United Nations
A/59/219

General Assembly

Distr.: General
13 August 2004

Original: English

Fifty-ninth session
Item 85 (c) of the provisional agenda*
Macroeconomic policy questions: external debt crisis and development

External debt crisis and development

Report of the Secretary-General**

Summary

The present report, submitted in compliance with General Assembly resolution 58/203 of 23 December 2003, complements the report of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/59/270). It analyses the evolution of debt indicators of developing countries and countries with economies in transition in the context of recent developments in international trade and payments and in international capital markets. It provides an assessment of official debt relief under the Heavily Indebted Poor Countries Initiative and debt restructuring at the Paris Club, and discusses aspects of debt management in developing countries and developments with regard to internationally agreed mechanisms for solving problems related to sovereign debt to private creditors.

* A/59/150.

** The late submission of this report has allowed the elimination of duplication with other reports prepared in the United Nations system.

04-45951 (E) 130904
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I. Introduction

1. The General Assembly, in its resolution 58/203 of 23 December 2003, requested the Secretary-General to submit a report to the Assembly at its fifty-ninth session on the implementation of the resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries, inter alia, those resulting from global financial instability. In compliance with that request, the present report examines recent developments in the external debt and debt service situation of developing countries and countries with economies in transition and discusses measures to resolve the debt problems of developing countries. It concludes with a consideration of policy recommendations.

II. Recent trends in international debt indicators

2. The total external debt of developing countries and countries with economies in transition increased by around $95 billion, or 4 per cent, in 2003. The rate of increase of short-term debt, concentrated in Eastern Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean, was considerably faster (11.6 per cent) than that of long-term debt (2.3 per cent). While long-term public and publicly guaranteed debt increased in all regions, there was also a rise in private debt in sub-Saharan Africa and Eastern Europe and Central Asia, as a result of which these regions saw the fastest increase in total long-term debt (see annex).

3. As in 2002, the increase in export revenues outpaced the increase in total debt stocks, producing improvements in traditional debt indicators. The debt-to-exports ratio for all countries taken together fell by more than 13 percentage points, to under the 100 per cent threshold, and the debt-service-to-exports ratio fell to 15.0 per cent from 17.8 per cent, due also to the impact of the continued fall in international interest rates. Export growth also contributed to a fall in the ratio of short-term debt to foreign exchange reserves as it allowed a substantial build-up of reserves in a number of emerging market economies that also received net private capital flows over and above their needs for current-account financing.

4. Despite these generally positive developments, the ratio of total debt to gross national income continued to worsen in Latin America and the Caribbean and North Africa and the Middle East, where income growth accelerated at a slower pace than in other regions. Moreover, there has been a substantial rise in arrears in Latin America owing to still unsettled problems with the restructuring of Argentine debt. Countries in sub-Saharan Africa and East Asia and the Pacific also added to their arrears (see annex).

5. It should be noted that lending by international banks to emerging market economies has been shifting increasingly to local currency loans by their foreign branches, representing claims that are not recorded as cross-border liabilities. For 2003, such liabilities are estimated to amount to more than one third of total foreign bank claims on developing economies.[1]

III. Official debt relief and official development assistance

A. Progress under the Heavily Indebted Poor Countries (HIPC) Initiative

6. With the addition of Ethiopia, Ghana, Guyana, Nicaragua, the Niger and Senegal in 2004, 14 countries have reached their completion point, qualifying them for the full amount of debt relief possible under the Heavily Indebted Poor Countries (HIPC) Initiative. Another 13 countries have reached the decision point, at which they qualify for interim relief. The implementation of the Initiative thus continues to progress slowly, the main reason being the compliance of eligible countries with the conditions attached to debt relief. Reconciling the objectives of achieving and maintaining debt sustainability, promoting long-term growth and reducing poverty is particularly difficult since, in the context of implementing poverty reduction strategy papers, priority has to be given to spending in social sectors, mostly for education and health.[2] While there can be no doubt about the need to increase expenditure for these purposes, sustained poverty reduction and debt sustainability also require increased domestic investment in infrastructure and production capacity to raise economic growth and employment.[3]

7. Debt sustainability is also affected by vulnerability to external shocks. A number of heavily indebted poor countries have suffered from shocks due to price collapses in principal export sectors, drought and other natural disasters, and civil conflict in neighbouring countries. These have led to unsustainable debt levels during the interim period or after the completion point. Moreover, of the 11 countries that have not yet reached the decision point, 8 are either conflict-affected or post-conflict countries, and all but two are African. These countries have accumulated large and protracted arrears vis-à-vis the international financial institutions, in some cases since the mid-1980s.

8. The HIPC Initiative was conceived on the basis that the debt relief provided would be a net addition to the total volume of official development assistance (ODA). This additionality is necessary to simultaneously achieve the Initiative’s multiple objectives. However, since the introduction of the original HIPC scheme in 1995, there has been a sharp fall in total net transfers of ODA compared to previous trends, and levels have not recovered despite a rise in bilateral aid flows after 2001.[4] It is notable that bilateral loans to heavily indebted poor countries have been increasingly replaced by grants. However, while such grants rose by 31 per cent between 2000 and 2002, this was almost entirely accounted for by a $2.032 million increase in debt forgiveness.[5] Indeed, bilateral ODA flows to heavily indebted poor countries after deduction of debt forgiveness have been stagnant since 1997, and food aid and emergency aid have increased at the expense of project-related grants, which have the largest potential impact on long-term growth.

9. Recent commitments by some non-HIPC developing Governments, notably India and the Libyan Arab Jamahiriya, to provide debt relief to heavily indebted poor countries has increased overall creditor participation but, for 13 of the 27 countries that so far have qualified for debt relief under the Initiative, it is still less than 90 per cent and for 5 of them less than 85 per cent,[6] owing in part to limited participation by commercial creditors and in part to financial constraints of low-income creditor countries, including other heavily indebted poor countries.[7] While the debt reduction facility of the International Development Association can provide

resources to reduce commercial debt, its remaining possibilities are limited. Moreover, commercial creditors may refuse to participate in buy-back operations and launch litigation proceedings, as has happened in the case of at least nine heavily indebted poor countries. Regarding measures to solve the problem of creditor participation, it has been suggested to establish a legal technical assistance facility to help such countries to discourage or deal with litigation, and to create a separate trust fund for clearing debts owed by countries that have themselves received debt cancellation from the Paris Club.[8]

10. Some of these concerns were echoed by the HIPC Ministerial Network at its ninth meeting, held in Dubai, United Arab Emirates, in September 2003.[9] The Ministers noted that the International Monetary Fund (IMF) macroeconomic frameworks and poverty reduction strategy papers remained insufficiently targeted on growth and the Millennium Development Goals, and that their excessive focus on reducing inflation meant that several countries had to reduce growth targets and anti-poverty spending even when long-term grants to fund budget deficits were available. They suggested that additional resources were necessary for heavily indebted poor countries to conduct poverty and social impact analyses of macroeconomic frameworks. Moreover, interest rate and exchange rate changes that have an impact on the calculation of the net present value of the debt overhang, as well as on growth and investment, should also be considered as external shocks and be taken into account in decisions on topping up debt relief at the completion point. The Ministers further urged that future IMF debt sustainability assessments should analyse domestic and private external debt in addition to that of the public sector, and that donors should give increased support to monitoring and reducing those debts.

11. The programme of action adopted at the launching of the HIPC Initiative in 1996 included a sunset clause to prevent the Initiative from becoming a permanent facility. Following three two-year extensions for the implementation of the Initiative in 1998, 2000 and 2002, the sunset clause will take effect at the end of 2004, and it is a challenge to bring the remaining 11 countries[10] to their decision point. At the summit meeting of the Group of Eight held in early June 2004, the commitment to fully implementing the HIPC Initiative and to supporting debt sustainability in the poorest countries through debt relief and grant financing was reiterated.[11] To that end, the boards of the World Bank and IMF are actively discussing the question of an extension of the Initiative.

12. To assist HIPC countries facing the challenge of ensuring that their debt remains sustainable while mobilizing the external resources needed to meet the Millennium Development Goals, the boards of the Bank and Fund recently discussed a proposed new framework for assessing debt sustainability in low-income countries.[12] The proposed new framework would involve an analysis of actual and projected external and public debt-burden indicators under a baseline scenario and in the face of plausible shocks, and be indicative of country-specific debt-burden thresholds for public and publicly guaranteed external debt. Creditors would need to consider more carefully their current lending policies, the need for low-income countries for additional resources to achieve the Millennium Development Goals. They may also wish to develop mechanisms to ease the impact of unforeseen, exogenous shocks. The modalities of implementing the proposed framework need to be clarified before it can become fully operational.

B. Debt restructuring at the Paris Club

13. As in previous years, the implementation of the enhanced HIPC Initiative was at the centre of Paris Club activities.[13] Six of the nine countries which concluded new agreements with the Paris Club between July 2003 and the end of June 2004 were heavily indebted poor countries. In some cases, non-Paris Club creditors joined the negotiations, such as Brazil in the case of Senegal and Gabon, Trinidad and Tobago in the case of Guyana, and Israel in the case of Nicaragua. The five countries that reached their completion point in 2004 obtained a reduction of their debt stocks as the share of the Paris Club in the total relief under the HIPC Initiative, and in all cases additional bilateral commitments were made by creditors to further bring down the debt burdens.

14. Honduras, which had reached the decision point under the HIPC Initiative in July 2000, obtained a debt restructuring under Cologne terms,[14] with about 10 per cent of its outstanding debt to Paris Club members being cancelled as interim relief and another 15 per cent being rescheduled. Burundi, a post-conflict HIPC-eligible country that has not yet reached the decision point, obtained debt rescheduling under the Naples terms with a reduction of net present value debt service by 67 per cent during the consolidation period.[15]

15. Among the countries not considered under the HIPC Initiative, the Dominican Republic, Gabon and Kenya came to the Paris Club in the first half of 2004. Debt service rescheduling was agreed under the classic terms[16] for both the Dominican Republic and Gabon.[17] Kenya reached a lengthening of repayment periods under the Houston terms[18] for about 70 per cent of the debt it owed to Paris Club creditors.

16. Kenya was the first country evaluated under the new Evian approach, initiated to resolve the debt problems of non-HIPC countries with greater flexibility.[19] Indeed, the debt situation of a number of non-HIPC developing countries is a reason for continued concern. At least 15 low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative had debt-to-export ratios during the period 2000-2002 that exceeded 150 per cent, that is, the ratio that is considered as sustainable under the Initiative.

17. The Evian approach makes a distinction between liquidity problems and medium- and long-term problems with debt sustainability, allowing debt to be treated in three stages. In the first stage, under an IMF programme, liquidity problems can be dealt with under existing arrangements for flow treatment, tailored to the debtor’s financing requirements and allowing for a rescheduling of debt service over one to three years, as in the case of Kenya. The second stage, for cases where debtors have medium- to long-term problems of debt sustainability, allows possible partial debt stock cancellation based on IMF debt sustainability analysis. Debtors will be treated on a case-by-case basis, with the possibility to move forward cut-off dates, which for many countries refer to the early 1980s. In the third and final stage, a phased exit treatment can be provided over the period of a second IMF programme, taking into account the debtor’s track record of economic policies and its payment record to Paris Club creditors.

IV. Debt management in developing countries and technical assistance

18. Concerns about debt management capacity in developing countries emerged with the debt crisis in the 1980s, when the United Nations Conference on Trade and Development (UNCTAD) and the Commonwealth Secretariat started to engage in technical assistance activities in this area. While the design of the original HIPC Initiative itself did not address capacity-building or technical assistance for debt management,[20] the launching of the Initiative led some donors to establish the HIPC Capacity-Building Programme in Debt Analysis.[21] In 2001, a set of guidelines for public debt management[22] was endorsed by the executive boards of IMF and the World Bank and gave rise to increased assistance from these institutions. At present, more than 100 countries benefit from international technical assistance in the area of debt management.

19. While the challenges differ across countries according to the stage of development of their domestic capital markets and their access to concessional finance or international capital markets, the main objective of debt management is to ensure that the government's financing needs are met at the lowest possible cost over the medium to long term. It also aims to ensure transparency and promote accountability. Since it is essential for governments to track debt-service obligations effectively so as to avoid costly penalties and make well-informed decisions about the amounts and terms of new borrowing, improvements in the monitoring of public and publicly guaranteed debt have been at the centre of efforts to strengthen the capacities of national debt-management agencies, whose effectiveness depends on a clear legal mandate, an appropriate disclosure policy, and stronger coordination of borrowing strategies with fiscal and monetary policies.

20. In many developing countries, especially low-income countries, the capacity to manage the maturity structure and currency composition of their debt still requires considerable improvement.[23] The linkages between budgetary and balance-of-payment considerations are being increasingly recognized, including in the context of the enhanced HIPC Initiative, and require an integrated asset-liability management. National borrowing and debt management strategies need to take into account the return on debt-financed investments, in terms of both future fiscal revenue and foreign exchange income, and the government's ability to hedge interest and exchange rate risk. Governments may be tempted to reduce interest costs by borrowing in foreign currency to finance domestic expenditure, incurring exchange rate risk. In addition, developing countries have been encouraged to develop domestic bond markets to raise funds through long-term fixed-interest securities denominated in local currency as an alternative to borrowing from abroad. While this may be a solution in some middle-income countries, there are serious structural constraints in many low-income countries, largely because of the limited depth and liquidity of their financial sectors, to reduce their reliance on external financing, in particular ODA.

21. Technical cooperation activities typically cover the provision of country-specific debt management software, and training and assistance in its use, for the creation and maintenance of complete and up-to-date debt statistics. Activities also include support in the development of appropriate institutional, administrative and human resource capacities for debt management, and assistance in debt analysis and the development of debt management strategies.

22. The possibility of creating a consultative group on external debt management[24] among donors, international and regional organizations and other providers of technical assistance in the area of debt management was raised at the Interregional Conference on Debt Management, held in Geneva in November 2003, which was organized by the UNCTAD Debt Management and Financial Analysis System (DMFAS) Programme. Subsequent to further consultations among UNCTAD, the World Bank, IMF and donors, it was proposed to hold an annual meeting of the consultative group in conjunction with other major events related to debt management issues, with the aim of facilitating cooperation and coordination among providers of technical assistance. The first such meeting is envisaged in connection with the next Interregional Debt Management Conference, to be held in June 2005.

V. Restructuring of sovereign debt to private creditors

23. In May 2003, Uruguay concluded a debt-swap operation, covering about $4 billion of external commercial debt and extending maturity without any reduction in principal or interest. During 2003 and the first half of 2004, two heavily indebted poor countries, Cameroon and the United Republic of Tanzania, completed debt buy-back operations supported by the IDA debt reduction facility and several developed country Governments.[25] Serbia and Montenegro reached an agreement on the restructuring of its debt with the London Club of commercial creditors, implying a more than $1.7 billion, or 62 per cent write-off.[26] By contrast, no solution has as yet been found for the restructuring of Argentine debt, indicating again the need for an appropriate international mechanism to deal with financial crises.

24. In the light of the experience of recent financial crises and disruptions in emerging market economies, several proposals to facilitate the restructuring of sovereign bond debt have been under discussion since 1998. However, the failure of proposals for the creation of a sovereign debt restructuring mechanism to generate consensus has shifted attention to collective action clauses and a code of conduct for private creditors and sovereign debtors.

25. During the latter part of 2003 and in early 2004, some emerging market borrowers, representing more than 75 per cent of the total value of bonds issued in that period, have included collective action clauses in their international sovereign bond issues under New York law. The inclusion of a collective action clause does not necessarily imply that it will always be invoked when debt restructuring becomes necessary. For example, Pakistan in 1999 restructured its international bonds without so invoking the clauses, preferring an offer for a voluntary exchange of outstanding bonds for new bonds under different terms, which was accepted by a majority of the bondholders. In mid-1999, Ecuador carried out a restructuring of its bond debt by inviting eight of the larger institutional holders of its bonds to join a consultative group which provided a formal communications mechanism. By contrast, in April 2000, Ukraine made use of the collective action clauses included in four of its international bonds, obtaining the agreement of 95 per cent of its bondholders; this operation implied a net gain for creditors relative to market value.[27]

26. Concerns that the inclusion of collective action clauses in bond issues might lead to an increase in the cost of borrowing for the issuer appear not to be warranted in the light of experience so far. A recent study shows that the inclusion of collective

action clauses in bond issues in the Euromarket did not influence secondary market yields as at early 2003.[28]

27. Currently, collective action clauses are only included in a part of new sovereign bond issues, but the full benefit insofar as debt restructuring can only be achieved when they are included in the entire stock of outstanding securities. This could take a substantial period of time unless the clauses are inserted in existing bonds, but there are major practical difficulties in such an approach. As a result, the International Monetary and Financial Committee of the Board of Governors of IMF and the Group of Seven have encouraged sovereign debtors and private creditors to continue their work on a voluntary code of conduct, which could provide a comprehensive non-statutory framework to address potential debt servicing problems while preserving to the largest extent possible contractual arrangements.[29] The Group of Twenty has established a technical group to prepare a draft code in cooperation with private sector representatives.[30] The intention of the code is to promote an early, voluntary dialogue between debtors and creditors on corrective policy and financial action to reduce the frequency and severity of crises, and to avoid disruptions and achieve more equitable burden-sharing in the process of crisis resolution. An early dialogue could also lead to a quick rehabilitation of debtors to restore market access.

VI. Conclusions

28. A further extension of the HIPC Initiative to allow all eligible countries to benefit would appear appropriate. The remaining HIPC-eligible countries are likely to require greater flexibility on the part of the international community, including an increased focus on clearing arrears prior to entering the Initiative, a larger reduction of debt ratios during the interim period and, in the case of post-conflict countries, increased disbursements for reconstruction and refugee displacement. The implementation of the Initiative could be enhanced by a further streamlining of conditionality, in particular the elimination of structural and microconditions that are not essential to growth and poverty alleviation, while poverty reduction strategy papers should be integrated into wider national development programmes that are focused on export diversification into the production of higher value-added products.

29. In the light of the emerging consensus that full implementation the HIPC Initiative will not remove the debt overhang in all beneficiary countries,[31] renewed efforts on the part of the international community will be required to help these countries to attain debt sustainability and the Millennium Development Goals. Since achieving and maintaining debt sustainability in the medium to long term also depends on the level and type of ODA provided in the future, there will be a need to increase grants to the poorest countries, in addition to those that are accounted for by debt forgiveness.

30. The need to link more closely debt policy with growth and development, to recognize the country-specific character of sustainability, to apply greater case-by-case flexibility in the setting and implementation of thresholds and to consider debt scenarios in the face of possible external shocks has been recognized in a joint proposal by the staff of IMF and the World Bank.[32] The proposal also recognizes that financial policies of donors that adequately reflect countries' risk of debt

distress would almost certainly require an increase in the overall concessionality of financing to low-income countries, including an increase in the volume of grants.[33]

31. Regarding debt sustainability analysis, a more conservative approach than in the past may be warranted. Considering debt to be sustainable as long as new finance is available for debt service payments runs the risk of contributing to the build-up of larger debt burdens in the future, while exposing the economies to sudden changes in market sentiment or in conditions in international capital markets, as has been the case in many of the recent financial crises. Increased attention should thus be given to the volatility of capital flows in national debt sustainability assessments.

32. Shifting attention from financial considerations to the interdependence between external financing and debt, on the one hand, and the performance of the real economy, on the other, would help to place the issue of debt sustainability in the context of longer-term development strategies. As is well documented, debt sustainability analysis based on traditional debt indicators has been subject to numerous methodological and forecasting problems, and experience with HIPC countries has shown that the growth assumptions tend to be overly optimistic. Moreover, these indicators do not capture a number of structural variables that bear on debt-servicing capacity. Such variables as the import content of exports, the structure of imports, the size of non-debt creating capital inflows, especially foreign direct investment (FDI) and ODA grants, and outflows of profit remittances have gained considerable importance as a result of changing patterns of external financing and emerging new international production structures. Policies related to real exchange rates can also have important implications for debt sustainability in certain countries, given their impact on the international competitiveness of domestic producers and the return on investments financed by external borrowing. The fundamental challenge remains to ensure that the borrowed funds are channelled to the most productive uses in order to generate fiscal revenue, and export supply capacity or import-substituting capacity, so as to avoid increasing dependence on new borrowing.

33. For debt financing to become an integral part of national development strategies, increased efforts should be made to strengthen the institutional linkages between debt management and decision-making with regard to the use of available external financial resources. The national public debt committees set up by several countries in the CFA franc Zone appear to be an important step in this direction.[34]

34. The dependence of many low-income countries on a small number of primary commodities makes them particularly vulnerable to external shocks, which, as experience with the HIPC Initiative has shown, can lead to unsustainable debt situations. The most comprehensive response to such shocks would be immediately disbursing grant contingency financing. Moreover, the efforts of developing countries to maintain debt sustainability would also be greatly facilitated by improved market access for their exports.

35. For the heavily indebted low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative, a satisfactory solution still remains to be found. The new Evian approach of the Paris Club, which aims at introducing greater flexibility in addressing the debt problems of non-HIPC countries, may be helpful in this regard and its possibilities should be fully explored. Since, however, many of these countries also carry a sizeable debt owed to private creditors, efforts need to

be continued to find an internationally agreed mechanism which addresses this problem and which could also help to prevent financial crises in the future and lead to more equitable burden sharing between debtors and creditors in crisis situations. In the absence of a statutory mechanism modelled on national bankruptcy legislation in developed countries, the inclusion of collective action clauses in bond contracts can play a positive role in orderly debt workouts in the long run, but should be complemented by an internationally sanctioned framework for standstills to be used when needed.[35]

Notes

[1] M. Goldstein and P. Turner, *Controlling Currency Mismatches in Emerging Markets*, Institute for International Economics, Washington, D.C., April 2004, p. 28.

[2] It is estimated that, on average, 65 per cent of all resources released by HIPC debt relief until early 2003 has been devoted to the social sectors, compared to 7 per cent for infrastructure. See World Bank, Operations Evaluation Department, *Debt Relief for the Poorest: An OED Review of the HIPC Initiative*, Washington, D.C., 2003, p. 34.

[3] United Nations Conference on Trade and Development, *Trade and Development Report, 1997* (United Nations publication, Sales No. E.97.II.D.8), part two, chap. V.

[4] World Bank, Operations Evaluation Department, *Debt Relief for the Poorest ...*, pp. 47-50.

[5] Organization for Economic Cooperation and Development, Development Assistance Committee, International Development Statistics online, http://www.oecd.org.

[6] Debt Relief International/Development Finance International, *Strategies for Financing Development*, No. 19, second quarter 2004, p. 8.

[7] International Development Association and International Monetary Fund, “Enhanced HIPC Initiative — creditor participation issues” (IDA/R2003-0058), Washington, D.C., 11 April 2003.

[8] Debt Relief International/Development Finance International, *Strategies for Financing Development*, No. 18, first quarter 2004, p. 3.

[9] Debt Relief International/Development Finance International, *Strategies for Financing Development*, No. 17, third quarter 2003, pp. 2-3.

[10] Burundi, Central African Republic, Comoros, Côte d’Ivoire, Republic of Congo, Lao People’s Democratic Republic, Liberia, Myanmar, Somalia, Sudan and Togo.

[11] “Debt sustainability for the poorest”, 10 June 2004 (see http://www.g8usa.gov/releases.htm).

[12] World Bank and International Monetary Fund, Development Committee, “Note on debt sustainability” (DC2004-0004), Washington, D.C., 14 April 2004.

[13] For more details on Paris Club agreements and procedures, see http://www.clubdeparis.org.

[14] For a discussion of the features of the Cologne terms of debt treatment by the Paris Club, see *World Economic and Social Survey 1999* (United Nations publication, Sales No. E.II.C.1), pp. 39-40.

[15] For an assessment of the effects of the Naples terms on developing country debt, see “Impact of the Naples terms”, in UNCTAD, *Trade and Development Report, 1995* (United Nations publication, Sales No. E.95.II.D.16), p. 51. For further discussion of the Naples terms of debt treatment, see *Trade and Development Report, 1996* (United Nations publication, Sales No. E.96.II.D.6) and *Trade and Development Report, 1997* (United Nations publication, Sales No. E.97.II.D.8).

[16] Classic terms are the standard terms applied to a debtor country which has an appropriate programme with the International Monetary Fund, showing the need for Paris Club debt relief.

[17] Progressive repayment of all credits over 12 years (Dominican Republic) or 14 years (Gabon).

[18] In September 1990, Paris Club creditors granted three enhancements to the classic terms for debt of the lower middle-income countries, which are known as “Houston terms” and can be implemented on a case-by-case basis: non-ODA repayment periods are lengthened to or beyond 15 years and ODA repayment periods are lengthened up to 20 years with a maximum of 10-years’ grace; ODA credits are rescheduled at a concessional rate; and debt swaps can be conducted on a bilateral and voluntary basis. See http://www.clubdeparis.org.

[19] Kenya was assessed under the Evian approach but, as noted in paragraph 15, only received a flow rescheduling under Houston terms since its external debt was considered to be sustainable.

[20] World Bank, Operations Evaluation Department, *Debt Relief for the Poorest ...*, p. 25.

[21] The Programme is executed by Debt Relief International in collaboration with regional institutions, such as the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, Pôle-Dette, the West African Institute for Financial and Economic Management, and the Centre for Latin American Monetary Studies.

[22] World Bank and International Monetary Fund, *Guidelines for Public Debt Management*, Washington, D.C., 2003.

[23] ____________, *Debt Sustainability in Low-Income Countries — Proposal for an Operational Framework and Policy Implications*, Washington, D.C., 3 February 2004.

[24] See paragraph 17 of General Assembly resolution 58/203.

[25] World Bank, *Global Development Finance 2004* (Washington, D.C., 2004), p. 65.

[26] Associated Press, 2 July 2004.

[27] International Monetary Fund, “International capital market developments — prospects and key policy issues” (Washington, D.C., September 2003), table 5.2.

[28] M. Gugiatti and A. Richards, “Do collective action clauses influence bond yields? New evidence from emerging markets”, Reserve Bank of Australia, Research Discussion Paper (RDP-2003-02), March 2003.

[29] International Monetary Fund Press Release No. 04/84 (24 April 2004) and statement of the Group of Seven finance ministers and central bank governors, Boca Raton, Florida, United States of America, 7 February 2004 (see http://www.g7.utoronto.ca/finance).

[30] International Monetary Fund, “Progress report to the International Monetary and Financial Committee on crisis resolution”, Washington, D.C., 20 April 2004.

[31] World Bank and International Monetary Fund, “Heavily Indebted Poor Countries (HIPC) Initiative — status of implementation”, Washington, D.C., 23 September 2003.

[32] ____________, *Debt Sustainability in Low-Income Countries ...*

[33] International Monetary Fund, “IMF discusses operational framework for debt sustainability in low-income countries”, in Public Information Notice No. 04/34, 5 April 2004.

[34] Debt Relief International and Development Finance International, *Strategies for Financing Development*, No.19, second quarter 2004, p. 4.

[35] United Nations Conference on Trade and Development, *Trade and Development Report, 2001* (United Nations publication, Sales No. E.01.II.D.10), chap. VI.

Annex

External debt of developing countries and countries in transition

(Billions of United States dollars)

	1990	2000	2001	2002	2003
All developing countries					
Total debt stocks	1351.9	2305.0	2266.7	2338.8	2433.3
Long-term debt	1101.3	1923.2	1862.5	1916.6	1960.3
Public and publicly guaranteed	1041.2	1376.5	1323.6	1376.3	1427.5
Private non-guaranteed	60.1	546.7	538.9	540.3	532.8
Short-term debt	216.0	323.3	329.0	326.4	364.3
Arrears	112.5	96.1	97.1	102.6	121.4
Interest arrears	52.7	32.8	35.4	37.5	43.8
Principal arrears	59.8	63.4	61.7	65.1	77.6
Debt service paid	149.7	380.4	376.4	372.9	372.6
Gross national income	3960.9	5849.1	5933.8	6012.4	6541.2
International reserves	199.0	730.2	811.0	996.9	1266.8
Debt indicators (percentage)					
Debt service/exports of goods and services	18.6	19.4	19.4	17.8	15.0
Total debt/exports of goods and services	167.6	117.3	116.5	111.4	98.2
Debt service/GNI	3.8	6.5	6.3	6.2	5.7
Total debt/GNI	34.1	39.4	38.2	38.9	36.8
Short-term/reserves	108.5	44.3	40.6	32.7	28.8
***Memo item*:**					
Total inward FDI stocks	274.4	1396.1	1578.6	1734.6	..
Total liabilities[a]	1626.3	3701.1	3845.4	4073.4	..
Total liabilities/GNI (percentage)	41.1	63.3	64.8	67.8	..
Total liabilities/XGS (percentage)[b]	201.6	188.4	197.7	193.9	..
Profit remittances on FDI	17.2	76.6	79.1	76.1	73.0
Profit remittances/XGS (percentage)[b]	2.1	3.9	4.1	3.6	3.4
Sub-Saharan Africa					
Total debt stocks	176.8	211.2	202.6	210.3	219.7
Long-term debt	149.6	171.4	164.6	174.2	183.8
Public and publicly guaranteed	144.4	160.0	152.1	161.7	167.7
Private non-guaranteed	5.3	11.4	12.5	12.5	16.1
Short-term debt	20.6	33.1	31.7	29.1	28.8
Arrears	27.2	40.0	41.3	38.4	39.5
Interest arrears	9.4	14.1	14.8	14.0	14.6
Principal arrears	17.8	25.8	26.5	24.4	24.9
Debt service paid	10.9	13.4	12.8	12.4	13.3

	1990	2000	2001	2002	2003
Gross national income	292.4	307.1	299.9	302.4	372.3
International reserves	15.4	36.8	37.0	37.8	38.6
Debt indicators (percentage)					
Debt service/exports of goods and services	13.4	11.0	11.0	10.6	9.8
Total debt/exports of goods and services	217.6	174.3	174.9	178.6	162.2
Debt service/GNI	3.7	4.4	4.3	4.1	3.6
Total debt/GNI	60.5	68.8	67.6	69.6	57.9
Short-term/reserves	134.0	89.9	85.6	76.9	74.6
***Memo item*:**					
Total inward FDI stocks	33.9	107.8	116.6	125.2	..
Total liabilities[a]	210.7	319.0	319.2	335.5	..
Total liabilities/GNI (percentage)	72.1	103.9	106.4	110.9	..
Total liabilities/XGS (percentage)[b]	259.4	263.2	275.6	284.9	..
Profit remittances on FDI	1.9	7.6	7.8	7.8	7.5
Profit remittances/XGS (percentage)[b]	2.4	6.3	6.7	6.6	6.0
Middle East and North Africa					
Total debt stocks	155.1	180.7	178.4	189.0	188.1
Long-term debt	120.6	140.9	139.0	148.9	148.5
Public and publicly guaranteed	119.1	134.3	132.4	142.4	143.1
Private non-guaranteed	1.5	6.5	6.6	6.5	5.3
Short-term debt	32.7	37.3	37.1	37.9	37.9
Arrears	11.1	13.7	14.4	15.4	15.4
Interest arrears	2.9	2.7	2.7	2.8	2.8
Principal arrears	8.2	11.1	11.7	12.5	12.6
Debt service paid	20.5	21.9	19.4	21.5	23.9
Gross national income	351.8	564.1	574.5	572.8	561.3
International reserves	30.6	72.4	79.7	96.3	112.3
Debt indicators (percentage)					
Debt service/exports of goods and services	14.5	10.1	9.3	9.6	9.6
Total debt/exports of goods and services	109.6	83.5	85.2	84.9	76.1
Debt service/GNI	5.8	3.9	3.4	3.7	4.2
Total debt/GNI	44.1	32.0	31.1	33.0	33.6
Short-term/reserves	106.8	51.5	46.5	39.4	33.7
***Memo item*:**					
Total inward FDI stocks	44.8	77.0	82.4	86.8	..
Total liabilities[a]	199.9	257.7	260.8	275.8	..
Total liabilities/GNI (percentage)	56.8	45.7	45.4	48.2	..
Total liabilities/XGS (percentage)[b]	141.3	119.1	124.6	123.8	..
Profit remittances on FDI	2.2	5.3	7.0	6.2	5.7
Profit remittances/XGS (percentage)[b]	1.6	2.4	3.4	2.8	3.2

	1990	2000	2001	2002	2003
Latin America and the Caribbean					
Total debt stocks	444.2	751.9	729.3	727.9	762.1
Long-term debt	352.5	639.7	615.9	613.9	626.0
Public and publicly guaranteed	327.4	394.9	374.9	385.0	402.6
Private non-guaranteed	25.0	244.8	241.0	229.0	223.3
Short-term debt	73.5	103.4	89.5	75.7	84.0
Arrears	50.0	5.6	3.1	16.9	35.6
Interest arrears	25.6	1.5	1.0	6.2	11.9
Principal arrears	24.5	4.1	2.0	10.7	23.8
Debt service paid	43.9	180.1	158.7	136.7	137.2
Gross national income	1053.8	1911.5	1847.7	1607.7	1654.5
International reserves	58.6	160.0	161.4	164.1	193.4
Debt indicators (percentage)					
Debt service/exports of goods and services	23.9	38.8	35.6	30.7	28.9
Total debt/exports of goods and services	241.2	162.2	163.8	163.7	160.6
Debt service/GNI	4.2	9.4	8.6	8.5	8.3
Total debt/GNI	42.2	39.3	39.5	45.3	46.1
Short-term/reserves	125.4	64.6	55.5	46.1	43.4
***Memo item*:**					
Total inward FDI stocks	99.9	516.3	599.1	642.8	..
Total liabilities[a]	544.2	1268.2	1328.4	1370.8	..
Total liabilities/GNI (percentage)	51.6	66.3	71.9	85.3	..
Total liabilities/XGS (percentage)[b]	295.5	273.5	298.3	308.3	..
Profit remittances on FDI	7.5	22.4	20.4	18.5	16.3
Profit remittances/XGS (percentage)[b]	4.1	4.8	4.6	4.2	3.9
East Asia and the Pacific					
Total debt stocks	234.1	497.3	501.3	497.4	514.7
Long-term debt	194.6	417.7	397.1	386.3	391.3
Public and publicly guaranteed	173.0	268.2	264.3	266.2	276.1
Private non-guaranteed	21.6	149.4	132.8	120.1	115.2
Short-term debt	37.4	63.2	90.8	99.5	112.1
Arrears	4.9	12.8	13.9	15.2	16.1
Interest arrears	1.9	5.3	6.4	7.3	8.2
Principal arrears	3.0	7.4	7.5	7.9	7.8
Debt service paid	31.2	72.9	77.1	86.3	73.5
Gross national income	655.4	1545.8	1622.4	1776.3	1891.9
International reserves	71.3	284.2	333.8	426.5	568.4
Debt indicators (percentage)					
Debt service/exports of goods and services	17.7	11.3	12.3	12.1	8.5
Total debt/exports of goods and services	133.0	77.4	79.7	69.6	59.6

	1990	2000	2001	2002	2003
Debt service/GNI	4.8	4.7	4.8	4.9	3.9
Total debt/GNI	35.7	32.2	30.9	28.0	26.3
Short-term/reserves	52.4	22.2	27.2	23.3	19.7
***Memo item*:**					
Total inward FDI stocks	88.2	519.8	571.7	629.9	..
Total liabilities[a]	322.3	1017.1	1073.0	1127.2	..
Total liabilities/GNI (percentage)	49.2	65.8	66.1	63.5	..
Total liabilities/XGS (percentage)[b]	183.1	158.3	170.5	157.6	..
Profit remittances on FDI	5.2	32.2	32.4	28.4	27.4
Profit remittances/XGS (percentage)[b]	2.9	5.0	5.2	4.0	3.6
South Asia					
Total debt stocks	124.4	159.9	156.3	168.3	171.3
Long-term debt	107.5	152.0	149.2	158.7	160.3
Public and publicly guaranteed	105.8	136.6	135.0	144.8	147.9
Private non-guaranteed	1.7	15.4	14.2	13.9	12.4
Short-term debt	12.3	6.0	4.9	7.2	8.4
Arrears	0.1	0.3	0.4	0.4	0.4
Interest arrears	0.0	0.1	0.1	0.1	0.1
Principal arrears	0.0	0.2	0.2	0.3	0.3
Debt service paid	11.3	15.4	13.9	17.5	21.4
Gross national income	394.5	588.2	607.2	636.8	757.8
International reserves	8.3	47.1	57.3	85.3	116.0
Debt indicators (percentage)					
Debt service/exports of goods and services	27.5	14.6	12.9	14.3	14.6
Total debt/exports of goods and services	303.0	151.0	145.0	136.8	116.7
Debt service/GNI	2.9	2.6	2.3	2.8	2.8
Total debt/GNI	31.5	27.2	25.7	26.4	22.8
Short-term/reserves	149.4	12.8	8.6	8.5	7.3
***Memo item*:**					
Total inward FDI stocks	4.5	29.4	31.7	36.2	..
Total liabilities[a]	128.9	189.4	188.0	204.6	..
Total liabilities/GNI (percentage)	32.7	32.2	31.0	32.1	..
Total liabilities/XGS (percentage)[b]	313.9	178.8	174.4	166.3	..
Profit remittances on FDI	0.1	2.6	3.4	3.2	3.1
Profit remittances/XGS (percentage)[b]	0.3	2.5	3.2	2.6	2.5
Europe and Central Asia					
Total debt stocks	217.2	503.9	498.9	545.8	577.4
Long-term debt	176.4	401.6	396.8	434.6	450.4
Public and publicly guaranteed	171.5	282.5	264.8	276.4	290.0
Private non-guaranteed	4.9	119.1	131.9	158.3	160.4

	1990	2000	2001	2002	2003
Short-term debt	39.5	80.4	75.0	77.0	93.2
Arrears	19.4	23.7	24.1	16.3	14.4
Interest arrears	13.0	9.0	10.3	7.0	6.2
Principal arrears	6.3	14.7	13.7	9.3	8.2
Debt service paid	31.9	76.7	94.6	98.5	103.3
Gross national income	1233.1	931.8	982.1	1118.1	1303.5
International reserves	..	129.7	141.7	186.8	238.1
Debt indicators (percentage)					
Debt service/exports of goods and services	0.0	18.5	21.7	20.7	17.1
Total debt/exports of goods and services	0.0	121.5	114.3	115.0	95.7
Debt service/GNI	2.6	8.2	9.6	8.8	7.9
Total debt/GNI	17.6	54.1	50.8	48.8	44.1
Short-term/reserves	..	62.0	52.9	41.2	39.1
***Memo item*:**					
Total inward FDI stocks	3.1	145.8	177.1	213.6	..
Total liabilities[a]	220.3	649.8	676.0	759.5	..
Total liabilities/GNI (percentage)	17.9	69.7	68.8	67.9	..
Total liabilities/XGS (percentage)[b]	..	156.6	154.9	159.9	..
Profit remittances on FDI	0.2	6.4	8.0	12.0	13.0
Profit remittances/XGS (percentage)[b]	..	1.5	1.8	2.5	2.3

Source: World Bank, *Global Development Finance 2004*, online database; and United Nations Conference on Trade and Development *World Investment Report 2003* (United Nations publication, Sales No. E.03.II.D.8).

Note: Foreign direct investment (FDI)
Gross national income (GNI)
Exports of goods and services (XGS)
Data unavailable (..)

[a] Total liabilities is the sum of total debt stocks and inward FDI stocks.

[b] Exports of goods and services.