I Introduction

Is There Still A Debt Crisis?

Contrary to a growing popular view that the debt crisis is over or about to end, the debt burdens of developing countries in general and of the *severely-indebted low-income countries* (SILICs) in particular remain large. They remain, as yet, inadequately attended to. Debt reduction arrangements negotiated under the rubric of the Brady Initiative for various *severely-indebted middle-income countries* (SIMICs) have begun to succeed in arresting and reversing the growth of *private* SIMIC debt. In some of these countries (e.g. Argentina, Chile, Mexico, the Philippines, Uruguay and Venezuela) private capital flows – mainly of direct and portfolio equity investment – are reviving and, in turn, contributing to improved prospects for renewed access to voluntary securitised debt and trade credit flows as well.

Special *bilateral* debt reduction arrangements agreed to by OECD creditors for Egypt and Poland in 1991 have also supported the popular belief that the debt crisis is over. But these arrangements have benefitted just two countries while leaving unresolved the problems of over fifty other debtor countries which are arguably more deserving if economic rather than political criteria were to be applied in deciding the need for relief. These two cases have induced official creditors into recently reaching a consensus on the Enhanced Toronto Terms for rescheduling the Paris Club debt of eligible SILICs whilst, upto October 1993, eschewing agreement on the more meaningful Trinidad Terms proposed earlier by the United Kingdom in 1991.

The Egypt and Polish examples implicitly suggest the use of debt strategy as an instrument of international economic diplomacy by creditor nations. Debt is not, as often claimed, an issue of ensuring that obligations under agreed financial contracts are respected. As the debt crisis has progressed, it has become instead a political weapon employed by creditors to reward friendly political rather than sound economic behaviour on the part of debtors. Egypt and Poland show how far creditors can go, providing they have the political will, in resolving the debt problems of developing countries. Though regarded as 'exceptions', these two cases demonstrate that the position still maintained by many creditor countries (and in particularly Japan) – based on exaggerated fears about a more pragmatic approach to debt reduction for all severely-indebted countries resulting in free-rider, moral hazard, and other problems which will bedevil the future conduct of international transactions and jeopardise international economic relations – is no longer credible nor tenable.

From: Multilateral Debt: An Emerging Crisis?
FONDAD, The Hague, 1994, www.fondad.org

Welcome reversals in the external debt situations of a handful (but happily growing number) of Latin American debtor countries have yet to be experienced by: (a) a large number of SILICs (most of which are in sub-Saharan Africa); (b) many severely-indebted lower-middle-income countries (SILMICs) – such as Jamaica and Côte d'Ivoire – whose economic recovery remains elusive despite a decade of adjustment effort; (c) some of the independent republics of the former Soviet Union (FSU) – in particular Russia and the Ukraine – and of former Yugoslavia whose political fracture is as yet incomplete and whose economic disruption could reinstitute a threat to global stability and security; and (d) some South and South-east Asian countries with large multilateral debt obligations whose on-going economic problems threaten to convert a once-manageable external debt burden into a full-blown external payments crisis if their present delicately balanced trajectories of adjustment, reform and export-oriented growth are, for whatever reason, blown off-course.

In short, the debt crisis is far from being over although it is no longer front-page news, nor is it as high a priority on the agenda of G-7 policy-makers as it once was when the international financial system appeared to be under threat. Nor is it a major issue for creditor banks or official creditor agencies any longer. For those involved on the creditor side – or as intermediaries between creditors and debtors – in the arcane arts of debt reduction and debt rescheduling it has become an interesting and occasionally lucrative pastime – almost a game.

But the overhang of external debt remains a problem for far too many developing countries whose limited administrative resources are over-stretched and diverted by the lingering effects of a crisis whose time to be relegated to history has long passed. The ability of their governments to shift their focus of attention from perpetual debt crisis management to establishing the foundations for sustainable growth and recovery continues to be delayed by unjustifiable procrastination on the part of creditors (official and private) who appear to be far too relaxed and sanguine about the impact of their actions on debtors, especially now that the economic and financial interests of creditors are no longer under any serious threat (except perhaps in Russia). Moreover the growing weakness of political leadership through all the major countries of the OECD world in the 1990s has led to a degree of absorption with domestic political issues which leaves little room for imaginative action on the international front, except where recurrent crises compel attention.

From: Multilateral Debt: An Emerging Crisis?
FONDAD, The Hague, 1994, www.fondad.org

The Accumulation of Debt Through A Decade of Crisis Management

The debt crisis broke in September 1982. For the next three years there was a scramble to organise involuntary financing packages under the aegis of the IMF and the US authorities (the multilateral banks were junior partners in this enterprise) to safeguard the capital base of global commercial banks which had become imprudently over-exposed to developing country risk. By and large the 1982-85 period saw some success in accomplishing that objective but at enormous cost to debtor economies and societies. The debt strategy pursued between 1982-85 enmired these countries in extreme recessionary conditions. Aiming to forestall their imminent economic implosion, which would jeopardise any further prospects for debt recovery, the Baker Plan was devised in late 1985 to provide a larger volume of multilateral resources, in combination with resuscitated private capital flows to restore growth. It did not succeed as intended and was followed by a series of separate initiatives for dealing with private (Brady-1989) and bilateral (Venice, Houston, Toronto and enhanced-Toronto terms) debt burdens.

The net effect of the various debt initiatives taken so far between 1985-92 is portrayed in the following two tables:

Table 1 Net Increases or Reductions in Outstanding Debt Stock Burdens 1985-92 (billions of US dollars)

	Bilateral	Multilateral	IMF	Private Long Term	Private Short Term	Total
All LDCs:	+ 216.0	+ 138.0	− 2.0	+ 116.0	+ 112.0	+ 580.0
SILICs:	+ 36.6	+ 20.3	+ 0.5	− 1.6	+ 2.7	+ 58.5
SIMICs:	+ 62.4	+ 31.5	+ 1.0	− 19.6	+ 40.3	+ 115.6

Table 2 Net Increases or Reductions in Outstanding Debt Service Burdens 1985-92 (billions of US dollars)

	Bilateral	Multilateral	IMF	Private Long Term	Private Short Term	Total
All LDCs:	+ 9.2	+ 19.2	− 0.6	+ 1.7	− 1.8	+ 27.7
SILICs:	+ 1.0	+ 1.7	− 0.5	− 2.7	− 0.6	− 1.1
SIMICs:	+ 4.1	+ 6.6	+ 2.3	− 4.3	− 0.5	+ 8.2

From: Multilateral Debt: An Emerging Crisis?
FONDAD, The Hague, 1994, www.fondad.org

The Particular Problem of Multilateral Debt

Between 1982-92, the external debt obligations that have ostensibly been made more tractable through rescheduling, restructuring, cancellation and conversion of private and bilateral debt have been partially offset and replaced by far less flexible multilateral bank and IMF debt. These obligations have, so far, been non-reschedulable and non-reducible. They are owed to preferred creditor institutions of which debtor countries are themselves part-owners. The penalties for default or delay in meeting scheduled obligations to multilateral banks or the IMF are much harsher than for obligations to any other type of creditor. The net result has been a pyramiding of multilateral debt as current debt service obligations are financed by new multilateral flows which are not contributing as anticipated to enhancing the generation of export earnings by debtor countries. Debtor countries now have in their liability portfolios too large a proportion of hard and rigid debt service obligations to institutions which have, since 1987, been extracting instead of injecting real resources from severely indebted countries which they are supposed to be helping.

From being the *solution* as lenders of last resort for new money between 1982-85, multilateral lenders have now become the *problem* for most severely indebted low-income and lower-middle-income countries. For several low-income debtors the multilateral debt burden has become unmanageable. The extent of the problem has been obscured by significant indirect refinancing of debt service payments on IBRD loans to SILICs with compensating IDA credit flows. But even that palliative has not been able to contain the problem.

From: Multilateral Debt: An Emerging Crisis?
FONDAD, The Hague, 1994, www.fondad.org