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John Neagle

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by John Neagle
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On Sept. 18, in a letter to the policymaking committees of the International Monetary Fund and the World Bank, the Institute of International Finance (IIF) criticized the US debt strategy known as the Brady Plan. At a news conference, IIF managing director Horst Schulmann, who signed the letter, said the plan was "vulnerable" in part because it raised "unrealistic" expectations among debtor countries. As an example, he cited Venezuela which has demanded a 50% in debt principal, despite the fact that Caracas has billions in gold and currency reserves and large oil deposits. The IIF's 150 member-banks hold more than 80% of the loans to developing nations. The IMF and the World Bank are scheduled to hold joint meetings next week. Under the US debt strategy, the two multilateral organizations and Japan are providing limited financial guarantees as incentives for sales of discounted debt. The first such arrangements were recently completed with Mexico and the Philippines. Schulmann was also critical of a new IMF policy initiative which permits the Fund to make loans to countries that are in arrears to commercial banks. Earlier this year, the IMF approved a $53 million credit to Costa Rica. San Jose is still in arrears on payments to private banks. Next, although Argentina is $4 billion behind in debt service payments to commercial bank creditors, the IMF is considering a $1.5 billion loan to Buenos Aires. The letter to the policymaking committees said that countries enjoying trade surpluses should follow Japan's lead in shouldering more of the costs inherent in Third World debt relief strategies. The letter said, "Bank debt reduction will have to occur in the context of equitable burden sharing. Other surplus countries should follow the example of Japan by contributing to financial packages." Schulmann wrote that interest rates in the US and other industrial countries are "higher than they need be because of insufficient efforts to tackle budget deficits and an over-reliance on monetary policy." The letter asserted that the Brady plan is weak because it places "too much emphasis on bank debt reduction," while simultaneously failing to address capital flight and other problems. Next, the IIF recommended early implementation of the World Bank general capital increase and replenishment of the Bank's resources. Schulmann also issued an "urgent" call for an accord on the next IMF quota increase, a hike in IMF access limits, and for serious consideration of a special drawing rights (SDR) allocation for troubled regions with major economic potential. [Basic data from Kyodo (Japan), 09/18/89; New York Times, 09/19/89]

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