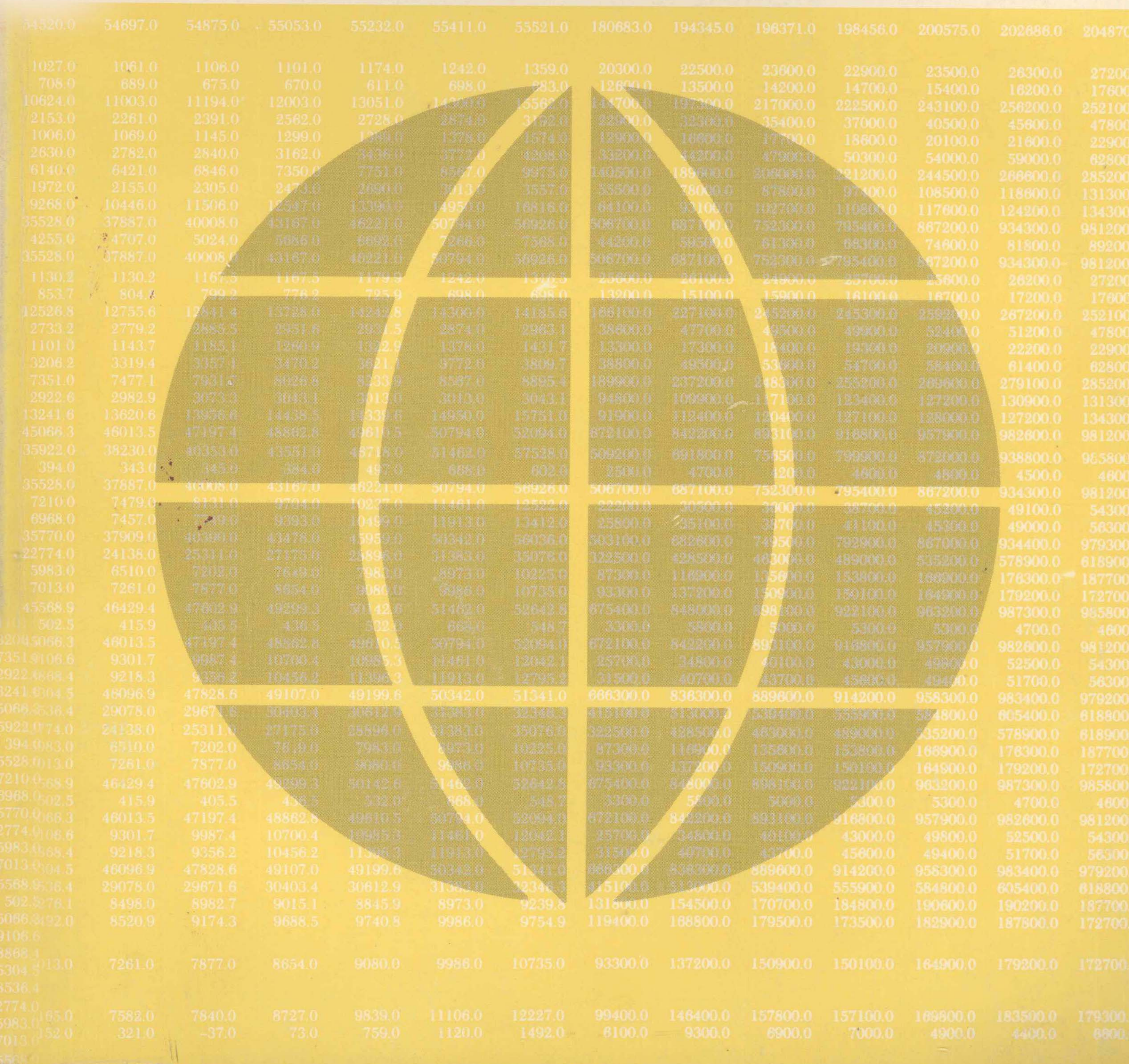
1984-85 Edition

World Debt Tables

External Debt of Developing Countries



World Debt Tables

External Debt of Developing Countries

1984–85 EDITION

The World Bank
Washington, D.C.

Manufactured in the United States of America

First printing March 1985

This volume was prepared by the External Debt Division, Economic Analysis and Projections Department, of the World Bank.

World Debt Tables is published annually by the World Bank.

The Library of Congress has cataloged this serial publication as follows:

World debt tables. — — Washington, D.C.: World Bank,

v.; 28 cm.
Annual.
"External public debt of developing countries. Document of the World Bank."
Description based on: 1977; title from cover.
Numerous supplements.
Continues: External public debt.
ISSN 0253-2859 = World debt tables.

1. Underdeveloped areas—Debts, External—Statistics—Periodicals. I. World Bank.
HJ8899.W672 336.3'435'091724—dc19 82-642205
ISBN 0-8213-0507-7 AACR 2 MARC-S

Preface

THE 1984–85 EDITION OF THE *World Debt Tables* contains statistical tables showing the long-term external debt of 105 reporting countries.[1] The tables are compiled from data reported to the World Bank by its members under the Debtor Reporting System (DRS). The DRS is maintained, and this volume is prepared, by the staff of the External Debt Division of the Economic Analysis and Projections Department.

This volume contains data for public and publicly guaranteed debt augmented by information (where available) on private nonguaranteed debt and major economic aggregates, and by indicators that are used frequently in analyses of debt and creditworthiness. The macroeconomic information provided is from standard sources. This means that many series, especially for African countries, are incomplete. In most cases, omissions relate to the service accounts of the balance of payments. Users of the indicators can eliminate gaps by substituting other standard data series (for example, merchandise trade could replace total exports and imports) for those used here.

The indicators were prepared for the convenience of users; their inclusion is not an endorsement of their value for economic analysis. Although debt indicators can give useful information about developments in debt-servicing capacity, conclusions drawn from them will not be valid unless accompanied by careful economic evaluation. Indicators are based on public debt only; where nonguaranteed debt is reported, users can adjust the indicators accordingly. In addition to the regional summaries and individual country tables, tabulations are shown for 104 countries (all countries, excluding Hungary) and for groupings by income levels. As well, a table shows the aggregate position of 12 major borrowers, meaning countries with disbursed and outstanding long-term total debt in excess of $15 billion at the end of 1983.

Footnotes again proliferate in this year's volume. They are essential because of the many countries engaged in debt renegotiations. Especially for projections, footnotes indicate where actual data will differ substantially from what is projected on the basis of information available at the end of 1983. Serious analysts should read all footnotes carefully.

To preserve a readable layout of the tables, data are provided for only eight years: 1974, 1976, and 1978–83. Some of the subcategories of debt also are omitted. For most users, the loss of detail should cause very few problems. For others, this omission could be overcome by subscribing to *World Debt Tables* on magnetic tape. Tape data include all debt information given in this volume and, where available, they offer continuous historical series for the years 1970–83 and projected debt-service payments for 1984–93. Enquiries about the data-tape subscriptions should be sent to the Publications Sales Unit of the World Bank.

The information contained in the *World Debt Tables* reflects the input of all members of the External Debt Division. The macroeconomic aggregates used are drawn from the files of the Comparative Analysis and Data Division of the World Bank and from the International Monetary Fund.

1. In previous volumes, debt with an original or extended maturity of more than a year was referred to as "medium term and long term." To conform to current usage, this debt is denoted as "long term."

Coping with External Debt in the 1980s

AN INHERENT PROPERTY OF DURABLE STRUCTURES is that they flex, and do not break. That property was evident in the financial markets during 1984, as participants responded positively and flexibly in coping with the debt-servicing problems of the developing countries. Repercussions from the severe financing difficulties of the biggest borrowers have been contained more successfully than many believed would be possible when Mexico interrupted full servicing of its debt in August 1982. Since then, several troubled debtor countries have made an impressive start to resuming full service of their debts and restoring their creditworthiness. International agencies have promoted cooperation between debtors and their creditors. International banks have renegotiated flexibly; they were willing, during 1984, to reschedule debt maturing over several years for countries pursuing appropriate policies. Debt-servicing difficulties for those countries eased from a "crisis" to a still serious, but manageable, problem.

Progress through 1984 is heartening, but it does not extend to all developing countries with debt difficulties—and especially not to many countries in sub-Saharan Africa. Immediate and severe payments difficulties that threaten the financial system demand solutions; those difficulties tend to attract greater attention than the more intractable problems of raising growth rates in the industrial and developing countries and tackling endemic poverty. In looking to 1985 and the prospects for resolution of those tougher problems, many uncertainties remain.

A critically important concern is whether worldwide recovery will usher in a period of rapid, sustained, and non-inflationary growth in industrial countries, permitting a reduction in their unemployment and an expansion in world trade.

A related question is whether policies in the industrial countries will lead in the medium-term to lower real rates of interest and expanded flows of public and private capital to the developing countries.

Another concern is whether recent improvements in developing countries' economic management can be sustained and spread, so helping them restore in the 1980s the faster growth of earlier periods.

Different challenges face different groups of developing countries, but sustained growth is essential for all groups if widespread poverty is to be reduced, and if developing economies are to rebuild their debt-servicing capacity and so restore their creditworthiness. Only thereby will they contribute over the longer term to the stability of the international financial system and participate effectively in it.

The economic recovery in 1984 eased some of the pressures on developing countries. After three years of recession, they managed growth of something over 3½ percent in their gross domestic product (GDP) and, on the average, they resumed growth in their GDP per capita. Developing countries should do even better in 1985; GDP growth is projected at 4¼ percent. Even that would result in average growth in GDP per capita of less than 1 percent a year in 1980–85. Just as the costs of debt-service difficulties fell unevenly on developing economies, so the outlook for faster growth is not uniform; the GDP per capita of many countries, notably those in sub-Saharan Africa, will fall further in 1985.

Since late 1982, the rapid recovery in the United States—and particularly the surge in American imports, which grew 30 percent in 1984—has helped several debtor countries to expand exports and improve their external accounts. However, America's expansion has slowed; its GDP rose at an annual rate of 8 percent in the first half of 1984, but only by about 3 percent in the second half. This deceleration was not offset by any comparable upturn in the other big economies. The GDP of the industrial countries may grow no more than 3 percent a year in 1985–86.

Growth of 3 percent in the industrial economies seems to be the minimum necessary to let the biggest debtor countries restore their debt-servicing capacity. Slower growth would pose new problems in expanding exports and could delay progress in debt restructurings. That, in turn, would impede flows of finance to developing countries, including those that have avoided debt-servicing difficulties. More, not less, external finance is needed to support the domestic policy reforms that the governments of many developing countries now recognize as essential for faster economic growth.

The capacity to make the transition to faster growth varies widely among groups of countries. The biggest debtors enjoyed rapid growth before they ran into debt-servicing difficulties. Their economies are diversified. Their domestic savings rates are high. They have demonstrated their capacity to restore their external accounts, even in a harsh international economic climate. Their weight in the financial markets has drawn attention to their problems, so they and their creditors have cooperated to create solutions. Provided the world economy is even moderately favorable, their adjustment policies —however demanding in the short term—in time should renew their economic growth and debt-servicing capacities.

Through 1983, these major debtors reduced their current account deficits mainly by curbing imports. In 1984, by contrast, external payments pressures eased through strong expansion of their export earnings. A premature end to the economic upturn in the industrial countries, especially if accompanied by increased protectionism, would check this export growth, redirect policies towards domestic austerity, and so heighten the economic, social, and political problems facing policymakers in the major debtor countries.

For the group of very poor countries—nearly all in sub-Saharan Africa—currently experiencing debt-servicing difficulties, financial problems exacerbate the more fundamental problems of poverty. Those countries have failed to attain sustained, rapid economic growth. They still lack the infrastructure and the human resources to make such growth a possibility. Many of the African countries now trying to adopt the fundamental policy reforms that are a prerequisite to growth are afflicted with the dual burdens of an inadequate debt-servicing capacity and a deteriorating economy. Their growth prospects would be brighter if the international community provided generous and long-term concessional support for their policy reforms, so they could raise their investment and recurrent expenditures at least to levels required to prevent further erosion of their limited physical and human capital.

Debt servicing also causes difficult problems for a group of troubled middle-income debtors that depend heavily on a few primary commodities for their export earnings and on official sources for a large share of their external finance. The group's members—several Latin American and some African economies—have few of the inherent advantages of the biggest debtors. Their ability to cut imports without damaging their growth is limited. Stagnating commodity prices constrain their ability to raise export earnings. Longer-term structural adjustment will be an important component of their return to sustained faster growth. That means longer-term remedies to their debt-servicing problems, including external finance to assist and complement their own adjustment policies. This external finance need not be concessional, but it should carry maturities that are long enough to give adjustment programs time to work.

The uncertainties of the outlook for economic growth are evident, too, in the borrowing policies of about 100 developing countries that have not interrupted normal service of external debt in the 1980s. India and China—poor countries with massive economies—have borrowed very conservatively. And Indonesia, for example, confronted with steeply falling revenues from oil sales, canceled some large public investments to avoid excessive reliance on external funding.

The still uncertain prospects for a resumption of sustained, faster growth in developing economies is a focal point of this year's *World Debt Tables*. As in the past, it analyzes recent trends in financial flows to developing countries. It describes the progress that has been made in debt restructurings, contrasting the flexible approaches for some large debtors with the continuing difficulties of the poorer and less-adaptable countries. It then looks at ideas for reforming relations between borrowers and lenders and at some new instruments developed by the financial markets that may help to stabilize lending. It concludes by assessing the outlook for the world economy, emphasizing that sustained growth—not just stabilization of external payments—is at the heart of any satisfactory, lasting resolution of debt problems.

Trends in Lending to Developing Countries

Data reported under the World Bank's Debtor Reporting System (DRS) are comprehensive only through 1983. Estimates, based on preliminary data from the DRS and other sources, are available for 1984, and the World Bank staff has projected stocks of debt through 1985. On this basis, the external long-term debt of 104 developing countries covered by the DRS increased only 9.5 percent, to $655 billion, in 1984, after growing more than 13 percent a year in 1980–83. Moreover, the 1984 figure is inflated by an estimated $25 billion of short-term liabilities consolidated into long-term debt through reschedulings. Including developing countries not covered by the

Box 1. *External Liabilities of Developing Countries*

The World Bank's Debtor Reporting System (DRS) does not capture the total external indebtedness of all developing countries. The two principal omissions are:

- Short-term debt, meaning external liabilities with original maturity of not more than one year; and
- The debt of developing countries that do not report formally under the DRS.

Included in the second category are developing countries that report only partially or in non-standard format under the DRS and for which data are not published. Moreover, reporting under the DRS of nonguaranteed long-term (LT) private debt is incomplete; estimates for the missing information are prepared by the staff of the World Bank and included in the summary tables of this volume. Similar estimates are made for the other missing information.

A final, important category of external liabilities—excluded by convention from the DRS—is the use of IMF credit. It is accounted as a "monetary movement" rather than a LT loan, but it constitutes a considerable part of the nonconcessional external obligations of some poorer countries.

When all the excluded information is compiled—as in the table—changes since 1980 in the total external liabilities of all developing countries are revealed. The important developments are:

- The more comprehensive estimate of external liabilities was 50 percent higher than the DRS figure in 1980–82, but the gap is closing. In 1983–85, LT debt of DRS countries accounts for over two-thirds of total external liabilities. That is explained partly by the refinancing of short-term into LT obligations. As well, the auditing of external debt accompanying debt renegotiations has led to upward revisions in loans reported under the DRS.
- Reschedulings make estimates of short-term debt more than normally imprecise. Double counting is likely, as countries report debt rescheduled in principle as long term, while banks continue to carry it as short term, pending formal agreement. Estimates indicate, however, that short-term debt continued to fall in 1984 to around $140 billion from the peak $171 billion in 1982. Rising imports and more stable relationships with their creditors could result in a rise in developing countries' short-term debt in 1985 to about $155 billion.
- Use of IMF credit continues to grow—it reached an estimated $36 billion in 1984—but at much slower rates than in 1982–83. The global economic recovery and the heavy drawings as a share of total access already made by major borrowing countries mean that additional use of Fund credit may be moderate in 1985.

External Liabilities of Developing Countries, 1980–85
(billions of U.S. dollars)

Country group	*1980*	*1981*	*1982*	*1983*[a]	*1984*[b]	*1985*[b]
DRS reporting countries[c]	540	629	699	761[e]	810[f]	880
Long-term debt[d]	412	470	525	598[e]	655[f]	710
From official sources	160	174	191	209	225	245
From private sources	252	296	334	388[e]	430[f]	465
Short-term debt[g]	119	145	155	134[e]	122[f]	{170
Use of IMF credit[h]	9	14	19	29	33	
Other developing countries[i]	70	73	76	82	85	90
Long-term debt[d]	59	58	57	60	62	64
From official sources	17	18	19	20	20	21
From private sources	42	40	38	40	42	43
Short-term debt[g]	11	15	16	20	20	{26
Use of IMF credit[h]	0	0	3	2	3	
Total	**610**	**702**	**775**	**843**	**895**	**970**
Memo item						
Growth of total liabilities (percent)	n.a.	15.1	10.4	8.8	6.2	8.4

a. Data for 1983 are preliminary.
b. Data for 1984 and 1985 are estimated.
c. Includes data for 104 developing countries for which standard and complete reporting is made through the World Bank's Debtor Reporting System (DRS).
d. Debt of original maturity of more than one year.
e. Reflects the rescheduling of $22 billion of short-term debt to banks into long-term debt during 1983.
f. Reflects the rescheduling of $25 billion of short-term debt to banks into long-term debt during 1984.
g. Debt of original maturity of no more than one year. Data are estimated from information on bank claims on developing countries as reported by the Bank for International Settlements, and are amended to take account of information on short-term debt reported by individual developing countries.
h. Excludes loans from the IMF Trust Fund; they are included in medium-term and long-term debt.
i. Includes data for developing countries that do not report through the DRS and for those that either have reported incomplete data through the DRS or report in a form that does not admit publication in the standard tables. Excludes debt of the high-income oil-exporting countries, and includes estimates for developing countries that are not World Bank members but are included in the global analysis underlying the *World Development Report.*

DRS, as well as short-term debt, and outstanding use of credit from the International Monetary Fund (the IMF or Fund), growth was even slower. By this broader definition, growth of external liabilities slowed steadily from 15 percent in 1981 to an estimated 6 percent in 1984, reaching almost $900 billion (see Box 1).

In an improving economic environment, the external liabilities of all developing countries should grow faster in 1985, by a projected 8 percent, to about $970 billion at the end of that year. Most short-term debt and most of the long-term debt from private creditors are owed to banks—and debt to banks accounted for more than three-fifths of the total debt of developing countries at the end of 1984, some $550 billion. Recent work by the Organisation for Economic Co-operation and Development (OECD) suggests that short-term credit from suppliers is included only partially in the estimates in Box 1 and could add as much as $20 billion a year to them.

Long-term Lending to Developing Countries

Lending to developing countries fell in 1982, and then fell further in 1983. Disbursements (excluding loans that rescheduled existing obligations—see Box 2) to the 104 countries covered by the DRS were $86 billion in 1983, compared with $106 billion in 1982 and the peak of $114 billion in 1981 (see Table 1). Although disbursements by official lenders increased more than $2 billion during the two years, disbursements by private creditors declined more than $30 billion.

Disbursements to private borrowers without public guarantee in developing countries fell from a peak of $33 billion in 1981 to less than $10 billion in 1983. Disbursements to public and publicly guaranteed borrowers in developing countries in 1983 fell far less—by about 9 percent, to $77 billion.

Debt-service payments (excluding payments rescheduled into new loans) also fell, from $91 billion in 1982 to $85 billion in 1983, contrary to expectations a year ago. As a result, the DRS countries had net receipts of about $1 billion from long-term borrowing in 1983, instead of the net payments of $11 billion that had been projected. That discrepancy shows just how severe were the payments problems of many debtor countries as lending to them contracted sharply. The DRS countries made principal repayments of only $41 billion in 1983, instead

Box 2. *Accounting for Debt Restructuring*

The many debt restructurings during the past few years have renewed interest in how to record the associated financial flows in a statistically useful way for economic analysis. To do this, the DRS records information on long-term (LT) debt on a "payments made" basis rather than the "payments due" basis that supports balance-of-payments accounting. This approach recognizes that the capital-account information included in the DRS data base is unconsolidated. It also shows the component transactions on long-term account that correspond to a voluntary flow of resources for "developmental purposes."

Accordingly, the following conventions are observed in presenting data on debt restructurings in the *World Debt Tables*.

- When LT public debt is rescheduled, no flows (commitments, disbursements, or repayments) are recorded, nor is there a change in the outstanding stock of LT public debt. Only the terms of relevant maturities change, resulting in a different projected debt-service stream but the same status of outstanding liabilities. Where associated interest is rescheduled (for example, in a Paris Club negotiation), in principle, a new loan should be committed and disbursed, and the liability position adjusted accordingly. In practice, rescheduled interest is often very difficult to separate from principal; the accounting is correspondingly imprecise.
- In treating arrears, data in this volume retain arrears of principal in the stock of LT debt (note the divergence from balance-of-payments' practice). Arrears of interest are excluded and treated explicitly as short-term liabilities. Any short-term liabilities (including arrears of interest) that are rescheduled into LT public debt are shown as transfers of liabilities that do not correspond to inflows of LT finance in the years in which restructurings take place.
- Where LT debt of the private sector is rescheduled into public or publicly guaranteed LT debt (consistent with balance-of-payments' practice for recording net LT capital), the debt is recorded as a transfer that increases public liabilities and reduces private liabilities, without corresponding flows of new lending.
- Complications arise from the treatment of refinancing. When long-term loans are retired (prepaid) and refinanced through new borrowing (especially if from a different creditor), a commitment is recorded and so is a disbursement; and all principal payments due on the prepaid debt are recorded as amortization. A voluntary refinancing of short-term into LT debt is treated similarly.

Some short-term consolidations are difficult to identify as either "refinancings" or "reschedulings." In each case, judgment is used to determine whether a voluntary extension of long-term finance has taken place. For example, the Nigerian consolidation of $1.9 billion of short-term debt outstanding to banks under letters of credit into LT obligations in 1983 was a self-contained exercise that was treated as a refinancing rather than a rescheduling. Generally, a renegotiation of the terms of outstanding debt that depends on an agreement with the IMF to become effective is accounted a rescheduling, not a refinancing.

Table 1. *Public and Private Long-term Debt and Financial Flows, 1974, 1978, and 1980–84*
(billions of U.S. dollars)

Long-term debt and financial flows	*1974*	*1978*	*1980*	*1981*	*1982*	*1983*[a]	*1984*[b]
All developing countries[c]							
Debt disbursed and outstanding	135.4	301.2	411.6	470.1	525.6	597.6[d]	655[e]
Disbursements	36.4	80.6	97.5	114.2	105.6	86.4	85
(from private creditors)	25.6	61.2	69.2	85.6	75.6	55.2	55
Debt service	19.7	47.5	71.1	83.0	91.1	85.4	92
Principal repayments	13.1	31.9	40.4	44.3	45.3	40.7	42
Interest	6.6	15.6	30.7	38.7	45.8	44.6	50
Net transfers[f]	16.7	33.2	26.4	31.2	14.5	1.0	−7
Major borrowers[g]							
Debt disbursed and outstanding	85.7	183.8	249.1	287.3	318.7	367.4[d]	400[e]
Disbursements	23.3	48.6	57.8	71.6	59.3	42.5	40
(from private creditors)	17.4	40.0	45.0	59.1	45.1	29.1	28
Debt service	12.8	30.9	47.0	54.3	59.6	52.6	55
Principal repayments	8.4	20.6	26.6	28.1	27.6	22.1	23
Interest	4.4	10.3	20.4	26.3	31.9	30.5	32
Net transfers[f]	10.5	17.7	10.8	17.3	−0.3	−10.1	−15
Low-income Africa[h]							
Debt disbursed and outstanding	7.4	15.9	22.2	24.6	26.2	27.1[d]	27.5[e]
Disbursements	2.0	3.2	4.3	3.9	3.3	2.9	2.8
(from private creditors)	1.0	1.4	1.5	1.1	0.9	0.5	0.3
Debt service	0.6	0.9	1.6	1.6	1.6	1.6	1.6
Principal repayments	0.4	0.5	0.9	0.9	1.0	0.9	0.9
Interest	0.2	0.4	0.7	0.7	0.6	0.7	0.7
Net transfers[f]	1.4	2.3	2.8	2.3	1.7	1.3	1.2
Memorandum items: All developing countries							
The share of LT debt (percent)							
Public credits from financial markets	22	34	38	39	41	44	n.a.
Public credits at floating interest rates	12	22	27	30	32	36	n.a.
On concessional terms	33	27	24	22	21	19	n.a.
From private sources	55	60	61	63	64	65	65

n.a. Not available.

a. Data for 1983 are preliminary.

b. Data for 1984 are estimates. For each group of countries, debt-service payments are estimates of actual amounts paid, rather than projections of amounts due as in the tables beginning on page 2.

c. Includes data for 104 countries reporting under the Debtor Reporting System (DRS). Data for Hungary are available only for 1981–83, so they are omitted from all aggregates. For countries that do not report it, private non-guaranteed debt has been estimated.

d. Includes the effects of consolidating $22 billion of short-term debt into longer maturities.

e. Includes the effects of consolidating $25 billion of short-term debt into longer maturities.

f. Net transfers are defined as disbursements less debt service. See comments in Box 3.

g. Major borrowers are: Argentina, Brazil, Chile, Egypt, India, Indonesia, Israel, Republic of Korea, Mexico, Turkey, Venezuela, and Yugoslavia. Each of these countries owed at least $15 billion of long-term debt to external creditors at the end of 1983.

h. Lending, mainly on concessional terms, is an important source of finance for African countries, but official grants are even more important for some countries, and these are not tracked in the DRS. To the extent that grants are substituted for official loans, countries would benefit from a reduction in lending.

of the $50 billion projected on the basis of loan contracts and known reschedulings. As a result, the amount of debt in arrears and being renegotiated during 1983 was larger than anticipated last year. Interest payments of $45 billion fell only $1 billion below expectations.

Provisional estimates indicate that disbursements, at $85 billion, changed little in 1984. As debt service rose to about $92 billion, most of it in higher interest payments, the DRS countries probably paid about $7 billion more to service their long-term debt than they received from long-term disbursements in 1984 (see Box 3).

Commitments of New Loans

Unlike the figures on disbursements, which include nonguaranteed lending to private borrowers in the DRS countries, data on new commitments are available only for public borrowers and private borrowers with public guarantees. Those data show that loan commitments to the DRS countries fell 21 percent between 1981 and 1983, from $100 billion to $79 billion (see Figure 1). For the 12 biggest borrowers, as defined in Table 1, the decline was 29 percent, from a peak of $55 billion in 1981 to $39

Box 3. *The Concept of Net Transfers*

In the *World Debt Tables*, the term "net transfers" describes the difference between disbursements of long-term lending to a country and the service payments (interest and amortization) it makes during the same year on its long-term debt. The term is unrelated to the "transfers" recorded in the balance of payments—official grants, gifts, and other unrequited flows. "Net resource flows associated with long-term lending" would be a more apt description of the concept, which must be interpreted carefully.

The net transfer associated with lending will be positive if, in a given year, debt grows faster than the average (nominal) rate of interest paid on it. One cannot infer that a positive net transfer necessarily aids a debtor country and a negative net transfer damages it. In particular, there can be no presumption that a country is better off in the year of positive net transfer when a loan finances the importation of equipment, than in subsequent years, when the equipment is generating returns exceeding the service payments due, and the net transfer is negative. Nevertheless, other things being equal (including returns from past investment), and without regard for the future debt-service consequences of new loans, in a given year a country would be better off with positive rather than zero or negative net resource inflows.

As countries progress along the development path, their ability to finance investment through domestic savings normally increases. When levels of development and the accompanying ability to generate resources domestically rise, net resource inflows can be expected to dwindle away and even be reversed.

Concern over negative net transfers, or net resource outflows, arises in part because of the asymmetry between the relatively short term on which much commercial finance is lent to developing countries and the much longer gestation period of much of the investments financed. The success of such investment has depended implicitly on opportunities to refinance as debt-service payments were made. A sudden shift from positive to negative net transfers may foil this expectation. Investment projects in progress, yielding as yet no returns, cannot generate net resource outflows; but their abandonment for lack of continued financing impairs future debt-servicing capacity. To sustain continued positive net transfers, especially with loans of short maturity, involves large and rapidly growing gross borrowings, particularly if interest rates are also high. The practical difficulties of this can be insurmountable.

No one can seriously claim that positive net transfers should continue forever, and even less that borrowers have any "right" to continued positive net resource flows. However, concern over rapidly declining net transfers for many borrowers since 1982 is legitimate, because the direction of the flow was reversed when the borrowers' income levels were still relatively low, and because the abruptness of the reversal made this phenomenon very difficult to handle.

billion in 1983. New commitments to low-income Africa peaked at $5.6 billion in 1980 and then fell 47 percent through 1983.

New commitments by private lenders fell most, by 27 percent between 1981 and 1983 for all DRS countries; and by 35 percent for the 12 major borrowers. For low-income Africa, they almost dried up, falling from $1.5 billion in 1979 to just $149 million in 1983. Given the debt-servicing problems of many African countries, that decline was not undesirable; under existing circumstances, those countries could not afford to borrow on market terms. But the decline underlined the collapse of the limited creditworthiness of low-income African countries and also reduced the resources available to them. Lending from private sources to public borrowers in low-income Africa has virtually ceased, except for some involuntary debt restructuring.

Of greater concern is the fall in lending from official sources on both concessional and nonconcessional terms. Official commitments to the DRS countries as a group fell 21 percent between 1980 and 1983. The decline was 28 percent to the 12 major borrowers, and 33 percent to borrowers in low-income Africa, the region most dependent on concessional official finance.

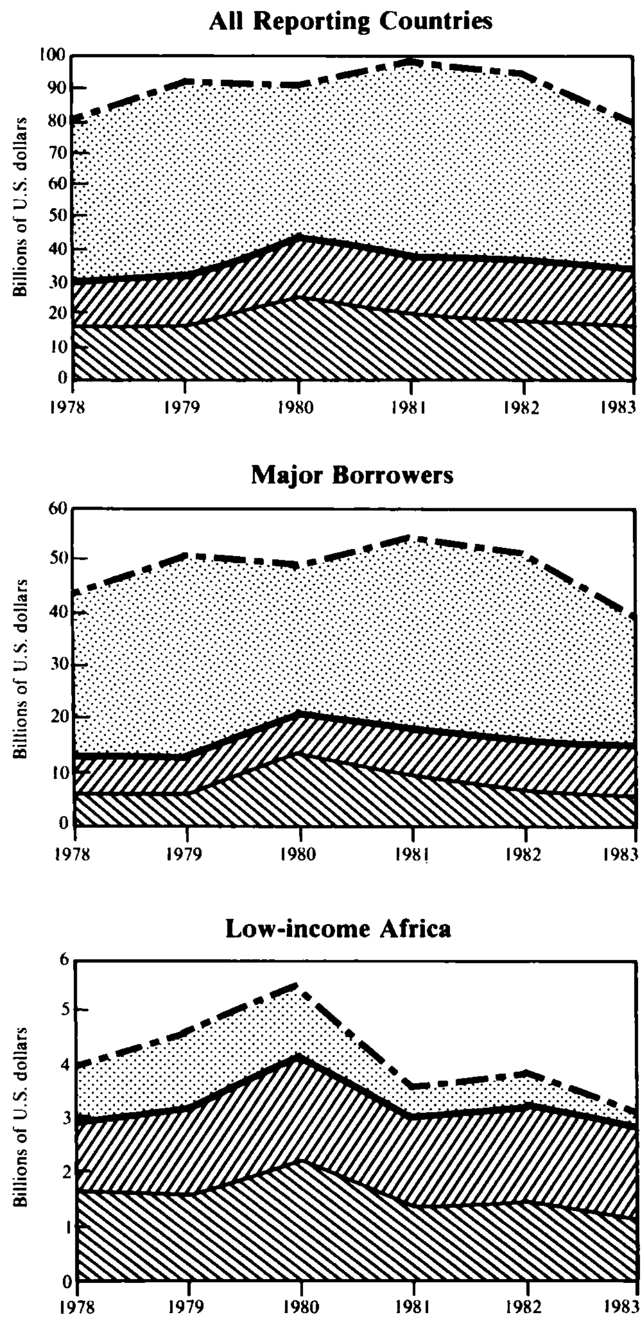
New commitments to the DRS countries by multilateral agencies expanded by 4 percent between 1980 and 1983, but commitments to borrowers in low-income Africa dropped 20 percent in 1981 after the exhaustion of the IMF Trust Fund and stagnated thereafter. The sharpest drop, however, was recorded in commitments by bilateral agencies. Between 1980 and 1983, they fell by two-fifths for the DRS countries as a group, by three-fifths for major borrowers, and by half for low-income Africa. A noteworthy feature of the decline was that it extended to the three main groups of bilateral creditors—the members of the Development Assistance Committee (DAC) of the OECD, the members of the Organization of Petroleum Exporting Countries (OPEC), and the centrally planned economies of Eastern Europe. Moreover, it extended to both concessional lending (mainly official development assistance) and nonconcessional lending (mainly export-supporting finance). For all DRS countries, concessional bilateral lending was cut in half (to $6.7 billion) between 1980 and 1983; nonconcessional bilateral lending fell a third (to $7.4 billion). Part of the decline as measured in dollars results from the depreciation of creditors' currencies against the dollar.

Terms for Borrowing

The average rate of interest paid on long-term debt peaked at 9.2 percent in 1982 and fell sharply to 8.0

Figure 1. New Commitments to Public and Publicly Guaranteed Borrowers in Developing Countries, 1978-83

(billions of U.S. dollars)



Total commitments (▬ ▪ ▬ ▪) comprise private sources (░) and official sources (▬▬▬). Official sources are made up of bilateral (▧) plus multilateral funds (▨).

Note: New commitments exclude reschedulings of short-term and long-term debt of the private and public sector. See comments in Box 2. Data in "All Reporting Countries" chart are for 104 countries that report through the DRS in standard format. "Major Borrowers" include Argentina, Brazil, Chile, Egypt, India, Indonesia, Israel, Republic of Korea, Mexico, Turkey, Venezuela, and Yugoslavia. Each of these countries owed at least $15 billion at the end of 1983.

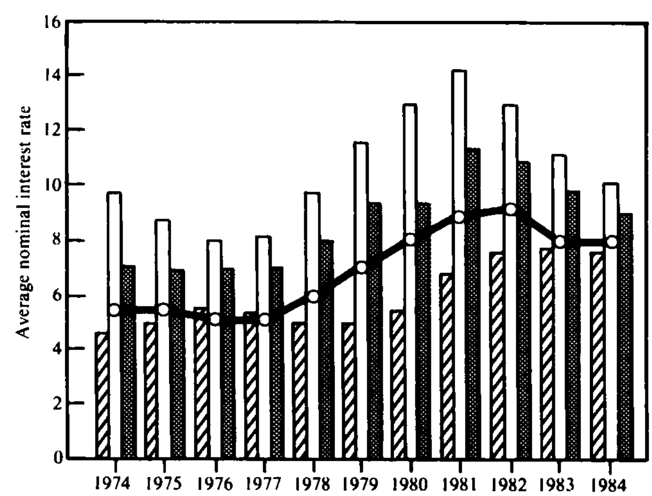
percent in 1983 (see Figure 2), where it remained in 1984. The overall terms for new borrowing are available from the DRS only through 1983. They show that the average interest rate on new long-term commitments to public borrowers in developing countries fell to 9.7 percent in 1983 from 10.7 percent in 1982 and 11.3 percent in 1981. The average rates from private lenders fell to 10.9 percent in 1983 from 14.3 percent in 1981, reflecting a decline in the six-month dollar LIBOR (London interbank offered rate) from 16.6 percent to 9.9 percent in that period, whereas rates for borrowing from official sources rose from 6.7 percent to 7.7 percent. Average interest rates on new loans are computed at the time of commitment; interest actually paid on floating rate loans varies with market interest rates.

Six-month LIBOR averaged 11.2 percent in 1984, up 1.3 percentage points from its 1983 level, but average spreads charged to developing countries declined a little—18 basis points, according to the OECD (see Figure 3).[1] Real dollar interest rates (nominal rates adjusted for inflation in the United States) reached a historic high in 1984—7.2 percent, compared with the recent peak of 6.9 percent in 1982 (see Figure 4). Adjusted for developing

1. A basis point is a hundredth of a percentage point.

Figure 2. Average Interest Rates on LT Commitments and the Average Interest Rate Paid on LT Debt, 1974-84

(percent)

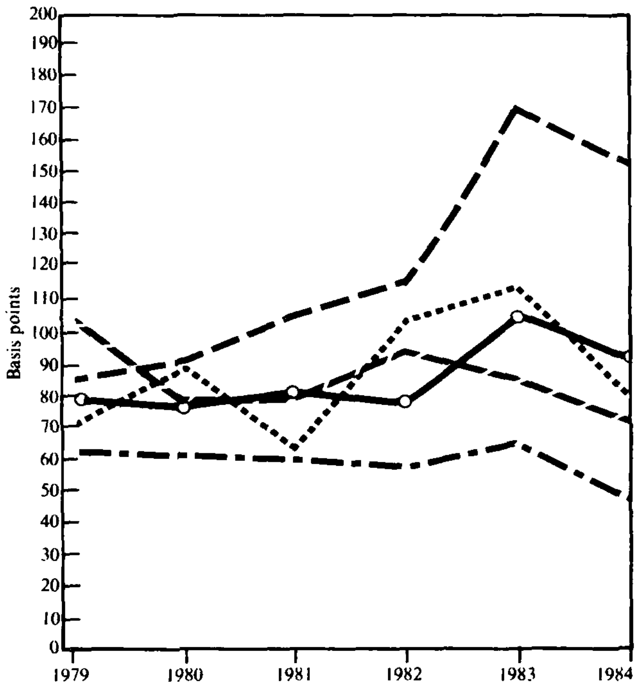


○ Average rate on commitments from:

▨ Official sources; □ Private sources; ■ All loans.

Note: Figures for interest rates on 1984 commitments are estimates from a biased sample that accounts for no more than a quarter of total commitments. Average interest paid figure for 1983 is preliminary; the figure for 1984 is an estimate. Average rate of interest paid on outstanding LT debt is defined as interest actually paid on all LT debt divided by the average of beginning and end-period total LT debt.

Figure 3. Spreads on International Lending, 1979-84
(basis points = hundredths of a percentage point)



Members of the OECD. Members of OPEC.
Eastern Europe. Other developing countries.
○ Average spreads.

Note: Data show weighted average spreads on publicized loans exceeding $30 million in value and three years in maturity signed during the period. Spreads on rescheduled maturities are excluded, but spreads on the "new money" component of restructuring packages are included. Data for 1984 are based on the period, January through September.

Source: OECD, *Financial Market Trends*, October 1984.

countries' export prices, real interest rates were even higher, though well below their peak of 24 percent for oil-importing developing countries in 1981.

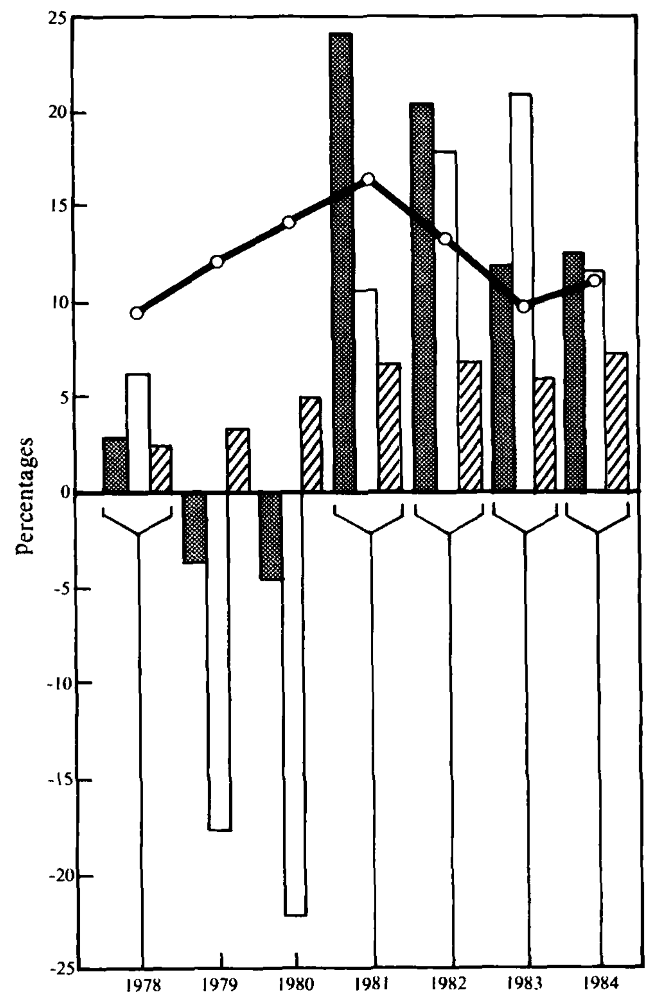
The benefits of lower nominal interest rates on commitments in 1983 were partly offset by reductions in the average grace period and maturity; overall, the average grant element in new lending rose to 4.6 percent, from 0.6 percent in 1982 (details are shown in the tables beginning on page 2). The average grace period for private loans was 2.8 years in 1983, the lowest since 1975-76; for official loans, it was 5.6 years. For all loans, the average grace period was 3.9 years, the lowest ever.

The average maturity of official lending in 1983, at 21.5 years, equalled the lowest yet recorded for DRS countries. That, plus a pronounced shortening in the maturity of lending from private sources (from 9.3 years in 1982 to 8.1 years in 1983), led to a one-year fall, to 13.4 years, in the average maturity of all lending to public borrowers.

Developments in Debt Reschedulings

Over the past few years, debtors and creditors have come to accept rescheduling as integral to dealing with interruptions to normal debt servicing. Although loans often have been rescheduled as a stop-gap response to acute shortages of liquidity, rescheduling also has had the long-term function of producing a manageable profile of debt repayments. The number of formal reschedulings for World Bank members averaged less than four a year in 1975–80, but it rose to 13 in 1981, then to 31—involving 21 countries—in 1983. At least that number of reschedulings was negotiated in 1984, but formal agreement was reached on only 21, involving 16 countries and

Figure 4. Real Interest Rates for the U.S. and Developing Countries, 1978-84



Real rate. ■ Oil importers. □ Oil exporters. ▨ U.S. real rate.
○ Six-month dollar LIBOR.

Note: "Real rate" is defined as the six-month dollar LIBOR deflated by the export price index for oil importers and oil exporters. The "U.S. real rate" is defined as the six-month dollar LIBOR deflated by the U.S. GDP deflator.

just over $11 billion by the end of the year (see Table 2). Although more than $115 billion was under negotiation in 1984, three countries—Argentina, Mexico, and Venezuela—accounted for $93 billion, four-fifths of the total.

The terms of reschedulings were generally easier in 1984 than in 1982 and 1983. Maturities and grace periods were generally longer. Spreads over LIBOR on rescheduled debt ranged from 1⅞ to 2½ percentage points in 1982 and 1983, but fell to 1⅛–2 percentage points in 1984. Rescheduling fees, less widely publicized than spreads, also are known to have declined in 1984. In some cases they were waived, partly because a new rule, requiring U.S. banks to amortize most fees over the life of a loan, has made front-end fees a less-attractive pricing technique.

Rescheduling: An Assessment

Given the severity of the financial difficulties of debtors and creditors in the 1980s, the record of rescheduling must be judged favorably. The deep, prolonged recession of the early 1980s contributed to the emergence of debt problems in many countries simultaneously. In turn, those problems strained the fabric of the international financial system. Rescheduling helped to deal with the problems and to ease the strain; without it, the consequences of financial difficulties for the developing economies and for the stability of the international financial system would have been much more severe.

The rescheduling process has been evolutionary and adaptable in the best of "learning-by-doing" traditions. The case-by-case approach has been vindicated, as has the reluctance to fix things before they are evidently broken. Policy-makers have avoided systemic solutions to problems that are highly country specific, thus maintaining the flexibility required of the financial system as it adapts to the needs of lenders and borrowers.

Thus far, the rescheduling process has adapted best for the major borrowers; even for them, some problems still must be overcome. Smaller regional banks that lent short term to debtor countries are sometimes, through rescheduling, locked into lending for much longer than is their normal practice. Another as yet unresolved issue is how the policies of debtor countries should be monitored. The banks want assurances of the security of their assets; for their part, countries want to resume growth as quickly as possible.

The international agencies—led by the IMF—have cooperated closely to help resolve debt difficulties. So have the central banks of creditor countries. Their timely response to crisis, by providing short-term bridging finance during the negotiations before the first round of reschedulings, is well documented. Indirectly, they also helped through the important contributions made by the Bank for International Settlements (BIS). Not so well known is that central banks, and especially the U.S. Federal Reserve Board, began late in 1983 to encourage commercial banks and debtor countries to consider reschedulings that would allow countries an early return to normal market borrowing.

The Major Borrowers: Flexibility through Rescheduling

One aftermath of the Mexican crisis in August 1982 was a particularly sharp fall in long-term lending by the financial markets to the biggest borrowers of Latin America. Lending by private creditors to Argentina, Brazil, Chile, Mexico, and Venezuela fell more than $30 billion, or 51 percent, between 1981 and 1983. For all long-term lending, debt-service payments by the major Latin American borrowers exceeded new disbursements to them by about $10 billion in 1983.

The pressure eased a little in 1984, but statistics alone do not capture the change in the financial climate for the biggest borrowers. Commercial banks responded positively and flexibly, recognizing the dramatic effects of the stabilization programs adopted by the debtor countries. Recent progress in rescheduling debt has been spectacular and encouraging. In addition to a path-breaking agreement for Mexico, Venezuela and its bankers agreed on a multi-year rescheduling, and Argentina and the Philippines adopted programs supported by the IMF, which allowed negotiations with the commercial banks to proceed. Progress was being made late in 1984 in negotiating a multi-year rescheduling of about $50 billion for Brazil.

The "normalizing" effect of agreements completed in 1983 helped in these efforts. Several countries had consolidated short-term debt; arrears, for the most part, had been regularized. For some of the biggest borrowers, only maturing long-term debt was rescheduled in 1984; and, with the obvious exception of multi-year reschedulings, the sums involved for individual countries were often smaller than in earlier years.

The Mexican Agreement

The multi-year rescheduling of $49 billion of Mexico's debt to commercial banks was a milestone in resolving debt-servicing problems because of the sum and the time period involved. Its main provisions were:

- The $5 billion new-money facility extended by the banks in 1983 was amended. Mexico will prepay at least $1 billion; the remainder will carry a spread reduced by 75 basis points and a maturity extended by five years.
- Maturities of public debt not previously restructured that fall due in 1985–90—about $20 billion—will be restructured over as many as 14 years. Principal payments begin in 1986 and will be small in the early years. The weighted average spread over LIBOR will be 1⅛ percentage points.
- Maturities falling due in 1987–90 on about $24 billion of public debt rescheduled in 1983 (the original

Table 2. *Multilateral Debt Renegotiations, 1975–84*
(millions of U.S. dollars)

		1975–1980		*1981*		*1982*	
Country	*Number of renegotiations, 1975–84*	*Paris Club*	*Commercial bank*	*Paris Club*	*Commercial bank*	*Paris Club*	*Commercial bank*
1. Argentina	2		970				
2. Bolivia	2				444		
3. Brazil	3						
4. Central African Rep.	2			55			
5. Chile	2	216					
6. Costa Rica	2						
7. Dominican Republic	1						
8. Ecuador	4						
9. Gabon	1	105[a]					
10. Guyana	3		29				14
11. Honduras	1						
12. India	3	436[c]					
13. Ivory Coast	2						
14. Jamaica	4		126		103		
15. Liberia	6	30		25			27
16. Madagascar	4			142		103	
17. Malawi	3					24	
18. Mexico	3						
19. Morocco	3						
20. Mozambique	1						
21. Nicaragua	3		582		188		102
22. Niger	3						
23. Nigeria	1						
24. Pakistan	1			263[c]			
25. Peru	6	478	821				
26. Philippines	2						
27. Romania	4					(234)	(1,598)
28. Senegal	4			77		84	
29. Sierra Leone	4	68					
30. Sudan	5	373			638	174	
31. Togo	6	170	68	(92)			
32. Turkey	5	4,696[c]	2,640		3,100		
33. Uganda	2			(56)		(22)	
34. Uruguay	1						
35. Venezuela	1						
36. Yugoslavia	4						
37. Zaire	6	1,594	402	574			
38. Zambia	3						
Total	**113**	**8,166**	**5,638**	**1,284**	**4,473**	**641**	**1,741**

Note: Data cover arrangements expected to be signed by the end of 1984 plus commercial bank reschedulings agreed in principle but not signed through December 31, 1984. Figures indicate renegotiated amounts as reported by the countries or, if in parenthesis, as estimated by staff members. Cuba and Poland, which also renegotiated debt-service payments with official creditors and commercial banks, are not members of the World Bank and therefore are excluded from this table.

a. Denotes an agreement of a special task force.
b. Includes one agreement (for $590 million) signed, and another agreed in principle.
c. Denotes an Aid Consortium Agreement.
d. Technically this was an agreement of a creditor group meeting, not a Paris Club.
e. Includes debt of $23,625 million previously rescheduled in 1983.

maturities were due in 1982–84) will be extended through 1998. From January 1, 1985, the spreads will be the same as on the newly restructured debt.

• The option to price loans at a spread over the U.S. prime rate (typically more expensive to the borrower) was replaced by an option to price against a rate adjusted from that on U.S. certificates of deposit (CDs).

• Non-U.S. banks can choose, with the approval of their central banks, to convert part of their dollar-denominated claims to their national currencies. In such cases, pricing will be based on domestic reference rates that provide comparable yields to the U.S. CD pricing option.

• Mexican economic data, including semi-annual reports on IMF staff visits, will be made available by the

1983		1984		
Paris Club	Commercial bank	Paris Club	Commercial bank signed or agreed in principal	
			(23,241)	1.
			(536)	2.
(3,478)	(4,532)		(5,350)	3.
(13)				4.
	(3,400)			5.
97	1,240			6.
	497			7.
(200)	(1,835)		(5,065)[b]	8.
				9.
			(24)	10.
			(122)	11.
				12.
		(153)	(306)	13.
		(106)	(148)	14.
18		(17)	(71)	15.
		(120)	(195)	16.
(30)	59			17.
1,550[d]	(23,625)		(48,725)[c]	18.
1,225	475		(530)	19.
		(200)		20.
				21.
33		(22)	28	22.
	(1,920)			23.
				24.
(450)	(380)	(1,000)	(1,415)	25.
		(685)	(4,904)	26.
(195)	(567)			27.
64			(97)	28.
		88	(25)	29.
502		(245)		30.
114	74	(55)		31.
				32.
				33.
	(815)			34.
			(20,750)	35.
(988)[d]	(1,586)	(500)[d]	(1,246)	36.
(1,317)				37.
(285)		(150)	(75)	38.
10,559	**41,005**	**3,341**	**112,853**	

Mexican authorities to commercial banks, which will monitor Mexican economic performance.

The Mexican agreement may provide the model for dealing with debt-servicing difficulties in the future. For heavily indebted countries taking strong measures to adjust their economies, multi-year agreements with commercial lenders may become an essential first step in facilitating an early re-entry to the financial markets. A long repayment period and a short grace period (only one year) smooth out principal repayments at relatively low levels, leaving no "overhang" to trouble markets later (see Figure 5). Creditors often lend grudgingly when large payments are imminent, even if the debtor country's prospects are good. They may take a more favorable view of lending when the maturities falling due each year are reduced to less forbidding levels. Such agreements, however, will depend crucially on the tangible commitment of indebted countries to pursue agreed adjustment policies.

Following the Mexican agreement, Venezuela agreed with its creditors to reschedule almost $21 billion of public debt (including substantial short-term obligations) falling due between March 1983 and end-1988. That rescheduling did not depend on an IMF standby arrangement because Venezuela—using the leverage of large external assets—independently adopted an economic program acceptable to banks. The spread will be LIBOR plus 1 1/8 percent—the same as for Mexico; the maturity—12 years—is shorter than in the Mexican case. Venezuela's creditors also will be allowed some currency switching of their loans.

These and other negotiated agreements have improved the outlook for the biggest debtors, compared with the bleak situation confronting them in 1982–83. As a result, long-term lending to the 12 major borrowers may increase somewhat in 1985, but it will remain well below the 1981 peak of $72 billion. The major borrowers in debt difficulties need continued improvement in their domestic performance and external accounts before they can attract new capital.

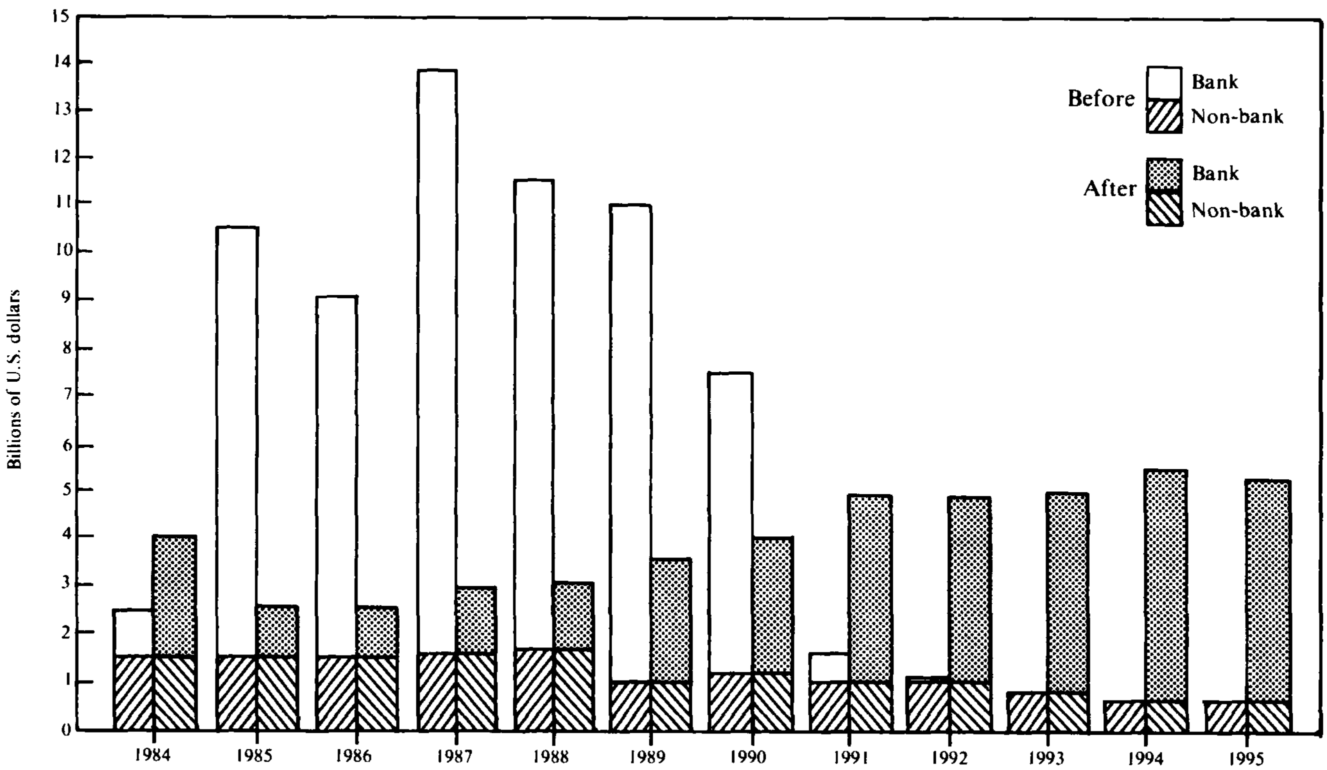
The Others: The Need for New Ideas and Practices

The path to multi-year reschedulings was opened to the major problem debtors by their own capacities to adjust. Creditors' confidence was substantially restored by the dramatic improvement in debtors' external accounts, resulting from the policies pursued to generate large trade surpluses. Even in the face of sharply rising interest payments, current account deficits narrowed dramatically in 1983–84 as, almost overnight, countries reversed years of reliance on a large inflow of resources from abroad. The rapidity of the transformation and the high costs in foregone growth underline the crisis atmosphere in which stabilization policies were implemented.

The lack of significant improvement in the economies of many other countries in debt-servicing difficulties contrasts starkly with the success of those such as Mexico and Brazil. One group of countries that has failed to improve its situation comprises several middle-income exporters of primary commodities. Heavily dependent on imports for intermediate inputs as well as investment goods, these economies have stagnated, in large part because of their limited success in expanding their pro-

Figure 5. Mexico: Projected Amortization of Public and Publicly Guaranteed Debt before and after the Multiyear Financing Proposal of September 8, 1984

(billions of U.S. dollars)



Note: Figures include principal repayments for debts signed through December 31, 1983.

duction of tradable goods. In the face of continued low prices for commodities, solutions to their debt-servicing problems could take some years to emerge.

The other, bigger group of countries for which there has been no resolution of debt-servicing problems comprises the troubled debtors of Africa. Their parlous position was described during 1984 in a World Bank report, *Toward Sustained Development in Sub-Saharan Africa: A Joint Program of Action*, which documented how a coordinated program of action, involving major policy reforms, would be undermined unless net financial flows were maintained in real terms at their 1980–82 levels. Such a program would require an increase in annual aid commitments of about $2 billion.

Most financial flows to low-income Africa are official flows from bilateral and multilateral sources, often coordinated within aid groups. When financial problems are severe enough to require debt relief, bilateral creditors coordinate their approach through the Paris Club, which considers problems stemming either from concessional lending or from trade-supporting finance extended directly or guaranteed by export-credit agencies. The Paris Club ensures equal treatment of all participating creditors, as it assists debtor countries to overcome urgent liquidity problems and restore normal debt servicing as quickly as possible. Its nature and mandate lead it normally to reschedule debt as a year-to-year exercise, but preclude discussions of the need and means for additional aid.

The arrangements have worked well for a few countries facing temporary payments problems. But none seriously disputes that the current payments problems of many African countries are long lived and deep seated; fundamental solutions are eluding the year-to-year approach. Moreover, repeated reschedulings adversely affect prospects for resuming normal financing of trade. The interests of creditors and debtors alike might now be served better by broader approaches to entrenched financial problems, in which economic programs, the requirements for new financing (especially official aid), and the role of debt relief could be considered together.

Although such arrangements are not common, both precedent and the institutional mechanisms exist to support them. Debt relief, usually of direct official lending on concessional terms, has been extended under arrangements concluded in aid consortia or consultative groups, both to ease liquidity shortages and—as an alternative to new commitments—to expand the availability of untied foreign exchange. India, a country with no history of interrupting its debt-service payments, has been a notable beneficiary, and the same technique was used in 1981 to augment the foreign exchange available to Pakistan. A more extensive exercise, arranged in 1970, helped to restore Indonesia's external accounts after the failure of a series of annual exercises (see Box 4).

Sub-Saharan Africa has had only one comparable exercise since debt-servicing problems became chronic in many countries in the region. In 1983, all Sudan's creditors and donors considered its longer-term financing needs at a meeting in Paris coordinated by an official appointed jointly by the World Bank and the IMF, with the full consent of all parties involved. Meeting separately, the Paris Club later provided debt relief over what (by recent standards) was an unprecedented period.

The separation of the formal process of debt relief from that of appropriating new aid funds is important, for some creditor countries, in simplifying budgetary procedures. Moreover, the sheer number of countries in debt difficulties creates pressure to retain the separation of donors from creditors. The comprehensive package for Indonesia in 1970 was a one-time exercise for a single country, which owed most of its debt to governments or their agencies. The Paris Club has had 25 customers (including Cuba and Poland) in 1983–84 alone, and the bulk of rescheduled debt has been guaranteed and insured export finance, extended originally by private creditors. Export insurance agencies cannot concede concessional rescheduling of large sums without jeopardizing their solvency. The situation would be easier to handle if only two or three countries had debt-servicing problems. Unfortunately, that prospect is not in sight.

Box 4. *Restructuring Indonesia's Debt*

Representatives of the major industrial countries, meeting in Paris in April 1970, agreed to restructure Indonesia's debt over 30 years; annual installments began on January 1, 1970. Relief was provided on all debt with maturity over 180 days incurred before July 1, 1966, including rescheduled principal from agreements in 1966, 1967, and 1968, plus the moratorium interest on that principal accrued through 1969. No new moratorium interest was charged on the 30 annual installments, and interest on debt under existing contracts or agreements was payable only in the second half of the 30-year period. Furthermore, Indonesia was given a limited option to defer part of the principal due during the first eight years of the agreement to the last eight years, beginning January 1, 1992. If that option were exercised, deferred payments would bear interest at 4 percent a year, payable annually, with repayments in annual installments to be made no later than 1992–99. Significantly, the agreement provided for a limited revision of these arrangements at any time after 1980, taking account of Indonesia's economic situation at the time and with a view to maintaining its creditworthiness. Most creditors could not have imagined at the time how successfully Indonesia would avoid that option, as better economic management and rising oil prices combined to strengthen Indonesia's external finances throughout the 1970s.

Nevertheless, dealing annually with the complex financial problems of many countries focuses creditors' concern on the short term and limits their consideration of longer-term developmental issues. More imaginative solutions are required. In May 1984, the London Summit endorsed the principle of multi-year reschedulings by official creditors for countries implementing appropriate adjustment policies. For most of the poorest troubled debtors, even that would be inadequate. To fund a structural adjustment program that raises investment and the potential for growth, they need more economic assistance from creditors and donors.

Most creditors cannot write off debt, but they may restructure it. At the same time, donors should provide enough assistance to support necessary policy reforms, allowing for the demands of debt service. That could be arranged best through an expanded meeting of an already existing aid consortium or consultative group. With the agreement of all parties, for example, the chair of the relevant consultative group could convene an extraordinary meeting to present the economic and financial prospects of the debtor country. The appropriate international agencies could indicate the amounts and forms of the external assistance—including debt relief—required for sustained recovery and verify that agreements with the poorest countries were conducive to adjustment and longer-term development. Donors could indicate the new aid commitments they were willing to provide and infer the total amount of debt restructuring needed. For their part, debtor countries would agree to longer-term structural adjustment programs monitored by the international agencies, a commitment that would be critical to the success of the exercise. If necessary, formal, long-term debt restructurings could follow in separate meetings.

Changing current practice will not be easy; but change seems essential if the financial and economic difficulties of the poorest debtors are to be overcome. For African countries, external debt is not the chief obstacle to growth, in the sense that even if all their debts were canceled, they still would face daunting problems from critical shortages of physical and human capital and natural resources, exacerbated, in some countries, by misdirected policies. But external debt-servicing problems are an immediate constraint inhibiting the implementation of policy reforms that many governments now see as indispensable. To deal with the situation effectively, creditors and debtors must appreciate the urgency and extent of the actions required to rehabilitate deteriorating economies. Stabilizing external payments is only a first step.