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External Debt Management and Macroeconomic Variables: Problems of African Countries in the 1980s 1/

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I. Introduction

The decade of the seventies has been characterized in the economic arena by four main events: the two rounds of unprecedented oil price increases in 1973/74 and 1979/80; the world economic recession; the steep rise in international interest rates; and the deterioration of the terms of trade of raw materials--the major exports of most non-oil developing countries. These factors, as well as other domestic factors, especially expansionary policies followed by most developing countries, have converged to create large and persistent current account deficits throughout the developing world. These deficits were financed largely through recourse to external borrowing which was facilitated by relatively easy access to external sources of financing under generally favorable capital market conditions during most of the 1970s. As a result, external indebtedness increased rapidly, and with rising interest rates, the external debt servicing reached high proportions. By the end of the 1970s and early 1980s, a world debt crisis emerged and many countries resorted to debt rescheduling.

The African countries 2/ did not escape the situation. This paper attempts to examine the policy aspects of the debt problem of these countries as it must be tackled in the 1980s. The main discussion will be preceded by a global view of the African debt problem as it has emerged. It will then be followed by some general considerations as to the objectives of a debt management policy and the implications for macroeconomic variables of such a policy. A last section will briefly deal with the role of the Fund in assisting member countries in the management of their debt problem.

II. Magnitude and Structure of External Debt

The economic and financial situation of most African countries was adversely affected by both external and domestic factors during the 1970s. 3/ The sharp increase in oil prices in 1973/74 and then in

1/ This paper was presented at a seminar on external debt problems of African countries organized by the African Center for Monetary Studies and held in Tunis, Tunisia in September, 1983.

2/ For a list of countries covered by this study, see Appendix I.

3/ See J.B. Zulu and S. Nsouli, "Adjustment Programs in Africa", DM/83/54.

1979/80 increased the import bills of most African countries and affected significantly their external situation. The world recession in the second half of the decade contributed to a decline in their exports which were also adversely affectd by the deterioration in the terms of trade, especially of raw materials. This adverse international environment was also associated with an expansionary policy adopted by many African countries which was reflected in their rising budgetary deficits and their inability to adapt to a deteriorating international economy. All these factors were the cause of the worsening economic and financial conditions in many African countries. This situation resulted in a decline in the average rate of growth from about 4 percent in 1973-76 to less than 2 percent by the end of the decade (Table 1). The rate of inflation also increased from 10 percent in 1973 to over 20 percent during 1979-81. The current account deficit of the balance of payments deteriorated sharply and rose from US$2 billion in 1973 to US$14 billion by 1980. The cumulative deficit over the period 1973-82 is estimated at almost US$100 billion.

To finance these large and growing external deficits, the African countries resorted to foreign borrowing which was facilitated, especially in the first half of the decade, by relatively easy access to external sources of financing, either on concessional terms or from the international financial markets.

As a result, and in common with other less developing countries 1/, external indebtedness of African countries has risen sharply. Between 1972 and 1982, there was a sevenfold increase in the outstanding public and publicly guaranteed debt (Table 2), 2/ representing an average annual rate of growth of about 22 percent--a rate considerably higher than that of either the GDP or the export of goods and services. The sharp increase in debt occurred mainly through 1978, in which year the net inflows, at US$12.3 billion, reached their peak; thereafter the net inflows declined gradually (the gross inflows reached their peak in 1980) until 1981 and were halved in the following year. Approximately three fourths of this debt is accounted for by eight major countries (with individual country debt in excess of US$3 billion), including two oil-producing countries (Algeria and Nigeria) (Table 3). The rate of expansion in the external debt of the African countries was more pronounced than for other developing countries, and than for even the three major borrowers (Argentina, Brazil, and Mexico), and by 1982 the total debt of the African countries represented slightly below 20 percent of the debt for all the developing countries (US$462 billion).

An important element in the growth of the debt has been the change in its structure, with a more rapid increase in borrowing from private

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1/ See IMF, External Indebtedness of Developing Countries. (Occasional Paper No. 3).

2/ Information on private nonguaranteed debt is not readily available. Accordingly, the statistical information in this paper relates only to the public and publicly guaranteed debt, which is estimated to represent about 80 percent of total outstanding external debt.

Table 1. Africa: Selected Economic Indicators, 1973-82 1/

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 2/
					(In billions of US dollars)					
Balance of payments										
Current account (excluding Algeria and Nigeria)	-2.4	-4.4	-8.9	-7.5	-7.7	-10.3	-11.2	-14.3	-15.5	-16.1
Current account (total)	-2.9	1.1	-10.5	-8.7	-11.9	-17.6	-9.9	-9.2	...	...
Exports of goods and services	20.3	35.7	34.7	39.9	47.2	49.0	66.1	85.6	77.3	71.1
Imports of goods and services	22.0	33.2	43.7	47.3	58.2	62.6	69.9	...	...	...
					(In percent)					
Economic growth	2.4	6.3	2.7	5.8	2.8	1.8	1.5	2.7	1.8	1.9
Inflation	9.9	17.1	15.8	16.6	24.3	18.9	22.3	23.3	25.8	16.3
Terms of trade	8.3	7.6	-12.2	7.2	17.6	-7.3	-0.4	-7.0	-6.0	-4.5

Sources: IMF, IFS; World Economic Outlook, Occasional Paper No. 9; World Bank, World Debt Tables; and staff estimates.

1/ Excluding South Africa.
2/ Estimates.

Table 2. External Debt and Debt Service of 42 African Countries, 1972-82

(In billions of U.S. dollars)

	1972	1978	1979	1980	1981	1982 1/	Average Rate of Change 1972-78	1978-82	1972-82
Africa 2/									
Debt outstanding (end of period)	12.2	57.2	69.2	77.3	81.8	86.2	29.4	10.8	21.6
Disbursements	2.5	15.7	15.9	16.7	16.7	15.0	35.8	-1.1	19.6
Amortization	1.0	3.4	4.5	6.5	7.4	9.4	22.6	28.9	25.1
Net flows	1.5	12.3	11.4	10.2	9.3	5.6	42.0	-17.9	14.1
Interest payments	0.4	2.2	3.2	4.2	4.8	5.9	32.9	28.0	30.9
Net transfers	1.1	10.1	8.2	6.0	4.5	-0.3	44.7	-23.6 3/	15.1 3/
Debt service	1.4	5.6	7.7	10.7	12.2	15.3	26.0	28.6	27.0
Debt outstanding/exports 4/	85.0	116.8	104.7	90.3	105.9	121.2			
Debt service ratio 4/	9.6	11.4	11.7	12.5	15.9	21.5			
Amortization	6.9	6.9	6.8	7.6	9.6	13.2			
Interest	2.7	4.5	4.9	4.9	6.3	8.3			
All developing countries 5/									
Debt outstanding	90.7	298.7	352.3	404.5	461.9	529.0	22.0	15.4	19.3
Debt service	12.0	47.9	62.3	70.4	93.1	94.0	25.9	18.4	21.4
Debt outstanding/exports	101.0	244.7	271.4	...	...	...			
Debt service ratio 4/	17.2	20.1	19.9	17.9	19.7	...			
Three largest borrowers 6/									
Debt outstanding	22.9	86.5	99.9	114.3	138.9	...	24.8	17.1	19.8
Debt service	3.9	18.6	24.9	25.7	30.2	...	29.7	17.5	22.7
Debt outstanding/exports	...	...	...	...	...	...			
Debt service ratio 4/	36.4	55.2	56.6	43.4	43.8	...			

Sources: World Bank, World Debt Tables, 1982-83 Edition; IMF, IFS; and staff estimates.
1/ Estimates.
2/ External public and publicly guaranteed debt.
3/ 1978-81, 1972-81.
4/ As a percentage of exports of goods and services, and private transfers.
5/ Figures include data for 98 countries, including private nonguaranteed debt.
6/ Argentina, Brazil, and Mexico.

Table 3. External Debt by Group of African Countries, 1972-82

	1972	1978	1979	1980	1981	1982 1/	1972	1978	1979	1980	1981	1982 1/
	(In billions of US dollars)						(In percent of exports) 2/					
I. Debt oustanding												
Major borrowers 3/	7.1	41.2	49.5	53.9	57.2	59.9	84.9	120.7	103.6	84.6	100.1	115.1
Middle income countries 4/	2.3	8.4	10.5	18..2	12.8	14.0	64.1	85.0	89.3	92.7	105.2	122.7
Low income countries 5/	2.8	7.6	9.2	11.2	11.8	12.3	108.7	134.8	138.2	150.9	188.0	208.9
Total	12.2	57.2	69.2	77.3	81.8	86.2	85.0	116.8	104.7	90.3	105.9	121.2
Oil exporters 6/	5.2	29.4	34.7	37.2	38.1	40.9	85.7	105.2	84.7	65.5	74.6	88.2
II. Debt service												
Major borrowers 3/	1.0	4.1	5.9	8.5	9.8	11.7	11.6	12.1	12.4	13.4	17.1	22.6
Middle income countries 4/	0.3	1.1	1.3	1.6	1.5	2.3	7.2	8.9	9.2	9.8	11.2	17.0
Low income countries 5/	0.1	0.4	0.5	0.6	0.9	1.3	6.4	7.3	7.0	8.1	14.6	21.5
Total	1.4	5.6	7.7	10.7	12.2	15.3	9.6	11.4	11.7	12.5	15.9	21.5
Oil exporters 6/	0.7	3.3	4.7	6.6	7.7	8.5	12.0	11.9	11.6	11.6	15.1	18.4

Sources: World Bank, World Debt Tables; and staff estimates.

1/ Estimates.
2/ Exports of goods and services, and private transfers.
3/ Algeria, Egypt, Ivory Coast, Morocco, Nigeria, Sudan, Tunisia, and Zaire.
4/ Figures include data for 14 countries.
5/ Figures include data for 20 countries.
6/ Algeria, Congo, Egypt, Gabon, Nigeria, and Tunisia.

sources, especially from financial markets, than from official sources. By the end of 1981 outstanding debt to private lenders represented 43 percent of the total compared to 35 percent in 1972 (Table 4). Debt to financial markets increased at an annual average rate of 33 percent over the period 1972-81, reaching 34 percent of total public debt, compared with 17 percent in 1972. By contrast, the share of suppliers' credit to public borrowers fell from 18 percent in 1972 to 9 percent in 1981. Loans from official sources, which constituted 65 percent of total debt by the end of 1972, represented 56 percent by the end of 1981. Within this category the share of multilateral creditors declined from 53 percent to 39 percent, while the share of bilateral creditors rose from 12 percent to 18 percent. A consequence of the falling share of official debt in the total has been a decline in the importance of concessional loans and a rise in the share of variable interest rate loans. For sub-Saharan Africa, in 1981, 38 percent of total public debt was concessional compared with 50 percent in 1972, while the proportion of variable interest rate loans rose from 4 percent to 20 percent of the total.

This change in the structure of debt during the 1970s resulted in a hardening of the borrowing terms, reflected in an increase in the average nominal interest rate and a shortening of the average maturity and grace periods. For sub-Saharan African countries, the average interest rate increased from 4.4 percent in 1972 to 10.1 percent in 1981; the average rate from private sources rose from 6.7 percent to 14.2 percent, respectively (Table 5). On the other hand, the average maturity declined from 20.4 years to 15.8 years; the grace period fell from 5.9 years to 4.3 years, and the grant element declined from 37.2 percent to 6.7 percent.

The change in the debt structure, combined with a steep rise in international interest rates, contributed to the sharp rise in debt service obligations of African countries. The slow growth in export earnings added to the debt servicing problems of most countries, resulting in an elevenfold increase in the debt service ratio; the share of total interest payments in the total debt service payments increased from 28 percent in 1972 to 39 percent in 1982 and was a main factor in the deterioration of the current account of the balance of payments.

III. External Debt Management

By definition, management of external debt should imply that the authorities concerned, in doing so, wish to achieve certain objectives, subject of course to the constraint that resources must be found to service such debt when due. In this context, the classical distinction between domestic (internal) debt of the country (or a Government) and external debt may usefully be recalled. A change in the outstanding internal debt of the Government merely represents a redistribution of resources among the present generation, while a change in the external

Table 4. Debt Structure of 42 African Countries, 1972-82

	1972	1978	1979	1980	1981	1982 1/	1972	1978	1979	1980	1981	1982 1/
	(In billions of U.S. dollars)						(In percent)					
Debt outstanding 2/	12.2	57.2	69.2	77.3	81.8	86.2	100.0	100.0	100.0	100.0	100.0	100.0
Official creditors	7.9	29.7	35.6	41.7	46.3	50.8	64.8	51.9	51.4	53.9	56.6	58.9
Multilateral	(6.4)	(20.8)	(24.8)	(28.9)	(31.6)	(34.2)	(52.5)	(36.4)	(35.8)	(37.4)	(38.6)	(39.7)
Bilateral	(1.6)	(8.9)	(10.8)	(12.8)	(14.7)	(16.6)	(12.3)	(15.5)	(15.6)	(16.5)	(18.0)	(19.2)
Private creditors	4.3	27.5	33.6	35.6	35.5	35.4	35.2	48.1	48.6	46.1	43.4	41.1
Suppliers	(2.2)	(7.9)	(9.0)	(8.4)	(7.7)	(...)	(18.0)	(13.8)	(13.0)	(10.9)	(9.4)	(...)
Financial markets	(2.1)	(19.6)	(24.6)	(27.2)	(27.8)	(...)	(17.2)	(34.3)	(35.6)	(35.2)	(34.0)	(...)
Proportion of disbursed debt 3/												
Concessional loans	49.6	40.4	38.0	38.2	37.9	...						
Variable interest rate loans	3.6	15.1	17.0	18.6	20.4	...						

Sources: World Bank, World Debt Tables, 1982-83 Edition; and staff estimates.

1/ Estimates.
2/ Public and publicly guaranteed debt.
3/ Africa, south of the Sahara.

Table 5. Average Terms of Debt Commitments, 1/ 1972-81

	1977	1978	1979	1980	1981
Interest (in percent)	4.4	6.6	8.1	7.3	10.1
Official creditors	3.1	3.8	4.4	3.8	5.2
Private creditors	6.7	9.3	11.1	12.5	14.2
Maturity (in years)	20.4	16.6	15.1	18.4	15.8
Official creditors	27.6	25.2	22.6	25.0	24.9
Private creditors	8.3	8.1	8.9	8.7	8.1
Grace period (in years)	5.9	4.6	4.3	5.0	4.3
Official creditors	7.8	6.5	5.8	6.5	5.9
Private creditors	2.6	2.8	3.1	2.8	2.9
Grant element (in percent)	37.2	23.3	14.5	22.3	6.7
Official creditors	52.1	45.1	38.3	44.9	34.8
Private creditors	11.9	1.8	-5.4	-11.4	-16.9

Source: Based on World Bank, World Debt Tables.

1/ Africa, south of the Sahara.

debt represents a redistribution of resources between generations with the future generation paying for the debts incurred by the present generation. Thus, when the authorities of a country decide to borrow externally to sustain the domestic level of demand (consumption or investment or both), they are making an implied decision to make the present generation, better off than the future one, which will have to repay those debts, unless, of course, the future returns from that borrowing more than compensate for its servicing (including amortization).

The initial objective (in the immediate post-independence period) of external borrowing in developing countries (as in Africa) was to supplement the rather small domestic savings to meet their larger investment requirements. In this perspective, there were two main interrelated elements of effective debt management: deciding on how much should a country borrow and what was its debt-servicing capacity. The former question was simply answered as being the difference between domestic investment and savings, provided that the level of investment was decided upon in the context of a comprehensive and feasible development plan. The debt servicing capacity, on the other hand, was related to such variables as the ratio of debt service to exports of goods and services, and the ratio of total debt to GDP, etc. But in this latter field there was no generally agreed limit as to the ratio beyond which the debt servicing could be regarded as a problem. Nevertheless, on the basis of various growth models, etc., the received wisdom 1/ was that in their debt management, countries must pay regard to their overall debt servicing capacity rather than to relate individual loans to the direct consequential flow of foreign exchange from the concerned project. In general, a debt servicing ratio of up to 15-20 percent of exports of goods and services was regarded as being manageable.

In practice, in the earlier days of development assistance, creditors tended to provide mainly project-related loans and subjected them to greater scrutiny as to their profitability and, in many cases, their capacity to service the debt. In addition, and certainly in the case of many African countries, rarely did the borrowing countries borrow abroad to meet the anticipated balance of payments deficits or to substitute external borrowing for domestic borrowing to meet budgetary needs. These practices together produced a consquence that the granting and utilization of external loans was judicious and the growth of external debt of African countries was slow enough not to outpace their debt servicing capacity. Thus, until about 1970, only two African countries (Ghana and Liberia) had encountered relatively serious debt servicing problems to require debt renegotiations. But these two cases were

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1/ For a survey of the literature, see G. Feder, "Economic Growth, Foreign Loans and Debt Servicing Capacity of Developing Countries", Journal of Development Studies, Vol. 16, April 1980; and D.C. McDonald, "Debt Capacity and Developing Country Borrowing: A Survey of the Literature", IMF Staff Papers, December 1982.

an exception to the abovementioned philosophy of debt management, they having attempted to push through several unviable development projects by obtaining "suppliers' credits," which tended to be unduly costly and did not rely upon serious feasibility analysis.

The objectives of debt management policy underwent substantial changes since the 1970s, especially after the first oil price shock of 1973, in response to the sharp decline in the African countries' terms of trade. A consequence of the latter (along with other factors) was that these countries faced increasingly large balance of payments (current account) deficits. On the other hand, reflecting the substantial surpluses of the oil-producing countries, the international financial markets (i.e., commercial banks) were replete with liquid funds that they were anxious to lend. The African countries, more than other developing countries, therefore resorted to external borrowing for the general purpose of meeting their current account deficits than to adjust to the permanent (foreseeable) decline in their terms of trade. As a result, external borrowing came to be increasingly divorced from developmental purposes; 1/ in fact, in the more recent period, countries indebted themselves even to pay the interest on their past indebtedness. As a result, along with increased indebtedness, even the current accounts of the balance of payments (in itself an indicator of the debt servicing capacity) showed deterioration. Thus, the present debt problem is a consequence of a combination of events and policy changes: a different appreciation by African countries of the role of external credit, expansionary domestic policies, a worsening of the terms of trade, world recession, and the increase in international interest rates. For a time, policymakers in these countries appear to have neglected the simple principle that contracted debt would need to be repaid and that individual countries have a limit to their creditworthiness and debt servicing capacity. This realization has come gradually as a number of African countries (12 countries, as at the end of 1982) have sought, and obtained, debt rescheduling. On the international scale, of course, the severity of the debt problem was underscored last year when the largest borrowers (Mexico, Brazil, and Argentina) declared their inability to service their indebtedness according to the original maturities.

What could be the objectives of a debt management policy in the 1980s? Given the existing size of the external debt, the present state of the international financial markets, and the general attitude toward aid in donor countries, a principal objective of debt management must be to reduce the debt servicing burden to a more supportable level over a medium term, and in the meantime to improve the present profile of debt service. These objectives could be achieved by one or a combination of the following:

1/ Commercial banks did tend to relate their loans to specific areas of development, but this relationship, at best, was loose and no follow-up procedures as to the utilization of those credits were instituted.

i) Amortizing existing debt at a rate higher than the rate at which new debt is contracted;

ii) Contracting new debt at only concessional terms, while amortization would also include nonconcessional loans; and

iii) Renegotiating, or restructuring, existing debt maturities so as to spread the debt servicing burden over a longer period and consistently with the debt servicing capacity of the country concerned.

1) <u>Net reduction in outstanding debt</u>

A net reduction in outstanding debt would require that a country generate a surplus of its own resources to make the payments. Viewed in this perspective, the present debt problem is akin to the famous post-Versailles Treaty problem of the German reparations on which Lord Keynes spent so much time and thought. In drawing this analogy, one can repeat Lord Keynes' plea that for a country to be able to make international payments, it must be allowed to earn foreign exchange and that the best way to do so is to keep the import markets of creditor countries open to exports from debtor countries. Also, while the nature of the present repayment problem may be similar, the possibilities for developing countries to generate some surplus are better than were available to post-World War I Germany. While in the recent past, there has been a regrettable shift toward protection, there still exist substantial possibilities for developing countries to expand their exports. Secondly, there is still a considerable inflow of capital into the developing world, thereby reducing the net burden of debt repayment. Nevertheless, under this alternative, the essential condition is that the country generate a surplus of savings over investment. In that sense, the present objective of debt management becomes contrary to the post-independence thinking, whereby external borrowing was to supplement domestic savings.

The consequences of net debt repayment for macroeconomic variables may be derived from the following simple model, where net debt repayment equals the difference between domestic savings and investment, and where output is determined according to a capital/output ratio, and savings propensity is related to gross national product (defined here as the difference between gross domestic product and the interest payments on external debt):

(1) $I_t = k \Delta Q_t$

(2) $S_t = sY_t$

(3) $Y_t = Q_t - iB = Y_o e^{gt}$

(4) $\Delta B = I_t - S_t$

where I = Investment

S = Domestic savings

Y = Gross national product (GNP)

s = Domestic savings/GNP

Q = Gross domestic product

k = Capital/output ratio

g = Rate of growth of GNP

i = Interest rate on external borrowing

$-\Delta B$ = Net reduction in external debt.

These four equations can be manipulated to yield

$$(5) \qquad Y = \frac{(1 - ik)}{(kg - s)} \Delta B$$

Thus, instead of external borrowing being dependent on the investment (or growth) requirements of the economy, in the immediate future the growth itself would be affected by the extent to which a country reduces its external debt. However, as equation (5) indicates, the negative effects on growth of debt repayments could be offset to the extent that a country either increases its savings propensity (s) or reduces the capital/output ratio (k) by increasing the efficiency of investment. Finally, the growth rate could also be increased were a country able to reduce the average interest rate on its external borrowing.

The above equation asserts that in the present day conditions, debt management must be conceived within a comprehensive and macro-policy framework, emphasizing the need to generate domestic savings, and to improve the efficiency of resource allocation. Furthermore, insofar as the surplus of domestic savings over investment must be transformed into foreign exchange, the debt managment problem is also related to the problem of generating current account surplus. Thus, the debt management problem coincides with the problem of managing the overall balance of payments, i.e., how to reduce the existing deficits in the current account, to what extent, and over what period. In the Fund, this problem is referred to as the problem of adjustment. The size and speed of adjustment is a function of both the severity of the debt servicing burden, and the availability of external finance during the adjustment period. But essentially, as evident from the above formula, the macro-variables constituting major elements of such an adjustment must relate to a reduction in the ratio of consumption (or increasing the savings ratio), improving the efficiency of allocation of resources toward more productive uses, and foreign exchange generating (or savings) projects.

The reduction in the consumption ratio is particularly relevant to Africa, where it approaches, if actually does not exceed, unity in many countries. This is because in these countries private consumption has been encouraged by policies such as consumer subsidies and controlled (low) consumer prices, and public consumption has also been increasing at a rapid rate. A common element running through almost all the African countries is the size of budgetary deficits. These deficits have generally been high and increasing and can be identified as the main causal factor for the present indebtedness and for the balance of payments difficulties. Accordingly, the size of the overall budget deficit (as a ratio of GDP) must be considered as one of the main macro-variables to adjust as a part of an appropriate debt management policy. Financing of budgetary deficits is also a relevant issue. Technically, a government may choose to finance its deficit by either internal (e.g., domestic bank) borrowing, or by external borrowing. But in many African countries, perhaps as a result of statutory limits on bank credit to Government, countries have tended to finance budgetary deficits by foreign borrowing, even when the related expenses to be financed were domestic ones, with consequent rise in the servicing problems. In the future greater prudence needs to be exercised in this regard.

However, a reduction in the budgetary deficits alone is unlikely to bring about the needed improvement, as by itself it would do little to promote exports and convert additional domestic savings into foreign exchange. Also, the consequences of the earlier expansionary policies on the domestic cost-price structure and the generally weak incentives to production must be reversed to encourage production and exports. Thus producer prices should be brought up to adequate levels, debilitating price controls must be removed or liberalized, and exports made more competitive. Thus, public authorities must adopt a more pragmatic view toward issues such as "maintenance of the purchasing power of the consumer," the exchange rate, interest rates, etc.

2) Changing the composition of debt

In undertaking an adjustment program, it is not being suggested that a country will not take new loans. As old debts are amortized, new ones will be undertaken. However, much greater attention must be paid to the terms of the new indebtedness, including the period of amortization and the interest rate. The terms should also be integrated with the existing servicing of debt so as to achieve a smooth curve of the debt servicing ratio. In general, if debt with longer grace periods and a larger grant element can be obtained while less concessional indebtedness is discharged, the debt profile could be improved. However, any new debt must be contracted within the framework of a medium-term strategy that aims (for countries already suffering from a heavy debt burden) at a systematic reduction in the debt service ratio over the period toward a sustainable balance of payments situation. It should be mentioned, perhaps, that a country may have little flexibility in choosing the credit terms, especially in respect of commercial credits when the terms tend to be related to the type of goods financed.

3) Debt renegotiation

As mentioned earlier, in the more recent past several countries have obtained debt rescheduling from both their official creditors as well as commercial banks. While in the early 1960s most debt rescheduling tended to be on a bilateral basis, increasingly thereafter such negotiations have been carried out within a multilateral framework; official debt is renegotiated within the "Paris Club" framework, while those to commercial banks tend to be rescheduled within the informal arrangements of the "London Club" or similar groupings. Table 6 indicates the countries in Africa that have renegotiated their debts since 1974.

The purpose of debt rescheduling must be to improve the debt profile, and to restructure debt repayments in conformity with the available resources. It must not be forgotten that debt is a contractual obligation that must be respected as far as possible and that debt rescheduling is an exceptional exercise meant to respond to exceptionally difficult circumstances. In that sense, countries seeking debt rescheduling should regard it as a one-time exercise and should attempt to present their case for debt rescheduling within a medium-term context, indicating the time period over which such debt rescheduling is required and how the rescheduled debt could in fact be serviced after the consolidation period. A short-term view of the debt problem (e.g., one year) could hide the difficulties that would emerge in the future when principal payments on rescheduled debt must be made along with interest payments.

A question may be raised: should a country also seek rescheduling of interest payments? As a general practice, commercial banks are unable to consider renegotiation of interest payments, while official creditors have granted consolidation of even the interest payments due. Insofar as accrued interest may be regarded as consumption, postponing such payments is equivalent to borrowing for consumption purposes and should, ideally, be avoided. However, if postponement of interest payments is secured, it should be regarded strictly as a balance of payments assistance and debtor entities (whether the Treasury, or state enterprises, or private organizations) must be forced to make those payments in local currencies which can then be blocked into a special account with the central bank.

Table 6. Multilateral Debt Renegotiations of African Countries, 1974-83

Year of agreement	Debtor country	Type of debt covered	Amount (In millions of US$)
1974	Ghana	P	...
1976	Zaire	P	270
1977	Sierra Leone	P	39
	Zaire	P	40
1978	Gabon	P	63
1979	Sudan	P	487
	Togo	P	260
	Zaire	P	1,040
1980	Liberia	P	35
	Sierra Leone	P	37
	Togo	C	69
	Zaire	C	409
1981	C.A.R.	P	72
	Liberia	P	30
	Madagascar	P, C	140;147
	Senegal	P	75
	Sudan	C	115
	Togo	P	239
	Uganda	P	30
	Zaire	P	500
1982	Liberia	C	27
	Madagascar	P	107
	Malawi	P	25
	Senegal	P, C	74;77
	Sudan	P	80
	Uganda	P	19
1983	Central African Republic	P	13
	Madagascar	C	145
	Malawi	C	47
	Morocco	P, C	...
	Nigeria	C	1,830
	Senegal	C	...
	Sudan	P, C	536;646
	Togo	P, C	300;83
	Zambia	P, C	375;75

Sources: World Bank, World Debt Tables; Finance and Development, September 1983; IMF, Recent Multilateral Debt Restructurings with Official and Bank Creditors, Occasional Paper No. 25, 1983.
P: Paris Club Agreements.
C: Commercial Bank Agreements.

IV. Role of the IMF

As mentioned, debt renegotiations are now carried on within multilateral frameworks. In addition, new official assistance (whether project-related or exceptional balance of payments aid) is increasingly coordinated through consultative group meetings chaired by the World Bank. The role of the IMF in these international efforts to ease the burden of debt service has become crucial. The Paris Club requires that a country enter into a stand-by arrangement with the Fund before it will meet to consider a country's request for debt renegotiations. Commercial banks also demand a similar arrangement. The rationale for this practice is to be found in the observation made above that any debt rescheduling exercise must be accompanied by the demonstration that the country would be able to repay the rescheduling debt i.e. it would have achieved sustainability in the balance of payments through domestic adjustment measures. In that sense, the Fund plays an active role in assessing, for creditor countries and aid donors, a country's existing policy posture as well as the present and prospective balance of payments situation. More recently, the Fund itself has required, in certain cases, that sufficient external finance be available (through debt rescheduling and exceptional balance of payments assistance) before it will approve a stand-by arrangement or release funds under an approved arrangement. In this latest stipulation, the Fund has wished to be assured that the adjustment program will not be endangered for want of the implied external finance considered as the minimum necessary for that degree of adjustment.

The above approach has generally proven to be effective and it continues to be the appropriate normal policy response in such circumstances. However, in the recent past, there have been a limited number of situations where the Fund has assumed a more direct coordinating role than has normally been the case. The emergence of debt servicing difficulties for certain major debtors had led to a situation where failure to address quickly their liquidity problems would have had potentially adverse implications, not only for the success of their own adjustment efforts but, more broadly, for the stable functioning of the international financial system. This danger arose because of the possibility that in the present uncertain lending environment, a lack of banking confidence stemming from unresolved problems of one or two major debtors might spread to other debtors in a manner which could prove difficult to control. In view of these debtors' financial and liquidity problems, the Fund proved to be in a unique position to coordinate effectively the responses of the parties involved. In particular, Fund management and staff, in addition to playing their traditional role of explaining to lenders the implications of the adjustment efforts which the authorities had succeeded in implementing, also stressed the importance, in concert with major creditors, of ensuring sufficient additional net external financing in support of these efforts. Moreover, in view of the urgent need to promptly put in place an adjustment program which was perceived as viable and at a time when Fund initiatives can be most effective, Fund management indicated that support from the Fund for the member was conditional on receiving from creditors prior explicit assurances concerning their lending activities in the period ahead. In the case of inflows from commercial banks, through interaction with banks steering committees, written commitments were obtained regarding the maintenance of existing exposure as well as new amounts of medium-term financing. In these latter instances, the positive attitude taken by a number of domestic banks regulatory authorities toward an increased exposure of banks within their jurisdiction vis-à-vis the debtor countries having programs with the Fund is noteworthy.

V. Conclusion

The paper has tried to show that with the present high indebtedness of African countries, the traditional approach to external borrowing as filling the gap between domestic investment and savings is not valid at least in the immediate medium term and that these countries must adjust policies to provide for some net outflow of external resources until the debt service ratio is brought down to sustainable levels. To minimize the negative impact on growth, such an adjustment must be comprehensive, aiming at improving the savings rate in the economy, at augmenting the efficiency of investment, and at improving the allocation of resources. With appropriate adjustment policies the countries can also further rearrange debt repayment, and attract external assistance, so as to minimize the adverse effects of the necessary capital outflow implied in the basic proposition that these countries must reduce their external indebtedness. In this latter aspect, the paper emphasized the role of the International Monetary Fund, both in helping countries to design an adjustment program and in helping attract external assistance to support such a program.

The immediate net debt repayment period, if managed within an adequate adjustment framework, needs last only for a limited period, whereafter African countries can once again become net importers of capital to supplement their savings to meet the investment requirement. But hopefully lessons would have been learnt that external borrowing needs to be incurred prudently and, certainly, not to finance consumption.

African Countries Covered by this Study

Algeria
Benin
Botswana
Burundi
Cameroon
Central African Republic
Chad
Comoros
Congo
Egypt
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Ivory Coast
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Niger
Nigeria
Rwanda
Senegal
Seychelles
Sierra Leone
Somalia
Sudan
Swaziland
Tanzania
Togo
Tunisia
Uganda
Upper Volta
Zaire
Zambia
Zimbabwe