

9-18-1990

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Recommended Citation

Khol, Barbara. "Institute For International Finance Recommends I.m.f. Halt Lending To Debtor Nations Behind In Interest Payments." (1990). <https://digitalrepository.unm.edu/notisur/5264>

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Institute For International Finance Recommends I.m.f. Halt Lending To Debtor Nations Behind In Interest Payments

by Barbara Khol

Category/Department: General

Published: Tuesday, September 18, 1990

In a Sept. 17 letter to the International Monetary Fund, Institute for International Finance director Horst Schulmann recommended that the Fund stop lending to debtor nations as long as they continue to fall behind in interest payments to commercial banks. The Institute represents large commercial banks. Latin American nations' interest arrears increased dramatically in the past year, said Schulmann. He added that arrears to commercial banks rose to \$22 billion at the end of August from \$7 billion in March 1989. According to Schulmann, the rising arrears was a sign that financial relations between prosperous nations of the Organization for Economic Cooperation and Development (OECD) "and the rest of the world, are deteriorating." After mentioning movement toward market economies by the USSR and Eastern European nations, Schulmann said OECD nation commercial banks must receive profits from loans if capitalism is to work. At a press briefing, he told reporters, "There is no substitute for competitiveness and creditworthiness. The key determinants of creditworthiness are payments discipline and the sanctity of contracts." Next, Schulmann asserted that many nations with rising interest arrears in 1990 had trade surpluses, and should have been able to pay interest. According to Institute statistics, Brazilian interest arrears more than doubled to \$7.1 billion from 1989 to 1990, while Argentine arrears rose to \$7.2 billion from \$5.2 billion. The IIF director said a crucial test of IMF policy on arrears will be its decision on whether to provide a \$2 billion loan to Brazil. (Basic data from Knight-Ridder Financial, 09/17/90)

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