SM/83/45
Correction 1

CONTAINS CONFIDENTIAL INFORMATION

April 15, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Fund Policies and External Debt Servicing Problems

The following corrections have been made in SM/83/45 (3/8/83):

Page 31, first full para., line 8: for "in 21 out of" read "in 22 out of"

line 12: for "21 programs" read "22 programs"

footnote 1, lines 1 and 2: for "Argentina, Brazil, and the Philippines submitted...all employed" read "Argentina and Brazil submitted... both employed"

footnote 2, lines 1 and 2: for "Argentina, Brazil, and the Philippines already referred" read "Argentina and Brazil already referred"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

compared to earlier periods. 1/ The ceiling in about three quarters of the program was set at a single annual limit; most of the instances where semiannual or quarterly limits were employed involved use of the disbursed debt approach and were closely linked to expected intrayear movements in public finance or external current account variables.

In about 60 per cent of programs containing only one overall ceiling (43 per cent of all programs), the maturity coverage of the ceiling was concentrated in the range between 1 and 10 to 12 years. Where subceilings were employed, the most commonly used maturity combination was 1-12/1-5 years or 1-10/1-5 years, although a number of programs involved different maturity variants. Coverage of short-term (i.e., of under one year maturity) debt was included relatively infrequently, in 22 out of 110 programs; as in the case of ceilings on disbursed debt, the inclusion of short-term debt (which occurred most frequently in Central American or Latin American programs) became somewhat more common in the recent past, especially in 1982. 2/ Of the 22 programs, however, only four provided for a specific limit on short-term debt only.

Apart from the exclusion of concessional loans from the coverage of the performance criterion, just over half of the programs involved other exclusions. The most common additional exclusion involved different types of restructuring or refinancing loans; in some instances, the excluded loans were defined as those associated specifically with debt rescheduling exercises envisaged as part of the adjustment program, while in others, the nature of the refinancing loans involved or the context in which they might be obtained was not specified. The other exclusions covered a wide range of loan types; in some cases, the staff explained that there was considerable uncertainty present as regards the timing of the contracting/disbursement of the loan as well as the amounts that might be involved.

Finally, during the three-year period 1979-81, the performance criterion relating to external debt limitations was not observed on relatively few occasions, in 7 out of 68 programs. The average mean rate of utilization of the debt ceiling was about 55 per cent in the case of the overall ceiling and either 0 or 35 per cent (depending on whether the mean or the median is considered) for the subceiling. In a significant number of programs, zero debt was contracted (especially in the subceiling maturity range) although very few programs had specified a zero limit for the ceiling itself.

1/ It may be noted that the recent programs for Argentina and Brazil submitted to the Board in early 1983 both employed the disbursement approach.

2/ In addition, the 1983 programs for Argentina and Brazil already referred to provide for external borrowing limitations which include short-term debt.

(ii). Trends in selected debt indicators for program countries

As a background to considering the possible overall impact of ceilings on foreign borrowing, it is useful to examine comparative trends in selected debt indicators of members during the period in which they adopted programs. In the case of programs approved during the period 1979-81, there was on average a marked tendency for the rate of growth of total outstanding (including undisbursed) debt other than from multilateral sources to slow down sharply (Chart 2). This trend was especially noticeable in the case of debt owed to private creditors, the rate of growth of which for all programs on average declined from an annual average rate of 18 per cent in the three-year period prior to the program to 1 per cent during the program period. Correspondingly, there was a decline during the program period, in the proportion of total new commitments accounted for by loans from private creditors. However, the average maturity of total new commitments tended not to have changed to any significant extent and the mean interest rate on new commitments for the program group on average rose by about one percentage point.

It cannot be concluded necessarily, however, that the above trends reflected the restraining impact of the debt ceiling itself, since factors influencing the supply of funds may also have played an important role; for example, a slowdown in the rate of increase in debt may have partly reflected a general increased reluctance on the part of lenders to lend to developing countries. In addition, for program countries, unwillingness on the part of lenders is likely to have been more marked--a situation consistent with the general tendency to utilize on average significantly less than 100 per cent of the programmed debt ceilings. The evidence summarized in Chart 2 suggests that insofar as the indicators relating to total nonmultilateral debt and the average terms of new commitments are concerned, trends for the program group on average tended to mirror those experienced by non-oil developing countries in general. However, the reduction in the rate of growth of private debt as well as in the relative share of commitments from private sources observed in program countries appears to have been much more marked than that for all non-oil LDCs.

No inferences should be drawn from the above highly aggregative information as regards the outcome experienced by any individual member. However, considering the entire program country group, the program period appears to have been associated with a significantly reduced emphasis on recourse to nonconcessional debt. In some instances, this outcome is likely to have been influenced by the restraining effect of the external borrowing ceiling. However, the generally low rate of utilization of the ceilings, as well as the fact that qualitatively similar trends were experienced by other countries during corresponding time periods, suggests that lender attitudes toward non-oil developing countries in general and the program countries in particular also played an important role.