	12.0	18.4m
Bolivia	1993	170m	16.0	27.0m
	Total	623m	14.1	88.1m

2.2 Government-to-Government Debt

Since the beginning of the debt crisis, the number of Paris Club agreements between creditors and developing country debtors has increased dramatically from 5 in 1982 to an average of 16 annually between 1983 and 1992.[11] The Paris Club has gone beyond its usual debt-restructuring operations by offering debt-reduction packages to low-income official debtors, beginning in 1988 with the Toronto Terms and extended with the Enhanced Toronto Terms (ETT), beginning in December 1991.[12] ETT packages reduce the present value of debt service on non-aid bilateral debt by 50% over a finite consolidation period. The ETT also provide for a reduction in the stock of debt after a fixed period of time (usually three years), as long as both the rescheduling agreement and a concurrent IMF programme are followed.[13] As of October 1993, a total of 16 countries, with US $4.5 billion in eligible debt, had reached agreements with the Paris Club under the ETT.[14] In addition, a significant rescheduling (but no reductions) of official development assistance (ODA) claims has occurred through this mechanism.

The Paris Club does not offer debt-forgiveness to lower-middle-income

Buyback operations are being prepared for Albania, Nicaragua, Sao Tome and Principe, Sierra Leone, Tanzania and Zambia. See World Bank (1993c), Vol. 1, pp. 38-40, and Table A2.5, p. 93.

[11]OECD (1994), Chart IV-4, p. 73.

[12]Although somewhat of a misnomer, the ETT are commonly referred to as the Trinidad Terms, named as such following the Commonwealth Finance Ministers' Conference in September 1990 in Trinidad. The actual Trinidad Terms, as originally outlined, have never been applied in practice. See World Bank (1993a), p. 9, and below, p. 22.

[13]This "goodwill clause," however, has never been applied in practice. Under the ETT, ODA debt is rescheduled for 30 years, including 12 years grace. Non-ODA is rescheduled under a menu of options which include: (1) the write-off of 50% of the debt service (principal and interest) due during the consolidation period, rescheduling the remaining debt service over 23 years at market interest rates with six years grace; (2) rescheduling debt over 23 years with no grace period, but with a reduction in the market rate of interest equal to the equivalent of a 50% reduction in the present value of the debt service; and (3) rescheduling the debt over 25 years at market interest rates, including a 16-year grace period. The final option is the same as option one of the original Toronto Terms and has been used by only a few Paris Club creditors, including the United States. See World Bank (1993c). Vol. 1, p. 88.

[14]World Bank (1993c), Vol. 1, pp. 88-9. The 16 countries that have come to Paris Club agreements under the ETT are: Benin (two agreements), Bolivia, Guinea, Honduras, Mali, Nicaragua, Sierra Leone, Tanzania, Togo, Uganda, Zambia, Ethiopia, Mauritania, Mozambique, Guyana and Burkina Faso. The Paris Club continues to discuss a stock-of-debt reduction approach which would cover all outstanding debt, compared with the present practice of addressing only debt service payments which come due during a finite consolidation period. According to the IMF, in some cases, the debt-stock reduction will have to go well beyond the current 50% reduction in debt stock (technically available under the ETT, but never implemented) to be effective and similar terms will also be needed from other creditors, along with new financing and appropriate macroeconomic adjustment policies. See International Monetary Fund (1993), p. 73.

countries.[15] A number of these countries are, however, eligible to benefit from a special Paris Club programme known as the Houston Terms, which offers longer repayment periods on ODA and non-ODA debt than provided in regular rescheduling agreements. Interest on rescheduled ODA debt is offered at concessional rates, while interest on non-ODA debt is based on market rates. Since 1990, 14 countries have benefitted from this programme.[16]

Bilateral cancellation of official government-to-government credits to developing countries has also been used, mainly benefitting the countries of sub-Saharan Africa. Between 1982 and 1991, DAC countries cancelled over US $10.5 billion of ODA-related debt, export credits and guaranteed debt owed by developing countries, an amount greater than all the multilateral debt relief granted by the Paris Club under both the Toronto Terms and Enhanced Toronto Terms.[17]

Table 2
External Finance to Developing Countries
(% of gross long-term flows)

	1981	1991
Commercial Bank Loans	46.1	17.4
Foreign Direct Investment	8.3	16.5
Portfolio Equity	0.1	3.7
Bonds	1.2	4.8
Total Private	55.7	42.4
Official Loans	26.0	30.8
Grants	7.3	14.5
Suppliers and Export Credits	11.0	12.3
Total Official	44.3	57.6
Grand Total	100.0	100.0
Total (billions of US $)	$156.9	$205.3

Source: World Bank (1993b), p. 18.

[15]The exceptions to this rule were Egypt and Poland, both considered middle-income countries for Paris Club purposes. The Paris Club reduced the eligible debt of each country by the equivalent of 50% in 1991. See OECD (1993), p. 54.

[16]Countries which have come to agreement with the Paris Club under the Houston Terms are: Cameroon, Congo, Côte d'Ivoire, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica (two agreements), Morocco (two agreements), Nigeria, Peru (two agreements) and the Philippines. See World Bank (1993c), Vol. 1, Table A2.3, p. 90.

[17]OECD (1993), p. 55. Canada has forgiven ODA loans amounting to almost CDN $1.2 billion since 1978, mainly to countries in sub-Saharan Africa.

One of the results of this debt-restructuring and reduction has been a change in the source of developing country debt. In 1981, 46.1% of all gross long-term financial flows to developing countries were in the form of commercial bank loans. By 1991, this had fallen to 17.4%. Gross long-term official flows, by contrast, increased to 57.6% of the total in 1991 from 44.3% a decade earlier (see Table 2). This has resulted in a large increase in the stock of debt held by bilateral and multilateral creditors, relative to the amount held privately. Table 3 shows that the proportion of multilateral debt outstanding almost doubled from 10.7% of total debt stock in 1980 to 20.1% in 1991. The relative proportion of bilateral debt has also increased. Private debt, by contrast, has decreased from 70% of the external debt of developing countries in 1980, to about 55% in 1991.

Table 3
Total Developing Country External Debt Stocks
(billions of US $ and %)

	1980	1986	1991	% change 1980-91
Multilateral Debt (including IMF)	$61.6 (10.7)	$179.5 (16.9)	$257.6 (20.1)	318.2%
Bilateral Debt	$110.3 (19.3)	$231.7 (21.8)	$312.8 (24.4)	183.6%
Private Debt	$400.9 (70.0)	$651.1 (61.3)	$710.3 (55.5)	77.2%
Total Outstanding Debt	$572.8 (100)	$1,062.3 (100)	$1,280.7 (100)	123.6%

Source: World Bank, quoted in Culpeper (1993), p. 1240.

2.3 Multilateral Debt

Although the multilateral organizations do not offer indebted countries any form of debt reduction on outstanding multilateral loans, some do offer debt relief mechanisms to aid severely-indebted countries that are experiencing difficulties in servicing their external debt obligations.[18] In addition to the IDA Debt Reduction Facility, discussed above, the IDA Fifth Dimension Program has assisted in relieving the debt burdens of a number of lower income countries since 1989. Between 1989 and 1993, some US $625 million in concessional credits have been extended to IDA-only borrowers that have outstanding non-concessional IBRD (i.e., World Bank) debt and are undertaking adjustment programmes and are current on debt-servicing to both the IDA and IBRD. Credits are up to 100% of the interest

[18] In this context, multilateral organizations include the IMF, the World Bank (and its affiliates) as well as the major regional development banks such as the Inter-American Development Bank (IDB), the Asian Development Bank (ADB) and the African Development Bank (AfDB).

payments coming due on non-concessional IBRD debt. About three-quarters of these credits have gone to countries in sub-Saharan Africa.[19]

Debt relief in the form of new financing comes under the auspices of the World Bank's Special Program of Assistance (SPA) for debt-distressed sub-Saharan African countries. The IMF also provides support to low-income countries with protracted balance of payments problems, in the form of loans (mostly on concessional terms) from the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF), established in 1986 (as a component of the Baker Plan) and 1987, respectively. These facilities recognized the inability of many heavily-indebted countries to obtain necessary financing elsewhere, including under the IMF's usual financing facilities, and also that the problems of these countries transcended short-term liquidity issues, being structural in nature.[20] These programmes are designed to restore the tenuous balance of payments position of a country and to create the necessary conditions for sustained growth. As of July 1993, a total of 36 countries had had arrangements with the IMF under the SAF and an additional 29 countries under the ESAF. Most of these countries were in sub-Saharan Africa.[21] The World Bank and the IMF were also instrumental in providing the new financing necessary for the countries undertaking debt reductions under the Brady Plan.[22]

3. Regional Breakdown of Debtors

The discussion thus far has been limited to the debt experiences of developing countries as a whole. This global approach, while interesting, can also be quite misleading. The debt management experience of developing countries varies widely. A number of countries, mainly in East Asia and Latin America, are substituting commercial bank credits of the 1970s and early 1980s for private foreign direct investment (FDI) and private portfolio flows (i.e., bonds and equity

[19]World Bank (1993c), Vol. 1, Box 2.4, p. 40. The countries that have benefitted from this programme are Bangladesh, Bolivia, Ghana, Guinea, Guyana, Honduras, Kenya, Madagascar, Malawi, Mauritania, Nicaragua, Senegal, Sierra Leone, Sri Lanka, Tanzania, Togo, Uganda and Zambia.

[20]SAF and ESAF programmes are normally carried out in three successive annual programmes (four years in exceptional cases). The concessional interest rate is 0.5 percent and loans are to be repaid after five and a half years, ending ten years after disbursement.

[21]Schadler, et al. (1993), p.1.

[22]Over the first seven Brady Plans (Mexico, the Philippines, Costa Rica, Venezuela, Uruguay, Nigeria and Argentina), the IMF and World Bank supplied about US $6.7 billion in new financing. The Inter-American Development Bank has also been involved in Brady deals, providing about US $500 million in new money (about $475 of this for the Argentina deal alone). See World Bank (1993c), Vol. 1, pp. 34-6.

holdings) as they have been welcomed back into international capital markets. The reason: many countries, including some of the world's largest debtors, have begun to get their houses in order by promoting economic reform in addition to benefitting from debt-restructuring and debt-reduction programmes. This has not only attracted new private capital from investors in the developed world, but also the return of billions of dollars of flight capital that left during the 1980s.[23] Other countries, however, continue to experience severe debt-servicing problems as the result of the enormous debt overhang.[24]

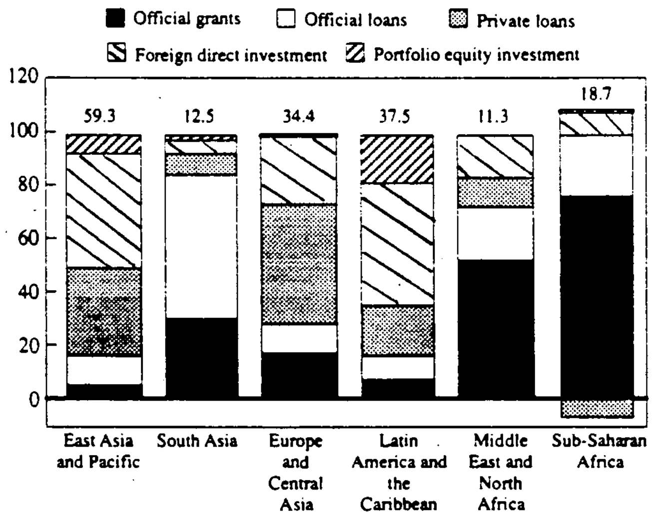
The economies of East Asia and the Pacific continue to perform well. The aggregate debt-service ratio (i.e., the region's annual debt payments as a proportion of export revenues) has declined modestly from 13.6% in 1980 to 12.2% in 1992, while its ratio of external debt stock to total exports grew only marginally (see Table 4). These economies are attracting large amounts of private external capital, mainly in the form of private lending and FDI (Figure 1). China, for example, is currently the largest recipient in the developing world of FDI and commercial bank credits. Somewhat exceptionally for the region, Indonesia's external debt situation has deteriorated, with the debt-service ratio more than doubling to about 32% by 1992 (Table 4).

A number of Latin American economies are also performing well and debt-servicing burdens have been significantly reduced, although debt overhang continues to be large. The region's debt-service ratio fell from 37.1% in 1980 to

[23]The share of global FDI flowing into developing countries has increased significantly from its low in 1987 to a projected historical high of close to 35% in 1993. Of the US $135 billion in FDI flows to developing countries between 1989 and 1992, 10 countries accounted for about 70% of the total and were concentrated in Latin America and East Asia and the Pacific. These countries, in rank order, were China, Mexico, Malaysia, Argentina, Portugal, Thailand, Indonesia, Brazil, Nigeria and Venezuela. See World Bank (1993c), Vol. 1, pp. 8, 28. The magnitude of these numbers, however, must be interpreted with care since often debt-equity conversions may be included in FDI flows, reducing the actual amount of foreign exchange invested in these economies. Moreover, in the case of China, at least part of the FDI comprises PRC capital channelled indirectly into investments in the PRC itself through Hong Kong in order to benefit from the more favourable treatment afforded "foreign" investment in China. This is the so-called "round-tripping" phenomenon. For its part, the global share of portfolio investment going to "emerging markets" is not easy to determine. It is probable, however, that this has also increased. Looking only at equity markets, the World Bank has estimated that the stock market capitalization of developing countries had more than doubled to 6% of global equity market capitalization between 1987 and the end of 1991. Since the share of global output produced by developing economies is 13%, if these equity markets attracted international capital in the same proportion, resource flows would increase by some US $40 billion per year, an increase rivalling flows of FDI. See World Bank (1993b), pp. 42, 55.

[24]The debt overhang is usually considered to stifle the economic growth prospects of a country since debt repayments act as a tax on economic activity, especially investment. If debt is considered too high, potential investors reason that future return on investment will be taxed to make future debt payments. Therefore, a larger proportion of current expenditures favours consumption over investment. This then stifles future growth prospects and is used as a rationale for debt relief. More recently, however, others have argued that high interest rates and falling commodity prices during the 1980s acted as much more potent forces against investment compared to the debt overhang. See Rogoff (1992) and Warner (1992).

Figure 1
Estimated Net Resource Flows by Region, 1993
(% of flows, US $ billions)



Note: Figures above bars show the total value of net flows in billions of US dollars. Data are estimated.

Source: World Bank (1993c), Vol. 1, p. 5.

the nonetheless still high level of 29.5% in 1992 (Table 4), mainly as a result of reductions and restructuring involving Venezuela, Brazil and Mexico.[25] These countries, along with Argentina, were once the focal point of the debt crisis, but have been the main beneficiaries of the Brady Plan. Despite the relatively high debt-service ratio, its reduction from the critical level of a decade ago and the significant, market-based reforms implemented in much of the region have changed Latin America's profile. These countries are now raising large amounts of private capital on international bond markets, domestic equity markets and through FDI (Figure 1). Much of this increase in private flows has been due to the return of flight capital. The debt-service position and the ratio of external debt stock to total exports of Latin America, however, remain more than double that of East Asia and the Pacific (Table 4).

[25]Argentina, Latin America's third largest debtors behind Brazil and Mexico, concluded its first Brady deal only in April 1993. Its debt-service position should therefore improve from its 1992 position, thus further improving the debt-service performance of the region as a whole. The same can be said for the recent agreement reached between Brazil and its commercial creditors (see p. 9 above).

Table 4
External Debt Ratios of Selected Developing Countries, 1980 and 1992

	Total external debt as percentage of						Debt service as a % of goods and services exports		
	Exports of goods and services			GNP					
By Country Group	1980	1992	+/-	1980	1992	+/-	1980	1992	+/-
All developing countries	**89.0**	**179.5**	**+**	**26.4**	**39.8**	**+**	**13.5**	**18.5**	**+**
Low-income	**108.7**	**224.8**	**+**	**17.3**	**45.6**	**+**	**10.1**	**17.3**	**+**
Middle-income	**85.0**	**164.8**	**+**	**30.7**	**37.6**	**+**	**14.1**	**19.0**	**+**
Sub-Saharan Africa	**91.0**	**237.1**	**+**	**30.1**	**68.3**	**+**	**9.7**	**13.5**	**+**
East Asia and Pacific	**97.0**	**102.4**	**+**	**18.3**	**30.7**	**+**	**13.6**	**12.2**	**-**
South Asia	**162.5**	**294.5**	**+**	**17.5**	**37.5**	**+**	**11.9**	**24.3**	**+**
Europe and Central Asia	**55.8**	**167.4**	**+**	**26.2**	**34.7**	**+**	**9.5**	**15.7**	**+**
Middle East & North Africa	**37.7**	**215.5**	**+**	**20.9**	**63.5**	**+**	**5.1**	**28.1**	**+**
Latin America & Caribbean	**206.6**	**263.8**	**+**	**37.2**	**40.8**	**+**	**37.1**	**29.5**	**-**
SILICs	**127.1**	**431.8**	**+**	**35.9**	**120.8**	**+**	**10.5**	**14.6**	**+**
SIMICs	**153.6**	**291.1**	**+**	**34.5**	**45.8**	**+**	**27.7**	**30.6**	**+**
By Country									
Albania	--	750.8		--	--		--	2.4	
Algeria	129.9	204.3	+	47.0	61.0	+	27.4	71.9	+
Angola	--	279.2		--	--		--	7.2	
Argentina	242.4	453.5	+	35.6	30.1	-	37.3	34.9	-
Armenia	--	--		--	--		--	--	
Bangladesh	345.3	387.3	+	31.3	55.7	+	23.2	17.1	-
Barbados	28.9	--		19.8	36.7	+	4.4	--	
Belarus	--	--		--	--		--	--	
Belize	57.4	--		32.6	38.5	+	3.3	--	
Benin	133.1	232.2	+	30.2	64.5	+	6.3	4.4	-
Bhutan	--	--		0.0	34.9	+	--	--	
Bolivia	258.2	536.4	+	93.4	83.6	-	35.0	39.1	+
Botswana	17.8	--		14.8	15.1	+	1.9	--	
Brazil	305.0	310.7	+	31.3	31.3	=	63.1	24.4	-
Bulgaria	--	203.2		--	110.7		--	6.9	
Burkina Faso	88.0	--		22.3	35.9	+	5.9	--	
Burundi	180.1	1,037.3	+	18.2	94.4	+	9.4	39.9	+
Cameroon	136.7	303.8	+	36.8	67.2	+	15.2	16.2	+
Cape Verde	33.1	--		18.9	45.2	+	0.4	--	
Central African Rep.	94.8	523.3	+	24.4	68.4	+	4.9	10.2	+
Chad	320.1	318.3	-	31.6	56.1	+	8.4	5.7	-
Chile	192.5	149.3	-	45.5	49.3	+	43.1	20.9	-
China	21.2	76.0	+	1.5	16.0	+	4.4	9.6	+
Colombia	117.1	161.8	+	20.9	36.7	+	16.0	35.3	+
Comoros	282.7	328.7	+	35.8	66.2	+	2.6	6.6	+
Congo	148.2	349.1	+	99.0	185.2	+	10.6	11.4	+
Costa Rica	225.2	149.7	-	59.7	63.2	+	29.1	20.7	-
Côte d'Ivoire	204.5	506.9	+	76.9	207.1	+	38.7	31.5	-
Czechoslovakia	--	--		--	28.8		--	--	
Djibouti	--	66.9		--	39.5		--	4.4	
Dominica	--	--		--	51.2		--	--	
Dominican Republic	133.8	184.7	+	31.2	61.9	+	25.3	13.5	-
Ecuador	201.6	339.0	+	53.8	102.1	+	33.9	27.1	-

Table 4 cont.

	Total external debt as percentage of						Debt service as a % of goods and services exports		
	Exports of goods and services			GNP					
By Country	1980	1992	+/-	1980	1992	+/-	1980	1992	+/-
Egypt	227.0	246.6	+	97.5	116.8	+	14.7	15.4	+
El Salvador	71.1	130.4	+	26.2	33.4	+	7.5	13.3	+
Equatorial Guinea	--	391.1		--	165.5		--	4.9	
Estonia	--	--		--	--		--	--	
Ethiopia	134.5	561.9	+	20.0	65.5	+	7.3	14.2	+
Fiji	46.9	35.9	-	23.7	22.2	-	6.0	8.9	+
Gabon	62.2	149.8	+	39.3	70.9	+	17.7	16.9	-
Gambia	209.1	170.7	-	62.2	102.0	+	6.3	13.3	+
Georgia	--	--		--	--		--	--	
Ghana	116.0	380.8	+	31.8	63.1	+	13.1	26.7	+
Grenada	42.5	--		27.4	52.6	+	6.0	--	
Guatemala	63.6	149.6	+	14.9	26.8	+	7.9	28.1	+
Guinea	201.8	383.9	+	--	86.0		19.8	12.3	-
Guinea-Bissau	--	9,753.2		127.9	289.6	+	--	93.4	
Guyana	195.4	--		147.8	768.6	+	21.6	--	
Haiti	72.8	--		20.9	--		6.2	--	
Honduras	152.1	333.9	+	60.6	114.2	+	21.4	35.0	+
Hungary	--	157.3		44.8	64.6	+	--	35.6	
India	136.0	297.0	+	11.9	32.3	+	9.3	25.6	+
Indonesia	94.2	231.2	+	28.0	67.4	+	13.9	32.1	+
Iran	32.0	67.5	+	4.8	12.8	+	6.8	3.9	-
Jamaica	129.3	154.4	+	78.3	153.6	+	19.0	24.8	+
Jordan	79.0	222.9	+	--	179.1		8.4	20.0	+
Kazakhstan	--	--		--	--		--	--	
Kenya	164.6	268.1	+	48.2	75.9	+	21.0	24.5	+
Korea	130.6	47.2	-	48.7	14.6	-	19.7	7.4	-
Kyrgyzstan	--	--		--	--		--	--	
Lao PDR	--	--		--	165.5		--	--	
Latvia	--	--		--	--		--	--	
Lebanon	--	93.4		--	30.2		--	7.1	
Lesotho	19.5	76.8	+	11.2	42.1	+	1.5	5.6	+
Liberia	111.8	--		62.7	--		8.7	--	
Lithuania	--	--		--	--		--	--	
Madagascar	235.7	951.5	+	30.6	153.9	+	17.1	20.7	+
Malawi	260.8	391.8	+	72.1	96.3	+	27.7	24.3	-
Malaysia	44.6	42.3	-	28.0	36.1	+	6.3	6.6	+
Maldives	39.5	49.2	+	108.2	81.3	-	0.8	3.7	+
Mali	227.3	--		45.4	93.2	+	5.1	--	
Malta	9.1	--		8.8	--		0.6	--	
Mauritania	304.8	--		125.0	205.6	+	17.3	--	
Mauritius	80.8	54.6	-	41.6	35.0	-	9.0	8.4	-
Mexico	259.2	243.2	-	30.5	35.2	+	49.5	44.4	-
Moldova	--	--		--	--		--	--	
Mongolia	--	--		--	--		--	--	
Morocco	224.5	--		53.3	77.8	+	32.7	--	
Mozambique	--	1,360.0		--	583.9		--	9.4	
Myanmar	269.8	--		26.0	14.1	-	25.4	--	
Nepal	85.4	313.8	+	10.4	62.2	+	3.3	11.7	+
Nicaragua	426.5	3,466.2	+	103.1	822.6	+	22.3	26.5	+
Niger	132.8	491.3	+	34.5	73.9	+	21.7	14.2	-
Nigeria	32.2	251.3	+	10.1	110.7	+	4.2	30.6	+

Table 4 cont.

	Total external debt as percentage of						Debt service as a % of goods and services exports		
	Exports of goods and services			GNP					
By Country	1980	1992	+/-	1980	1992	+/-	1980	1992	+/-
Oman	15.4	--		11.2	27.6	+	6.4	--	
Pakistan	208.8	243.1	+	42.4	48.0	+	17.9	23.3	+
Panama	38.5	222.9	+	87.5	111.8	+	6.3	31.3	+
Papua New Guinea	66.0	171.3	+	28.9	96.9	+	13.8	30.3	+
Paraguay	121.9	113.8	-	20.7	27.8	+	18.5	40.9	+
Peru	194.2	452.9	+	47.6	95.4	+	44.5	23.0	-
Phillipines	212.3	184.8	-	53.8	60.7	+	26.6	27.7	+
Poland	--	300.7		--	54.4		--	9.5	
Portugal	99.5	--		40.5	40.1	-	18.3	--	
Romania	80.3	87.6	+	--	15.9		12.6	11.1	-
Russian Federation	--	--		--	--		--	--	
Rwanda	103.5	--		16.3	55.4	+	4.2	--	
SaoTome and Principe	100.7	1,824.8	+	51.2	510.2	+	5.0	35.3	+
Senegal	162.7	226.1	+	50.5	58.0	+	28.7	12.5	-
Seychelles	81.8	68.4	-	59.2	47.7	-	36.2	7.3	-
Sierra Leone	157.7	--		40.7	202.5	+	23.2	--	
Solomon Islands	22.8	--		18.0	38.9	+	0.4	--	
Somalia	252.0	--		109.5	--		4.9	--	
Sri Lanka	123.4	167.6	+	46.1	66.5	+	12.0	12.5	+
St. Kitts and Nevis	--	--		--	23.4		--	--	
St. Lucia	--	--		--	21.2		--	--	
St. Vincent & the Grenadines	26.8	--		18.7	29.0	+	1.1	--	
Sudan	499.3	3,265.3	+	77.2	--		25.5	5.4	-
Swaziland	46.5	--		38.8	25.0	-	4.0	--	
Syria	106.2	--		27.1	--		11.4	--	
Tajikistan	--	--		--	--		--	--	
Tanzania	321.7	1,210.1	+	48.3	268.4	+	19.6	32.5	+
Thailand	96.8	--		26.0	36.3	+	18.9	--	
Togo	181.3	247.2	+	96.0	86.5	-	9.0	6.6	-
Tonga	--	81.4		--	31.1		--	3.0	
Trinidad and Tobago	24.6	109.8	+	14.0	46.0	+	6.8	25.2	+
Tunisia	96.0	125.5	+	41.6	55.5	+	14.8	20.4	+
Turkey	333.1	193.2	-	34.3	50.6	+	28.0	31.9	+
Uganda	210.6	1,518.5	+	55.2	96.6	+	17.4	41.0	+
Ukraine	--	--		--	--		--	--	
Uruguay	104.1	196.4	+	17.0	46.8	+	18.8	22.2	+
Uzbekistan	--	--		--	--		--	--	
Vanuatu	--	--		4.3	21.0	+	--	--	
Venezuela	132.0	219.7	+	42.1	62.5	+	27.2	19.5	-
Western Samoa	135.6	224.8	+	--	77.6		12.3	9.2	-
Yemen, Rep.	104.7	--		--	--		4.5	--	
Yugoslavia	103.1	--		25.6	--		20.8	--	
Zaire	206.4	--		35.7	--		22.6	--	
Zambia	200.7	576.6	+	73.8	386.5	+	25.3	29.3	+
Zimbabwe	45.4	216.9	+	14.9	74.1	+	3.8	31.9	+

Notes: (1) Country group averages are weighted.
(2) Missing data is denoted by --.
(3) An increase (decrease) in the ratio is denoted by a + (-) sign.
(4) See the Appendix for a list of definitions.

Source: World Bank (1993c), Vols. 1 & 2.

South Asia, the Middle East and Africa, and Europe and Central Asia all experienced a worsening of their external debt position between 1980 and 1992 (Table 4). Official loans and grants continue to account for the majority of net resource flows into South Asia (with the exception of India which has had some success in attracting private capital), as well as the Middle East and North Africa. Europe and Central Asia, by contrast, have been able to attract a large proportion of private loans and FDI (Figure 1).

For severely indebted low-income countries (SILICs), mainly in sub-Saharan Africa, the problem of debt overhang has continued for more than a decade.[26] Capital flight, largely brought on by the lack of meaningful economic reforms, is a symptom of the economic problems facing many countries in sub-Saharan Africa. By the end of 1991, the region's ratio of flight capital to gross domestic product (GDP) was 90%, the highest ratio of any region in the world.[27] Although the SILICs have continued to receive both positive net flows and transfers of external capital throughout the past decade, the debt has continued to mount, resulting in a severe debt overhang. In 1980, the SILICs had a nominal external debt stock of US $69 billion, which almost tripled to US $204 billion by the end of 1992 despite debt and debt-servicing reductions on ODA and non-concessional debt. By 1992, SILICs had a total external debt-export ratio which averaged 432%, considerably worse than the ratios registered elsewhere (Table 4). Some countries, such as Sudan and Nicaragua had ratios over 3000%.[28] Due to significant rescheduling programmes, however, debt-service ratios were not severe, increasing from 10.5% in 1980 to 14.6% in 1992 for the SILICs (Table 4). The debt overhang, however, continues to be a major problem since, in the absence of subsequent debt-reduction programmes, obligations will eventually have to be honoured.[29]

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[26]See the appendix for a definition and a list of these countries.

[27]World Bank (1993c), Vol. 1, Figure 1.4, p. 13. For comparison purposes, Latin America, a region once synonymous with capital flight, had a stock of flight capital to GDP ratio of about 30% at the end of 1991. The experience of Latin America can provide a valuable lesson to the countries of sub-Saharan Africa. Capital flight in Latin America began to increase dramatically in the period preceding the beginning of the debt crisis. In hindsight, many have argued that the commercial bankers should have heeded this warning, but they continued to extend financing to Latin America at the same time that Latin Americans were moving their money out of the region.

[28]World Bank (1993c), Vol. 1, p. 7. By comparison, in 1992 total Canadian private and public debt held abroad was CAN $385 billion and exports of goods and services were CAN $182 billion, for an external debt to export ratio of 212%. See Statistics Canada (1993), pp. 197, 267.

[29]It should be noted that relying exclusively on the debt-service ratio can be misleading. For example, in 1992 Chile had a debt-service ratio about double that of the Central African Republic (Table 4). Clearly, however, these countries are in different positions in terms of their levels of development, real capacities to make debt-service payments, and their abilities to attract private financial flows. No one would argue that Chile's external trade and finance situation is more fragile than that of the Central African Republic! Referring to a number of these African countries, William Cline of the Washington-based Institute for International Finance was recently quoted as saying: "Countries like these have impossibly high debt-to-

4. Outlook

Following the recent conclusion of the Brady deal between Brazil and its creditors, a *New York Times* article declared that the deal "allowed bankers to trumpet what many had been saying more quietly for years: the international debt crisis is over."[30] The debt crisis may only be a bad memory for international bankers, but it is far from over for a number of developing countries. Although countries have been faced with relatively favourable interest rates in the 1990s, principal and interest arrears have continued to grow, while the proportion of outstanding debt on concessional terms has increased only modestly (see Table 5).[31] Table 4 shows the relative debt position of the world's developing countries in 1992 versus 1980. The stock of external debt relative to export earnings and GNP has increased for the majority of countries. More important, however, is the relative worsening of the debt-servicing position of most developing countries, since this reflects the present ability of these countries to honour their debt obligations.

Only in the cases of East Asia and the Pacific and Latin America and the Caribbean has the debt-service ratio improved. These economies have shown strong performance in the recent past and, fuelled by impressive expected economic growth, this trend will likely continue over the next few years. These two regions are also attracting large amounts of private capital, including new commercial bank lending. Unlike the years preceding 1982, however, private capital is now largely in the form of bonds, equity financing and FDI. Use of these instruments spreads potential risk amongst many investors, unlike before 1982 when debt was concentrated in commercial bank lending. With continued growth and economic reforms in these countries, their debt management position will continue to improve.

Low-income countries, too, will likely see their debt-servicing capabilities enhanced over the short-term, as global economic growth increases export revenues and debt reschedulings continue to reduce debt service payments. As a result, little may be said over the next few years about the external debt still owed by these countries. The debt overhang, however, will remain and debt-servicing problems will likely arise again, especially with regard to the weak economies of

export ratios . . . For them, debt forgiveness would be truth in accounting." See Gilpin (1994).

[30]Gilpin (1994).

[31]The London Interbank Offered Rate (LIBOR), the interest rate on which most sovereign loans are based, fell from 9.3% in 1989 to 3.7% in 1992. See International Monetary Fund (1993), Table A14, p. 149.

Table 5
Various External Debt Indicators by Region, Income Level and Indebtedness, 1980-1992
(billions of US $ and %)

By Country Group	1980	1986	1987	1988	1989	1990	1991	1992
All developing countries								
Total External Debt (EDT)	658.1	1,217.6	1,381.2	1,373.2	1,411.3	1,518.4	1,605.9	1,662.2
Concessional Debt/EDT (%)	14.7	14.4	15.0	15.5	15.8	16.3	16.4	17.0
Multilateral Debt/EDT (%)	7.5	11.6	12.9	13.0	13.3	14.2	14.5	14.4
Arrears/LDOD (%)	0.6	4.1						8.9
Low-income								
Total External Debt (EDT)	138.0	310.3	377.4	396.3	413.4	449.9	479.3	501.6
Concessional Debt/EDT (%)	44.5	35.6	35.0	34.7	35.2	35.8	36.1	36.2
Multilateral Debt/EDT (%)	15.5	18.5	19.0	19.6	20.7	21.9	22.7	23.0
Arrears/LDOD (%)	1.7	7.2						9.4
Middle-income								
Total External Debt (EDT)	520.2	907.3	1,003.8	976.9	998.0	1,068.5	1,126.7	1,160.5
Concessional Debt/EDT (%)	6.9	7.1	7.5	7.8	7.7	8.1	8.0	8.7
Multilateral Debt/EDT (%)	5.4	9.2	10.6	10.3	10.2	10.9	11.0	10.7
Arrears/LDOD (%)	0.3	3.0						8.7
Sub-Saharan Africa								
Total External Debt (EDT)	84.0	138.5	165.2	166.3	173.8	191.1	195.5	194.3
Concessional Debt/EDT (%)	18.1	23.8	24.9	26.1	26.9	29.0	30.9	32.6
Multilateral Debt/EDT (%)	9.0	15.5	17.0	17.4	18.1	19.4	20.7	21.7
Arrears/LDOD (%)	2.3	8.1						25.5
East Asia and Pacific								
Total External Debt (EDT)	96.5	199.8	223.6	225.3	227.2	259.8	293.8	320.2
Concessional Debt/EDT (%)	14.3	13.4	15.9	16.9	17.7	18.9	18.7	18.1
Multilateral Debt/EDT (%)	7.8	12.3	13.8	13.5	13.9	14.5	14.0	13.1
Arrears/LDOD (%)	0.0	0.1						0.2
South Asia								
Total External Debt (EDT)	39.3	82.7	96.6	101.8	108.7	119.0	126.2	133.4
Concessional Debt/EDT (%)	72.1	55.2	54.2	52.3	50.5	50.8	51.2	51.3
Multilateral Debt/EDT (%)	24.3	28.4	28.7	29.9	31.1	33.1	34.8	35.5
Arrears/LDOD (%)	0.0	0.1						1.0
Europe and Central Asia								
Total External Debt (EDT)	94.9	202.0	237.4	237.4	256.5	286.4	310.5	329.1
Concessional Debt/EDT (%)	8.3	5.3	5.0	4.8	4.0	4.1	3.7	5.8
Multilateral Debt/EDT (%)	5.5	9.1	10.4	9.6	8.7	8.6	8.8	8.6
Arrears/LDOD (%)	0.5	4.0						8.4
Middle East & North Africa								
Total External Debt (EDT)	86.0	160.4	184.1	186.6	194.2	188.4	191.4	189.0
Concessional Debt/EDT (%)	24.5	24.2	24.7	25.1	25.0	25.2	24.1	24.4
Multilateral Debt/EDT (%)	6.5	7.7	8.3	8.2	8.3	8.7	9.1	9.4
Arrears/LDOD (%)	0.8	10.3						4.8
Latin America & Caribbean								
Total External Debt (EDT)	257.4	434.2	474.3	455.7	451.0	473.7	488.4	496.3
Concessional Debt/EDT (%)	4.2	4.6	4.4	4.5	4.9	5.1	5.3	5.5
Multilateral Debt/EDT (%)	5.5	9.4	10.9	11.1	11.6	12.7	12.8	12.4
Arrears/LDOD (%)	0.4	3.5						12.1
SILICs								
Total External Debt (EDT)	68.9	156.7	188.1	193.6	198.5	201.9	206.2	204.1
Concessional Debt/EDT (%)	33.3	29.1	28.9	29.3	30.2	31.7	32.7	34.2
Multilateral Debt/EDT (%)	13.2	14.1	14.7	14.8	15.4	16.6	17.2	18.0
Arrears/LDOD (%)	3.1	13.6						21.8
SIMICs								
Total External Debt (EDT)	252.5	466.9	527.0	512.9	521.8	557.1	575.2	570.8
Concessional Debt/EDT (%)	6.4	7.4	7.4	7.7	7.9	8.0	7.8	9.4
Multilateral Debt/EDT (%)	4.7	7.7	8.8	8.8	8.9	9.6	9.8	9.8
Arrears/LDOD (%)	0.5	4.7						14.0

Notes: (1) Country group averages are weighted.
(2) Multilateral debt does not include IMF purchases.
(3) Arrears include both interest and principle arrears on long-term debt (LDOD).
Source: World Bank (1993c), Vol. 1 and author's calculations.

sub-Saharan Africa, and potentially with regard to a number of other developing countries that have permitted their debt-service and total external debt-export ratios to deteriorate (unless these latter LDCs continue to follow solid domestic economic management practices that have attracted large inflows of private capital in recent years). Good domestic economic performance and a favourable external economic environment with respect to increased exports and, for many countries, higher and more stable international commodity prices are necessary.

In the longer-term, therefore, the potential remains for debt-servicing problems, as current debt-reduction schemes are not broad enough in scope to reduce the debt overhang of the SILICs. The World Bank has noted that, even with the repeated rescheduling of eligible bilateral debt under the Enhanced Toronto Terms, some 21 SILICs would remain with debt-export ratios of over 200%. This situation is unsustainable beyond the short-term.[32]

There continue to be plenty of ideas on how to reduce the debt of developing countries. In 1990, at a Commonwealth Conference in Trinidad, then British Chancellor of the Exchequer John Major suggested a proposal that called for writing off two-thirds of the outstanding bilateral debt of the poorest developing countries, rescheduling the remainder at market interest rates. Later that same year, at the Second United Nations Conference on the Least Developed Countries, the Dutch delegation presented a proposal which called for writing off all bilateral debt of the poorest and most indebted countries. At the Annual Meetings of the IMF and World Bank in Bangkok in 1991, the United Kingdom and France put forward a similar proposal which called for the cancellation of up to 80% of outstanding debt stock of both low and middle-income African countries. Each of these proposals advocated a larger amount of debt forgiveness and also dealt with the entire stock of bilateral debt, not simply a proportion as is currently done at the Paris Club.[33] Still, these proposals have largely faded from memory and certainly none have been implemented.

The problem with these proposals, aside from the fact that they have not been implemented, is that they only address bilateral debt, whereas it is multilateral debt which continues to grow and cannot be reduced under current mechanisms.

[32]World Bank (1993c), Vol. 1, p. 46.

[33]See Ezenwe (1993). Debt reduction under the auspices of the Paris Club only occurs over finite consolidation periods, coinciding with the usual 12-36 month length of an IMF programme, which must be in place before negotiations begin. If debt-servicing difficulties persist, the debtor country will return to the Paris Club on many different occasions. The Paris Club, however, continues to hold preliminary discussions regarding the details of stock of debt reduction, including countries that would be eligible, the amount of debt reduction which should be entertained, conditions that must be fulfilled before debt reduction is granted, etc.

Although there is still latitude for debt reduction under existing Paris Club and IDA programmes, according to the Organization for Economic Co-operation and Development (OECD): "It is unlikely . . . that they would be sufficient to ease the difficulties being experienced by some LLDCs in generating enough foreign exchange to service their external debt, given the size of their multilateral debt and debts to official creditors who do not participate in Paris Club negotiations." The problem is that multilateral debt presently cannot be reduced and some bilateral creditors (mainly the former Soviet Union, China and Arab countries) do not participate in Paris Club negotiations. For the poorest developing countries (LLDCs), in 1992 some 38% of outstanding debt was multilateral and a further 28% was held by non-OECD creditors. According to the OECD, these "creditors do not participate in Paris Club negotiations and the possibilities for restructuring this debt and the mechanisms required are issues that remain to be addressed."[34]

Given the inability of a number of LDCs to benefit from commercial debt and debt-service reduction, along with Paris Club relief, there are only two approaches to increase the resource inflow to (or decrease the resource outflow from) these countries. Multilateral creditors could increase the pace of lending to these countries and/or official debt reduction could be undertaken. Multilateral lenders such as the IMF and World Bank have chosen the first option, arguing that they should be exempted from participating in debt reduction programmes. The Fund notes that debt reduction would be inconsistent with its role as a short-term creditor which extends loans to countries on a revolving basis. Furthermore, it argues that it is a privileged creditor, given its role as lender of last resort. The World Bank argues that its ability to borrow funds at attractive rates in international markets would be harmed by reduction programmes related to debt owed to it, resulting in higher credit costs to borrowing countries.[35]

Certainly, both the Fund and the World Bank have increased their lending to developing countries since the beginning of the debt crisis, in essence rolling-over outstanding payments in much the same way that the commercial banks did to protect their outstanding claims in the early 1980s. This problem is best illustrating by looking at the example of the SILICs in 1990. This group of debtors was scheduled to make payments of US $7.6 billion on long-term debt that year. Actual payments, however, amounted to only US $2.0 billion or 26.1% of scheduled payments. More illustrative, however, is the fact that multilateral

[34]OECD (1994), p. 73.

[35]Powell (1990), p. 20.

creditors received 77.3% of their scheduled payments.[36] These numbers reflect the importance that debtors attach to first satisfying the demands of the IMF and World Bank, but not because they are privileged or senior creditors.

The fact that countries generally do not fall into arrears in servicing World Bank and IMF debt is largely a façade: although some countries have made net repayments, many heavily-indebted countries are current on loan payments to these institutions only because the debtors have received, or anticipate receiving, large new loans. Being forced to extend new financing to these countries hardly fits the conventional description of a senior creditor.[37] Furthermore, Bulow and Rogoff argue that very few debtors will default on repayments to creditors who are always relending all repayments and lending new money on top of that. They note:

> Since most outstanding official loans will never really be repaid anyway, these debts should be written down. This would force the World Bank's sponsors to assume the Bank's bond liabilities directly, and put these costs "on the books." Policymakers and taxpayers would then have a clearer picture about the amount of aid they are providing, and the IMF and World Bank staff would be able to focus on development issues without becoming entangled in debt accounting.[38]

The World Bank's contention that it would be unable to raise capital at attractive rates in international bond markets if it were to reduce outstanding loan obligations is also overstated. The previous experience of commercial banks is illustrative. During the mid to late 1980s, the stocks of several private banks exposed to Latin American and Caribbean countries were selling well below book values. Once this questionable debt was removed from their balance sheets, a surge in the value of bank stocks occurred. For example, when Citibank initially announced that it would set aside $3 billion to its loan loss reserves, the reaction

[36]World Bank (1992), Table 2, p. 64. A complete disaggregation of this figure would might well show that the IMF and the World Bank were completely paid, whereas other multilateral debt, mainly from the African Development Bank, remained in arrears. However, this could not be confirmed on the basis of information available to the author.

[37]Rogoff (1992), p. 485.

[38]Bulow and Rogoff (1990), p. 39.

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

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[39]Garg (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.

[40]Sachs (1990), p. 28.

[41]International 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.

the debt overhang in developing countries as part of a more comprehensive development strategy which includes sound domestic economic policies. While noting that the debt overhang is one of many developmental problems facing these countries, the Bank emphasizes that reductions in debt stock would result in a number of benefits for the debtor country, including reducing uncertainty for private sector investors, releasing debtor country policymakers from protracted debt negotiations, improving the availability and cost of trade finance, and restoring the current disrupted relationships with external creditors. The Bank concludes that its "analysis suggests that for these most severely indebted countries, deeper reduction in bilateral debt may be needed to restore external viability."[42]

But there is the danger of expecting bilateral creditors to continue to shoulder the burden of official debt restructuring. Bilateral creditors are aware that multilateral debt currently cannot be reduced, and thus may be unwilling to increase bilateral exposure to countries where the multilateral to bilateral debt ratio becomes too high, owing to the probability that, under current practice, it will be bilateral debt that is reduced in the presence of any future debt-servicing problems. The Bank, however, stops short of recommending any relief from the increasing stock of multilateral debt. Likewise, the IMF has said that debt-stock reductions may have to go well beyond the usual Paris Club 50% reduction in debt in some cases and that comparable terms will also be needed from creditors outside the Paris Club. But the Fund, too, stops short of recommending multilateral debt relief.[43]

5. Conclusion

Is the debt crisis over? The answer is yes and no. Certainly, the systemic threat to the world banking system has ceased to be a problem. Increases of loan-loss reserves, debt swaps and voluntary debt-reduction schemes have all contributed to lowering the exposure of commercial banks in the developing countries. From the debtor country perspective, however, the debt problem can still remain a crisis. Large debt overhangs and poor longer-term growth prospects mean that a number of countries, mainly in sub-Saharan Africa, will continue to experience debt-servicing problems well into the future. The same can be said for Russia (and to a lesser degree other former Eastern Bloc countries), which has

[42]See World Bank (1993c), Vol. 1, pp. 46-7.

[43]International Monetary Fund (1993), p. 73. This "usual" 50% debt reduction component of ETT agreements has never been implemented in practice. See p. 10 above. Others however, have recognized the importance of and called for this type of debt reduction. See, for example, Culpeper (1993).

recently entered the international financial community, with the extent of its domestic economic problems becoming manifest. For other countries, mainly those in Latin America, the crisis is over for the moment. Debt reductions and restructurings throughout the 1980s and into the 1990s have given these countries more manageable repayment schedules, although external or domestic economic shocks could again result in debt-servicing problems for some.

The world economy, expected to be buoyant over the next few years, will enhance the export revenues of the SILICs and, along with the continued use of Paris Club negotiations and low market and concessional interest rates, will help these countries to service their external debt obligations over the short-term. The underlying problem of the debt overhang, however, will continue to worsen. The shift in the structure of debt, along with the problems that many countries are having in continuing its service, means that multilateral organizations, facilitators of the other debt-reduction schemes, will ultimately be put in the position of having to reduce developing country debt further for SILICs. Given the mixture of debt currently owed by these countries, this suggests that mechanisms must be developed for the reduction of multilateral debt before the aftershocks of the 1982 crisis are felt.

Appendix

World Bank Classification of Developing Economies

The classification of economies used throughout the paper are from the World Bank (1993c), Vol. 1, and are as follows:

A. Classification by Income Per Capita:

Low-income economies are those with a GNP per capita of US $675 or less in 1992.

Middle-income economies are those with a GNP per capita of more than US $675 but less that US $8,359 in 1991.

B. Classification by Region:

See Table A1.

C. Classification by Analytical Group:

Severely indebted middle-income countries (SIMICs) are the group of 19 middle-income countries that are deemed to have encountered severe debt-servicing difficulties and are defined as those which, averaged over the 1989-91 period, had either of two key ratios above critical levels. First, present value of debt to GNP is above 80%. Second, present value of debt exceeds 200% of the value of exports of goods and services. See Table A1.

Severely indebted lower-income countries (SILICs) are the group of 29 low-income countries and defined as above. See Table A1.

Table A1
World Bank Classification of 129 Developing Countries

Income Group	Sub-Saharan Africa		Asia		Europe and Central Asia		Middle East and N. Africa		
	E. and S. Africa	West Africa	E. Asia and Pacific	S. Asia	E. Europe and Central Asia	Rest of Europe	Middle East	North Africa	L. America & Caribbean
Low Income	Burundi*	Benin	China (P)	Bangladesh	Tajikistan		Yemen, Rep. (E)	Egypt (E)*	Guyana*
	Comoros	Burkina Faso	Indonesia	Bhutan					Haiti (E)
	Ethiopia*	Central African Rep.*	Lao PDR*	India					Honduras*
	Kenya*	Chad		Maldives					Nicaragua (P)*
	Lesotho	Equatorial Guinea (E)*		Myanmar*					
	Madagascar*	Gambia		Nepal					
	Malawi	Ghana*		Pakistan					
	Mozambique*	Guinea		Sri Lanka					
	Rwanda*	Guinea-Bissau*							
	Somalia (E)*	Liberia (E)*							
	Sudan (E)*	Mali*							
	Tanzania*	Mauritania*							
	Uganda*	Niger*							
	Zaire*	Nigeria*							
	Zambia*	Sao Tome & Principe*							
	Zimbabwe	Sierra Leone*							
		Togo							
Middle Income	Angola (E)*	Cameroon*	Fiji		Albania*	Malta	Iran (P)	Algeria*	Argentina*
	Botswana	Cape Verde (E)	Korea, Rep. (P)		Armenia	Portugal (P)	Jordan*	Morocco (P)*	Barbados
	Djibouti (E)	Congo*	Malaysia		Belarus	Turkey	Lebanon	Tunisia	Belize
	Mauritius	Côte d'Ivoire*	Mongolia		Bulgaria*		Oman		Bolivia*
	Seychelles (E)	Gabon	Papua New Guinea		Estonia		Syria (E)*		Brazil (P)*
	Swaziland	Senegal	Philippines		Czechoslovakia				Chile
			Solomon Islands (E)		Georgia				Colombia (P)
			Thailand		Hungary				Costa Rica
			Tonga		Kazakhstan				Dominica
			Vanuatu		Kygyzstan				Dominican Rep.
			Western Samoa		Latvia				Ecuador*
					Lithuania				El Salvador
					Moldova				Grenada (E)
					Poland*				Guatemala
					Romania (P)				Jamaica*
					Russian Fed. (P)				Mexico*
					Ukraine				Panama*
					Uzbekistan				Paraguay
					Yugoslavia (E)				Peru*
									St. Kitts & Nevis
									St. Lucia
									St. Vincent and the Grenadines (E)
									Trinidad and Tobago
									Uruguay
									Venezuela (P)

Notes: * denotes a severely indebted country.
(P) denotes preliminary data.
(E) denotes estimated data.
Source: World Bank (1993c), Vol. 1, pp. 82-5.

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