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FINANCING AND EXTERNAL DEBT OF DEVELOPING COUNTRIES
1989 Survey

• The 1989 survey just published contains a wide-ranging factual and analytical review of the financial flows to developing countries and their debt situation, with a particular emphasis on poorer debtor countries. As well as the 35 aggregate analytical tables of flows, debt and debt service, the survey has some 140 individual debtor country tables showing the detailed composition of debt and debt service positions.

• At the aggregate level the survey shows:

• * The moderate recovery in total resource flows from all sources initiated in 1987-88 was confirmed in 1989 when total net flows increased by 4.5 per cent to $109 billion. Highlights of recent years include the steadiness of DAC bilateral official flows, a decline in non-DAC flows, marked increases in direct investment and small or negative amounts of net export credit finance. Bank lending in 1989 is largely made up of increased interest arrears.

• * The overall past build-up in outstanding debt has come to an end. Total external debt at end 1989 ($1.322 billion) remained unchanged from the end 1987 level. The external debt of the Western Hemisphere fell 3.5 per cent in 1989 to $463 billion. Total debt service payments which had increased 10 per cent in 1988 remained unchanged in 1989, at some $170 billion. Service payments in 1989 by the various categories of heavily indebted countries levelled off or declined from their 1988 level.

• * There is a growing diversity of situations in most regions and individual countries but chronic debt and finance problems continue to centre around Sub-Saharan African countries on the one hand and the middle-income countries, in particular in Latin America, on the other.

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• The survey takes stock of official debt relief action for poorer countries (e.g. Sub-Saharan Africa low-income countries or least developed countries) in recent years: in connection with the measurement of the debt burdens, the survey points to the need to consider all sources and uses of foreign exchange together.

• It is increasingly recognised that what is at stake in the debt strategy for poorer countries is not "solving the debt problem" but ensuring the financial and economic conditions for a resumption of growth and development. Regarding creditors' action, this calls for a combination of debt relief and increased concessional finance to sustain investment in the broadest sense, including investment in human resources, such as health and education increasingly perceived as a priority for sustained growth and development. A basic requirement for these approaches to succeed, however, or even to be warranted, is a strong commitment on the part of debtor countries to put in place the economic policies, both macroeconomic and microeconomic, that are the only basis for renewed and sustainable economic growth.

• In March 1989, the introduction of the Brady Plan brought a critical new element into the debt strategy, namely official support, both moral and financial, for debt reduction operations in highly-indebted middle-income countries with strong adjustment policies. This development has changed to an important degree the dynamics of the management of debt problems in potentially eligible countries and affected in different ways the perspectives of each of the three chief actors (debtor country, and official and private lenders).

• In the Latin American region, there has been a widespread change in economic policy thinking towards emphasising the need for restoring credibility and creditworthiness. There is a recognition that public intervention in the economy coupled with ineffective taxation regimes had generated a crisis in public finance which is at the root of both foreign and domestic debt problems. There is acute awareness of the need for outward-oriented economic and trade policies to enable the region to participate in the global evolution of an increasingly technologically-based world economy. There is a move towards the lowering of barriers against trade and foreign investment which these new strategies require.

• Referring to a background of capital shortage and high interest rates, the survey notes that the implications for capital-importing developing countries are twofold. First, there will be intensified financial pressure on countries which have not yet got their debt problems under control (although the financial terms of official development assistance to poorer countries -- which repesents the bulk of their resources -- are not affected by these changes). But second, and more fundamentally, high real interest rates will require developing countries (and indeed all countries) to allocate and use capital much more efficiently. This means that they must continue and even accelerate market-oriented economic reform programmes that will make their entire economies more efficient, including in particular, those extensive state sectors which lack proper economic and financial discipline.

• Journalists may obtain a copy of report from the OECD Press Division, 2, rue André Pascal, 75775 Paris Cedex 16 (tel. 45 24 80 87 or 80 88).

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