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U.S. Treasury Offers Update on Debt Relief, Highlights Debt-Equity Swaps

LADB Staff

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On March 12 at an international conference on the foreign debt issue in New York, US Assistant Secretary of the Treasury for International Affairs David Mulford, delivered a speech focused on the desirability of promoting debt-equity swaps in developing nations, and a progress report on overall debt relief. Mulford declared that the US Treasury is very supportive of promoting debt-equity swaps as a means for reducing Third World nations' outstanding debt, in addition to "opening up" the investment environment, and thus, improving growth prospects. He emphasized that when a debt-equity swap occurs, it results in a total elimination of debt service on the debt swapped, rather than just a portion of interest payments.

The Treasury official made the following statements related to debt relief and economic prospects for the world's largest debtor nations. Real growth for the 15 major debtor nations as a group is expected to average about 3.5% in 1987, the highest rate since 1980 and a significant improvement over the 3.5% decline in output in 1983. Debtor nation imports are also projected to increase by more than 3% in 1987, the best performance in six years, while export volumes should grow by about 3%, the best in three years. Despite recent price declines for oil and other commodities, gross domestic product (GDP) growth in most of the major debtor nations has kept pace with or exceeded the growth in total debt.

The ratio of interest payments to debt, which is key because it measures the capacity to service debt, has also improved substantially, with a projected ratio of 25% for the 15 major debtors in 1987, compared to 31% in 1982. Market interest rate reductions since the end of 1984 have provided over $14 billion in annual debt service savings to the debtor nations, while reschedulings and reductions in bank spread rates have provided substantial additional relief. Since October 1985 reschedulings by the Paris Club have provided $14.5 billion in relief for the 15 major debtor nations as a group, and reschedulings by commercial banks have provided longer maturities at lower rates on an additional $70 billion of outstanding debt.

The framework of the US debt relief initiative, known as Baker plan since it was introduced in October 1985 by Treasury Secretary James Baker, under the regime of a case-by-case basis continues to be the most widely accepted approach to the debt problem by both debtors and creditors. No workable and widely accepted alternative has been developed. The most significant change since the introduction of the Baker Plan has occurred in debtor attitudes.

The debtor nations are increasingly focusing on the importance of market-led growth, and adopting the reforms necessary to achieve it. These include steps to increase savings and investment, improve economic efficiency, privatize public enterprises, liberalize trade and investment policies, and reform tax and financial systems.
The International Monetary Fund (IMF) and the World Bank have provided strong support for the debtors' efforts since October 1985 by committing nearly $12 billion in new loans to the 15 major debtors. Progress on commercial bank lending has been slower to develop and by the end of 1986 was clearly inadequate. To some extent, this is due to the process involved: commercial bank loans only come into play after debtor reform programs have been developed and have in most cases received IMF and World Bank support.

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