
3. External debt

The nature of the problem

52. In our Interim Report we drew attention to the serious burden which the external debt* outstanding at the end of 1973, estimated at about \$120 billion, has created on the continuing development of a number of developing countries. While the total debt has been growing for a number of years at an accelerated rate, its composition has also been changing, with a more rapid growth in private capital flows, particularly private bank credits, which has resulted in a more pronounced acceleration in debt service payments than in outstanding debt. In 1973, debt service payments by developing countries thus reduced by nearly half the gross transfer of financial resources to these countries.
53. More recent estimates indicate that these trends in the size and composition of external debt have been further accentuated. As we have already noted, the economic situation of non-oil developing countries has deteriorated markedly in the last two and a half years, thereby eroding seriously the base from which to service foreign debts. At the same time, widespread increases in current account deficits have led a number of developing countries to offset the deterioration in their balance of payments by borrowing significant amounts from private capital markets. As we have already observed, this acceleration of short-term borrowing has serious implications for the external financial position, continued credit-worthiness, and future development of these countries. Difficulties in servicing external debt have already become acute in some cases and may become more difficult for others in future, because of the necessity of financing large balance of payments deficits.

Categories of affected countries

54. As developing countries make use in varying degrees of

*Not including private debts without public guarantee in the debtor countries. 1973 is the last year for which relatively comprehensive data, even under this partial definition, are available.

different types of borrowing, the extent and nature of the debt servicing problem differs considerably from country to country. Also, the adverse economic factors operating in more recent years affected some countries more than others. However, two categories of countries can be identified as having particularly serious debt servicing problems in the current situation. First, there are the very poor and the most seriously affected countries where the increases in their balance of payment deficits have been of such magnitude in relation to their economic strength, that they are facing acute problems in meeting their external debt obligations while at the same time attempting to maintain their development effort. These include some of the MSA countries which have been forced only recently by lack of alternatives to borrow in short and medium term private markets. It should be noted that lower income countries rely largely on official and multi-lateral sources of credit.

55. The second group consists of developing countries which have increasingly relied for some years, as mentioned above, on commercial borrowings to meet a significant portion of their balance of payments deficits, but now face serious debt servicing problems due to the increase in the size of deficits and the consequent accelerated borrowing in the last two and a half years. Their problem is that of finding additional resources to finance the larger deficits required to protect their development effort as well as to maintain their credit-worthiness in the market.

Need for urgency

56. To the extent that new mechanisms are established for effecting a larger transfer of resources to the developing countries on a continuing and less onerous basis, the debt problem would tend to diminish. We consider that, since several of the measures for a larger resource transfer now being examined will require much time before they can become effective, it is extremely important that specific and immediate steps be taken to provide debt relief. In order to assist the developing countries in dealing at least with the most pressing strains of debt servicing, we suggest the following proposals for urgent and speedy implementation.

Official debt

57. As an extension of the policy of some donor countries to provide ODA to the poorest countries only in the form of grants, we support the proposal that ODA related debt owed by these countries should be converted into grants. It should

be noted that if all future ODA to these countries were to be given in the form of grants, the conversion of past ODA loans into grants would be a once-for-all measure to provide much needed relief in the current critical economic situation of these countries.

Private Debt

58. We recommend that the IMF should provide in appropriate cases, at the request of and in consultation with the debtor country, credit facilities to meet debt servicing payments in respect of short term and medium term private debts in order to provide the increased balance of payments support required in the current situation and to protect the development programme of the country concerned. In view of the fact that many developing countries have not yet used a relatively large proportion of the credit facilities which are available from the IMF, we believe that the extension of additional IMF credit for this purpose under appropriately liberal conditions could be accommodated for the present within the existing IMF resources.

Institutional Arrangements

59. In view of the urgency of the problem, we also believe that, notwithstanding any consideration by the international community of more suitable machinery for debt rescheduling, the following improvements in the existing arrangements should be undertaken immediately. The IMF, either jointly with the IBRD or in consultation with it, should be clearly identified as responsible for convening a meeting of creditors at the request of the debtor country, in order to find solutions for the debt problems of the country concerned. The IBRD should use existing consortia and consultative groups, in addition to their customary purpose, to find solutions for debt problems. We wish also to emphasise that the international agencies, particularly the IBRD and IMF, should take steps, including appropriate assistance to debtor countries, to ensure that development needs are taken into account in all debt renegotiations.
60. We stress that the treatment of the debt servicing burden of developing countries in these ways should not reflect adversely on their creditworthiness. On the contrary, it should be seen as a timely contribution towards strengthening it. It should also be recognised that it is in the mutual interest of both debtors and creditors to avoid the danger of widespread defaults.