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Debt situation of the developing countries as of mid-1998

Report by the Secretary-General

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I. Introduction

1. The present report was prepared pursuant to General Assembly resolution 52/185 of 18 December 1997, in which the Assembly requested the Secretary-General to report to it on the implementation of current initiatives related to the question of external debt of developing countries.

2. The report analyses recent trends in developing countries' external debt, as well as the current approaches to the debt problems of developing countries, and draws some international policy conclusions with a view to making constructive proposals for improvement in the current debt workout strategies. Focus is given to the debt problems of two particular groups of countries: the heavily indebted poor countries (HIPCs) and the middle-income countries in Latin America and Asia which have been affected by recent financial crises. The present report takes up from the previous report of the Secretary-General (A/52/290), and analyses the debt situation of developing countries from mid-1997 to mid-1998, against the background of current debt strategies.

II. Recent trends in external debt

A. All developing countries

3. The total external debt of all developing countries and countries in transition as at the end of 1997 is estimated at $2.2 trillion, an increase of four per cent or $76 billion over 1996 (see table 1). The bulk of that amount comprised long-term debt (80 per cent), while short-term debt accounted for 18 per cent of the total. Credits from the International Monetary Fund (IMF) made up the difference. Public and publicly guaranteed debt continued to account for the major share of long-term debt, at 83 per cent of the total, but the volume of private non-guaranteed debt accelerated by 18 per cent and its share rose from 15 per cent in 1996 to 17 per cent of the total. Meanwhile, the volume of bonds outstanding declined by 13 per cent and its share in total external debt fell to 14 per cent.

4. Debt indicators improved for developing countries overall during the year, with marginal declines in the ratios of debt service to exports and debt stock to gross national product (GNP) and a larger fall in the ratio of the stock of debt outstanding to total exports (see table 1), largely reflecting the rapid growth of developing country exports, which rose by six per cent during the year. Short-term debt as a percentage of foreign exchange reserves fell moderately during 1997. Those overall trends, while indicating a somewhat improved debt position of developing and transition countries in 1997, mask a continued overhang of debt in many African countries. Likewise, they did not reveal the liquidity problems that led to the eruption of a debt crisis in some East Asian countries in the second half of 1997.

5. There was virtually no change in the geographical distribution of debt among the various developing and transition country regions during 1997. Asia and Latin America both accounted for 31 per cent of the total, as compared with 16 per cent for Africa, and 18 per cent for Europe and Central Asia.

B. Asia

6. Total Asian external debt rose by six per cent to an estimated amount of $666 billion at end-1997. Private non-guaranteed debt represented the fastest growing segment of external debt, rising by 20 per cent or $21 billion. Public and publicly guaranteed debt rose moderately, while bond financing fell dramatically by 40 per cent. Overall, short-term debt and total debt service also declined. The debt indicators show what would be expected to be a sustainable debt position.[1] The debt service ratio measured 13 per cent, the debt stock to exports ratio 114 per cent, the debt stock to GNP ratio 31 per cent, and short-term debt to foreign exchange reserves ratio 53 per cent; as noted, however, those figures obscure diverse trends at the country level.

Five Asian countries most affected by the Asian crisis

7. The Asian countries most affected by the Asian financial crisis (Thailand, Indonesia, the Republic of Korea, Malaysia and the Philippines) experienced a sharp liquidity crisis by the second half of 1997. In the cases of the Republic of Korea, the Philippines and Thailand, traditional debt indicators (ratios of debt to exports and interest payments to exports) revealed no potential external debt problem[2] (see table 2). In the case of Indonesia, the ratio of external debt to exports, which was above 200 per cent in 1996 and 1997, reflects the more severe debt distress that may extend beyond a mere liquidity problem in that country.

8. The traditional debt indicators are suitable for use as an advance indicator of potential insolvency but are inadequate by themselves for detecting short-term liquidity difficulties. The ratio of short-term debt to the stock of foreign exchange reserves,[3] which measures the ability of a country to meet its foreign obligations that mature fairly soon out of liquid sources of foreign exchange, is better suited for that purpose. That ratio exceeded 100 per cent in 1996 and 1997

in the cases of Indonesia, the Republic of Korea, the Philippines and Thailand. The liquidity problems faced by those countries are also reflected by a maturity structure of external debt that is excessively heavily concentrated in short-term maturities. The data on foreign bank debt of those countries (see table 5) provide an indication of that concentration, with short-term liabilities representing more than 60 per cent of the total at the end of 1997. Those cases illustrate the importance of utilizing measures that can warn of potential liquidity difficulties in assessing the debt position of a country.

9. In the case of Malaysia, the debt indicators did not reveal any external debt problem, and the liquidity position also appeared to be under control (see tables 2 and 5) despite an important depreciation of its currency and reduction of its growth rate, following a spillover effect of the crisis in neighbouring countries.

C. Latin America

10. Latin America witnessed a moderate increase in external debt of three per cent or $22 billion during 1997, bringing total external debt to $678 billion, attributable to a 4 per cent or $20 billion rise in long-term debt and a smaller increase in short-term debt. In volume terms, purely private debt accounted for two thirds of the increase and public and publicly guaranteed debt for approximately one third. As in Asia, a substantial decline was recorded in the volume of outstanding bonds. Latin American debt indicators generally indicated a sustainable debt position for the region as a whole, with a debt service ratio of 12 per cent, debt stock to exports and to GNP ratios of 103 per cent and 43 per cent respectively, and a short-term debt to reserves ratio of 71 per cent. Once again, individual country experiences remained varied.

Five Latin American countries most affected by the Mexican crisis

11. Five middle-income Latin American countries have been particularly affected by both the 1994 crisis in Mexico and the crises in Asia beginning in 1997 (Argentina, Brazil, Mexico, Chile and Venezuela). Available data on those countries' debt profile[2] (see table 2) indicate a degree of continued vulnerability in some of those countries. Although Mexico's traditional debt indicators appeared sustainable, with moderate ratios of debt service, debt stock to exports and interest payments to exports (a ratio similar to the debt service ratio), the ratio of short-term debt to reserves amounted to 131 per cent in 1997 (the ratio was much higher in 1996). In both Argentina and Brazil, the debt burden has been fairly high during 1996/1997. For Argentina, the ratio of interest payments to exports was 21 per cent and the ratio of external debt to exports 313 per cent in 1997. The ratio of short-term debt to reserves indicated no short-term liquidity difficulty. In Brazil, the ratio of interest payments to exports was also 21 per cent, and the debt stock as a percentage of exports was 289 per cent in 1997, while the ratio of short-term debt to reserves did not signal immediate liquidity problems. Chile and Venezuela both exhibit sustainable debt loads, with all ratios measuring moderate indebtedness.

D. Africa

12. Africa continued to experience a high debt burden despite a fall in total external debt of 2 per cent to $324 billion in 1996 and an improvement in its debt indicators. The ratio of outstanding debt to exports exhibited an improvement at 205 per cent but still remained above the 200 per cent threshold that is held to indicate the existence of a debt overhang. The ratios of debt service to exports and debt stock to GNP also point towards an improved position. That positive trend, however, was largely the result of an enhanced export performance (combined with some reduction in total debt) that could prove transitory, especially in the light of the downward pressure on commodity prices exerted by the financial crisis in Asia. Similar developments were felt in sub-Saharan Africa during 1997, where total external debt also fell by 2 per cent ($4.6 billion) to $223 billion. The ratio of outstanding debt to exports, at 202 per cent, was marginally above the 200 per cent threshold despite a solid export performance. For many countries in the region with severe debt burdens, the large share of multilateral debt continues to represent an obstacle to improving their debt profile. The HIPC initiative represents a critical effort in addressing that issue.

E. The heavily indebted poor countries

13. The core of the debt problem that remains to be solved is the unsustainable debt positions of the group of 41 HIPCs. Their total external debt amounted to $245 billion at end-1996 (see table 3). As a group, those countries' debt burden remains severe, with a debt stock to export ratio of well over 300 per cent (far above the 200 per cent threshold used to indicate a debt overhang) and a debt stock to GNP ratio of 127 per cent in 1996 after several years of improvement. The debt service ratio for those countries has generally remained below the 20 per cent threshold that warns

of debt servicing difficulty, but that has often been the result of important accumulation of arrears, which has itself developed into a problem in some cases. For the HIPCs, the debt structure is overwhelmingly public and publicly guaranteed, which accounted for 80 per cent of total external debt at end-1996. The marginal size of purely private debt and bonds reflect at least partially the constraints that have been faced by the private sector in those countries in securing external financing.

III. International debt strategies

A. Frameworks to deal with the debt problems

14. Over the course of the past few decades, frameworks have been developed to allow a renegotiation of different types of debt within a set of procedures and principles determined in most cases by creditors, creditor Governments and multilateral financial institutions. Official bilateral debt is handled within the Paris Club, and most recently multilateral debt relief is being treated in the context of the HIPC initiative. Commercial bank debt is renegotiated within the London Club, while the International Development Association (IDA) Debt Reduction Facility provides funding for the buy-back of commercial bank debt of low-income countries.

15. The Paris Club operates on the basis of several key principles: prevention of an imminent default; conditionality and continued monitoring through implementation of IMF adjustment programmes; equitable burden-sharing among creditors based on decisions taken by consensus; and seniority of new credit (which is not reschedulable) determined by a cut-off date. The decision to seek a rescheduling rests with the debtor country. An IMF adjustment programme must be in place before a rescheduling can be agreed. In the context of the adjustment programme, estimates of both the financing gap and the need for the adjustment of the terms on existing debt are made with the assistance of IMF.[4]

16. Within the London Club, the renegotiation of sovereign debt owed to commercial banks takes place under the direction of an ad hoc advisory or steering committee, which is generally set up after a debtor has suspended payments. As in the case of the Paris Club, the debtor country should in principle have in place an IMF adjustment programme before the London Club agrees to consider its debt. Under the bank advisory committee approach, a borrower reaches an agreement with key creditors to endorse a set of terms (or menu of options) that are then presented to the entire community of bank creditors for their acceptance or rejection.

17. International debt strategies have also evolved, slowly at first, towards the recognition that in cases of insolvency, debt reductions are necessary to lift the debt overhang and allow a recovery of the debtor's economy. It took several years before creditors agreed to cancel part of the debt of concerned countries. Starting with United Nations Conference on Trade and Development (UNCTAD) resolution 165 (S-IX) adopted in 1978, in which UNCTAD recommended a cancellation of official development assistance (ODA) debt of the poorest countries, the Paris Club agreed in 1989 to reduce a third (in present value terms) of non-concessional debt of low-income countries under the Toronto terms, then half of it in 1991 under the London terms, 67 per cent in 1995 under the Naples terms, and finally 80 per cent in 1997 under the Lyon terms (but only for a small number of eligible countries in the context of the HIPC initiative). For the lower middle-income countries, the Paris Club also allowed some debt reductions through debt conversions. As repeated reschedulings involve costs for the debtor countries and contribute to further accumulation of debt, the concept of reduction of the stock of debt (instead of the flows of debt service) was introduced by the Paris Club in 1994 and allowed for an exit from a repeated cycle of debt reschedulings.

18. Although progress has been registered in the treatment of official bilateral debt, in the early 1990s many poor countries were facing enormous difficulties in servicing their multilateral debt, which in principle had a preferred status among all categories of debts.[5] In 1996, the HIPC initiative was adopted and provided a framework within which multilateral debt of eligible countries could be reduced within a time-frame of six years.

19. Within both the Paris Club and the HIPC initiative, the rules and procedures for debt relief operations concerning both country eligibility and the amount and type of debt to be reduced are strictly determined by the creditors. The most stringent conditions are perhaps those determined in the context of the HIPC initiative, which require a complex process of debt sustainability analysis (undertaken by the World Bank and IMF) and a rather long period of proven performance. Those conditions have been perhaps dictated by the lack of funding of the initiative, which does not allow for generous and expeditious debt relief for a great number of countries in a short time span.

20. Reduction of commercial bank debt has also been gradually introduced within the London Club in the treatment of the 1980s sovereign debt crisis. The first phases of that

treatment, from 1982 to 1988, relied on debt reschedulings and new liquidity support, together with a market menu of options, which allowed limited amounts of voluntary debt reductions through debt securitization at a discount, debt-equity swaps and debt buy-backs. However, that strategy resulted in increased contractual debt obligations, contributing to a further deterioration in markets' sentiment regarding debtors' creditworthiness and continued delay in the eventual restoration of their access to capital markets. By 1987, all the major banks had strengthened their capital base and boosted their loan loss reserves, while smaller banks had sold their non-performing loan portfolios on the secondary market. Resources were thus available for major debt reduction operations. In 1989, the Brady Plan was announced with unprecedented official commitment, most particularly from the United States of America, Japan and the Bretton Woods institutions, to support debt reductions in line with debt prices on the secondary market.[6] For many indebted countries, this market-based approach allowed a reduction of external debt at a significant discount.

21. The financial crises of the 1990s, particularly those of Mexico and some Latin American countries in 1995, and several East Asian countries in 1997/1998, can be distinguished from the debt crisis of the 1980s in that debt was incurred mostly by private borrowers vis-à-vis private creditors which, in the case of Mexico include a diversified group of bond holders. Those crises have to date been addressed by huge bail-out packages mobilized by IMF and very often the United States Government to avoid defaults by major debtor countries.

B. Recent developments in debt renegotiations

1. Official debt

22. As noted earlier, official debt is renegotiated within the frameworks of the Paris Club and the HIPC initiative, respectively. In 1998, attention was given by the donor community to renewed efforts to provide debt relief to the poorest countries. At the Birmingham summit of the eight major industrialized countries (G-8) held in May 1998, recommendation was made to forgive all ODA debt or take comparable action in favour of the least developed countries which have made progress in implementing economic reforms (at the end of 1997, least developed countries still owed some $16 billion of ODA debt to Organisation for Economic Cooperation and Development (OECD) countries, representing about 13 per cent of their total long-term external debt). The G-8 countries also noted the need for debt relief (including on arrears to international financial institutions) for poor countries in a post-conflict situation in order to release resources at an earlier stage for economic rehabilitation.

Paris Club

23. In 1997, activity within the Paris Club moderated, with the conclusion of fewer debt restructuring agreements as compared with earlier years: seven countries in 1997 against 15 in 1996 and 18 in 1995. Up to July 1998, six other countries had renegotiated their debts with the Paris Club. That slowing of activity reflects the fact that many countries have graduated from the rescheduling process or have received a multi-year rescheduling agreement. Among the 38 countries that have graduated or are expected to graduate from the Paris Club[7] (i.e., to be able to service obligations after expiration of the consolidation period without additional relief), 11 have received a stock treatment.[8] It is estimated that 29 countries with previous reschedulings with the Paris Club may reschedule their debt again (26 HIPCs and three middle-income countries). Thus, future reschedulings within the Paris Club will concern mostly the HIPCs in the context of the HIPC initiative.

24. The total amount of debt rescheduled within the Paris Club in 1997 is estimated at approximately $6.3 billion. Of the seven debtor countries that rescheduled in that year, only Jordan is non-HIPC and is expected to graduate from the rescheduling process thereafter. The other six countries are all HIPCs treated under the Naples terms: Ethiopia, the United Republic of Tanzania, Madagascar and Yemen obtained a 67 per cent reduction on the flow of debt service falling due during the consolidation period, while Guinea and Cameroon (with a relatively higher per capita income) had their debt service reduced by 50 per cent.

25. As of July 1998, six other countries had renegotiated their debt. Senegal received an exit stock treatment, with 67 per cent reduction, while Nicaragua and Rwanda both received a 67 per cent reduction of the flow of debt service. The Paris Club applied for the first time the Lyon terms, allowing a reduction of 80 per cent of the flows of debt service in the cases of Côte d'Ivoire and Mozambique. With regard to Mozambique, creditors made an exceptional effort, agreeing to go even beyond the 80 per cent reduction given the very high level of debt overhang of this country. Uganda, which had received a stock treatment in 1995 (with a reduction of 67 per cent) had a "topping up" to 80 per cent (i.e., its debt was further reduced to reach the equivalent of 80 per cent reduction).

26. The Russian Federation joined the Paris Club as a creditor country in 1997. Russian claims on debtor countries will be valued at a historical exchange rate of 0.6 roubles per dollar but will be reduced by an upfront discount that will be applied when those claims are treated by the Paris Club. The discount will take into account debtors' economic and financial situation, with the poorest countries receiving a higher discount (which in some cases can reach 80 per cent). In addition to that discount, the Russian Federation will provide debt relief in line with Paris Club terms.

HIPC initiative

27. The HIPC initiative[9] builds on the existing mechanism of debt relief, including the Paris Club. If Paris Club debt reduction (and comparable treatment by other bilateral and commercial creditors) under the normal Naples terms (i.e., 67 per cent reduction) would not permit the achievement of debt sustainability at the end of a first stage of three years of adjustment and reform (the decision point), enhanced action would be envisaged during a second stage of three years, including a deepening of relief by the Paris Club (of up to 80 per cent reduction) and interim liquidity support by multilateral creditors. At the end of the second stage (the completion point), multilateral debt relief proper would be extended provided that the debtor country had met the relevant performance criteria. At that point, a stock-of-debt operation in the Paris Club would also take effect, i.e., reduction of the stock of debt.

28. The implementation of the HIPC initiative is based on the debt sustainability analysis of debtor countries. Such analysis is prepared jointly by the World Bank and IMF, in collaboration with the debtor country concerned. Target ranges for sustainable debt levels have initially been defined by the Bretton Woods institutions as 200 to 250 per cent for the debt to exports ratio expressed in present value terms, and as 20 to 25 per cent for the debt service to exports ratio. An additional criterion is a ratio of present value of debt to government revenue of 280 per cent (together with additional conditions related to a ratio of government revenue to gross domestic product (GDP) of 20 per cent and a ratio of exports to GDP of 40 per cent).

29. There is still scope for refining the concept of debt sustainability.[10] As a general consideration, criteria and target ranges should be flexible enough to take into account different debt situations and avoid the risk of excluding from the initiative those countries that truly need some degree of debt reduction. That means that in some cases, consideration should be given to applying a debt sustainability target below the ranges indicated, when it can be clearly established that the debtor countries cannot afford debt services higher than a certain level commensurate with long-term growth and human and social development objectives. Moreover, the time span of six years over the two phases is rather long when account is taken of the adjustment efforts already achieved by the HIPCs. Although the second phase has been shortened for some HIPCs that had obtained a stock treatment with the Paris Club before the launching of the initiative, it could be suggested that for all HIPCs final debt relief could be agreed, at most, one year after the decision point.

30. Consideration could also be given to the problems that many of the HIPCs may be facing – in practice – in applying the methodology of debt sustainability analysis, and to their requirements for technical assistance in that respect. They should be able to participate as equal partners in the process of implementing the HIPC initiative, and the principle of debtors' ownership of debt sustainability analysis should be ensured. There is certainly a need to strengthen HIPCs' capacity to undertake such an analysis and appraise the implications of debt relief, and to elaborate future financing and borrowing strategies in the context of their overall macroeconomic policy and development objectives. In that respect, it is worth mentioning the efforts made by UNCTAD through its Debt Management and Financial Analysis System, which aims to enhance the capacity of debtor countries to manage their debt through the use of computerized tools of debt analysis. The System will be reinforced in the future by an interface with the debt strategy module used by the World Bank for debt sustainability analysis; it is currently installed in 55 countries, of which 21 are HIPCs.

31. By mid-1998, 10 HIPCs had seen their cases reviewed under the HIPC initiative (see table 4). Benin and Senegal received an exit agreement from the Paris Club. Their debts were deemed sustainable and hence will not be considered for further relief. The decision point for the other eight countries was set for 1997 and 1999, and they will reach their completion point between 1998 and 2002. The calendar of implementation as far as is known to date indicates that at most three countries will benefit from debt relief under the initiative in 1998 and less than three countries in the following years up to 2001, a very slow process, especially as there are 41 HIPCs in total even though not all of them will qualify for relief.

32. In April 1998, Uganda became the first country to reach its completion point. In addition to the "topping up" by the Paris Club to 80 per cent reduction, the funding of its $650 million relief package is secured. Estimates of total debt relief for five other HIPCs (Bolivia, Guyana, Burkina Faso, Côte d'Ivoire and Mozambique) amounted to $5 billion, with Mozambique alone requiring some $2.9 billion.

33. The example of Mozambique illustrates the special efforts that may be needed by creditors to provide debt relief that would allow debt sustainability thereafter. After protracted negotiations, Paris Club creditors agreed to provide relief that went beyond the 80 per cent reduction under the Lyon terms, including special treatment of post cut-off date debt. Voluntary contributions by bilateral donors helped to close the financing gap, and IMF and the World Bank provided assistance beyond their proportional share. It is expected that at the completion point in June 1999, total debt relief under the HIPC initiative would allow Mozambique to reduce its external debt from a level of $5.6 billion in present value terms at end-1996 to $1.1 billion, reducing annual debt service payments to below 20 per cent of export earnings.

34. Experiences so far indicate that arranging HIPC financing packages can be a time-consuming and difficult process. Furthermore indications of the amount of funds available raises concern over potential underfunding of the initiative. IMF has made available – including resources from the Resource Account to finance the Enhanced Structural Adjustment Facility (ESAF), funds within ESAF/HIPC Trust and special contributions by six donor countries – a total of about special drawing rights (SDR) 290 million, which appears to be short of the indicated amount of assistance committed by IMF for the countries declared eligible to date. The World Bank has transferred $750 million from International Bank for Reconstruction and Development (IBRD) net income and surplus to the HIPC Trust Fund, and eventual IDA grants would add another $700 million; that is believed to be sufficient to cover the Bank's share of the debt relief proposed for the eight countries considered eligible to date under the initiative. As of April 1998, 15 bilateral donors have made contributions or pledges to the World Bank HIPC Trust Fund of more than $200 million.

35. Moreover, the crisis in East Asia increases claims on resources and assistance globally, and there is a fear that that might lead to further reduction of funds available for assistance to the poorest countries. For instance, concern has been raised about the fact that the World Bank assistance to East Asian countries might reduce IBRD net income and surpluses, which are a source of funding for the HIPC Trust Fund.

36. Securing the necessary financing for the full implementation of the initiative and expeditious resolution of individual cases is the key issue. Any shortfall in funding would slow down further implementation and entail the risk that some HIPCs could be excluded from the initiative. Moreover, debt sustainability targets could be set too high, thereby jeopardizing the exit strategies of the initiative.

37. The need to give a stronger impetus to the HIPC initiative was recognized by the Chancellor of the Exchequer of the United Kingdom of Great Britain and Northern Ireland at the Commonwealth Finance Ministers' meeting in September 1997. The United Kingdom initiative, "Debt 2000: the Mauritius mandate", aims to have all eligible poor countries at least embarked on the HIPC process by the year 2000, and to have by that time firm decisions on the amounts and terms of debt relief for at least three quarters of those countries. The initiative also includes proposals for more flexible interpretation of Paris Club rules (e.g., applying relief to post cut-off date debts, where necessary), shortening of the six-year period of required performance for countries with strong performance records, and giving debtor countries a stronger voice in the negotiations. The sale of gold by IMF was mentioned as a possible mechanism for increasing IMF contributions to the initiative. The target year of 2000 has been subsequently endorsed by the Development Committee in April 1998, as well as by the G-8 countries at the Birmingham summit in May 1998.

2. Commercial debt

Debt buy-back and Brady bonds[11]

38. Between 1989 and 1997, officially supported programmes and associated market swap operations reduced developing countries' debt to commercial banks by $53.2 billion, equivalent to 23 per cent of the $231.2 billion of eligible commercial bank debt. Eighteen low-income countries have extinguished $12.6 billion of the $18.2 billion of eligible principal and interest arrears due to commercial banks under the IDA Debt Reduction Facility, and more recently under the Brady Plan. Fifteen middle-income countries have reduced by 20 per cent their commercial bank debt of $213 billion.

39. In 1997, four low-income countries concluded debt and debt service reduction agreements with commercial banks. Agreements under the Brady Plan, with financial contributions from IDA and bilateral donors, allowed Côte d'Ivoire to reduce its debt to commercial banks by $4.1 billion in nominal terms, or close to 63 per cent of the total amount restructured, and allowed Viet Nam to reduce its commercial bank debt by $237.6 million, equivalent to 30 per cent of the amount restructured. Togo concluded an agreement sponsored by the IDA Debt Reduction Facility, which allowed a write-off of $28.9 million of past due interest and a buy-back of $46 million at 12.5 cents per dollar. Bosnia and Herzegovina concluded an agreement to restructure $1.3 billion debt of commercial banks under the aegis of the London Club: interest arrears were forgiven, while eligible principal of $400 million was exchanged for $400 million of

uncollateralized bonds, also allowing repayments to be linked to the country's economic performance.

40. An important development during the past two years was the swapping of Brady bonds by some middle-income countries. In 1996, Mexico and the Philippines swapped $4.4 billion of their Brady bonds for uncollateralized long-term bonds. In 1997, Argentina, Brazil, Ecuador, Panama and Venezuela retired $10.4 billion of collateralized Brady bonds through swaps against uncollateralized long-term bonds, effected at a discount based on secondary market prices. Those swap operations show the renewed confidence of foreign investors in those countries, as the spreads over the bonds issued by middle-income countries were considerably reduced during the last two years. Debtor countries derived two benefits from those operations: released collateral can be used to meet other obligations, and since the swap is effected at a discount based on secondary market prices debt outstanding is commensurately reduced.

41. Debt conversion programmes have also played an important role in commercial debt restructuring in the past, but such activity has declined recently. Interest in such programmes has decreased as rising secondary market prices reduced the discount that could be captured by investors; specific privatization programmes that were linked to such activity have turned to other instruments or have been winding down; debt renegotiations under the Brady Plan allowed more flexibility. Debt-for-nature conversion programmes have also been declining over time, but other debt-for-development swaps increased in 1997, with focus likely to be shifted in the future to claims held by official creditors.

Recent debt strategies in the cases of middle-income countries

42. The debt crises of Mexico in December 1994 and of Thailand, the Republic of Korea and Indonesia in 1997 provide a diverse set of experiences of debt crisis handling. The causes of the crises in those countries share some similarities, as well as some notable differences. The paths taken to the eventual solution of the debt problems are surprisingly diverse. Furthermore, the type of debt that required restructuring was different: in the case of Mexico, debt took the form of short-term government bonds, while in the three most affected Asian countries, it was short-term debt contracted by the private sector from foreign banks.

Mexico (December 1994)

43. The large current account deficits recorded in the years directly preceding the crisis emanated from private-sector activity. The public sector was at the time running a broadly balanced budget, although government expenditure was partly funded by short-term dollar denominated bonds (*tesobonos*). Given the large current account deficit, the sluggish economic growth and the apparently overvalued exchange rate, investors began to express concern, especially following some destabilizing political events. Exchange rates were not adjusted until foreign exchange reserves had fallen to an extremely low level in late December 1994. Following the flotation of the peso on 22 December, a lack of confidence on the part of portfolio investors precipitated large-scale repatriation of their financial investments. In such a situation, given a level of foreign exchange reserves much lower than that of short-term liabilities – foreign exchange reserves amounted to $6 billion, while short-term foreign liabilities amounted to $74.6 billion if $24.1 billion in interbank debt was included – the Mexican Government was quickly faced with an acute liquidity shortfall.

44. Taking a close interest in the development of the Mexican crisis, the United States Government first arranged an $18 billion rescue package on 2 January 1995 without direct IMF involvement. When that failed to stop investors' panic due to the existence of still larger short-term obligations, the United States led a rescue package of $51.8 billion, in which IMF figured prominently. The package was then large enough to provide complete cover for maturing debt obligations (as interbank debt was rolled over), and the crisis could therefore be overcome. Mexico was very quickly able to re-establish capital market access and to make early repayments of loans extended by the United States, although a severe recession followed in 1995, with a contraction equivalent to six per cent of GDP.

45. The rescue is notable in that there was no attempt to restructure the debt profile, probably because debt was largely in the form of bonds that had been widely dispersed among portfolio investors. It would have been extremely difficult to locate the creditors and to organize a mechanism through which restructuring could be negotiated, and the free-rider problems would have been uncontrollable.

Thailand (1997)

46. In the case of Thailand, the crisis emanated partially from a deteriorating current account position, as in Mexico. There was also a fixed exchange rate that may have contributed to a growing loss of competitiveness since the baht was pegged to a rising dollar. Other causes of the growing deficits included the slowing demand for Thai exports in international markets, particularly electronic exports, and rising domestic unit labour costs. In addition, there was excessive investment in speculative assets, such as

real estate and stocks, which rendered the banks and finance companies vulnerable to an economic slowdown. That was a symptom partly of inadequately vigorous regulation and supervision, but also of the credit boom that often tends to fuel such investments. The build-up of private-sector debt began in about 1993, when the Bangkok International Banking Facility was established, and continued until 1997 as domestic agents took advantage of lower foreign interest rates. The fixed exchange rate also provided an implicit assurance to market participants, who saw no need to hedge foreign borrowing. The high level of unhedged private external debt made the option of devaluing the baht a painful choice that was avoided until foreign exchange reserves had been nearly exhausted in defending the exchange rate. In that case, usable reserves were negligible due to the commitment of the major part of total reserves to commitments in forwards contracts. The baht was floated on 2 July 1997.

47. As in the Mexican case, investors lost confidence in the Thai economy, and rushed to liquidate and repatriate their investments before a potential default and while foreign exchange reserves remained available. Unlike in the somewhat unusual case of Mexico, in which a great power took the lead in providing liquidity, in the Thai case IMF played the major role in dealing with the crisis. On 11 August 1997, a $16.7 billion rescue package was agreed with IMF, which was not sufficient to cover private-sector short-term obligations of approximately $31.9 billion[12] as at end-1997 (the public sector actually had no short-term obligations).

48. In solving the crisis, the Government took a two-pronged approach. First, the financial sector, which accounted for the bulk of private short-term debt (82 per cent or $26 billion at end-1997) was restructured, with many insolvent institutions closed (56 of 58 finance companies were closed). Regulation and supervision were also strengthened. At the same time, the Government provided a guarantee over deposits in the financial system in order to avoid a systemic crisis. In order to attract funding that would provide liquidity and further restructure the financial system, the Government removed limits on foreign ownership of Thai financial institutions, and allowed for a 10-year period 100 per cent foreign ownership. In addition, the bankruptcy laws, which made it extremely difficult for creditors to press their claims, are being revamped, including the foreclosure laws. Recent press reports cast doubt, however, over the willingness of foreign investors to take equity positions in local financial institutions under current circumstances without some type of support from the Thai Government.[13]

49. The second prong of the strategy was to deny the non-financial private sector any public sector guarantee or financial support, and to thereby force it to negotiate debt restructuring directly with creditors. The negotiation process will be facilitated by the new bankruptcy law. The problem with short-term debt is less severe for the non-financial private sector as the bulk of such obligations were contracted by financial institutions.

50. The cost of the solution to the Government will be very high due to the expense involved in the provision of liquidity to the financial sector during the crisis, the cost of deposit guarantee, and the cost of restructuring and recapitalizing distressed financial institutions.

51. During the crisis, a major impediment to economic recovery proved to be the unavailability of trade finance. As in the cases of the Republic of Korea and Indonesia, international banks were unwilling to accept trade credits drawn on Thai banks but were also very reluctant to extend trade credit themselves. That did not allow the financing of short-term working capital requirements of many Thai firms that was needed to expand production of exports.

Republic of Korea (1997)

52. In many respects, the case of the Republic of Korea was similar to that of Thailand: the private sector debt was for the major part contracted by the financial system. However, that resulted from the restrictions on borrowing abroad by the non-financial private sector. The genesis of the crisis was similar to that of the Thai case as well. During the 1990s, large business groups of the Republic of Korea (*chaebols*) expanded quickly through financing from domestic banks, becoming highly leveraged (with an average debt to equity ratio of about 400 per cent in 1997). The banks borrowed heavily abroad due to attractive foreign interest rates, and onlent the funds to corporate clients. When economic growth rates fell in 1996 and 1997, some of the largest *chaebols* were unable to meet debt obligations and became illiquid or insolvent. which in turn placed great pressure on the banks since their large clients could no longer meet their obligations. As a result of the rise in non-performing loans and the deterioration in the financial position of domestic banks, foreign creditor banks became increasingly unwilling during 1997 to roll over short-term interbank loans. Foreign currency became scarce and a liquidity problem developed, leading the Government to liberalize foreign investment limits and ease access of domestic non-financial firms to foreign credit.

53. On 3 December 1997, a record $21 billion IMF standby agreement was agreed as part of a $60 billion international rescue package. With total short-term obligations estimated at $68.4 billion,[14] the package thus covered 88 per cent of those obligations. Because of the severe shortage of foreign

exchange and the possibility of default, some of the funds were disbursed immediately upon agreement of the package. The suitability of the tight credit and high interest rate policies in the case of the Republic of Korea, given the high leverage position of its private firms, is beyond the scope of the present report. Suffice it to say that many questions have been raised in that regard. On 16 December 1997, the won was floated. On 17 December 1997, IMF created the Supplementary Reserve Facility (SRF), and on 24 December 1997 it rapidly organized funding for the Republic of Korea through that faster-disbursing mechanism in order to avoid an imminent debt default by the Republic of Korea. The SRF is designed to quickly provide financial assistance to countries experiencing external payments difficulties due to large short-term financing needs resulting from a sudden loss of market confidence.

54. The Korean approach to solving the short-term debt crisis followed the approach taken during the 1980s crisis. A Korean negotiating team met with a steering committee of international creditor banks to negotiate a restructuring of the short-term debt. A temporary agreement was reached with some creditor banks on 28 December 1997 to roll over some short-term loans, and then on 28 January 1998 a broad agreement was reached with a group of 13 major international creditor banks on a plan to extend the maturities of approximately $24 billion in short-term loans (excluding trade credit) into longer-term loans. Those banks also agreed to continue rolling over the existing loans until all details had been agreed. The refinancing agreements were to be completed by March 1998 but would be voluntary on the part of creditors. At the 17 March 1998 deadline for agreements on refinancing of the short-term debt, restructuring deals had been reached with 134 banks from 32 countries, covering a total of $21.9 billion that had been converted into loans with a maturity of between one and three years. That reduced the short-term component of the debt load from 44 per cent of the total as at end-1997 to 30 per cent as at end-March 1998. As a part of the deal, the Government issued bonds in order to cover a guarantee of the refinanced loans. The Government followed up on the debt restructuring by directing the banks to arrange corporate restructuring of distressed indebted firms.

55. The cost to the Government of the Republic of Korea of the solution to the debt crisis will also be high, including the guarantee of the refinanced loans and the cost of financial sector restructuring and recapitalization of financial institutions. The Government had also at one point in time guaranteed the deposits of the financial sector, which could also prove costly. As in the Thai case, the lack of trade credit made the recovery more difficult because of the lack of capital to fund accelerated production of exports.

Indonesia (1997)

56. The Indonesian case shares some similarities with both the Thailand and Republic of Korea debt crises, although occurrence of crisis might be largely attributed to contagion effects since at the time of the outbreak of the crisis this country ran what appeared to be largely sound traditional fundamentals. There were nevertheless serious inadequacies in regulation and supervision of the financial system that, as in Thailand and the Republic of Korea, transmitted the financial crisis into a crisis in the real economy. In the Indonesian case, the debt indicators are significantly worse than in the other cases, which raises the possibility that the crisis may present a solvency rather than a liquidity problem.

57. Following the float of the Thai baht on 2 July 1997, Indonesia (and a number of other countries in the region) experienced pressure on its currency. As a result, the rupiah was floated on 14 August 1997. On 31 October 1997, agreement was reached on a $38 billion rescue package, including a $10.14 billion IMF standby arrangement. Short-term debt of the Indonesian private sector is estimated at some $80 billion,[15] so that the rescue package covered approximately 48 per cent of private-sector short-term debt.

58. However, the IMF agreement was not strictly adhered to, and on 15 January 1998 a revised agreement was reached. Once again, the programme was not strictly implemented although a significant number of agreed measures were taken. The two programmes were criticized for ignoring the need to settle the debt crisis. Indeed, given the distressing debt indicators for Indonesia it is likely that economic stability would not have been possible without a debt restructuring agreement. The Government, in collaboration with IMF, began efforts to devise a solution to the debt crisis. On 27 January 1998, a top Indonesian official stated that many firms would need “a temporary pause” in servicing their foreign debt, raising fears of a possible Indonesian debt moratorium. There was finally no official moratorium. On 9 March 1998, the IMF Managing Director warned that the rescue programme was at risk if stricter compliance with the agreement of 15 January 1998 was not forthcoming. Extended negotiations commenced with IMF on a third revised agreement that would include provisions on the handling of the debt crisis by the Government. A supplementary memorandum to the 15 January 1998 agreement with IMF was finally reached on 10 April 1998, by which time the framework for agreement on a restructuring of the debt had been largely agreed between an Indonesian negotiating team

and the creditor bank steering committee, with input from IMF and the World Bank.

59. By 8 April 1998, the framework for negotiation of debt restructuring had taken on a form very similar to the plan set up by Mexico as part of the negotiated solution with its creditor banks in 1982. A deal was finally reached in June 1998 on the restructuring of interbank debt, corporate debt and trade credits. The plan takes effect from 1 August 1998, and is centred around a new institution, the Indonesian Debt Restructuring Agency (INDRA). INDRA will act as an intermediary and guarantee a supply of foreign exchange for private firms that take part in the plan. Firms will make rupiah payments to INDRA equivalent to the dollar amount of their short-term debt valued at a predetermined exchange rate, and INDRA will make the payment to the creditor bank in dollars. INDRA will provide that service only if creditors extend maturities of firms' short-term debt into loans with maturities of between one and four years. Participation by debtor firms is voluntary, and requires negotiation between the debtor firm and its creditors. As part of the agreement, creditor banks promised to maintain trade finance for Indonesian firms at levels existing as of end-April 1998. Indonesian banks were required to repay all past-due debts during June 1998 (estimated to amount to $4.5 billion). Both the new refinanced loans and the trade credit lines will be guaranteed by Bank Indonesia. According to one report, the deal potentially covers $80 billion in private debt.

60. Later in 1998, in response to continued economic turmoil, Indonesia's international donors agreed on 30 July 1998 to provide an unprecedented $7.9 billion in aid during 1998. The aid pledges followed an additional $6.3 billion IMF package that reportedly included a voluntary and "informal" Paris Club rescheduling of official debt.[16]

61. As in the cases of Thailand and the Republic of Korea, there was a negative influence on the process of adjustment and recovery exerted by the dearth of trade finance. The inclusion of provisions relative to the provision of trade finance in the agreement was notable.

62. The cost of the debt crisis to the Government will be high, and will include the guarantee given under the INDRA plan, as well as the cost of providing liquidity to the banking system and of financial sector restructuring and recapitalization of financial institutions. In March 1998, analysts estimated that recapitalization of the banking sector alone would cost over $20 billion.

IV. International policy conclusions

63. Debt is making a comeback as a burning problem on the international agenda. The slow process of implementation of the HIPC initiative and the frequency of financial crises affecting middle-income countries following their rapid integration into the global financial markets are sources of concern for the international community. A proposal has been made to set up an independent commission, appointed by agreement between creditors and debtors, to assess the debt sustainability of developing countries.[17] An important factor behind the apparent failure to deal with the debt problems in an expeditious way is the insufficient level of financing of debt relief or debt rescue packages.

64. As can be gleaned from the above discussion, IMF remains the linchpin of international debt workout approaches, whether in the framework of the Paris Club, the London Club, the HIPC initiative or recent debt rescue packages for middle-income countries. That situation is not likely to change in the foreseeable future since the international creditor community attaches importance to the role that IMF is playing in two respects:

(a) To prevent moral hazard behaviour of debtor countries, by imposing and monitoring adjustment programmes on those countries;

(b) To mobilize necessary finance (often with the support of and contributions from major creditor countries).

65. Such an approach might tilt too much towards controlling debtor countries and not giving them a voice in determining their own debt sustainability objective. Furthermore, too much burden is put on the official sector in providing bail-out finance for private creditors without sufficiently involving the latter in an equitable burden-sharing arrangement.

A. The HIPC initiative

66. It is a matter of concern that the implementation process of the HIPC initiative is very slow: two years have elapsed since its launching and yet only one country (Uganda) has benefited from the full-fledged relief as provided by the initiative. The calendar of implementation seems to indicate that at most three countries will be considered each year. The slowness of the process may be due to two factors:

(a) The lack of adequate funding for an expeditious resolution of all eligible cases;

(b) The complexity of the process itself, with its complicated methodology for determining debt sustainability and for working out a burden-sharing framework among creditors.

67. In order to accelerate the implementation of the HIPC initiative and embark all eligible poor countries on the HIPC process by the year 2000, as called for by the "Mauritius mandate", it is suggested:

(a) To simplify debt sustainability analysis[18] and fully involve debtors in determining sustainability criteria (debtors' ownership of debt sustainability analysis);

(b) To shorten the implementation period for individual countries: the interval between the decision point (end of the first ESAF programme) and the completion point should be shortened to one year;

(c) That the World Bank and IMF mobilize an adequate amount of financing in order to secure an expeditious review of all eligible HIPC countries by the year 2000, which might involve the sale of part of IMF gold holdings;

(d) That increased contributions be made by bilateral donors to the HIPC Trust Fund to allow the debt of other multilateral institutions, especially the African Development Bank, to be dealt with adequately;

(e) That, for the poorest among the HIPCs, urgent consideration needs to be given to bolder actions, including conversion into grants of all remaining official bilateral debt and clearing of the entire stock of debt if warranted (see A/52/871-S/1998/318).

B. Debt workouts for middle-income countries

68. The repetitive occurrence of financial crises in developing countries is a matter of serious concern for the international community. It is clear that the degree of official funding being disbursed in response to debt crises has escalated rapidly and threatens to become unsustainable. The sheer size of financial rescue packages and the rapid contagion of liquidity crises have raised doubt about the capacity of IMF to mobilize emergency financing of the magnitude required by countries in distress. As noted by Mr. Robert Rubin, United States Treasury Secretary, in a world in which trillions of dollars flow through international markets every day, there is simply not going to be enough official financing to meet the crises that could take place.[19]

69. In addition, there is the concern that the current bail-out strategy risks creating a moral hazard for at least some lenders that have not been forced to bear the full risk of the credits they have extended. Providing official financial assistance might shield creditors and investors from the consequences of bad decisions and sow the seeds of future crises. The need to involve private creditors more fully in sharing the burden involved in such crises has recently been voiced in the report of the G-8 finance ministers to heads of State for the Birmingham summit in May 1998, by the IMF Managing Director and by the United States Treasury Secretary.

70. The G-8 report noted that there will always be pressure in the event of a crisis to act quickly to stabilize the situation, and that ways must be found in which that could be done without implicitly insuring debts to the private sector.

71. Several suggestions have been made to devise international frameworks based on a few principles that would:

(a) Allow the debtor a breathing space while restructuring its economy;

(b) Provide interim finance (particularly trade finance);

(c) Ensure equitable burden-sharing with private creditors;

(d) Lead to an orderly long-term renegotiation of debts.

72. Arguments have been made for the application at the international level of bankruptcy procedures often applied to enterprises at the country level.[20] Those procedures serve two economic purposes.[21] First, by specifying *ex ante* rules for the distribution of partial or delayed payments on impaired debt claims among different classes of creditors, they reduce uncertainty and moral hazard. Second, by providing the debtor with temporary protection from its creditors and access to interim finance, bankruptcy procedures enable an enterprise whose intrinsic value exceeds its break-up value to continue to operate.

73. The proposal to establish an international bankruptcy court for sovereign debtors that would be empowered to declare a standstill, negotiate a debt restructuring, promote adjustment by the debtor country, organize settlement terms and inject interim finance has been generally dismissed on several grounds.[21, 22] First, private creditors would be reluctant to forego their recourse to national courts. Second, creating an international court could alarm investors and raise the cost of borrowing by developing countries. Third, national courts can replace the management of a firm and can seize its assets; those sanctions cannot and should not be applied to sovereign Governments.

74. Attention has been rather directed towards developing more workable mechanisms involving private creditors that would allow debtors a breathing space by declaring a debt standstill, while maintaining access to interim finance. Such a mechanism would involve more active IMF lending into arrears and the possibility for debtors to have recourse to IMF article VIII 2(b) to suspend payments and impose exchange controls, which would address the first three principles mentioned above.

75. The aforementioned G-10 report notes that a fundamental principle underlying all contracts is that the terms and conditions are to be met in full and on time, and strongly endorses that principle; at the same time, it recognizes that in certain exceptional cases, the suspension of debt payments may be part of the crisis resolution process, and that temporary payment suspensions are a way of gaining time when a crisis occurs.

76. The report also notes that it must be recognized that if suspension of payments is extended to obligations of the private sector, that may require the use of formal or informal exchange controls. Resort to such controls aims at slowing a “rush for the exit” by holders of claims, including domestic holders, which have come to believe that a suspension of payments on their claims can soon occur.

77. Some formal framework is needed to prevent moral hazard behaviour by debtors and to allow payments suspensions which are part of a process of cooperative and non-confrontational debt renegotiation between debtors and creditors.[23] There are no formal means for explicitly approving decisions by sovereign debtors to suspend payments. There seems, however, to be some convergence of views that a policy of lending into arrears potentially provides IMF and the official community with the opportunity to manage crises by signalling confidence in the debtor country’s policies and longer-term prospects. The G-10 report recommends that the scope of its application should be extended, while remaining mindful of the need for prudence and the maintenance of strict conditionality.

78. Currently, IMF normally requires that all arrears to creditors be settled or agreement be close at hand on the clearing of arrears before funding is disbursed. IMF would place conditions on its willingness to lend into arrears, i.e., IMF would continue to provide financing to countries even when those countries are behind on the debt payments to some private creditors, such that the country must implement an adjustment and reform plan and must seek a negotiated restructuring with creditors in good faith. That arrangement would involve private creditors in negotiating terms of a restructuring: the provision of financial support by IMF can improve the bargaining position of the debtor, and combined with the adjustment programme, can signal to the unpaid creditors that their interest is best served by quickly reaching an agreement with the debtor. At the same time, suspension of payments will lower the immediate foreign exchange requirements and reduce considerably the size of a rescue package. A faster disbursing mechanism should also be utilized by IMF to provide the working capital (trade finance) that would be required for the country to operate under that scenario.

79. Long-term renegotiation of debt owed to commercial banks can take place in the framework of the London Club. Consideration should be given to extend the benefit of debt reductions under the Brady Plan to the “new debtors”.

80. In the case of bonds, there exists no framework for an orderly renegotiation of those debt securities. It is worth giving serious consideration to the G-10 proposal for inclusion of special clauses in debt contracts to allow for collective representation of creditors and qualified majority voting on changing the terms of the contract, and to force sharing of proceeds of debt repayments. Although those suggestions raise a number of concerns that should be considered, they appear to provide a reasonable and practical means of facilitating discussion between creditors and debtors following the eruption of a financial crisis where bondholders represent the major creditor group. As has been noted, however, the inclusion of such clauses would need to be consistently applied among developing and developed countries alike in order to avoid the negative signal that could arise from their inclusion under other circumstances.[21, 24]

Notes

[1] It is generally recognized that a ratio of debt to exports exceeding 200 per cent and a ratio of debt service to exports exceeding 20 per cent would signal serious debt problems.

[2] The analysis of the five Asian and five Latin American countries in the present section is based on available data published by J. P. Morgan Bank in *World Financial Markets*, as reproduced in table 2 below. Those data are not necessarily comparable with World Bank data, especially concerning short-term debt. World Bank data do not include the Republic of Korea, and do not indicate 1997 estimates for individual countries. For that reason, J. P. Morgan Bank estimates are used here since they show a consistent set of data that can be used for a comparative analysis of the 10 countries.

[3] To be more accurate, the relevant foreign exchange reserves figure is the amount of free foreign exchange reserves, excluding commitments resulting from transactions in the forward currency market.

[4] Most of the time, the rescheduling terms assumed by IMF financing projections are endorsed by Paris Club creditors,

leaving very little room for the debtor country to negotiate during its meeting with Paris Club creditors.

[5] In 1993 and 1995, UNCTAD drew the attention of the international community to the heavy burden of multilateral debt; see UNCTAD, *Trade and Development Report, 1993 and 1995*.

[6] For a good account of the 1980s debt strategies, see the report by the Economic Commission for Latin America and the Caribbean, entitled "Latin America and the Caribbean: options to reduce the debt burden", 1990.

[7] IMF has estimated that the middle-income countries that have graduated from the Paris Club have achieved significant progress in macroeconomic stabilization and structural reforms that have enhanced their access to private foreign financing; see IMF, *Official Financing for Developing Countries, 1998*, table 14, p. 31.

[8] The 11 countries that have received stock treatment are Egypt and Poland in 1991 (with 50 per cent debt reduction in present value terms); Uganda and Bolivia in 1995 (with initially 67 per cent reduction, subsequently topping up to 80 per cent debt reduction in 1998); Benin, Burkina Faso, Guyana and Mali in 1996 (67 per cent reduction); Peru (agreement signed in 1996, with subsequent reprofiling of the stock of debt scheduled for 1999); the Russian Federation (agreement signed in 1997, with subsequent reprofiling of the stock of debt scheduled for 1999); and Senegal in 1998 (67 per cent reduction).

[9] For a detailed description of the HIPC initiative, see A. Boote and K. Thugge: "Debt relief of low-income countries and the HIPC initiative", IMF Working Paper, WP/97/24 (Washington, D.C., March 1997).

[10] For a critique of debt sustainability concepts used within the HIPC initiative, see UNCTAD, *Least Developed Countries, 1997 Report*, p. 34.

[11] The present section draws on World Bank: *Global Development Finance, 1998*, appendix 3, "Commercial debt restructuring", pp. 83-102.

[12] That estimate of short-term debt is reported in the press, and differs from the amount of short-term debt reported by J. P. Morgan Bank (see table 2), which shows an amount of $28.6 billion; differences in estimates betray difficulties in collecting accurate information on short-term debt.

[13] See "Thailand prepares 'drastic measures' to prop up banks", *Financial Times*, 3 August 1998; and "Thai bail-out plan seeks to lure foreign investors", *Financial Times*, 6 August 1998.

[14] That estimate of short-term debt is reported in the press, and differs from the amount of $52.8 billion estimated by J. P. Morgan Bank (see table 2); the remark made in footnote 12 applies here. The exact amount of short-term debt of the Republic of Korea as at end-December 1997 has been a matter of some uncertainty. In late December 1997, authorities of the Republic of Korea disclosed that the actual figure was approximately $100 billion. In that case, the rescue package covered about 60 per cent of short-term foreign debt.

[15] That amount of short-term debt is the current estimate as reported by the press; it differs notably with the estimate of $36.8 billion shown by J. P. Morgan Bank (see table 2).

[16] See "Indonesia on track for debt rescheduling", *Financial Times*, 23 July 1998; and "Donors agree $7.9 billion more for Indonesia", *Financial Times*, 31 July 1998.

[17] See UNCTAD, *Trade and Development Report 1998*, forthcoming.

[18] Proposals to simplify debt sustainability criteria by using the debt stock concept instead of the present value concept and by using simple debt service ratios have been made in UNCTAD, *Trade and Development Report 1977*, box 3, p. 50.

[19] See statement by United States Treasury Secretary to IMF Interim Committee, *Treasury News*, 16 April 1998.

[20] The forthcoming UNCTAD *Trade and Development Report 1998* contains a discussion on the possibility of applying bankruptcy procedures and principles to international debt workouts.

[21] A report by the Group of 10 on the resolution of sovereign liquidity crises of May 1996 also discussed many options for orderly debt workouts.

[22] See Peter B. Kenen, Lawrence H. Summers, William R. Cline, Barry Eichengreen, Richard Portes, Arminio Fraga and Morris Goldstein, "From Halifax to Lyon: what has been done about crisis management?", *Essays in International Finance*, No. 200 (Princeton University, October 1996).

[23] A distinction is sometimes made between unilateral payment suspension by debtors ("moratoria") and those undertaken with the explicit or implicit agreement of the creditors ("standstills").

[24] See Barry Eichengreen and Richard Portes, "Managing the next Mexico", in Peter B. Kenen et al., op. cit.