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To: Members of the Executive Board

From: The Secretary

Subject: The Use of Limits on External Debt in Fund Arrangements

The attached paper reviews issues in and experience with debt limits in Fund arrangements over the period 1983 through 1987. It provides background material for the forthcoming Board discussion on conditionality (EBS/88/50, 3/2/88), which will be brought to the agenda for discussion on a date to be announced.

Ms. Dillon (ext. 8313) or Mr. Braz (ext. 8320) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

The Use of Limits on External Debt in Fund Arrangements

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(in consultation with other departments)

Approved by L.A. Whittome

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I. Introduction

A specific guideline governing performance criteria on foreign borrowing was adopted by the Executive Board in 1979 in the context of a general discussion of issues relating to external debt management (see SM/79/125; 5/11/79). 1/ This discussion emphasized the need to ensure consistency between external debt management policies and domestic financial policies in formulating external debt criteria. The guideline, which summarized practices to be followed in the design of limits on external debt, was intended to safeguard the principle of uniformity of treatment among members, yet permit sufficient flexibility in responding to the diverse problems and institutional arrangements of members. In a subsequent review of issues of external indebtedness in 1983, the Executive Board, considered, inter alia, the experience with the use of debt limits in Fund arrangements, discussed policy issues that had arisen from this experience, and supported several practices that had evolved in response to changes in conditions in world capital markets and in light of the debt-servicing difficulties that had been encountered by member countries (see SM/83/45; 3/8/83). 2/

Since 1983 the specification of external debt limits as performance criteria in stand-by and extended arrangements has become a universal practice. At the same time, the design of these criteria has involved a greater variety of features than had previously been the case; this reflects efforts to adapt the form of these limits to the debt management systems and statistical capabilities of members and, with the outbreak of widespread payments difficulties and the prevalence of rescheduling and concerted finance, to accommodate the varied program objectives of members facing substantially different circumstances.

This paper reviews current practices with regard to the design and application of limits on external debt. The plan of the paper is as follows: Section II discusses the rationale for the use of limits on external debt and, for countries that have experienced debt-servicing difficulties, explores how the role played by debt limits should change as the country first encounters and then seeks to overcome these difficulties. Section III reviews the range of forms and features of external debt limits, setting out the design choices available and explaining how limits may be adapted to suit a country's circumstances and, in the context of a Fund arrangement, how limits may be integrated with other performance criteria being employed. A brief review of the experience with the use of debt limits in Fund stand-by and extended arrangements over the period 1983-1987 is provided in Annex III.

1/ The guideline is reproduced in Annex I.
2/ The Chairman's Summing Up is reproduced in Annex II.

II. The Rationale for External Debt Limits in Fund Arrangements

1. The general case

When properly used, borrowed external resources can greatly benefit the borrowing country and contribute to its growth. In the absence of foreign borrowing and nondebt-creating capital flows and given a country's resource endowment, output and growth depend on its propensity to save and the efficiency of its investment and economic structure. In contrast, external finance permits additional resources to be transferred to an economy and is desirable when these resources are used to finance investment that is expected to yield a return in excess of debt service requirements or, in conjunction with reserve management, to smooth consumption at a sustainable level in the face of an uneven aggregate supply. Borrowing properly used can provide higher growth rates and more stable consumption patterns than could otherwise be attained.

These considerations imply that in formulating debt management policies, and in setting limits on external debt in Fund-supported adjustment programs, it is important to maintain consistency among macroeconomic objectives (e.g., growth, inflation, and the balance of payments) as well as to formulate debt management policy in the context of a medium-term strategy. Given an economy's productive and absorptive capacity, there is a level of aggregate demand that is broadly consistent with the attainment of macroeconomic objectives. Excessive domestic credit creation endangers these objectives by creating financial imbalances which boost aggregate demand. When external finance is available, these imbalances may come to be reflected in a growing gap between expenditure and output. As domestic imbalances build up, some of the consequences of these imbalances--price pressures, reserve loss, or pressure on the exchange rate--can be forestalled as the availability of foreign resources accommodates the level of aggregate demand. The possibility that domestic imbalances may be sustained in the short run by undue recourse to foreign financing underscores the general desirability of ensuring that the flow of total--i.e., domestic and foreign--financial resources is compatible with macroeconomic objectives. From this perspective, it is clear that member countries should complement the control of domestic credit creation with suitable monitoring of external borrowing. In Fund arrangements, it is necessary to complement limits on domestic credit with similar criteria on external borrowing.

These considerations not only indicate the need for consistency between external debt management and domestic financial policies, but bring out as well the close relationship between external debt and international reserve management. Not only is it important that the level of aggregate demand, and its reflection in the current account, be appropriate, but also that the resource transfer embodied in the current account position be financed within the context of an overall portfolio management strategy. Foreign borrowing provides an alternative to the use of international reserves or reliance upon other nondebt-creating capital flows in the financing of resource transfers. Portfolio management, in this broad sense, involves weighing the interest and other costs of each form of finance against the vulnerability posed with respect to international reserve and debt-servicing problems. Foreign borrowing guidelines can play an important role in avoiding an inappropriate financing mix and inappropriate terms for debt service.

While external borrowing policy should be consistent with macroeconomic policy objectives and portfolio balance considerations, it must also be formulated in the context of a medium-term strategy. At issue is how foreign borrowing can best be used to promote high and stable rates of economic growth in the long run, while at the same time ensuring that the use of borrowed funds--in conjunction with other policies--generates an adequate future stream of resources. While there need be no direct financial link between the use of borrowed resources and the later debt service payments resulting from the borrowing itself, the yield must sufficiently enhance the country's economic base so as to permit a timely servicing of the foreign liabilities incurred. In practice, fulfilling this prescription requires coordinating the management of several major areas of economic policymaking that have a bearing on debt-servicing needs and capabilities. Unless circumstances specifically warrant the temporary smoothing of consumption, care must be taken to ensure that foreign savings supplement--rather than substitute for--domestic savings to prevent the equivalent in resources from being in effect channeled toward consumption or capital flight.

As has already been mentioned, investment financed by foreign borrowing must provide an economic return sufficient to justify the cost of borrowing. Government authorities are generally concerned with the application of this guideline in the evaluation of projects in the public rather than the private sector, since it is assumed that its application in private commercial activities is handled by market forces. However, appropriate investment decisions that are consistent with debt management objectives can only be made in an economic environment that is not unduly distorted by inappropriate pricing and exchange rate policies. A project that appears to be remunerative in the planning stage when distortions exist may prove not to be so in the absence of distortions.

The avoidance or prompt correction of incorrect signals to investment--such as overvalued exchange rates, inappropriate administered prices, tariffs protecting inefficient industries, and subsidized and misdirected domestic credit--can improve substantially the chances that funds borrowed externally will be used productively. The chance that changes in external circumstances, such as unforeseen increases in interest rates or declines in export prices, may heighten the burden of debt service obligations suggests that uncertainty will remain an important element in debt management. The need to provide a margin for such circumstances only serves to underscore that external debt guidelines should be accompanied by realistic domestic policies.

2. Debt limits in the context of debt-servicing difficulties

Debt management should be an ongoing process which, if successful, helps to avoid the emergence of debt-servicing difficulties. In recognition of the importance of debt management and in an attempt to assist member countries improve their debt management capabilities, Article IV consultations have increasingly focused, in recent years, on the external debt situation and debt management policies. In the context of the consultation process, the Fund encourages member countries with unsustainable imbalances to undertake adjustment efforts, and if necessary seek support from the Fund at a point sufficiently early to permit orderly adjustment with a minimum of economic dislocation. The careful control of external borrowing during the process of adjustment can contribute importantly to the attainment of these objectives. Quantified foreign borrowing limits should be established in conjunction with a program of macroeconomic reforms with the aim that foreign financing not substitute for adjustment and these limits should indicate a borrowing path that will be sustainable over the medium term.

While prompt, pre-emptive action would lessen the costs of adjustment, it has too often been the case that imbalances have not been identified and redressed in a sufficiently timely manner to prevent the emergence of payments difficulties or the perception that such difficulties were imminent. For an adjustment effort initiated at this juncture, the worsening economic situation complicates debt management policy and poses additional challenges in the design of debt limits in a Fund-supported program. Often the country will be experiencing an unsustainable current account deficit, an associated excessive growth in external debt and debt service, and a deteriorating maturity structure of debt; at the same time, as the country's creditworthiness erodes, capital inflow may lessen, borrowing terms harden, and access to certain types of external credits begin to disappear.

In such circumstances, adherence to borrowing limits, in conjunction with the implementation of appropriate macroeconomic policies, is vital if a further intensification of debt-servicing difficulties is to be avoided and if creditor confidence is to be restored without first undergoing a rescheduling of external debt. If the availability of capital flows can be sustained, prospects are improved for an adjustment process that is policy directed and orderly. Such considerations reinforce the need to pay attention not only to the amounts to be borrowed from abroad but also, at this stage, to their terms, especially if the amortization schedule of outstanding debt is already heavily concentrated in the upcoming years.

As experience clearly shows, the monitoring of external debt alone, whether or not in the context of a Fund-supported program, cannot provide a complete guarantee against the emergence of debt-servicing difficulties. When adjustment is delayed until such difficulties have become acute, an even broader range of considerations must enter into the formulation of debt management policy. If the level of gross reserves has fallen to the point where confidence in the country's ability to make timely settlement of payments is undermined, action must be taken to arrest this decline and rebuild reserves. If arrears have been incurred, priority must be given to their elimination because of the prospect that payments delays may themselves further impede new flows. Moreover, to preserve the production and trade performance of the economy, it may be necessary and desirable to secure financing beyond what is available from creditors on a spontaneous basis. In these circumstances, orderly adjustment may require that the adoption of a program to correct macroeconomic and structural imbalances be accompanied by an approach to creditors to reschedule debt service obligations and, where necessary, to provide new money on a concerted basis.

An approach to creditors to reschedule debt service obligations and/or to provide concerted finance can, therefore, be consistent with the needed adjustment effort and, moreover, may be essential to a regularization of relations with creditors. Once this stage is reached, the role of limits on external debt changes, because in most such cases borrowing opportunities are limited and the goal of restoring normal relations with creditors is not expected to be attained quickly. Nevertheless, constraints on credit availability are usually partial, with certain categories of credits, particularly short-term or secured credits, remaining available after others become restricted. It is important that once reschedulings and/or concerted lending packages are in place, limits on other, nonexceptional finance serve to ensure that the desired level of foreign finance is not exceeded.

While debt limits are, therefore, still useful when foreign credit is constrained, because their role is different, certain features may have to be designed differently to suit the objectives at hand. It becomes important to secure an appropriate maturity structure of new financing and to avoid the adoption of borrowing practices that involve excessive cost and add unduly to vulnerability in the future. As recent experiences show, the general reluctance of creditors to lend as debt difficulties emerge may be reflected in a preference for short-term rather than medium-term commitments and trade finance rather than balance of payments support. Moreover, the increasing difficulty of obtaining finance may lead various public and private borrowers to consider less conventional sources of finance. The urgency of acquiring resources may obscure the fact that these financing opportunities carry very high costs and risks, some of which are not entirely apparent at the outset. One approach taken is to pledge goods or international reserve assets. Another is to offer to pay very high rates to secure short-term loans or loans with early redemption features: a popular example of this approach is the establishment of foreign currency deposits or similar foreign-currency denominated financial instruments aimed at encouraging residents to repatriate assets held abroad or the remittance of funds by nonresident nationals. Within certain bounds recourse to such financing opportunities may prove beneficial; it is important, however, that the scope of debt management be broadened sufficiently to permit an appropriate assessment of cost and risk consequences. It may be that just as limits on the overall amount of external borrowing diminish somewhat in importance, limits on short-term debt and other relatively short maturities gain in importance.

Countries that encountered debt-servicing difficulties in the early 1980s have not generally overcome their problems, and it remains difficult to foresee the routes that will be taken in the restoration of normal relations with creditors. The emerging pattern involves related and contemporaneous developments with respect to reschedulings, other forms of debt relief, and the basis on which new credits are secured. Some market borrowers have prepared the way for recovery by agreeing with bank creditors upon fairly comprehensive restructurings that stretch out repayment of outstanding debt over a longer time frame and provide for a progressive resumption of normal debt servicing. For these borrowers, new and innovative techniques in debt reorganization are increasingly prominent features of the recovery process. The development of the "menu" approach has broadened the form that debt relief may take to include debt conversion (commonly debt-equity swaps), securitization and collateralization, debt buy-back schemes, and other financing alternatives. Some official borrowers have begun a gradual disengagement from the Paris Club wherein successive agreements have covered smaller percentages and a more narrow range of debt service obligations and, for heavily indebted low-income countries, longer repayment terms have been agreed. As for the resumption of spontaneous lending, the process of regaining access to new credits seems often to begin with the cautious reopening of credit cover by official export credit agencies, some modest availability of unguaranteed trade finance, and a focus on project rather than balance of payments support lending.

Debt management policy, at this stage, should be guided by the objective of facilitating a return to normal relations with creditors while at the same time preventing any recurrence of excessive reliance on external finance as opportunities to borrow reappear. Debt limits, if properly designed and accompanied by an appropriate macroeconomic policy stance, can assist countries through the recovery phase by signaling to creditors the appropriate level of external financing and helping to ensure that the maturity structure and cost of newly acquired debt is consistent with the debt service profile produced by rescheduling agreements and other forms of exceptional finance acquired during the period of debt-servicing difficulties. When a mix of new credits and additional rescheduling is needed during the recovery phase, debt limits should be designed so as to facilitate and speed the transition away from rescheduling, which in practice requires limits that integrate any necessary rescheduling into the overall borrowing strategy. When debt reorganization includes innovative techniques that alter the nature or magnitude of foreign claims on domestic resources, debt management must ensure that the adaptation of "menu" items is suited to an enhancement of the opportunities for re-entry into capital markets and that recourse to any such opportunities is consistent with the macroeconomic adjustment effort.

III. Considerations in the Design of Debt Limits

In the formulation of the 1979 guideline for performance criteria on foreign borrowing, the Executive Board recognized that debt management potentially involved control over a large number of debt categories and characteristics and that the specification of limits on external debt required choices regarding a range of possible features. Under the 1979 guideline the performance criterion on external debt was normally to be related to medium- and long-term public and publicly guaranteed foreign borrowing, up to a common maturity limit dictated by conditions in world capital markets; it was also to cover private sector borrowing in cases where such borrowing was subject to the member's external debt management policy. Normally, the criterion was to include a subceiling on foreign loans with maturities of over one year and up to five years; and in exceptional circumstances where nontrade-related short-term debt was becoming a source of difficulty, such debt was to be included in the limitations. The criterion was usually to be formulated in terms of loans contracted or authorized; however, where appropriate, the formulation would be based on net disbursements or net changes in the stock of debt. To avoid discouraging concessional capital flows, loans defined as concessional under DAC criteria were to be excluded from limitation where data availability permitted.

In the context of its discussion of issues in external indebtedness in 1983, the Executive Board reviewed the 1979 guideline and supported several practices that had come into general use, encouraging the inclusion of short-term debt in the criteria--where necessary as a subceiling--and commenting that normally it would be better to formulate limits on net disbursements, rather than debt contracted. In both cases, flexibility was urged in view of the variation in statistical capabilities and reporting procedures among members. At the same time, the Executive Board discouraged a broadening of exclusions from the limits beyond concessional loans and restructuring and refinancing loans specifically associated with multilateral reschedulings with either official or private creditors.

The 1979 guideline and the 1983 review have provided a foundation for the design of limits on foreign borrowing during a period of growing awareness of the importance of debt management policy and debt monitoring systems, corresponding to the intensification of debt-servicing difficulties. Since 1983 the use of external debt limits as performance criteria in Fund arrangements has become universal. At the same time, the changing circumstances of members have given rise to a greater variety of practices in the application of debt limits. This section reviews in turn several areas in which issues regarding the implementation of the guideline have arisen and in which it may prove helpful to elaborate upon current practices: (i) the need to improve, in many cases, the debt monitoring and control capabilities of members, while at the same time recognizing the constraints imposed by those capabilities on the design of debt limits in Fund arrangements; (ii) alternative formulations for the sectoral coverage of the borrower; (iii) the merits of limits relating to debt disbursements and/or debt contracting; (iv) the appropriate maturity coverage of debt limits, and in this connection: the use of upper maturity limits, the use of sublimits, and issues arising in the treatment of short-term debt; (v) the treatment of concessional loans; (vi) the treatment of credits arising from the rescheduling of debt service obligations and other forms of debt reorganization; (vii) the circumstances under which it is appropriate to exclude certain categories of debt (other than concessional loans or credits arising from rescheduling); and (viii) some presentational aspects of debt limits in staff papers supporting requests for arrangements and reviews of arrangements.

1. Data and control considerations

When a member's debt management system does not provide comprehensive coverage of all debt categories, there is a risk that debt difficulties may arise from or be exacerbated by forms of borrowing that fall outside the scope of the authorities' external debt monitoring arrangements. For example with the emergence of external imbalances, credits that had been relied upon in more normal circumstances may become less readily available as concerns about creditworthiness intensify. This process can lead public and private sector borrowers to search for alternatives--e.g., various short-term credits. These credits may not have been fully or adequately incorporated into the debt monitoring system, either because little recourse had been made to such credits or because of reporting difficulties. With early recognition, the scope of debt monitoring can be expanded and its value as an indicator of potential debt difficulties maintained.

The effort in recent years to include debt limits in all Fund arrangements and to monitor broad, aggregate debt variables, including short-term debt, has been an important step forward. However, in some cases, particularly where debt monitoring systems were not comprehensive, the design of debt limits proved to be too ambitious and led to low reliability in the monitoring of performance criteria, which posed the risk that over time there might be some erosion in the attention paid to monitoring debt developments.

It is essential that debt limits in Fund arrangements cover categories of liabilities that are broadly within the control of the authorities and for which information on performance can be provided by the authorities' debt management system in a timely and reliable manner. At the same time, prompt action to overcome any deficiencies in debt management systems needs to be supported. Encouragement in this area has been given in the context of the surveillance process. Moreover, the Fund and the Bank stand ready to provide technical assistance to members seeking to upgrade monitoring capabilities. Experience shows, however, that the needed improvements in debt monitoring and management, which must precede the broadening of debt limits to capture emerging problem areas, often takes time. One approach that has proved helpful in resolving this dilemma in the context of Fund-supported programs is the review, during the course of the program, of progress in improving the debt management system. Such reviews can also aim toward reaching understandings that would permit a more adequate definition of debt limits under any subsequent arrangement.

2. The sectoral coverage of the borrower

The rationale for debt limits (as discussed in Section II) rests in part upon the need to ensure that total financial flows are compatible with the desired level of aggregate demand. Ideally, the fulfillment of this objective calls for the inclusion in debt limits of all external borrowing. Nevertheless, in most cases the sectoral coverage has been more restricted, normally including the foreign borrowing (including guarantees) of the nonfinancial public sector as was foreseen in the 1979 guideline.

There are several circumstances under which limited coverage is preferable. First, in countries in which the private sector does not borrow abroad directly (i.e., without official guarantee) and provided that there is little likelihood of the initiation of such borrowing, it is sufficient for limits to cover public and publicly guaranteed debt. Similarly, in countries where even public enterprises do not borrow abroad directly, and it is understood that this pattern will continue, coverage may appropriately be limited to the external debt, both direct and guaranteed, of the central government. 1/ Second, when private sector borrowing cannot be adequately monitored by the authorities, a global limit on external borrowing is not feasible. Third, and more generally, with realistic pricing, interest rate and exchange rate policies and in the absence of other major distortions, there is good reason to expect private sector decisions to reflect the costs and returns of foreign borrowing and market forces to prevent private borrowing from becoming a source of national debt-servicing difficulties. In such instances, the main potential source of excessive foreign

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1/ A more difficult area involves the coverage of public financial institutions that borrow without government guarantee and that, in some instances, are owned by or under the control of the government. The extension of coverage to such institutions may risk interfering with their normal financial operations. No single approach to the treatment of the foreign borrowing of public financial institutions has proved universally practical. In some arrangements, the coverage of debt limits has been extended to cover certain public financial institutions, while, in other cases, the monitoring of resource flows from these institutions to the nonfinancial public sector has sufficed.

borrowing is the public sector--defined broadly to include not only the government but also other public entities--and limits on external public debt are appropriate.

In many cases, however, private capital flows do contribute to debt difficulties. This may occur in countries in which government involvement in private sector decision making blurs the distinction between the sectors, and more generally, when inappropriate policies distort the economic environment, or when governments explicitly subsidize or encourage private sector borrowing--particularly as public access to foreign credits diminishes with the advent of debt-servicing difficulties. A system for monitoring the level and maturity structure of private borrowing can provide an early warning mechanism regarding the emergence of distortions and potential debt-servicing difficulties from this source. Some countries have, therefore, established regulatory mechanisms that enable the authorities to collect information on the private sector's foreign borrowing operations. The 1979 guideline recognized this circumstance and directed that when an established regulatory machinery exists to control private borrowing, the performance criterion on foreign borrowing should be adapted accordingly; in recent years, debt limits have covered some or all nonguaranteed private sector borrowing in several such cases.

The most effective way to lessen the risk of excessive private sector borrowing is via appropriate macroeconomic and pricing policies and, in the context of a Fund-supported adjustment program, it is appropriate to focus attention directly on the elimination of existing distortions or subsidization. While global sectoral coverage of debt limits provides no substitute for such adequate policy adjustment, it does permit an explicit tracking of the consequences for private sector decision making of remaining distortions and other forms of government influence that may be encouraging external borrowing. While coverage of private sector debt ordinarily implies that the performance criterion may include obligations not strictly under the control of the authorities, the benefit derived is that global coverage can provide valuable information about the extent and nature of the remaining external imbalance as the policy adjustment effort proceeds.

3. Limits on the disbursement and contracting of debt

The objective of ensuring that financial flows are compatible with the desired level of aggregate demand suggests that member countries should complement their domestic credit policy with a debt management strategy that targets actual net foreign borrowing flows. On the other hand, debt management should also take into account the future debt service profile and seek to minimize the risk that sharp adjustments will be required, or debt-servicing difficulties incurred, in the future. If there were a fairly stable relationship between the contracting of new loans of various maturities and their disbursement, or if member countries generally had the capacity to monitor on a timely basis the impact of new disbursements on the debt service profile, it would not be difficult to capture these dual objectives of debt management policy within a single set of debt limits.

Indeed, where trade and project credits are the main sources of external financing for developing countries, information on the pipeline of existing credits combined with limits on the contracting of new external debt in various maturity ranges provides proximate control over net foreign borrowing. However, where the sources of finance are more diverse, and particularly where there is recourse to financial credits for balance of payments or fiscal support, the relationship between contracting and disbursement becomes more tenuous. Concern for aggregate demand management would, in these circumstances, argue for a focus on net foreign borrowing flows in setting debt limits in Fund arrangements.

The 1979 guideline stated that the criterion on foreign borrowing will usually be placed on loans contracted or authorized, but allowed that in appropriate cases a net disbursement basis might be used. After considering experience under the guideline and in view of the importance of an appropriate linkage to demand management, the Executive Board, in the 1983 review, commented that it would normally be better to impose limits on the basis of disbursed rather than contracted debt. 1/ While this remains the preferred approach, the choice among the two formulations in any particular case depends on a number of considerations.

For some members it is difficult to monitor disbursements in a timely and reliable manner. For example, problems often arise in monitoring the disbursement of import credits (for which disbursement effectively takes place at the time of shipment or delivery), loans to public enterprises, and loans carrying government guarantees. Moreover, it is even more difficult to exercise control over the flow of disbursements, particularly for trade and project credits. When the pace of disbursements on a large part of a country's borrowing is not under the authorities' control it may be more realistic to aim at safeguarding medium-term viability by limiting the contracting of debt.

In many cases, it is feasible and desirable to monitor both the disbursement and contracting of external debt. When a country has access to financial credits, the disbursement of such credits is presumably under the control of the authorities and, indeed, drawdown of such

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1/ Limits on disbursements may be set on a gross or net basis. Because the control of net resource flow is the rationale for the use of this basis, monitoring of gross disbursements is only appropriate if the amortization schedule is reliable and likely to be followed. The use of net disbursements avoids difficulties arising from changes in the amortization schedule, arrears, and rescheduling. Limits on net disbursements are frequently set with reference to changes in the outstanding stock of debt, which is equivalent so long as adequate account is taken of valuation adjustments resulting from fluctuations in the value of foreign currencies.

credits would normally be expected to adjust to the pace of other borrowing. There is of course no conceptual reason barring the simultaneous use of both concepts in debt management efforts. The time lag between contracting and disbursement would suggest that member countries should always complement the monitoring of financial flows with some tracking of contracting activity. Indeed, debt management in this broader sense can provide the nexus between demand management policies and development planning. In the context of Fund arrangements, however, concern has been expressed as to the need to limit the number of quantitative performance criteria. While this has generally meant a choice between monitoring contracting or disbursement of foreign borrowing, in certain circumstances it has been found necessary and, in the end very helpful, to use both approaches. In addition, several variations of the approach have evolved.

One approach involves the use of a limit on the contracting or guaranteeing of external debt by the public sector in conjunction with a performance criterion on the total financial requirements, both domestic and foreign, of the government or public sector (the public sector borrowing requirement). The former addresses the size and maturity of external debt and the latter aims at restoring financial balance to the public sector, while allowing substitutability between domestic and foreign finance. Under a variant of this approach, limits are set on the contracting of external loans by, and net domestic credit to, the public sector, but the limit on domestic credit is adjusted if net foreign borrowing flows exceed amounts specified in the program design.

Another approach that has been used in some Fund arrangements is to make certain types of debt, e.g., financial credits, subject to a disbursement ceiling or to incorporate these disbursements in the limit on domestic borrowing, while other types of debt, e.g., trade and project credits, are covered by a limit on contracting. Also, some countries may at the outset of a Fund arrangement have already contracted and have in place a substantial external credit that can be drawn down during the period of the arrangement for balance of payments support. An attractive approach that has been taken to this situation is to accompany a standard limit on the contracting and guaranteeing of debt with a drawdown limit on the existing credit. While the drawdown or disbursement limit involves noncomprehensive coverage, the approach is helpful when, for example, a single balance of payments loan is sufficiently large that the timing of its utilization must be considered in conjunction with the establishment of balance of payments and fiscal objectives.

In general, when a disbursement basis is used, it is important to maintain as broad and complete a coverage of credits as is possible, inasmuch as the preference for limits on disbursements arises from the benefit of monitoring total financial flows. The exclusion of large categories of credits diminishes the effectiveness of the linkage between the monitoring of financial flows and aggregate demand objectives. This problem pertains not only to categories of debt that may be difficult to monitor on a disbursement basis, but also to concessional loans. When broad coverage is deemed to be sufficiently important and the likelihood of discouraging concessional capital flows is small, *disbursement limits should include universal coverage*--without an exclusion for concessional credits (see 5. below).

4. The maturity coverage of debt limits

a. The upper maturity limit

The 1979 guideline stated that, in determining the coverage of the performance criterion on foreign borrowing, an upper maturity limit would be applied. The standard maturity for this limit would be determined periodically by the Executive Board on the basis of staff papers concerning conditions in international capital markets. The principle to be followed was to take account of the typical maturities of new commercial credits and set an upper maturity limit that would subject nonconcessional balance of payments and project loans to limitation. At the time it was decided that the upper maturity limit should be set in the range of 10 to 12 years. In the 1983 review, in response to the staff's proposal to raise the limit to 15 years, the Executive Board stressed the priority that concessional loans continue to be excluded from coverage.

Since 1983, the most important development in international capital markets in this regard has been the lack of availability of medium-term commercial credits for many developing countries. On the other hand, for countries that have maintained access to syndicated loan and bond markets, neither the average nor longest maturities have changed appreciably.

In the majority of Fund arrangements over the period 1983-1987, debt ceilings have included an upper maturity limit. Upper limits, when specified, were almost always 10 or 12 years. In a minority, but important number, of arrangements over this period, no upper maturity limit was specified. This can be appropriate under certain circumstances. In middle-income countries with little or no access to concessional loans, the additional monitoring effort required by the use of an upper limit may bring little advantage in terms of facilitating such loans. In other countries with access to concessional loans, the explicit exclusion of concessional credits via the application of the DAC criteria for concessionality, which has been very widespread, renders the upper limit somewhat redundant. Finally, when a limit is placed on net disbursements of debt as part of an effort to limit total financial flows, and provided that coverage of the limit can be universal in other respects, it is consistent to omit the upper limit in view of the demand management objective. Also, as noted above, many countries are simply not able to monitor debt disbursements by loan maturity categories.

b. The use of sublimits

Whether or not an upper maturity limit is specified, additional mechanisms are often needed to monitor the maturity structure of debt. This need became increasingly evident in recent years as a bunching of amortization obligations left many countries with very large gross financing requirements just at the time their creditworthiness was being called into question. As countries recover from debt-servicing difficulties, it becomes important to monitor the maturity structure of debt to facilitate a restoration of creditworthiness and help ensure that the earlier experience is not repeated.

Complete control over the maturity structure of debt could only be attained by setting limits on the principal falling due over a specific time period--say one, three, or five years--rather than focusing only on final maturity, as has been the customary approach. Such a comprehensive monitoring, which has been attempted in one Fund arrangement, requires the capacity to monitor on a regular basis the impact of loan activity on the aggregate amortization schedule, a capacity not yet in place in many countries. Debt monitoring systems could usefully be upgraded to include the capability of tracking the impact of newly contracted debt on future amortization patterns.

At present, the principal mechanism for maturity monitoring, established in the 1979 guideline, is the inclusion of a sublimit on the contracting of foreign loans with final maturities of over one year and up to five years. This sublimit provides an incomplete means of monitoring the maturity structure of debt, inasmuch as new loans of longer final maturity also raise amortization requirements over the near term, particularly if contracted in sufficiently large magnitudes and with short grace periods. However, a sublimit does provides a useful degree of control over the amortization schedule; in setting the numerical sublimit, approximate account can be taken of the impact of loans to be contracted under the primary limit with final maturity in excess of five years. Whenever the maturity structure of external debt is of concern, limits should be placed on the contracting of debt and a standard sublimit should be specified. A separate limit should be placed on short-term debt. 1/

1/ It has become standard practice that the limit on debt in the 1 to 5-year maturity range be specified as a sublimit of the primary limit, rather than as a distinct limit (as would be the case with one limit on debt in the 1 to 5-year maturity range and another covering debt in the 5 to 12-year maturity range). While the two cases would yield the same result if both limits were fully utilized, the advantage of the standard sublimit formulation is that it permits switching, at the discretion of the authorities, into the higher end of the maturity spectrum.

c. Limits on short-term debt

The recent experience of excessive accumulation of short-term debt in many countries has led to a more widespread use of limits on short-term debt in Fund arrangements. The emergence of imbalances in many member countries--at a time when outstanding stocks of external debt had already grown large--led creditors, in the process of curtailing lending to those countries, to develop a relative preference for short-term credits. While it might be desirable for a country in such circumstances to accompany adjustment efforts with recourse to short-term credits in reasonable amounts in order to support trade and production, the experience of this period was that rising levels of short-term borrowing too often substituted for adjustment and, especially where data were not available on short-term debt, masked the dimensions of the problem.

The 1979 guideline foresaw that in exceptional circumstances short-term debt might become a source of difficulty and called for a ceiling on nontrade-related short-term debt in such cases. Responding to the general debt buildup in many countries and changes in international capital markets experienced up through 1982, the Executive Board, in the 1983 review of external debt issues, encouraged the inclusion of short-term debt among the performance criteria relating to foreign borrowing, while suggesting flexibility in light of the different institutional reporting procedures employed by members and the statistical difficulties of monitoring that category of debt. Given that short-term debt may be rolled over one or more times during a Fund-supported program and that the average length of these credits can vary, limits on short-term debt are normally placed on the net stock of such debt outstanding. When limits on medium- and long-term debt are also on a net disbursements basis, the two limits complement one another in the monitoring of foreign financial flows. 1/

Countries with little past reliance upon short-term finance, aside from normal trade credits, often place less emphasis on monitoring short-term debt than other credits. Yet, the early extension of debt monitoring and reporting procedures to cover these credits can be key in preventing excessive recourse to short-term credits. Since 1983, the staff, in the course of the surveillance process, has attempted to encourage members to develop these capabilities and, in the context of Fund arrangements, has suggested the broadening of limits on short-term debt to all cases in which monitoring procedures permit. Despite these efforts, the data available on short-term borrowing continue to vary considerably among countries with regard to both the breadth of coverage and its reliability. As a result, it remains the case that the design

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1/ Some member countries prefer to monitor borrowing approvals for short-term debt--i.e., the opening of credit lines. When this approach is taken, the specification of the limit needs to define clearly the treatment of maturing credits, namely whether the rollover of an existing credit is subject to the limit.

of these limits is governed in large part by countries' monitoring capabilities. Moreover, for any particular country, the specification must evolve over time in accord with monitoring capabilities; in some recent instances where limits on short-term debt have been incorporated in Fund arrangements, the debt monitoring systems of the authorities have proved less satisfactory than anticipated, leading to difficulties with the timeliness and reliability of the reporting of performance under the limit.

A difficult aspect of the design of limits on short-term debt is the selection of the categories of obligations and debtor entities to be covered. Often when countries are in need of balance of payments support, many short-term borrowing options arise and it is difficult to foresee which will be exercised. The tendency toward the proliferation of short-term instruments suggests the desirability of including the broadest possible coverage of short-term debt. However, as mentioned above, a more limited coverage may be necessary when debt monitoring systems can track with reliability only selected instruments of the government and certain public entities.

The highest priority in expanding a debt monitoring system, and in selecting the coverage of short-term debt limits, should be to include all clearly identifiable categories of short-term debt that can serve as a source of exceptional balance of payments or budget support and which, if not renewed or continued, could rapidly give rise to payments difficulties. In particular, bank-related instruments such as credit lines, overdraft facilities, and foreign currency deposits and certain nonbank-related instruments such as bearer bonds with early redemption features can usually be easily monitored. Unless these instruments are monitored under another performance criterion--i.e., directly or under a balance of payments test--they should be covered by the short-term debt limit.

As for commercial short-term debt, the focus on limiting nontrade-related debt reflected the concern that trade credits facilitated needed commercial activity and were considered to be less likely than other short-term credits to be subject to sharp variations. Experience has shown, however, that trade-related credits, particularly export pre-finance credits to public enterprises trading in primary products, have come to be used, in certain circumstances, more to provide access to resources than to facilitate trade flows. To satisfy the goal of subjecting such borrowing to limitation, without unduly impede trade flows, it has been preferable to exclude only normal import-related credits or to specify very clearly both the types of trade credits and the entities to be excluded.

With regard to the categories of borrowers included, coverage of short-term debt should be as broad as is permitted by monitoring capabilities. In addition, care must be exercised to complement properly the treatment of reserve liabilities under balance of payments tests. Short-term foreign liabilities of the public nonfinancial sector should normally be covered. While it is also very important that the short-term external liabilities of the domestic banking system, both public and private, be monitored, more choices arise for their treatment. Because certain short-term external liabilities are typically treated as reserve liabilities, different considerations arise in designing short-term debt limits depending upon whether there is also a balance of payments (or net foreign assets) test. While a high level of short-term debt is often associated with an increasing vulnerability to balance of payments crises for countries with underlying imbalances, the degree of vulnerability seems to depend substantially upon the relationship between short-term debt and gross reserve assets. The use of balance of payments tests represents a step in the direction of monitoring on this basis, in that these tests measure the net short-term foreign exposure of the authorities. When this performance criterion is used, the liabilities which are covered--i.e., official reserve liabilities--normally would not also be subject to the limits on short-term debt.

Some forms of balance of payments support typically fall outside the scope of balance of payments tests. This can occur when domestic banking institutions play an important role in channeling foreign funds to the central bank or other parts of the public sector and major components of banks' foreign liabilities can be controlled by the authorities, or when the authorities exercise a significant influence--either directly or indirectly--over some short-term private assets. For example, when resources are channeled from the banking system to the central bank, it may show domestic liabilities which correspond to the short-term foreign liabilities of official or private banks. This is commonly the case when foreign currency deposits in domestic banks, such as those of nonresident nationals working abroad, are deposited in or otherwise lent to the central bank.

In such cases it is desirable to monitor net access to such finance; risks arise not so much when short-term liabilities rise, but when gross reserves fail to increase accordingly. One approach that has been taken to adjusting the coverage of performance criteria in this regard is to extend the coverage of balance of payments tests to capture the net foreign exposure of the banking system; the use of resources acquired from domestic banks is reflected as a decline in net foreign assets. In practice, the extent to which financial short-term debt can be monitored in relation to corresponding foreign assets may be limited. Financial short-term debt that is not monitored in this way should, if possible, be covered by the performance criterion on short-term debt.

5. The treatment of concessional loans

Before the 1979 guideline, the standard practice was to include under debt limits only loans made on "commercial" terms and to distinguish such loans by final maturity alone rather than other characteristics such as the present discounted value of contractual debt service. The upper maturity limit was selected with reference to the typical terms of commercial lending in international capital markets. In 1979 the Executive Board urged the staff to go further in this regard instructing in the guideline that flexibility be exercised to ensure that the use of debt limits not discourage capital flows of a concessional nature by excluding from coverage those loans defined as concessional under DAC criteria, where sufficient data are available. When combined with an upper maturity limit, the impact of this additional exclusion of concessional loans was to omit from coverage loans that were of shorter maturity but that still met the DAC criteria.

Since 1979, the most common practice has been to exclude concessional loans from debt limits under Fund programs. In some cases, however, considerations of program design and monitoring capability have dictated the inclusion of concessional loans under the limits. In these instances, the staff has still sought to ensure that the formulation of the limits was consistent with the objective of not impeding access to concessional finance.

The omission of this exclusion may be appropriate under the following circumstances: first, as contemplated by the Board, when a member country's debt monitoring system does not have the capability to distinguish clearly loans according to the DAC criteria (this is most commonly a consideration when limits are formulated on a net disbursement basis, though monitoring difficulties sometimes arise as well under a contracting ceiling); second, in middle-income countries with little or no access to concessional loans, when the additional monitoring effort associated with distinguishing loans in this manner would bring no real advantage; third, in many instances it is possible and preferable to project concessional flows and include the projected amount under the limit. In the latter case, the desirability of the loan and the use to which the resources are to be put can be explicitly considered.

Loans that are concessional by virtue of a 25 percent grant element are by no means grants and need be subject to scrutiny along with other loans. When unforeseen concessional loans become available during the period of the arrangement, the staff and the authorities, during the review, can discuss the advantages of these opportunities and whether concessional borrowing should substitute for other planned borrowing or whether the performance criterion on external debt should be modified. The logic of including concessional loans is perhaps strongest when debt limits are applied on the basis of net disbursements and, in the interest of limiting total recourse to foreign credit, universal coverage is desirable. Roughly 40 percent of the Fund arrangements approved by the Board over the period 1983-1987 contained no exclusion of concessional loans, mainly in cases where the debt limits were set on a net disbursement basis.

Even when concessional loans are to be excluded, it should be borne in mind that the DAC criteria have significant shortcomings, hence their use should be careful and considered. The cost of borrowing varies tremendously over the grant element range of 25 to 100 percent; scrutiny of concessional loans should take account of the degree of grant element. Furthermore, the 10 percent discount rate and 25 percent grant element cutoff contained in the DAC criteria are arbitrary. For example, a 10-year loan with 5 years' grace carrying an interest rate of 5 percent is concessional by this definition. The economic cost or advantage of such a loan depends very much on the currency of the loan, the level of various market interest rates in international capital markets, and the rate of increase in prices of traded goods faced by the borrowing country. 1/

6. The treatment of rescheduling and other debt reorganization techniques

At the time of the 1983 review of issues of external indebtedness, the staff brought to the attention of the Executive Board the growing practice of excluding from debt limits those loans corresponding to the rescheduling of debt service obligations. In the interest of fostering a uniform treatment of such credits, the Board responded that rescheduling and refinancing loans specifically associated with multilateral government and commercial bank loan reschedulings would normally be excluded from coverage under debt limits.

Problems in designing debt limits that covered reschedulings and refinancing loans had arisen particularly in cases of limits and sublimits on the contracting of external debt. The tendency toward the exclusion of such loans resulted from a desire not to impede a process which was intended to improve the maturity structure of outstanding debt. It was, moreover, considered appropriate to distinguish between, for example, a loan contracted to regularize outstanding arrears and a loan intended to finance new expenditure.

The explicit exclusion of rescheduling loans from debt limits is not always necessary to achieve the desired objectives. When debt limits are formulated on a net disbursement basis and monitored in terms of the outstanding stock of debt, the rescheduling of principal does not alter the debt stock and hence need not be treated explicitly. Indeed, the facility with which the direct or indirect refinancing of arrears or current principal can be accommodated under a stock of debt test, while

1/ The problems associated with the use of the DAC criteria have recently been recognized by official creditors in the context of the OECD Group on Export Credits and Credit Guarantees, whose members adhere to the Arrangement on Guidelines for Officially Supported Export Credits, more commonly called the Consensus Arrangement. In March 1987 the Consensus participants agreed that, for the purpose of their calculations of the degree of concessionality of subsidized or mixed export credits, a system giving more weight to market interest rates in various currencies should replace the previous use of the 10 percent discount rate used by the DAC; it was also agreed that their minimum concessionality level should be raised from 25 percent to 35 percent and, for the least developed countries, to 50 percent.

still permitting control over the financing of current spending, argues for the use of this formulation for countries experiencing debt-servicing difficulties. In such cases, it is common to project any rescheduling of current interest by the Paris Club or other creditor groups and take account of the resulting increase in debt in setting the debt limits.

Once a country's adjustment effort is under way, the exclusion of rescheduling from debt limits is less desirable, even when limits are formulated on a contracting basis. One of the objectives of the recovery phase, by its nature, is to move away from rescheduling and concerted lending and restore normal relations with creditors. At first this can take the form of a resumption of credits and cover by official export credit agencies and access to other trade credits, or for market borrowers the progressive restoration of access to international capital markets. While experience so far of countries in the recovery phase is limited and not necessarily indicative of the future modalities of recovery, the process of restoring normal relations with creditors has tended to involve reductions in the percentages of eligible debt service obligations that are rescheduled and the exclusion of certain categories of debt--e.g., all debts contracted after a cutoff date--from rescheduling. Both of these developments are intended to facilitate and coincide with a resumption of spontaneous lending.

As spontaneous flows resume, and even when such flows are small and limited to certain types of credits, it becomes important once again in financial programming to target a level and structure of capital flows that is consistent with both demand management objectives and medium-term viability. Once a set of rescheduling terms is assumed for the purpose of programming credit and balance of payments objectives, a higher or lower amount of rescheduling of either interest or principal may undermine program objectives if not offset by other capital flows. For countries in this phase, it is preferable to design debt limits to cover projected reschedulings; then, if the actual rescheduling differs from the projected amount, a program review can serve as an appropriate juncture to discuss whether an offsetting recourse to spontaneous flows is possible and appropriate or whether some modification in the program design is needed. Within this approach, the projections underlying the debt limits can program a reduced reliance on rescheduling and a greater recourse to spontaneous lending; most importantly, if access to new credits is greater than anticipated, the inclusion of rescheduling permits switching from rescheduling to these credits, which can represent an accelerated return to normal relations with creditors.

The development of innovative techniques in debt reorganization has significantly increased the modalities available for providing debt relief. Many of the new techniques, which include debt conversion, securitization and collateralization, and debt buy-back schemes, have been facilitated by the emergence of a secondary market for the debt of market borrowers in which outstanding obligations trade at a discount. These discounts themselves do not alter borrowers' external obligations, rather they provide an indication of the gravity of debt-servicing difficulties and the attitudes of creditors. Certain of the new financing techniques, however, alter the terms of external claims (and may extinguish outstanding debts) and to some extent their use can improve the payments prospects for borrowing countries.

When a country and its creditors draw up a "menu," debt management in the broad sense should be geared to the selection of those modalities that both provide relief and that, in the long run, will facilitate a restoration of more normal relations with creditors. In a narrower sense, aspects of the design of debt limits may prove problematic, particularly when it is difficult to forecast the extent of debt conversion or buy-backs, or to assess the impact of collateralization of certain principal obligations on the prospects for timely service of other obligations. Because of the diversity of these techniques and the circumstances in which they are being employed, practices regarding the design of debt limits are still in an evolutionary stage and a more comprehensive evaluation of the design consequences of innovations should be possible when more experience has been gained. For now, it will be important in these instances to assess the impact of these new modalities on the debt burden faced by member countries, ensure that the borrowing projected in Fund-supported programs is consistent with the overall adjustment effort, and, in this context, design limits that would provide a clear signal if further difficulties were to arise.

7. Exclusions other than concessional or rescheduling loans

In the 1983 review, the staff suggested to the Executive Board that the widespread use of exclusions might tend to undermine the basic objective of the debt guideline--to ensure that the use of foreign finance is consistent with the desired level of aggregate demand and with a viable medium-term balance of payments position--and recommended that exclusions be kept to a minimum. At that time, the Board concluded that the performance criterion on external borrowing would normally not contain exclusions other than those related to concessional and rescheduling loans.

The general preference for avoiding a proliferation of exclusions remains valid and for the most part has been maintained in practice. However, as is inevitable when the circumstances and institutional characteristics of member countries vary as they do, certain types of loans are excluded as a means of meeting the particular requirements of the financial program. The most common categories of exclusions have been loans covered by other performance criteria, loans from multilateral agencies, loans contracted by entities whose borrowing was difficult to monitor, and certain loans nearing the signing stage. While it is difficult to generalize in this area, the appropriateness of any particular exclusion depends crucially on the role that is to be played by the limits on external debt in the circumstances faced by the member country. Certain exclusions may be consistent with the objectives of the financial program, such as the exclusion of official reserve liabilities captured by the balance of payments test. Others are not consistent, such as the exclusion from a limit on the contracting of external debt of loans to the public sector that are covered under a performance criterion applying to the total borrowing of the public sector.

Certain types of exclusions are sufficiently common as to warrant specific attention. Often a member expects a large loan from a bilateral or multilateral source, but has little or no control over the timing with which the credit will be finalized. When the receipt of such a loan is desirable, one approach is to take the loan into account in balance of payments projections, but to exclude the loan from the limits on external debt. The reasoning for doing so is that, in the event that the loan is not forthcoming during the program period, it may not be desirable that the loan be replaced by other credits of an equal amount, especially if the loan is large and the execution of a major project is contingent upon this source of finance. This situation could perhaps be better handled by inclusion of the loan within the coverage of the debt limit and an agreed adjustment of the limit in the event that the loan is not forthcoming, or a distinct limit on the single loan. These approaches, though similar to exclusion, would have the benefit of not leaving open the issue of the overall magnitude of the loan.

The treatment of arrears in the formulation of debt limits has become more important in light of the increasingly common practice of placing limits on net disbursements or the stock of debt. It has been standard practice that Fund arrangements contain a performance criterion relating to the elimination of existing arrears. When a limit is placed on net disbursements or the stock of debt, the inclusion of arrears, both existing and prospective, in the coverage of the limit can help to complement the performance criterion on arrears reduction. The exclusion of arrears from coverage might establish an unintended disincentive in that a member may be discouraged from obtaining finance to reduce arrears beyond what is called for in the arrears performance criterion if such new loans were to raise the monitored concept of net disbursements. The inclusion of arrears, by preventing this, can facilitate member countries' recovery from debt-servicing difficulties. Similarly, adjustments can be provided under debt contracting ceilings in order to permit an accelerated repayment of arrears.

8. Presentational aspects of debt limits

One of the consequences of the proliferation of practices in the area of debt limits has been an attenuation of the link between these limits and the rest of the financial programming exercise in certain cases. In order to set debt limits at appropriate levels, it is necessary to integrate them into balance of payments and debt service projections. Integration requires the clear identification of the projected capital flows subject to the limit. When limits are placed on disbursements, this identification is often just part of the process of making balance of payments projections. When limits are placed on the contracting and guaranteeing of external debt, however, it becomes necessary to estimate the consequences for disbursements within the period of debt being newly contracted. Moreover, whether debt limits are formulated on the basis of contracting or disbursement, the exclusion of certain loans or loan categories adds to the difficulty of identifying clearly the capital flows subject to the limit and relating these to other balance of payments flows.

In reports to the Executive Board, the particular specification of the debt limits should be clearly stated and their relation to the rest of the financial program explained. Both goals would be served by the presentation in staff reports of a table on capital flows oriented to a reconciliation of performance criteria in the external sector with balance of payments projections. The projected current account balance and change in gross reserves would be reconciled against a breakdown of projected capital flows including: (i) the capital flows subject to the limit on medium- and long-term debt, (ii) the capital flows subject to the limit on short-term debt (if applicable), (iii) the flows of nondebt-creating capital, and (iv) other capital flows not covered by limits on external debt. The presentation could provide whatever further breakdown of this last category would be most useful (e.g., by maturity, sector of the borrowing entity, reserve liabilities and other categories of debt explicitly excluded, etc.) and could explain, if helpful, the reasons why certain categories of debt were excluded. In the case of limits formulated on the basis of the contracting and guaranteeing of debt, the table would indicate (for the definition covered by the contracting limit) the expected disbursements from debt already contracted and expected disbursements from debt to be contracted.

Guidelines on Performance Criteria with Respect to Foreign Borrowing

The Executive Board Approves the Chairman's Summing Up on External Debt Management Policies As Set Forth [Below]
Discussion No. 623-(79/140), August 3, 1979

The Chairman's Summing Up on External Debt Management Policies Executive Board Meetings 79/106 and 79/107 - July 6, 1979 and Executive Board Meeting 79/121 - July 23, 1979

In the context of a general discussion of the issues relating to external debt management policies, the Executive Board considered the following guideline on the performance criteria with respect to foreign borrowing:

> When the size and the rate of growth of external indebtedness is a relevant factor in the design of an adjustment program, a performance criterion relating to official and officially guaranteed foreign borrowing will be included in upper credit tranche arrangements. The criterion will include foreign loans with maturities of over one year, with the upper limit being determined by conditions in world capital markets; in present conditions, the upper limit will include loans with maturities in the range of 10 to 12 years. The criterion will usually be formulated in terms of loans contracted or authorized. However, in appropriate cases, it may be formulated in terms of net disbursements or net changes in the stock of external official and officially guaranteed debt. Normally, the performance criterion will also include a subceiling on foreign loans with maturities of over one year and up to five years. Flexibility will be exercised to ensure that the use of the performance criterion will not discourage capital flows of a concessional nature by excluding from the coverage of performance criteria loans defined as concessional under DAC criteria, where sufficient data are available.

Adoption of this guideline will be subject to the understanding that the staff will be guided also by the following points:

1. The above guideline will be applied with a reasonable degree of flexibility while safeguarding the principle of uniformity of treatment among members. The external debt guideline should be interpreted in the light of the general guidelines on conditionality (Decision No. 6056-(79/38), especially guideline No. 4, which states:

> In helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and

> political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems.

Also, guideline No. 9 includes the following:

> The number and content of performance criteria may vary because of the diversity of problems and institutional arrangements of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives.

Furthermore, guideline No. 8 states:

> The Managing Director will ensure adequate coordination in the application of policies relating to the use of the Fund's general resources with a view to maintaining the nondiscriminatory treatment of members.

2. While uniformity of treatment indicates a need for a common upper maturity limit, this limit will be reviewed annually by the Executive Board at the time of its consideration of staff papers on conditions in international capital markets. In analyzing the amounts and terms of new borrowing that would be appropriate--in the member's circumstances--over the medium term, the staff will take into account prospective developments in the member's external payments situation and the profile of its external indebtedness.

3. In formulating external debt criteria, the staff will be mindful of the need to ensure consistency between external debt management policies and domestic financial policies. Where external debt per se is not a matter for concern, but adjustment programs have as a main objective to reduce excess demand pressures and restore overall balance to the public sector finances, the credit ceiling for the public sector would cover both domestic and foreign financing of the overall public sector deficit.

4. Normally, the performance criterion will relate to official and officially guaranteed foreign borrowing. The coverage will include official entities for which the government is financially responsible as well as private borrowing for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government.

5. In cases where the member's external debt management policy covers private sector borrowing without official guarantee and there is an established regulatory machinery to control such borrowing, it will be proposed that the performance criterion on foreign borrowing should be adapted accordingly.

6. Normally, loans of less than one year maturity will be excluded from the borrowing limitations. In exceptional circumstances where nontrade-related loans of less than one year of maturity become a source of difficulty, such loans will be included in the limitations. The Managing Director will inform Executive Directors in an appropriate manner of the reasons for including such loans in the limitation.

7. The last sentence of the guideline provides for excluding from the coverage of performance criteria, those loans defined as concessional under DAC criteria. Available information on loans by multilateral development institutions indicates that all of the recent loans of the IBRD and the Inter-American Development Bank have been outside the 10 to 12 year limit and that most of the loans by the Asian and African regional development banks have also been outside of permissible limits. In discussing with member countries the total amounts of permissible borrowing of less than 10 to 12 years maturity, the staff would take into account possible lending of less than this maturity range by multilateral development institutions. In some cases, member countries utilize credits associated with concessional loans. The staff will take into account these developments in discussing the appropriate amount of borrowing.

1983 Review of External Indebtedness Issues--
Excerpts from Chairman's Summing Up

(Summing Up 83/96 of April 14, 1983, Section 3--Guidelines on Foreign Borrowing in Connection with Upper Credit Tranche Arrangements)

In reviewing the 1979 guidelines, the Directors made a number of comments. First, many Directors felt that normally it would be better to impose ceilings on disbursed rather than on contracted debt; nonetheless, some flexibility should continue to be used.

Second, there were divergent views on the question of including loans with maturities of from 12 to 15 years within the ceiling on loans. It was understood that if loans of 12 to 15 years' maturity were included, the concessional loans without that category should still be excluded.

Third, Directors generally encouraged the staff to include short-term debt of a maturity of less than one year in the performance criteria relating to foreign borrowing, while allowing some flexibility in light of the different institutional reporting procedures employed by members, and the statistical difficulties of recording that category of debt. In quite a number of cases, it might be necessary to formulate the limitation as a subceiling.

Fourth, normally performance criteria would exclude only concessional loans, together with restructuring and refinancing loans specifically associated with multilateral government or commercial bank loan reschedulings.

Fifth, Directors considered that, in describing adjustment programs submitted by members in connection with requests for upper credit tranche stand-by arrangements or extended arrangements, staff papers should contain a description of the proposed external borrowing limitations in the light of the prospective medium-term debt servicing profile of the member that should of course be consistent with the medium-term analysis in the staff report for the Article IV consultation.

Experience with External Debt Limits in Fund Arrangements, 1983-1987

Experience with the use of external debt limits in Fund arrangements was last reviewed in SM/83/45 (3/8/83) which covered arrangements approved by the Executive Board over the period 1979 to 1982. 1/ The purpose of this annex is to review the main features of the performance criteria relating to external debt that were employed in the 117 stand-by and extended arrangements approved by the Executive Board over the period 1983 to 1987 and to describe how practices in this area differed from those of earlier years. No attempt is made in this paper to analyze, in terms of member countries' balance of payments positions, the appropriateness of the levels at which debt limits were set, rather the focus is on the design characteristics and the integration of debt limits in the financial programming exercise.

1. Frequency of use

Since the adoption of the guideline on performance criteria with respect to foreign borrowing by the Executive Board in July 1979, the use of quantitative performance criteria on external debt in Fund arrangements has become standard practice. While 93 percent of arrangements approved over the period 1979-82 contained debt limits, in more recent years the practice has been universal (Table 1).

2. Sectoral coverage of borrower

In 110 of the 117 arrangements in the sample period, the primary limit referred only to debt of, or guaranteed by, the government or the public sector (Table 2). Of the 72 cases where entities outside the Central Government were covered, certain public sector entities were excluded in roughly half of the cases, while the entire public sector was covered in the rest. In seven arrangements with four countries (Brazil, Korea, Philippines, and Portugal) that were viewed as having the capacity to monitor the debt of all sectors, coverage extended to include private sector borrowing (including loans without government guarantee).

3. Form of limitation

In 90 of the arrangements reviewed, the primary debt limit related to the contracting or guaranteeing of external debt. In 27 arrangements, limits were placed on the disbursement of debt, mainly in the form of a limit on the level or increase in the stock of debt

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1/ A brief review of recent experience with performance criteria on external debt was contained in Program Design and Performance Criteria (EBS/86/211, Sup. 1, 9/11/86). Earlier experience with external debt limits in upper credit tranche arrangements, over the period 1973 through January 1979, was reviewed in SM/79/125 (5/11/79). This paper also contained references to papers reviewing developments prior to 1973.

outstanding. In two arrangements (Mauritius, 1983 and Madagascar, 1986) limits were placed both on contracting and disbursement; the limit on contracting was accompanied by a limit on the "drawdown" or gross disbursement against loans in certain categories that were to be contracted. In six of the arrangements in which a disbursement basis was used, the limit was placed on gross loan disbursements.

4. Loans excluded from debt limits

The 1979 guideline on the use of external debt limits provided for the exclusion from coverage of performance criteria loans defined as concessional according to the DAC criteria. Concessional loans were excluded from coverage in 73 of the 117 arrangements approved in the five years 1983-1987. The inclusion of concessional loans in the remaining 44 arrangements was due to data considerations, the fact that certain members have limited access to concessional finance, and the preference for universal coverage in instances where net disbursements of debt are monitored. Concessional loans, for example, were excluded from debt limit coverage in most of the arrangements concluded for African countries over these five years, but in none of the arrangements for European countries. Also, while concessional loans were excluded in three quarters of the arrangements where a limit was placed on debt contracted, none of the arrangements that incorporated a net disbursements limit excluded concessional loans (Table 3).

The second most common exclusion from the primary limit on external debt related to loans arising from the rescheduling or refinancing of debt service obligations. While the wording and substance of this exclusion differed from case to case, such loans were excluded from coverage in one form or another in 46 of the arrangements reviewed. Again, while rescheduling/refinancing loans were excluded in about half of the cases where a contracting limit was employed, in only one case were such loans excluded under a net disbursement limit. The specification of the exclusion of rescheduling and refinancing loans most often referred explicitly to the multilateral forum in which such loans were expected to arise, mentioning either the Paris Club or commercial banks or both. Occasionally, particular bilateral reschedulings that were expected to take place were also singled out for exclusion. In some instances, however, a general exclusion was made for rescheduling, without reference to the forum in which it might take place, leaving open the possibility that unexpected bilateral rescheduling with one or more creditors might provide external finance not taken into account in program formulation.

Assorted other exclusions from the primary debt limit were specified in 42 arrangements, in some instances with more than one additional exclusion in an arrangement (Table 7). The most frequently specified exclusion was for the international reserve liabilities of the central bank or banking system, commonly because such liabilities were to be covered by a balance of payments test. Other exclusions were the use of Fund resources, loans to particular public entities whose borrowing was difficult to monitor or covered under another performance criterion, loans from certain multilateral agencies, certain loans nearing the signing stage (excluded from a limit on the contracting of debt), and foreign currency deposits.

5. Maturity coverage

Before the 1983 Board review of external debt limits, it was most common that limits were placed only on medium- and long-term debt, without any coverage of short-term debt. More than half of the arrangements (73 out of 117) approved over the period 1983-1987 contained two distinct limits, a primary limit on medium- and long-term debt and a separate limit on short-term debt (Tables 4 and 5). Of the remaining arrangements, 34 contained a limit covering medium- and long-term debt only. Half of these instances occurred in 1983; in later years this approach was less common. In 14 cases, no distinction was made between short-term and medium- and long-term debt; rather a single limit was employed covering all maturities (sometimes with the exception of those exceeding an upper maturity limit).

The most common upper maturity limit used in the formulation of the the primary limit covering medium- and long-term debt was 12 years which was adopted in 77 of the arrangements reviewed (Table 6). Of these arrangements, the primary limit covered loans in the 1-12 year maturity range in 64 instances and loans in the 0-12 year maturity range in 13 instances. The other upper maturity limit specified in the 1979 guideline, ten years, was adopted in only 11 arrangements, 10 of which included a primary limit covering loans in the 1-10 year maturity range. In the 1983 Executive Board review of external debt issues, the possibility of raising the upper limit to 15 years was discussed; 5 of the arrangements reviewed employed this upper limit. No upper maturity limit was specified in the primary debt limit in 20 arrangements, 15 of which covered loans of all maturities and 5 of which covered loans of one or more years maturity.

In all but four of the arrangements in which no upper maturity limit was specified, the formulation of the primary debt limit was on a disbursements basis. The coverage of all maturities was intended to improve the link between the debt limit and the program's budgetary and balance of payments objectives.

In addition to the fact that 73 arrangements contained distinct limits on short-term debt, the maturity structure of debt was monitored by the more traditional means of a sublimit within the primary limit on debt in 54 arrangements. In most instances, this sublimit covered loans in the range of 1 to 5 years' maturity, as spelled out in the 1979 guideline. Some 33 arrangements contained both a sublimit and a distinct limit on short-term debt.

6. The formulation of short-term debt limits

When limits were placed on short-term debt, it was most common that coverage included the borrowing of the central government and/or the borrowing of certain public entities including official financial institutions (Table 4). In five arrangements, coverage extended outside the public sector to include private commercial banks (in two arrangements) and to include the entire private sector (in three arrangements).

A number of variations on the standard short-term debt limits were employed when needed to address particular institutional or economic difficulties. Two separate short-term debt limits were used in the case of Bangladesh (1985): one limit was placed on the short-term debt of the Government; another was placed on the short-term debt of the Bank of Bangladesh.

In contrast with the practice with regard to limits on medium- and long-term debt, short-term debt limits were usually formulated on the basis of net disbursements (often stated in terms of the change in the outstanding stock of short-term debt). In 23 arrangements the limit was formulated on the basis of short-term debt contracted.

The most common exclusion from the short-term debt limit, which was foreseen in the 1979 guideline, was for trade credits; this approach was employed in 29 of 73 of the arrangements containing limits on short-term debt. Recent experience has shown that loans categorized as trade finance, for example export prefinance loans, may serve many purposes, including support for the balance of payments. In some arrangements, efforts were made to take account of problems that could arise in this manner. In nine arrangements, all of which were in 1986 and 1987, only import-related credits were excluded so that short-term borrowing secured by export proceeds could be monitored. Moreover, in about a third of the arrangements in which short-term debt limits were used, no special exclusions were specified (the various exclusions provided for in the other arrangements are detailed in Table 8).

7. Zero borrowing limits

The numerical limit on the contracting of medium- and long-term debt was set at zero during the program period in about one third of the cases with contracting limits. This was particularly common for short-term limits in recent years--over the period 1985-87, one half of the limits on short-term debt were set at zero. This approach is undesirable in general and has resulted in difficulties of several kinds, particularly in cases where trade finance is not excluded from coverage. It is common that some small amount of additional financing will be needed and appropriate as trade volume grows and creditworthiness is restored, and the zero limit makes no allowance for this. Even if most such finance is concessional and excluded from coverage, it is well worth avoiding noncompliance with a performance criterion arising because some public enterprise has contracted or utilized a small credit subject to the ceiling. Finally, it should be noted that in most cases where debt limits were set at zero the main sources of foreign finance fell under various exclusions from the debt ceilings. Such an approach not only renders it difficult to track the level of new borrowing and its implications for future debt service but also makes debt ceilings a less useful instrument for assisting the authorities in developing and testing their debt monitoring systems.

8. Time period covered by debt limits

In most arrangements in earlier years, the performance criterion on external debt consisted of one numerical ceiling covering the entire annual period following approval of the arrangement. Over 1983-1987, several different practices evolved. In many arrangements, a single numerical limit was specified for the entire annual period, to be tested quarterly, but likely to be binding only as the end of the annual period approached. In other instances, the debt limits were set as a step function with changing numerical amounts over the quarters intended to correspond to the expected pattern of borrowing. This was most common when limits were formulated on the basis of net disbursements. The increased frequency of conducting reviews of Fund arrangements led to the practice of setting debt limits at the outset of an arrangement for the period up through the review, at which time debt limits would be set for the remainder of the arrangement. This practice is logical when debt is monitored on the basis of disbursements and the appropriate numerical limit depends on other instruments being discussed at the time of the review, e.g., the budget deficit and balance of payments targets. When debt limits are placed on the contracting and guaranteeing of debt, a longer time horizon is generally appropriate and it should be possible to set debt limits for the entire program year at the outset of the arrangement.

Table 1. The Use of Performance Criteria Relating to Limits on External Debt, 1983-1987

(Number of arrangements)

	1983	1984	1985	1986	1987	1983-1987 Total	1983-1987 SBAs	1983-1987 EAs
Total number of upper credit tranche arrangements	35	21	26	22	13	117	110	7
Arrangements with limits on external debt as performance criteria	35	21	26	22	13	117	110	7
Of which:								
Arrangements with limits on medium- and long-term debt only	16	4	5	6	3	34	31	3
Arrangements with distinct limits on short-term and medium- and long-term debt 1/	15	14	19	15	10	73	70	3
Arrangements with a single primary limit covering both short-term and medium- and long-term debt	5	4	2	2	1	14	12	2

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ Includes some cases where the primary limit covered short-term and medium- and long-term debt, yet a distinct limit on short-term debt was also used; hence columns do not sum to total number of arrangements.

Table 2. Coverage and Time Period of Primary Limits on External Debt in Upper Credit Tranche Arrangements, 1983-1987

(Number of arrangements)

	1983	1984	1985	1986	1987	1983-1987 Total	1983-1987 SBAs	1983-1987 EAs
Total number of arrangements containing debt limits as performance criteria	35	21	26	22	13	117	110	7
A. Sectoral coverage of borrower 1/								
Central government	12	8	10	8	7	45	43	2
Public sector 2/	19	12	15	13	6	65	61	4
Public and private sectors	4	1	1	1	--	7	8	6
B. Form of limitation 1/ 3/								
Debt contracting/approval	25	17	19	19	10	90	87	3
Gross disbursement	2	1	2	1	--	6	5	1
Net disbursement 4/	8	3	5	3	2	21	19	2
Other	1	--	--	--	1	2	1	1
C. Exclusions from ceilings 1/ 5/								
No exclusions	4	2	5	1	1	13	11	2
Concessional loans	21	12	14	18	8	73	70	3
Rescheduling/ refinancing loans	10	6	12	11	7	46	44	2
Other	15	9	6	6	6	42	40	2

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ Refers to the primary limit on external debt in first program year of arrangement.

2/ Includes cases in which certain public entities are excluded from coverage; generally includes publicly guaranteed debt.

3/ Sums do not add to total number of arrangements because in two cases (Mauritius 1983 and Madagascar 1986) there were limits on both the contracting and gross disbursement on external debt.

4/ Generally specified in terms of the change in the outstanding stock of debt, adjusted for exchange rate movements.

5/ Sums do not add to total number of arrangements because many cases involved more than one type of exclusion.

Table 3. Use of Exclusions Under Various Types of Primary Debt Limits 1/

(In number of arrangements)

	1983	1984	1985	1986	1987	Total 1983-1987
Number of arrangements with debt contracting/approval limits	24	17	19	19	10	89
Of which excluded:						
No exclusions	2	1	3	--	--	6
Concessional loans	20	12	13	18	8	71
Rescheduling/refinancing loans	10	6	11	10	7	44
Other exclusions	8	6	2	3	4	23
Number of arrangements with gross disbursement limits	2	1	2	1	--	6
Of which excluded:						
No exclusions	1	1	1	1	--	4
Concessional loans	1	--	1	--	--	2
Rescheduling/refinancing loans	--	--	1	--	--	1
Other exclusions	--	--	--	--	--	--
Number of arrangements with net disbursement limits	8	3	5	3	2	21
Of which excluded:						
No exclusions	1	--	1	--	1	3
Concessional loans	--	--	--	--	--	--
Rescheduling/refinancing loans	--	--	--	1	--	1
Other exclusions	7	3	4	3	1	18
Number of arrangements with other types of limits	1	--	--	--	1	2
Of which excluded:						
No exclusions	--	--	--	--	--	--
Concessional loans	1	--	--	--	--	1
Rescheduling/refinancing loans	--	--	--	--	--	--
Other exclusions	--	--	--	--	1	1

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ Sums do not add to total number of arrangements because many cases involved more than one exclusion.

Table 4. Coverage and Time Period of Limits on Short-Term External Debt in Upper Credit Tranche Arrangements, 1983-1987

(Number of arrangements)

	1983	1984	1985	1986	1987	1983-1987 Total	1983-1987 SBAs	1983-1987 EAs
Total number of arrangements containing separate short-term debt limits as performance criteria	15	14	19	15	10	73	70	3
A. Sectoral coverage of borrower 1/								
Central government	2	5	6	4	5	22	22	—
Public sector 2/	9	6	11	9	5	40	37	3
Public sector and private commercial banks	1	1	—	—	—	2	2	—
Public and private sectors	1	1	1	—	—	3	3	—
Other	2	1	2	2	2	9	9	—
B. Form of limitation 1/								
Debt contracting/approval	2	7	4	5	5	23	22	1
Gross disbursement	1	—	2	—	—	3	2	1
Net disbursement	11	7	12	9	6	45	44	1
Other	1	—	2	1	—	4	4	—
C. Exclusions from ceilings 3/								
No exclusions	6	4	8	2	1	21	19	2
Trade credits	4	9	8	5	3	29	28	1
Import-related credits	—	—	—	5	4	9	9	—
Rescheduling/refinancing loans	1	—	2	3	1	7	7	—
Other exclusions	6	6	3	4	3	22	22	—

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ Sums do not add to total number of arrangements because in four cases there were two separate short-term limits. (Bangladesh 1985 and Mauritania 1987 had two different borrowers, same form of limitation and exclusion; Dominican Republic 1985 had two forms of limitation, gross disbursements and net disbursements; and Zaïre 1987 had two different borrowers and two forms of limitation.)

2/ Includes cases in which certain public entities outside the central government are covered even where others are excluded.

3/ Sums do not add to total number of programs because 11 cases involved more than one type of exclusion.

Table 5. *The Use of Performance Criteria Relating to Limits on External Debt, 1983-1987*

(Number of arrangements)

	1983	1984	1985	1986	1987	1983-1987 Total	SBAs	EAs
Total number of arrangements containing debt limits as performance criteria	35	21	26	22	13	117	110	7
Arrangements with limits on medium- and long-term debt only:	16	4	5	6	3	34	31	3
1-12	11	3	4	3	2	23	22	1
1-10	4	--	--	1	--	5	5	--
Over 1 year	1	1	1	1	1	5	3	2
Other	--	--	--	1	--	1	1	--
Arrangements with distinct limits on short-term and medium- and long-term debt 1/	15	14	19	15	10	73	70	3
0-1 and 1-12	6	9	10	11	6	42	41	1
0-1 and 0-12	1	1	2	1	--	5	5	--
0-1 and 1-10	2	1	2	--	--	5	4	1
0-1 and 0-10	1	--	--	--	--	1	--	1
All maturities	4	1	2	--	2	9	9	--
Over 1 year	--	--	2	--	--	2	2	--
Other 2/	1	1	1	3	2	8	8	--
Of which:								
No sublimit:	10	7	10	7	6	40	40	--
0-1 and 1-12	4	5	6	4	4	23	23	--
0-1 and 0-12	1	1	1	1	--	4	4	--
0-1 and 1-15	1	--	--	1	1	3	3	--
0-1 and all maturities	4	1	2	--	1	8	8	--
0-1 and other	--	--	1	1	--	2	2	--
With sublimit:	5	7	9	8	4	33	30	3
0-1 and 1-12/1-5	2	4	4	7	2	19	18	1
0-1 and 1-10/1-5	2	1	1	--	--	4	3	1
0-1 and other/1-5	--	1	2	1	2	6	6	--
Other	1	1	2	--	--	4	3	1
Arrangements with a primary limit covering both short-term and medium- and long-term debt	5	4	2	2	1	14	12	2
Of which:								
No sublimit:	2	3	2	2	1	10	8	2
All maturities	2	1	--	1	1	5	3	2
0-12	--	2	2	1	--	5	5	--
With sublimit:	3	1	--	--	--	4	4	--
All maturities 3/	1	--	--	--	--	1	1	--
0-12/0-5	1	1	--	--	--	2	2	--
0-12/5-12	1	--	--	--	--	1	1	--

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ Includes some cases where the primary limit covered short-term and medium- and long-term debt, yet a distinct limit on short-term debt was also used.

2/ Includes the range 1-15 years.

3/ Total maturities falling due within three years of the end of each calendar quarter.

Table 6. Maturities Covered by Primary Limits on External Debt in Upper Credit Tranche Arrangements, 1983-1987

(Number of arrangements)

						1983-1987		
	1983	1984	1985	1986	1987	Total	SBAs	EAs
Total number of arrangements containing debt limits as performance criteria	35	21	26	22	13	117	110	7
Number of arrangements containing a primary limit covering the following maturities 1/:	35	21	26	22	13	117	110	7
1-12 years	16	12	14	14	8	64	62	2
1-10 years	6	1	2	1	—	10	9	1
0-12 years	3	4	4	2	—	13	13	—
0-10 years	1	—	—	—	—	1	—	1
Over 1 year	1	1	3	—	—	5	4	1
All maturities	7	2	2	1	3	15	13	2
Other 2/	1	1	1	4	2	9	9	—
Of which:								
Number of arrangements containing a primary limit and a sublimit 1/	16	9	12	11	6	54	50	4
Maturities:								
1-12/1-5 years	8	6	7	10	4	35	33	2
1-10/1-5 years	4	—	1	—	—	5	4	1
0-12/0-5 years	1	1	—	—	—	2	2	—
Other/1-5 years	—	1	3	1	2	7	7	—
Other	3	1	1	—	—	5	4	1
Number of arrangements with no sublimit 1/	19	12	14	11	7	63	60	3
Maturity:								
1-12 years	8	6	7	4	4	29	29	—
1-10 years	2	—	—	1	—	3	3	—
0-12 years	1	3	3	2	—	9	9	—
Over 1 year	1	1	2	—	—	4	3	1
All maturities	6	2	2	1	2	13	11	2
Other 2/	1	—	—	3	1	5	5	—

Source: Staff papers dealing with requests by members for upper credit tranche stand-by arrangements and extended arrangements.

1/ Refers to the limits (primary limit or sublimit) on external debt in the first program year of arrangement only. May or may not have a separate limit on short-term debt.

2/ Includes the range of 1-15 years.

Table 7. Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

	Excluded Loans			
Arrangement	Concessional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
1983				
Argentina	No	No	Yes	Argentine foreign exchange bonds issued against pesos; debt resulting from private sector defaults
Brazil	No	No	No	Any loans obtained to refinance short-term liabilities of monetary authorities resulting from bridge operations before 12/31/82
Central African Republic	Yes	No	No	None
Chile	No	No	No	Foreign debt of Central Bank, Banco del Estado, SINAP
Ecuador	No	No	No	Central Bank debt
Ghana	Yes	No	No	Libyan oil credits
Grenada	Yes	No	No	None
Guatemala	Yes	Yes	No	None
Haiti	Yes	No	No	Accommodation of self-liquidating short-term credits within the fiscal year
Kenya	Yes	No	No	None
Korea	No	No	No	Use of IMF resources
Liberia	Yes	Yes	No	Use of IMF resources
Malawi	Yes	No	No	None
Mali	Yes	No	No	None
Mauritius	Yes	No	No	None
Morocco	Yes	Yes	No	Contracts amounting to about SDR 200 million which were then at signing stage
Niger	Yes	Yes	No	None
Panama	No	No	No	Limit on commercial debt (as sublimit of public debt) excludes debt from bilateral and multilateral development agencies

Table 7 (continued). Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

	Excluded Loans			
Arrangement	Concessional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
Philippines	No	No	No	US$1.1 billion of IMF obligations, US$1.4 billion of other short-term nonbank debt, and US$5.7 billion of monetary liabilities
Portugal	No	No	No	Foreign liabilities of Bank of Portugal and banking system
Senegal	Yes	Yes	No	Debts of Air Afrique and Agence pour la Securité de la Navigation Aerienne
Solomon Islands	Yes	No	No	None
Sri Lanka	Yes	No	No	None
Sudan	Yes	Yes	No	None
Togo	Yes	Yes	No	None
Uganda	Yes	Yes	No	Capital contributions to international institutions and normal short-term trade credits
Uruguay	No	No	No	Valuation adjustments due to alterations in external values of foreign currencies
Western Samoa	No	Yes	No	None
Zaïre	Yes	Yes	No	None
Zambia	Yes	No	No	None
Zimbabwe	Yes	No	No	None
1984				
Argentina	No	No	No	Bonds and notes issued in lieu of providing foreign exchange to meet principal payments falling due on private sector debt covered by exchange rate guarantees, obligations deriving from assumption by public sector debt of private domestic borrowers after 12/31/85, and obligations not subject to central bank debt registration system as of 9/15/84

Table 7 (continued). Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

Arrangement	Excluded Loans			
	Concessional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
Belize	No	No	Yes 2/	None
Central African Republic	Yes	No	No	None
Côte d'Ivoire	No	Yes	No	Loans to nonresident multinational enterprises with government guarantee
Dominica	Yes	No	No	None
Gambia, The	Yes	No	No	None
Ghana	Yes	No	No	None
Hungary	No	No	No	Debt of the National Bank of Hungary and specialized financial institutions
Jamaica	No	No	Yes	Bank of Jamaica short-term borrowing; gross inflows associated with project financing by multilateral and other official development agencies; import-related credits extended to the private sector and carrying a Government of Jamaica guarantee
Liberia	No	Yes	No	None
Niger	Yes	Yes	No	None
Peru	No	No	Yes	Export refinancing credits provided by IDB or IBRD; utilization by private sector of credit lines provided by foreign official entities to promote exports to Peru, and which are channeled through COFIDE or the official banking system; guarantees by COFIDE or the official banking system of foreign credits contracted by the private sector; consolidation of short-term working capital credits into medium-term loans
Philippines	Yes	Yes	Yes 2/	None

Table 7 (continued). Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

Arrange-ment	Excluded Loans			
	Conces-sional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
Sierra Leone	Yes	No	No	Possible loans for the Kimberlite Bumbuna projects up to US$10 million
Sudan	Yes	Yes	No	None
Togo	Yes	Yes	No	None
Turkey	Yes	No	No	Purchases from the IMF
Western Samoa	Yes	No	No	None
Yugoslavia	No	No	No	None
Zambia	Yes	No	No	None
1985				
Bangladesh	Yes	No	No	None
Central African Republic	Yes	Yes	No	None
Chile	No	Yes	No	None
Costa Rica	No	Yes	No	None
Côte d'Ivoire	No	Yes	No	None
Dominican Republic	Yes	Yes	No	None
Ecuador	No	No	No	Short-term central bank debt; private sector foreign debt rescheduled and assumed by the Central Bank as of 12/31/83; and the increase in public sector debt that might occur as a result of a Paris Club rescheduling covering debt service due after 6/1/84
Equatorial Guinea	Yes	Yes	No	None
Jamaica	No	No	Yes	Short-term debt of Bank of Jamaica; gross inflows associated with project financing by multilateral and official development agencies
Kenya	Yes	No	No	None

Table 7 (continued). Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

	Excluded Loans			
Arrangement	Concessional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
Korea	No	No	No	Use of IMF resources
Mali	Yes	Yes	No	None
Mauritania	Yes	Yes	No	None
Mauritius	Yes	No	No	None
Nepal	Yes	No	No	Amounts already contracted as of 9/30/85, and funding for one jet aircraft in 1985/86
Niger	Yes	Yes	No	None
Senegal	Yes	Yes	No	Debts of Air Afrique and Agence pour la Securité de la Navigation Aerienne
Somalia	Yes	No	No	None
Togo	Yes	Yes	No	None
Uruguay	No	No	No	Foreign currency deposits of nonresidents
Zaïre	Yes	Yes	No	None
1986				
Bolivia	No	Yes	Yes 2/	None
Burundi	Yes	No	No	None
Congo	Yes	Yes	No	None
Côte d'Ivoire	No	Yes	No	None
Ecuador	No	No	No	Short-term debt of Central Bank; increase in public sector debt that might occur as a result of a Paris Club debt rescheduling covering debt service falling due after 6/1/84
Gabon	Yes	No	No	None
Gambia, The	Yes	Yes	No	None
Ghana	Yes	Yes	No	None

Table 7 (continued). Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

Arrange-ment	Excluded Loans			
	Conces-sional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
Guinea	Yes	No	No	None
Madagascar	Yes	No	No	None
Mauritania	Yes	Yes	No	None
Mexico	No	No	No	Interest rebates related to the 1984 debt rescheduling
Morocco	Yes	Yes	No	None
Niger	Yes	No	No	None
Philippines	Yes	No	No	Liabilities of commercial banks matched by short-term placements with nonresidents
Senegal	Yes	Yes	No	Borrowing by multinational companies Air Afrique and Agence pour la Securité de la Navigation Aerienne
Sierra Leone	Yes	No	No	None
Tanzania	Yes	Yes	No	None
Togo	Yes	No	No	None
Tunisia	Yes	No	No	None
Zaïre	Yes	Yes	No	None
Zambia	Yes	Yes	No	SDR 100 million in 1986 to finalize ZCCM's annual investment program for mining development as agreed with World Bank, and syndicated loans for oil imports (oil facility)

Table 7 (concluded). Categories of Loans Excluded from Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

Arrangement	Excluded Loans			
	Concessional	Rescheduling/ refinancing	Central bank reserve liabilities	Other
1987				
Argentina	No	No	No	Debts of COGASCO and some types of private debt assumed by the government or with exchange guarantee
Central African Republic	Yes	No	No	None
Costa Rica	No	Yes	No	Loans under the Mexico-Venezuela oil facility
Côte d'Ivoire	Yes	Yes	No	None
Egypt	Yes	No	No	World Bank project loans already approved and not signed and three sector loans under active negotiation
Ghana	Yes	Yes	No	Three specified credits
Guinea	Yes	No	No	None
Jamaica	No	No	Yes	Gross inflows of project financing from multilateral and other development agencies
Mauritania	Yes	Yes	No	None
Senegal	Yes	Yes	No	Loans contracted by Air Afrique and ASECNA
Somalia	No	Yes	No	None
Zaïre	Yes	Yes	No	None

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ No entry is made for arrangements in which the debt limit provided for no exclusions.
2/ In this case reserve liabilities of the entire banking system are excluded.

Table 8. Categories of Loans Excluded from Short-Term Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987 1/

Arrange- ments	Excluded Loans			
	Trade credits	Import credits	Rescheduling/ refinancing	Other
1983				
Ecuador	No	No	No	Central bank debt
Ghana	Yes	No	No	Bridging loans and Libyan oil credits
Malawi	Yes	No	No	None
Mauritius	Yes	No	No	None
Morocco	No	No	Yes	None
Philippines	No	No	No	US$1.1 billion in IMF obligations; US$1.4 billion in other short-term nonbank debt; and US$5.7 billion of monetary liabilities
Portugal	No	No	No	Foreign liabilities of Bank of Portugal and banking system
Turkey	Yes	No	No	Reserve-related foreign liabilities of banking system, and saving schemes for workers abroad
Uruguay	No	No	No	Central bank debt
1984				
Argentina	No	No	No	Reserve liabilities
Dominica	Yes	No	No	None
Gambia, The	Yes	No	No	Amount not exceeding SDR 7 million which will be confined to bridging purposes
Ghana	Yes	No	No	Bridging loans against Fund purchases
Liberia	Yes	No	No	None
Madagascar	Yes	No	No	None
Sierra Leone	Yes	No	No	None
Togo	Yes	No	No	Customary commercial credits
Turkey	Yes	No	No	Reserve-related foreign liabilities of banking system, and saving schemes for workers abroad
Zambia	Yes	No	No	Bridging loans

Table 8 (continued). Categories of Loans Excluded from Short-Term Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-87

Arrange-ments	Excluded Loans			
	Trade credits	Import credits	Rescheduling/ refinancing	Other
1985				
Central African Republic	Yes	No	Yes	None
Costa Rica	Yes	No	No	None
Dominican Republic	No	No	Yes	None
Ecuador	No	No	No	Central bank debt; private sector foreign debt rescheduled and assumed by Central Bank after 12/31/83; and increase in public sector debt that might occur as a result of a Paris Club rescheduling covering debt service falling due after 6/1/84
Equatorial Guinea	Yes	No	No	None
Jamaica	Yes	No	No	None
Madagascar	Yes	No	No	None
Mali	Yes	No	No	None
Panama	No	No	No	Net disbursements from bilateral and multilateral international development agencies
Somalia	Yes	No	No	None
Togo	Yes	No	No	Customary commercial credits
1986				
Burundi	Yes	No	No	None
Ecuador	No	No	No	Central bank debt, and the increase in public sector debt that might occur as a result of a Paris Club rescheduling covering debt service falling due after 6/1/84
Gabon	Yes	No	No	None
Gambia, The	Yes	No	No	Specified bridging finance
Mauritania	Yes	No	No	None

Table 8 (concluded). Categories of Loans Excluded from Short-Term Foreign Debt Limitations in Upper Credit Tranche Arrangements, 1983-1987

Arrange-ments	Excluded Loans			
	Trade credits	Import credits	Rescheduling/ refinancing	Other
Morocco	No	Yes	No	None
Senegal	No	Yes	No	None
Sierra Leone	No	Yes	No	None
Tanzania	No	No	Yes	None
Togo	Yes	No	No	Customary commercial credits
Tunisia	No	Yes	No	None
Zaïre	No	No	Yes	None
Zambia	No	Yes	Yes	Bridging loans or syndicated loan for oil imports
1987				
Argentina	No	No	No	Reserve liabilities
Central African Republic	No	Yes	No	None
Costa Rica	Yes	No	No	None
Egypt	Yes	No	No	None
Guinea	No	Yes	No	None
Jamaica	No	No	No	Reserve liabilities
Mauritania	Yes	No	No	None
Senegal	No	Yes	No	None
Somalia	No	Yes	Yes	Bridge loans to repay arrears to multilaterals

Source: Staff papers dealing with requests by members for upper credit tranche stand-by and extended arrangements.

1/ No entry is made for arrangements in which the short-term debt limit provided for no exclusions.