FINANCING AND EXTERNAL DEBT OF DEVELOPING COUNTRIES

1991 SURVEY

The OECD’s annual survey contains a wide-ranging factual and analytical review of financial flows to developing countries and their debt situation. On the basis of preliminary data, the 1991 survey shows that the total net resource flows to the developing countries, at $137.5 billion, were broadly on a par with the 1990 high, adding further confirmation to the recovery which has taken place over the last few years. While resource flows fell slightly in real terms on their 1990 level, this should be seen in the context of the unsettled economic and political situation prevailing in 1991 and their impact on certain categories of flows, such as international bank lending, which fell sharply from its 1990 level.

Official development finance (ODF), at $79 billion (57 per cent of total flows), continues to be the backbone of financial flows to the developing countries. ODF has proved to be a stable and dependable component of total flows over the last decade, particularly when seen in relation to important fluctuations in the levels of other main components. However, while the role of ODF is likely to be maintained, a major increase in its volume over the next years is not expected; developing countries will therefore increasingly have to rely on -- and take the necessary steps to attract -- private, and particularly non-debt creating, flows to meet their growing resource needs.

Aggregate developing country debt stocks continue to grow, but at a slow pace, with new net lending largely offset by debt reorganisations. Of particular interest is the continued decline in debt service payments, which fell by $8 billion in 1991, the largest yearly drop since 1988.
Since the emergence of the debt crisis, there has been significant evolution in the manner in which debt problems are perceived and dealt with. A number of countries have now "graduated" from the debt restructuring process and regained access to international capital. Others are moving in this direction. However, for a large number of developing countries, particularly the poorer ones, the debt burden still clearly hinders their ability to put their economies on a sounder footing. Recent developments in the debt strategy provide a promising opening for countries to put their debt on a more sustainable footing. The key to this lies in a commitment to policy reform. Experience has shown that it is those countries that have a sound track record of reform that have been able to complete debt restructuring packages and normalise relations with creditors.

Highlights of Recent Developments

(1. Resource flows)

On the basis of preliminary data, net flows to developing countries totalled $137.5 billion in 1991 in current terms. While similar to the 1990 level, there were important changes in the behaviour of the main components of the resource flows picture.

-- {Official development finance (ODF)}:

* DAC bilateral and multilateral disbursements increased in real terms and continued to be concentrated at highly concessional terms.

* Aid from Arab donors dropped sharply, while that from the countries of Central and Eastern Europe came to a virtual cessation.

-- {Export credits}:

* Export credits continued their decline as a source of development finance, accounting for only 2 per cent of net flows in 1991.

-- {Private flows}:

* International bank lending, which had been expanding strongly since 1988, plummeted to only $7 billion in 1991.

* A large part of this fall was offset by a surge in bonds, which jumped to $9 billion.
* Foreign direct investment recovered from its slight fall in 1990 and now represents over half of total net private flows to developing countries.

-- (Regional and income group patterns):
  * About half of total flows went to the low-income countries (LICs) 1988-91, which continue to be very dependent on ODF, especially concessional finance. The least developed countries (LLDCs) remain unable to attract private flows and Africa’s dependence on ODF as a source of external capital is now near total.
  * The better-off developing countries (UMICs) have been receiving a growing share of resources, largely due to their increasing attractiveness for private flows, particularly foreign direct investment.
  * ODF remains the most important component of resource flows to the Western Hemisphere since the drying-up of private finance after the debt crisis. Private flows, particularly foreign direct investment, have now picked up again as a result of better economic performance and improved investor and lender confidence.

(2. Debt and debt service payments)
  * The stock of external debt of the developing countries increased by 2.5 per cent in 1991 to $1,478 billion. New net lending was largely offset by debt reorganisations.
  * The trend in long-term debt has been relatively flat since 1987. There has been a noticeable reduction in bank debt as a result of reduced past lending and debt reorganisation. By contrast, there has been a strong expansion of short-term debt.
  * The share of multilateral in total debt has been expanding steadily; the main component of multilateral debt is still non-concessional.
  * The accumulation of arrears in the last few years is hampering the restoration of creditor-debtor relations. Most of the recent increase in arrears concerns debt to private creditors.
  * Aggregate debt service payments have been falling since 1988. This is a general trend, evident throughout the main income and regional groups of developing countries. This is due to the steady improvement in the overall structure of debt (including the results of debt reorganisations) and the growing relative importance of concessional debt.
• Debt stocks in the Western Hemisphere have fallen in absolute terms, largely as a result of the reduction in long-term bank debt. As a result of a broad-based growth of external debt, Asia has now surpassed the Western Hemisphere as the region with the largest stock of debt.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (tel. 45 24 80 88 or 80 89).