Preface

It is now more than eleven years since the debt crisis erupted. A popular view is that, because the international financial system is no longer in danger and major Latin American countries have regained access to voluntary flows from western capital markets, the crisis is over. However, for many developing countries the debt problem is far from resolved. And while most attention was and still is focused on the attempts to alleviate the burdens of both *commercial* and official *bilateral* debt of the countries affected, a new problem has emerged: the pyramiding of *multilateral* debt.

The facts are worrisome, as Percy Mistry reveals in this book. The *stock* of multilateral debt owed by developing countries has grown faster than any other type of debt. It tripled from $98 billion in 1982 to $304 billion in 1992. By 1992, it accounted for 18 per cent of the total outstanding debt stock of all developing countries. Debt *service* payments from developing countries to multilateral institutions have increased even more dramatically: from less than $7 billion in 1980 to over $36 billion in 1992 – a more than five-fold rise!

Over the past decade multilateral development banks have increased their gross lending to developing countries at an annual average rate of 13 per cent simply to ensure that burgeoning debt service obligations to them are met. As a result, multilateral institutions (including the IMF) have, since 1987, been extracting real resources from severely indebted countries instead of injecting into them. "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," says Mistry.

The problem of multilateral debt, like that of bilateral debt, is one which affects mainly the severely indebted low-income and lower-middle-income debtor countries of Africa, Central America and the Caribbean. It may, however, as the 1990s progress, eventually also affect a number of countries in Eastern Europe and the former Soviet Union.

Bold and imaginative action is needed to prevent a further piling up of multilateral debt. Developing a strategy for reducing it is not an easy job. According to Mistry, the first step in designing and implementing such a strategy must be explicit acknowledgement on the part of multilaterals that, while they must remain 'preferred creditors', they cannot be 'exempt creditors'. In other words, multilateral institutions will have to consider the same range of debt stock and debt service reduction tactics in dealing with their own debt that they have been suggesting to other types of creditors.

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Multilateral Debt: An Emerging Crisis? is the first in-depth analysis of a problem which is of growing concern to world financial policymakers. It is a disconcerting story told by a gifted author who combines inside knowledge with a passionate search for the facts.

Jan Joost Teunissen,
Director
January 1994

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I wish to acknowledge an immense debt (and considerable gratitude) to Mathew Martin for permitting so much of his analytical work to be used. The strengths of this paper are attributable in large part to Dr. Martin's analysis. Its weaknesses are ones for which I take full responsibility.

Percy Mistry
January 1994

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