

FOREIGN NEWS REVIEW

THE DEVELOPING WORLD'S FOREIGN DEBTS

LATIN AMERICAN DEBT

Latin America's foreign debt stood at \$350 billion by the end of 1983, according to the July 2, issue of *TIME* magazine. The two heaviest debtors were Brazil (\$ 93.1 billion) and Mexico (\$ 89.8 billion), followed by Argentina (\$ 45.3 billion) and Venezuela (\$ 35.2 billion). Since the beginning of 1984 the pressure on both borrowers, and American Banks that lent most of the money, has grown sharply. A two percent jump in the interest rates has hit Latin American countries with a potential increase of \$ 5 billion in annual interest payments. Some

bigger US banks had taken "a beating" on Wall Street as investors grew worried whether these debts will ever be repaid. In *TIME*'S view "The danger is that the borrowers would walk away from their loans or attempt to bargain collectively for much easier terms, resulting in an international banking crisis".

The worsening debt squeeze is already sending shock waves directly to the profit statements of US banks. Though in the last week of June Argentina paid \$ 100 million in inter-

est as a good-will gesture, the country had yet to pay \$ 350 million that was almost three months overdue. There was speculation that this sum would go unpaid because Argentina's rejection of the IMF's austerity plan which could prevent the country from getting new loans. From July banks were expected to subtract the missing funds from their second-quarter profits.

One chance of raising the cash to pay off their loans was if the debtors could boost their export incomes sharply and raise the cash for paying loans. Argentina, for instance, faced \$ 5.5 billion in interest payments due this year, but its anticipated trade surplus was only \$ 3.2 billion. Latin leaders complain that protectionism in the US and Europe hampers their export sales. In June Brazil cut steel exports to the US by more than half from

TABLE 1 EXTERNAL PUBLIC DEBT AND DEBT SERVICE RATIO OF SELECTED DMCs, 1980-1982
(\$ million)

| Country | Debt Outstanding a | | | Service Payments | | | Debt Service Ratio (%) | | |
|------------------|--------------------|-----------------|------------------|------------------|-----------------|-----------------|------------------------|------------|------------|
| | 1980 | 1981 | 1982 | 1980 | 1981 | 1982 | 1980 | 1981 | 1982 |
| Bangladesh | 3,521.1 | 3,851.8 | 4,352.9 | 75.5 | 97.6 | 111.3 | 5.5 | 6.8 | 8.3 |
| Burma | 1,453.0 | 1,638.8 | 1,960.1 | 111.7 | 136.4 | 120.2 | 22.6 | 21.9b | 23.3b |
| China, Rep. of | 4,357.3 | 5,012.7 | 6,035.4 | 980.7 | 1,063.3 | 1,263.1 | 4.3 | 4.1 | 4.9 |
| Fiji | 174.3 | 198.9 | 234.3 | 19.0 | 22.5 | 24.5 | 3.2 | 4.1 | 4.5b |
| Hong Kong | 484.8 | 308.5 | 267.3 | 80.8 | 191.3 | 48.5 | 0.4c | 0.9 | 0.2 |
| India | 17,575.7 | 17,999.5 | 9,611.5 | 1,055.9 | 1,025.1 | 1,167.5 | 7.0 | 8.4 | 13.1 |
| Indonesia | 14,892.1 | 15,737.0 | 18,421.2 | 1,771.9 | 1,978.1 | 2,308.5 | 8.0 | 8.3 | 10.9b |
| Korea, Rep. of | 15,808.0 | 18,279.3 | 20,061.4 | 2,708.5 | 3,398.5 | 3,716.2 | 12.0 | 12.4 | 13.1 |
| Malaysia | 3,586.8 | 5,191.8 | 7,670.7 | 367.0 | 467.0 | 720.2 | 2.5 | 3.6 | 5.1 |
| Maldives | 24.8 | 36.9 | 45.1 | 0.3 | 0.7 | 1.6 | 2.9 | 4.6 | 9.4 |
| Nepal | 173.9 | 231.6 | 296.6 | 3.9 | 4.9 | 6.0 | 1.5 | 1.6 | 5.3 |
| Pakistan | 8,780.0 | 8,812.0 | 9,178.3 | 592.4 | 533.3 | 538.2 | 11.1 | 9.6 | 9.3 |
| Papua New Guinea | 510.3 | 629.0 | 748.0 | 61.3 | 68.1 | 84.5 | 5.8 | 7.0 | 10.2 |
| Phillipines | 6,463.9 | 7,577.6 | 8,836.0 | 585.3 | 850.3 | 1,029.0 | 7.2 | 9.9 | 13.2 |
| Singapore | 1,320.0 | 1,318.2 | 1,422.7 | 262.5 | 228.5 | 235.8 | 1.0 | 0.8 | 0.8 |
| Solomon Islands | 7.6 | 11.7 | 16.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| Sri Lanka | 1,327.4 | 1,594.5 | 1,833.6 | 81.5 | 90.9 | 135.1 | 5.5 | 5.7 | 10.1b |
| Thailand | 4,123.1 | 5,187.0 | 6,205.9 | 433.9 | 621.4 | 788.5 | 5.1 | 6.7 | 8.4 |
| Western Samoa | 55.0 | 56.5 | 60.5 | 4.6 | 3.5 | 2.8 | 17.0b | 21.8b | 17.5b |
| TOTAL | 84,629.1 | 93,673.1 | 107,257.5 | 9,196.7 | 10,781.5 | 12,301.6 | 5.4 | 5.9 | 6.9 |

0.0 denotes magnitude less than half of the unit employed

a Disbursed only.

b Exports of goods and non-factor services were used in computing the ratio.

c Merchandise exports was used in computing the ratio.

Sources: IBRD, February 1984 and country sources.

Source: Asian Development Bank, Annual Report, 1983.

TABLE 2 Debt Service Ratios for all Developing Countries, 1970-1982

| Country group | 1970 | 1980 | 1981 | 1982 a |
|--------------------------|------|------|------|--------|
| All developing countries | 13.5 | 13.6 | 16.3 | 20.7 |
| Low-income | | | | |
| Asia | 13.3 | 7.9 | 8.4 | 10.1 |
| Africa | 6.5 | 8.8 | 11.6 | 28.3 b |
| Middle-income | | | | |
| Oil importers | 14.0 | 14.9 | 18.0 | 23.0 |
| East Asia | 6.7 | 7.0 | 7.6 | 8.6 |
| Latin America | 13.0 | 33.3 | 39.6 | 53.2 |
| Oil exporters | 13.9 | 13.0 | 15.7 | 19.1 |

a. Estimated.
 b. The sharp rise in 1982 reflects the accumulation of arrears and does not allow for any rescheduling in 1982.

Source: *World Development Report 1983*

900,000 tons to 430,000 because of US Commerce Department import duties.

Latin leaders point out that largely because of interest payments, their financial resources are being drained away to countries like the US at the rate of about \$ 30 billion a year. This has become a kind of reverse foreign aid with the poor giving to the rich. The situation has brought criticism even from some American institutional investors.

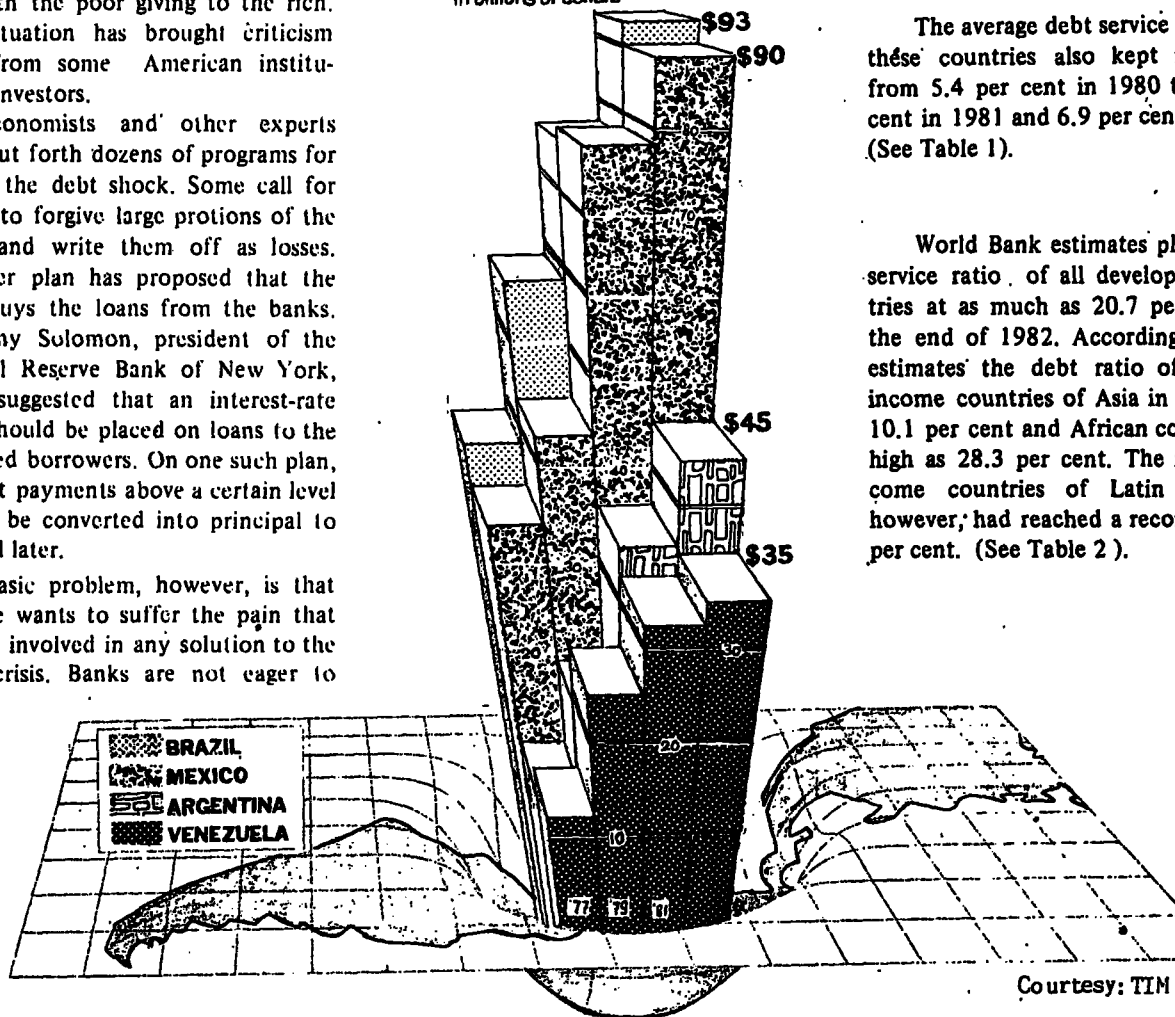
Economists and other experts have put forth dozens of programs for easing the debt shock. Some call for banks to forgive large portions of the loans and write them off as losses. Another plan has proposed that the IMF buys the loans from the banks. Anthony Solomon, president of the Federal Reserve Bank of New York, has suggested that an interest-rate limit should be placed on loans to the troubled borrowers. On one such plan, interest payments above a certain level would be converted into principal to be paid later.

The basic problem, however, is that no one wants to suffer the pain that will be involved in any solution to the debt crisis. Banks are not eager to

write off the bad loans and take the earnings loss, while governments in the developed countries are reluctant to halt economic growth just to please foreign money men, concludes TIME.

IN THE HOLE

Total external debt at year-end in billions of dollars



Courtesy: TIME

ASIA'S EXTERNAL DEBT

The external debt of 19 Asian countries by the end of 1982 had exceeded \$ 107 billion while debt services payments amounted to \$ 12.3bn. The heaviest debtors were South Korea (\$ 20.1bn) and Indonesia (\$ 18.4bn); followed by India (\$ 9.6bn) from \$ 18.0 bn the previous year, Pakistan (\$ 9.2 bn), Philippines (\$ 8.8bn) and Thailand (\$ 6.2bn). Sri Lanka was in the same league as Burma being close to \$ 2 billion.

The outstanding external debt in these 19 Asian countries had progressively moved up from \$ 84.6 bn at the end of 1980, to \$ 93.7 bn in 1981 and \$ 107.3 bn in 1982; while debt service payments were rising from \$ 9.2 bn in 1980 to \$ 10.8 bn in 1981 and \$ 12.3 bn in 1982.

The average debt service ratio for these countries also kept increasing from 5.4 per cent in 1980 to 5.9 per cent in 1981 and 6.9 per cent in 1982. (See Table 1).

World Bank estimates placed debt service ratio of all developing countries at as much as 20.7 per cent by the end of 1982. According to these estimates the debt ratio of the low income countries of Asia in 1982 was 10.1 per cent and African countries as high as 28.3 per cent. The middle-income countries of Latin America, however, had reached a record of 53.2 per cent. (See Table 2).