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REPORT ON DEBT RELIEF GRANTED BY THE UNITED STATES TO DEVELOPING COUNTRIES

EXECUTIVE COMMUNICATION 483

LETTER OF TRANSMITTAL FROM THE SECRETARY OF THE
TREASURY AND TEXT OF THE FIRST ANNUAL REPORT ON
DEBT RELIEF GRANTED BY THE UNITED STATES TO
DEVELOPING COUNTRIES AS REQUIRED BY SECTION 634(g)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED



APRIL 15, 1975

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FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C., April 15, 1975.

In 1973 the Congress added a provision to the Foreign Assistance Act of 1961 which requires the President to submit annually a report to the Congress showing—

(1) a summary of the worldwide dimensions of debt-servicing problems among such countries, together with a detailed statement of the debt-servicing problems of each such country ;

(2) a summary of all forms of debt relief granted by the United States with respect to such countries, together with a detailed statement of the specific debt relief granted with respect to each such country and the purpose for which it was granted ;

(3) a summary of the worldwide effect of the debt relief granted by the United States on the availability of funds, authority, or other resources of the United States to make any such loan, sale, contract of guarantee or insurance, or extension of credit, together with a detailed statement of the effect of such debt relief with respect to each such country ; and

(4) a summary of the net aid flow from the United States to such countries, taking into consideration the debt relief granted by the United States, together with a detailed analysis of such net aid flow with respect to each such country.

The report contained herein is the first annual report to be received under that provision. It was forwarded to the committee by the Speaker of the House as Executive Communication 483. I hope that Members may find it useful in future legislative deliberations.

THOMAS E. MORGAN, *Chairman.*

LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, D.C., February 28, 1975.

HON. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: I am pleased to transmit herewith a copy of the first annual report on debt relief granted by the United States to developing countries as required by Section 634(g) of the Foreign Assistance Act of 1961, as amended.

This is a comprehensive report containing detailed information on the recent debt servicing problems of major debtor countries and the means by which the United States and other creditor countries have dealt with these problems. We have attempted to give an assessment of the abilities of the key countries to service their debts in 1975. However, you can appreciate that the uncertainty of both political and economic events in these countries makes any prediction subject to major change.

You will note that the report is based on data as of calendar year 1972. Just today, we have received from the World Bank debt information covering calendar year 1973. Not wanting to further delay the transmission of this report, we will provide you within the next two weeks an addendum with updated information.¹

I hope this information will be of use to you and other Members of the House. Because of his direct interest in this subject, I am also sending a copy of the report to Congressman Thomas Morgan, Chairman, Foreign Affairs Committee.

Sincerely,

WILLIAM E. SIMON.

¹ The addendum appears on p. 115.

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I. SUMMARY AND CONCLUSIONS

At the end of the United States' fiscal year 1974, the public external debt (of over one-year maturity) of 86 developing countries to the United States was some \$24 billion. This amount places the United States as the largest creditor of these developing countries. The total external public debt (of over one-year maturity) of these countries was \$99 billion at the end of 1972, the latest year for which comprehensive debt data are available.

The distribution of the \$99 billion debt among developing countries varies considerably according to income distribution and geographic grouping. The low income countries, those with a per capita income of less than \$200 per year, accounted for less than 25 percent of the total. About 90 percent of the low income countries' debt was on very concessional terms carrying a grant element of 77 percent.

External public debt of developing countries is a counterpart of foreign resources loaned to developing countries. As such, the debt is used to augment a developing country's domestic savings to permit the acceleration of domestic economic growth. The accumulation of debt should not cause debt service problems if productive use has been made of the external resources and appropriate economic policies have been followed. From time to time, however, some countries may experience debt servicing problems.

In recent years, the rate of growth of the external public debt of developing countries has increased from about 13 percent in the mid-1960's to about 15-16 percent per annum. The growth of this debt, however, cannot be generalized into a debt problem for developing countries. Indeed, it is difficult to attribute the origin of debt problems to a single cause since the deterioration in the economic situations of debtor countries is often the result of a complex series of economic and non-economic events. Common characteristics, including various aspects of poor economic management, have reappeared. A combination of statistical series is utilized by financial analysts to signal potential debt servicing problems. In addition, informed judgements of country specialists in the agencies and departments of the government also serve to identify emerging debt problems of developing countries. When a potential debt servicing problem is identified, country debt reviews are initiated by a staff committee of the National Advisory Council on International Monetary and Financial Policies.

The increase in oil and other commodity prices sharply increased the balance of payments deficits of many developing countries. At the same time, the effects of worldwide inflation have served to reduce the real burden of debt service payments because of increases in many export prices of developing countries. A recent World Bank study indicates that the real burden of debt contracted five years ago has decreased by about one-third.

Borrowing in the Euro-currency markets on commercial terms has become an important additional source of finance to some developing countries in recent years. As oil exporting and high income developing countries accounted for virtually all such borrowing in 1973 and 1974, it is reasonable to assume that this borrowing will not create many serious debt servicing problems.

As the largest creditor of developing countries, the U.S. maintains an acute awareness of potential debt service problems. The United States does not, however, consider debt rescheduling a policy instrument for providing official economic assistance. The U.S. has actively participated in the work programs of international institutions concerned with debt service problems of developing countries and has taken a leadership role to establish financial facilities to assist the poorest countries on terms which will not generate debt service problems.

Developing countries generally have a good record in meeting their debt service payments to the United States, and it has been the exception to reschedule their debts. In fiscal year 1974, the U.S. participated in three major multilateral reschedulings: Pakistan, India and Chile. The Pakistan exercise, dating back to 1972, involved a dispute over the division of the official external debt incurred by Pakistan on behalf of its former East Wing, the new state of Bangladesh. The Pakistan Aid Consortium, chaired by the World Bank, reached agreement in principle on a final rescheduling of \$650 million in June 1974. The U.S. also participated in a debt rescheduling exercise for India within the Aid to India Consortium, also chaired by the World Bank. In 1975, U.S. financial flows to India are expected to be primarily in the form of appropriated assistance.

Under the auspices of the Paris Creditors' Club, the U.S. also participated in a debt rescheduling exercise for Chile to deal with a default situation. In the face of extremely large debt service payments scheduled for calendar year 1975 and a large deficit in its current account and overall balance of payments, Chile has recently requested the Paris Creditors Club to convene for purposes of rescheduling its 1975 debt. The United States intends to participate in this debt rescheduling exercise.

Pakistan and India face a difficult year in 1975. Their ability to avoid debt servicing problems will depend on their undertaking of appropriate economic adjustment measures and upon the extent to which bilateral and multilateral financing is available to cover projected deficits in their balance of payments. Other major creditors of the U.S., such as Korea, Brazil, Turkey, Indonesia and Israel, should be able to meet their debt obligations in 1975.

It is impossible to generalize about the effect that a debt rescheduling will have on the extension of new credits by the United States government. Under certain circumstances, a debt rescheduling will lead to the extension of additional credits; under other circumstances, the rescheduling may create an unwillingness to provide new credits which the debtor country might be unable to service. Moreover, certain statutory provisions setting limits on commitment authority and on outstanding obligations may, in the case of a rescheduling, reduce the funds available for providing new loans.

II. A SUMMARY OF THE WORLDWIDE DIMENSIONS OF DEBT-SERVICING PROBLEMS OF THE DEVELOPING COUNTRIES

1. Introduction

Debt servicing problems of the developing countries have been the subject of periodic comment, study and analysis by such groups as the World Bank, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and the United Nations' Committee on Trade and Development (UNCTAD). As the rate of growth of developing countries' external debt rose steadily from about 13 percent in the mid-1960's to about 15-16 percent in recent years, the debt servicing problems of these countries have been closely scrutinized, particularly so following the rise in prices of oil, food and fertilizer.

The growth in external debt of developing countries reflects a number of economic and institutional changes which have occurred in the past two decades. As developing countries increased their level of economic activity and rates of real economic growth, their capacity to borrow also increased. For most developing countries, this economic growth was reflected in a shift from official grants to concessionary loans, and for the more developed, from concessionary loans to borrowing from commercial sources, including the Euro-currency market. This is a natural process of financial development which has been a major factor in the unprecedented acceleration of economic growth of many developing countries in the post-war period.

2. Basic Considerations

A country's rate of economic growth essentially depends on the extent to which savings can be mobilized for domestic investment and on the efficiency with which such investment is translated into output of goods and services (the capital/output ratio). Since most developing countries aim to accelerate their rate of growth, they seek access to foreign financial resources to supplement domestic savings. For the most part, such foreign savings take the form of loan capital rather than grant.

Economic theory holds that loan capital may benefit or impoverish a borrowing country depending on the marginal cost of foreign borrowing and the marginal productivity of investment. That is, the rate of return of the least productive project must be higher than the cost of the most expensive loan, if the country is not to be worse off than it would be without the loan and the project. As long as foreign debt is undertaken within these parameters, foreign loan capital will be of benefit to the borrowing country. In actual practice, however, it may be extremely difficult to quantify the marginal benefits of foreign capital to the borrower's economy, especially when such benefits accrue in the future or indirectly, such as general social or economic benefits.

3. Worldwide Debt Situation

At the end of 1972, the latest year for which comprehensive debt data are available, the value of outstanding external public debt of 86 developing countries was \$99 billion, as compiled by the World Bank. ^{1/} Bilateral official debt at \$49 billion accounted for nearly one-half of this amount, lending by multilateral institutions was \$20 billion, or about 20 percent, while supplier credits and lending by private banks stood at \$30 billion, or 30 percent. This pattern of lending has not altered significantly over the past three years.

Table 1

Authorized External Outstanding Public Debt
of 86 Developing Countries at Year End 1972
(in \$ millions)

Bilateral Official	\$49,094.7
Multilateral	19,762.9
Private	
Supplier	12,186.4
Banks	10,953.1
Other	<u>7,378.7</u>
TOTAL	<u>\$99,375.8</u>

Source: World Bank

^{1/} Includes undisbursed and disbursed debt of over one year maturity.

At the end of calendar year 1973, total authorized external debt of the developing countries is estimated at \$115 billion.

The current value of these various types of official loans to developing countries varies widely due to differences in interest rates and maturities. One method which makes it possible to change these loans to a common denominator is the discounted value technique, which reduces the nominal amount of debt to the present value of all future payments required by the borrower to liquidate its total debt obligations.^{1/}

Utilizing this method and a 10 percent discount rate, the OECD calculates the present value of debt on International Development Association (IDA) terms at 14 percent of the nominal amount, of bilateral debt at 43 percent, and of export credit and private bank debt at 90-100 percent of the nominal amount.^{2/} In the aggregate, the present value of debts outstanding of the developing countries at year end 1972 is about \$63 billion, reflecting the concessional terms of much of the debt, compared to a nominal value of \$99 billion.

4. Income and Geographic Groupings

Disaggregating the \$99 billion external public debt liability of the 86 developing countries shows that just five of these countries account for 35 percent of the debt: India \$11.6 billion, Brazil \$7.7 billion, Iran \$5.9 billion, Indonesia \$5.1 billion, and Mexico \$4.8 billion. Adding the next five highest ranking countries brings this amount to over one-half of the total debt: Pakistan \$4.6 billion, Israel \$3.8 billion, Korea \$3.6 billion, Argentina \$3.5 billion, and Chile \$3.4 billion. External debt of each of the 86 countries is listed in Table 2. By income distribution, Table 3

^{1/} For its part, the creditor would derive the same benefit from a smaller amount paid in full now as from the larger total amount paid over longer term existing payments, assuming he could invest the receipts at the same rate of interest which was used to discount the debt service.

^{2/} IDA terms are 50 year repayment including 10 years grace and a service charge of .75 percent per annum.

Table 2

External Public Debt Outstanding, of 86 Developing Countries,
by Country and Type of Creditor, December 31, 1972
(US\$ millions)

Area Country	Disbursed only	Including undisbursed					
		Total	Bilateral official	Multi- lateral	Suppliers	Banks	Other
Africa-Total	10,900.5	16,247.6	8,661.7	2,965.8	2,524.9	1,162.7	932.7
Algeria.....	1,625.0	2,827.0	1,227.8	16.9	1,152.2	368.0	62.1
Botswana.....	46.3	78.3	30.4	44.3	0.4	-	3.2
Burundi.....	6.9	8.1	1.6	5.3	1.0	-	0.2
Cameroon.....	217.1	301.5	132.6	106.7	43.7	18.1	0.4
Central African Republic...	33.7	61.8	33.8	12.7	9.1	2.5	3.7
Chad.....	18.3	27.2	11.1	11.8	3.5	-	0.8
Congo, People's Republic of	160.8	318.0	148.2	47.7	116.2	-	5.9
Dahomey.....	44.6	90.7	48.2	18.1	10.8	13.4	0.2
East African Community.....	165.4	263.6	30.2	175.7	-	-	57.6
Egypt, Arab Republic of....	1,571.1	2,040.9	1,622.4	67.2	105.9	44.9	200.4
Ethiopia.....	227.2	359.8	151.3	170.0	3.6	34.9	-
Gabon.....	190.7	202.8	46.3	31.9	82.7	34.6	7.4
Gambia, The.....	10.8	14.6	11.2	3.4	-	-	-
Ghana.....	572.0	624.7	333.6	78.3	212.8	-	-
Ivory Coast.....	402.4	699.8	259.0	133.7	140.6	96.5	70.0
Kenya.....	353.4	510.3	245.5	187.4	13.3	23.2	40.9
Lesotho.....	8.3	8.3	2.8	4.5	-	0.6	0.5
Liberia.....	153.7	179.4	123.9	30.8	17.1	6.2	1.4
Malagasy Republic.....	89.5	140.7	61.9	58.6	10.5	6.2	3.5
Malawi.....	172.7	231.2	151.8	52.2	8.0	1.2	17.9
Mali.....	262.0	324.0	282.2	29.0	12.1	0.7	-
Mauritania.....	36.4	82.3	63.3	17.6	1.4	-	-
Mauritius.....	29.6	90.0	73.3	13.8	-	-	3.0
Morocco.....	852.1	1,112.4	678.7	282.7	49.3	63.9	37.9
Niger.....	48.4	70.2	47.8	16.0	6.4	-	-
Nigeria.....	609.0	1,035.2	483.3	467.0	57.2	23.4	4.3
Rwanda.....	3.0	14.2	1.7	12.3	0.1	-	-
Senegal.....	112.9	191.0	85.4	60.1	18.7	-	26.8
Sierra Leone.....	80.1	100.5	44.7	22.9	27.3	-	5.6
Somalia.....	106.7	231.8	200.7	25.3	-	-	5.9
Sudan.....	297.6	382.1	190.7	137.6	9.1	44.7	0.2
Swaziland.....	33.1	36.6	17.3	8.5	6.6	4.2	-
Tanzania.....	310.9	645.9	464.7	126.9	0.3	21.2	32.8
Togo.....	42.4	46.0	34.7	5.4	5.4	0.5	-
Tunisia.....	697.7	1,091.1	700.8	199.6	70.4	112.5	7.8
Uganda.....	168.0	214.5	128.2	54.3	-	3.3	28.6
Upper Volta.....	19.0	41.2	22.0	17.9	1.3	-	-
Zaire.....	584.8	762.6	162.3	83.6	308.5	203.5	4.8
Zambia.....	536.8	787.4	306.3	128.2	19.5	34.7	298.7
East Asia-Total	9,664.9	13,823.8	7,558.0	2,724.7	1,954.5	979.0	607.6
China, Republic of.....	811.4	1,593.6	848.2	393.8	305.6	41.3	4.8
Fiji.....	11.9	29.9	7.8	18.7	-	-	3.4
Indonesia.....	4,026.3	5,118.1	3,937.6	406.1	298.6	172.3	303.6
Korea, Republic of.....	2,603.1	3,633.4	1,526.3	551.8	1,169.6	263.1	122.7
Malaysia.....	629.8	979.0	255.5	387.5	31.7	201.7	102.7
Philippines.....	853.8	1,275.4	603.3	339.4	43.8	271.2	17.8
Singapore.....	268.2	436.7	133.3	207.5	22.2	21.1	52.7
Thailand.....	396.3	661.7	198.1	408.7	46.5	8.3	-
Viet-Nam.....	64.2	95.8	48.0	11.3	36.5	-	-
Middle East-Total	7,781.6	11,035.9	6,399.6	842.1	1,216.4	1,033.4	1,544.4
Iran.....	3,463.5	5,928.0	3,532.5	566.4	1,088.5	676.7	63.8
Iraq.....	318.6	460.0	389.5	57.6	12.9	-	-
Israel.....	3,570.9	3,863.6	1,777.2	171.3	83.1	351.3	1,480.6
Jordan.....	161.1	221.6	193.9	22.3	-	5.4	-
Syrian Arab Republic.....	243.2	510.4	455.7	22.9	31.8	-	-
Yemen, People's Democratic Republic of.....	24.2	52.4	50.8	1.6	-	-	-

Table 2 (cont'd)

External Public Debt Outstanding of 86 Developing Countries,
by Country and Type of Creditor, December 31, 1972
(US\$ millions)

Area Country	Disbursed only	Including undisbursed					
		Total	Bilateral official	Multi- lateral	Suppliers	Banks	Other
South Asia-Total	15,050.9	18,384.2	13,098.5	3,998.6	1,124.6	154.5	8.1
Afghanistan.....	680.1	773.8	740.0	21.0	12.0	0.8	-
Bangladesh.....	61.0	333.5	112.2	109.3	112.0	-	-
Burma.....	163.5	305.6	227.6	10.2	65.5	2.3	-
India.....	9,856.9	11,652.8	8,196.9	2,812.4	574.6	66.5	2.4
Pakistan.....	3,847.3	4,646.5	3,345.4	934.3	302.9	63.5	0.5
Sri Lanka.....	442.2	671.9	476.3	111.3	57.6	21.4	5.3
Southern Europe-Total	7,030.8	10,308.5	5,179.1	1,917.9	758.2	1,735.4	715.0
Cyprus.....	40.8	73.4	15.9	47.7	9.1	0.7	-
Greece.....	1,311.2	1,744.0	281.3	194.1	175.8	805.6	287.2
Malta.....	21.8	21.8	17.9	3.9	-	-	-
Spain.....	1,473.1	2,064.2	723.1	374.4	102.9	612.7	251.0
Turkey.....	2,454.6	3,364.4	2,403.4	711.9	133.8	43.9	71.5
Yugoslavia.....	1,729.3	3,040.7	1,737.4	585.9	336.5	272.6	103.3
Western Hemisphere-Total	21,458.4	29,575.7	8,197.9	7,314.0	4,607.8	5,888.1	3,557.9
Argentina.....	2,607.3	3,575.8	440.5	741.0	892.0	665.6	835.7
Bolivia.....	628.1	763.6	376.5	89.2	87.9	35.2	174.8
Brazil.....	4,883.6	7,746.7	2,294.3	1,947.0	1,651.2	1,386.5	457.5
Chile.....	2,619.2	3,364.9	1,705.4	219.8	457.6	496.7	455.3
Colombia.....	1,625.7	2,292.5	957.3	955.0	171.4	146.8	61.9
Costa Rica.....	192.0	275.0	73.0	142.1	15.5	33.0	11.5
Dominican Republic.....	270.2	317.4	238.0	36.4	12.8	28.7	1.5
Ecuador.....	304.2	466.4	140.8	123.7	105.3	64.6	32.0
El Salvador.....	109.3	156.3	54.6	78.5	-	20.4	2.9
Guatemala.....	110.7	199.8	69.7	91.5	7.6	28.7	2.3
Guyana.....	152.6	204.4	115.2	22.9	-	7.1	59.3
Honduras.....	119.3	169.9	39.3	122.6	5.0	3.0	-
Jamaica.....	188.1	335.2	111.2	58.7	24.5	82.8	59.0
Mexico.....	3,988.4	4,842.1	460.3	1,559.3	348.4	1,519.3	954.8
Nicaragua.....	211.9	306.1	83.4	116.7	2.6	78.1	25.4
Panama.....	336.0	453.4	107.2	137.1	37.8	108.5	62.9
Paraguay.....	114.9	183.4	102.6	50.0	25.2	4.1	1.5
Peru.....	1,152.3	1,666.8	533.0	196.4	386.0	349.9	201.5
Trinidad and Tobago.....	109.7	134.3	21.1	54.5	4.0	41.2	13.5
Uruguay.....	412.8	492.8	143.5	113.6	85.6	131.0	19.1
Venezuela.....	1,322.3	1,629.1	131.1	458.0	287.7	657.1	95.1
GRAND TOTAL	71,887.0	99,375.8	49,094.7	19,762.9	12,186.4	10,953.1	7,378.6

Source: World Bank.

TABLE 3

Debt outstanding, including undisbursed
of 86 developing countries, 1965-72

End of Year	Total	Oil Producers			Other Countries		
		% of			% of		
		Total	High	Total	Medium	Low	Total
1965	38.1	5.9	14.6	38.3	6.4	11.1	29.1
1966	43.4	6.5	16.2	37.3	7.6	13.1	30.2
1967	50.3	7.3	20.1	40.0	8.7	14.2	28.2
1968	56.9	8.4	22.7	39.9	9.8	15.9	27.9
1969	63.5	10.0	25.0	39.4	11.2	17.2	27.1
1970	72.9	12.1	29.0	39.8	12.6	19.2	26.3
1971	85.1	15.0	34.5	40.5	14.5	21.1	24.8
1972	99.4	17.7	41.9	42.1	16.7	23.1	23.2

Note: Items may not add to totals due to rounding. Includes the countries listed below:

Oil exporters -- Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Nigeria, Venezuela.
Higher-income countries -- Argentina, Botswana, Brazil, Chile, China (Republic of), Colombia, Costa Rica, Cyprus, Dominican Republic, Fiji, Greece, Guatemala, Guyana, Israel, Jamaica, Malaysia, Malta, Mexico, Nicaragua, Panama, Peru, Singapore, Spain, Trinidad and Tobago, Tunisia, Uruguay, Yugoslavia, Zambia.
Middle-income countries -- Bolivia, Cameroon, Congo (People's Republic of), Egypt (Arab Republic of), El Salvador, Ghana, Honduras, Ivory Coast, Jordan, Korea (Republic of), Liberia, Mauritius, Morocco, Paraguay, Philippines, Senegal, Swaziland, Syrian Arab Republic, Thailand, Turkey, Viet-Nam.
Lower-income countries -- Afghanistan, Bangladesh, Burma, Burundi, Central African Republic, Chad, Dahomey, Ethiopia, Gambia (The), India, Kenya, Lesotho, Malagasy Republic, Malawi, Mali, Mauritania, Niger, Pakistan, Rwanda, Sierra Leone, Somalia, Sri Lanka, Sudan, Tanzania, Togo, Uganda, Upper Volta, Yemen (People's Democratic Republic of), Zaire, plus East African Community.

Source: World Bank

shows that oil producing and high income developing countries account for about 60 percent of the \$99 billion total, medium income countries about 16 percent, and low income countries, those with per capita income of less than \$200 per year, only 23 percent. Even more significant is the fact that oil producing and high-income countries, whose capacity to service debt has increased, accounted for about two-thirds of the \$60 billion increase which occurred in the period 1965-72. Medium and low-income countries accounted for only 16 and 18 percent, respectively.

About 90 percent, or \$21 billion, of the \$23 billion external debt of the lower income countries was concessional lending, i.e., loans from bilateral official assistance and multilateral institutions. Only 7 percent, or \$1.5 billion, represented supplier credits while 3 percent, or about \$700 million, was attributed to banks and other sources. In contrast, hard term lending -- supplier credits, lending by banks and other private sources -- accounted for some 35 percent, or \$20 billion, of the \$58 billion total debt of the oil producing and high income developing countries while soft term lending from bilateral official assistance and multilateral institutions accounted for about 65 percent of the total. This difference is further emphasized by the fact that the grant element, a measure of concessionality, was high for the low income countries -- 77 percent -- and low for the oil producing and high income countries -- 34 percent and 25 percent, respectively. 1/

By geographic grouping, Latin American, Caribbean and South Asian countries account for some \$50 billion, or 50 percent, of the debt outstanding, Africa \$16 billion, or 16 percent, East Asia, the Middle East and Southern Europe \$13 billion, \$11 billion and \$10 billion, respectively.

1/ The grant element is the face value of loan commitments less the discounted present value of the future flow of repayments of principal and interest (using the customary rate of 10 percent) and expressed as a percentage of face value.

5. Basic Causes of Debt Service Problems

The causes of debt servicing problems do not lend themselves easily to generalizations. Debt service problems may be caused by deficiencies in the management of monetary, fiscal and balance of payments policies including external debt management. Some debt servicing problems arise from extenuating circumstances that can complicate economic management. Some of these are changes in government, economic effects of war, impact of floods, droughts and other climatic disasters and sudden large changes in the terms of trade due to external events that have sudden adverse effects on the ability to earn foreign exchange.

The immediate cause of debt servicing difficulties is usually an acute lack of foreign exchange with which to meet contracted external payments due to a general balance of payments problem. Such a situation may be due to a number of factors, some of which are within the control of debtor governments while others are not. In any case, these difficulties would probably exist even without the need to pay debt service. Usually, balance of payments difficulties which could make a debtor country susceptible to debt service problems arise from excessive domestic demand associated with relatively large public sector spending and inadequate domestic savings. As a result, sizeable budget deficits develop which require an unusually large creation of domestic credit that increases inflationary pressures, increases imports, reduces export competitiveness and promotes capital flight. Over time, this process tends to accelerate as the exchange rate becomes more over-valued and as public confidence in the country's ability to manage the balance of payments declines. Some countries begin to borrow foreign commercial funds on harder terms -- higher interest rates, shorter maturities and other more restrictive conditions -- to cover payments for essential imports. Consequently, less rigorous attention may be given to the planning, appraisal and implementation of investment projects. This, of course, increases the near term schedule of debt service payments and tends to intensify problems due to the shortage of foreign exchange.

A borrowing country has the primary and ultimate responsibility for the management of its external debt structure. Nevertheless, external suppliers tend to provide credits to finance imports because risks are minimized through financing and insurance facilities. In some instances, official export credit and insurance might have been extended more upon the basis of trade competition and less upon adequate attention to an analysis of the balance of payments prospects of the borrowing country.

Other causes of debt servicing problems may be inadequate investment policies and a poor investment climate. Countries, such as Korea, Brazil and Mexico, which have relatively large external debt service payments have been able to avoid debt servicing problems partly because they have been able to attract commercial bank loans and private equity capital on favorable terms.

Debt service problems should not be caused by the amount of external debt incurred if good use has been made of the loans and appropriate debt management policies are followed. The accumulation of external debt should reflect creation of productive capital that provides a flow of income at least equal to the external debt service.

6. Indicators of Debt Service Problems

There is no one statistical indicator that can predict accurately whether a country will encounter external debt servicing problems at a certain point in time. A debt service problem or inability to provide foreign exchange to make contracted external payments is part of a general shortage of foreign exchange of the debtor country, since debt service payments are only one of many types of foreign exchange transactions in the balance of payments. Moreover, foreign exchange availability is not limited to such earnings but includes a country's international reserves and its ability to borrow from official assistance agencies, foreign commercial banks and various facilities of the International Monetary Fund. As a result, indicators have to cover a broad range of debt, economic and financial variables.

Studies of the debt problems of developing countries have produced several statistical indicators used in analyzing debt servicing problems. The purpose of these indicators is not only to identify the countries with a potential debt servicing problem but to trigger an intensive review of a country whose indicators forewarn of debt difficulties.

The first indicator which has been widely used to measure debt service capacity is the percentage of annual external debt service to annual export earnings. A percentage near 20 is generally considered to indicate potential difficulties in servicing external debt. Moreover, if the ratio increases sharply to this level or above, it could signify the onset of a potentially serious foreign exchange problem. This measure has been criticized because it does not reflect the actual borrowing capacity of the country. Nevertheless, it is in widespread use by financial analysts.

The debt service ratio is often used in conjunction with the ratio of annual external debt payments to total external debt as an approximation of the average maturity of outstanding external debt. This ratio indicates the structure of external debt: a low ratio suggests longer term external liabilities and a high ratio, relatively large debt service payments in the near term. When the two ratios are considered together, the analysis becomes somewhat complex. For example, a high ratio of debt service to export earnings and a low ratio on average maturities may indicate a long-term debt servicing problem, since a country receiving mainly long-term external loans should manage to export enough to keep the ratio of debt service to earnings below 20 percent.

In addition to further study on indicators to identify economies with potential debt service problems, country specialists in the several departments and agencies of the U.S. government review on a continuing basis a wide range of economic data and information regarding countries which have borrowed from the U.S. If there is evidence of an emerging debt service problem, country reviews are initiated by an inter-agency staff committee of the National Advisory Council on International Monetary and Financial Policies.

The above statistical indicators do not include usual qualitative factors such as the management of external debt or domestic economic policies. In addition, political considerations or other relevant events may have significant effects on debt servicing capacity. Such factors are considered by the country specialists in the various agencies. As a result, informed judgements are essential to an overall assessment of a debtor country's capacity to service external debt.

7. The Impact of Oil Prices on Developing Countries Debt Situation

The increases in oil and other commodity prices in the last year and a half have sharply increased the balance of payments deficits and the external debt of many developing countries.

The oil exporting countries, which are suddenly accumulating large balance of payments surpluses, might reasonably be expected to prepay some of their existing debt and will undoubtedly be incurring less debt in the future. As a result, more official resources should be available for countries with additional financial needs.

For the other developing countries, the balance of payments situation and its effect on their external debt is mixed. A few high and middle income countries, such as Thailand and Argentina, have benefitted from the increases in other primary commodity prices, and their debt servicing capacity, therefore, remains strong. For other high and middle income countries, higher import prices have resulted in large current deficits, requiring increased short and medium-term borrowing. Most of these countries, such as Brazil and the Republic of China, have the economic and financial flexibility to service their increased debt obligations. A few middle income countries, which have not been able to expand their exports, may need some concessional assistance to cover their oil-induced deficits in order to avoid debt service difficulties in the near-term.

For the low income countries, which had balance of payments problems before the oil crisis, sudden price increases have created sizeable current account deficits, presenting financing problems.

As events unfolded in 1974, the low income countries, many of which have been designated "most seriously affected" (MSA's) 1/, were able to cover a large part of their current account deficits through new assistance flows from external sources, and unexpectedly high commodity export prices which prevailed in the first half of the year. New assistance came from a number of sources. In September 1974, the U.S. announced that it would increase its food aid program under Public Law 480. Subsequently, it indicated that the increase would total some \$600 million over fiscal year 1974. Multilateral assistance in 1974 included \$500 million from the Special Oil Facility and expanded borrowing through traditional IMF channels for the MSA's. The UN also created the Emergency Operation which has \$250 million in pledges, to provide immediate relief. The OPEC countries have extended nearly \$1 billion in aid to the 32 countries, over half of which has gone to India and Pakistan as oil credits.

The effect of increased oil prices on the low-income countries' immediate debt service capacity has been softened by these external assistance measures. However, for those low-income countries which were in a serious financial position before the oil crisis, the need exists to undertake wide-ranging internal and external adjustment measures.

Worldwide inflation also affects the debt burden of developing countries. As the general level of prices rises, export prices also rise and, as a result, the real burden of repayment of principal and interest on existing debt falls. In such a situation, a country would utilize a declining share of export earnings to service existing debt, leaving a larger share to pay for imports of goods and services. For those countries whose export earnings have not increased sharply, the

1/ Annex 1 provides a listing of the United Nations "Most Seriously Affected" countries.

inflationary erosion of the debt service burden may be offset somewhat by a more rapid increase in the cost of its imports. In this regard, it is significant to note that the World Bank has estimated that the real burden of debt service payments made in 1973 on debt contracted five years ago has decreased by about one-third and by proportionately smaller amounts on debt contracted in more recent years.

8. Euro-currency Lending

The recent extraordinary increase of medium-term private bank lending of Euro-currency to developing countries has become an important additional source of development finance and an important element in some countries' indebtedness. In the first three quarters of 1974, borrowing by developing countries in the Euro-currency markets totalled some \$7.4 billion, an amount equivalent to an annual rate of just under \$10 billion. As this data does not include loans which are not publicized, the actual level of borrowing may be somewhat higher.

By and large, developing countries' access to the Euro-currency market is limited to the oil producing and higher income countries. Together, these two groups accounted for \$8.3 billion, or over 90 percent of total LDC borrowing in that market in 1973. Middle income and lower income countries accounted for \$800 million, or just under 10 percent of the total, reflecting the fact that poorer countries cannot afford to pay the higher costs of borrowing in this market.

Apparently, the existence of a high level of debt outstanding is not a barrier to borrowing from the Euro-currency market. Countries such as Brazil, Indonesia and Mexico have all borrowed large sums in the Euro-market ranging from \$478 million for Indonesia to over \$1.5 billion for Mexico in 1973. On the other hand, lower income countries whose economic prospects seem uncertain had a more difficult time.

It should be noted that these data refer to new loans, a portion of which may have been undertaken to substitute for existing loans. Consequently, the net addition to a country's external debt might be

Table 4Publicized Euro-Currency Credits for
Developing IBRD Member Countries

(million U.S. dollars)

<u>Borrower</u>	<u>1973</u>	<u>1974</u> 1st 3 Qtrs
<u>Oil Exporters</u>	3,012.6	540.0
Algeria	1,352.5	---
Ecuador	8.0	---
Gabon	64.0	67.0
Indonesia	478.0	187.5
Iran	712.1	90.0
Saudi Arabia	4.9	---
United Arab Emirates	330.0	146.0
Venezuela	63.1	57.5
<u>Higher Income Countries</u>	5,280.5	5,255.3
Argentina	87.3	412.7
Bahamas	30.0	---
Bahrain	15.0	---
Brazil	718.1	925.7
China, Republic of	---	183.0
Colombia	170.0	8.0
Costa Rica	11.0	---
Dominican Republic	15.0	20.0
Greece	599.6	437.9
Guyana	12.5	---
Jamaica	35.6	95.0
Lebanon	20.0	93.1
Mexico	1,572.5	1,232.2
Nicaragua	92.0	15.0
Oman	35.0	---
Panama	251.0	101.0
Peru	733.6	384.0
Spain	467.3	1,037.6
Trinidad and Tobago	30.0	12.0
Yugoslavia	235.0	248.1
Zambia	150.0	---

continued

Table 4 (continued)Publicized Euro-Currency Credits for
Developing IBRD Member Countries

(million U.S. dollars)

	<u>1973</u>	<u>1974</u> 1st 3 Qtrs
<u>Middle Income Countries</u>	506.8	1,351.0
Bolivia	6.0	52.0
Cameroon	---	10.0
Egypt	---	230.0
El Salvador	---	15.0
Ivory Coast	95.0	63.0
Korea, Republic of	142.0	185.8
Philippines	178.5	785.5
Senegal	65.0	---
Thailand	---	9.7
Turkey	20.3	---
<u>Lower Income Countries</u>	316.7	325.3
Haiti	10.0	---
India	10.0	---
Kenya	4.5	---
Malawi	5.3	---
Sudan	---	220.0
Zaire	286.9	105.3
 TOTAL	 9,116.0	 7,479.0

Source: International Monetary Fund

substantially less than the gross magnitude of Euro-borrowing. Some substitution motives are the reduction of exchange risk by substituting existing debt obligations denominated in a currency which the borrower regards as having a bias for revaluation for a loan denominated in a currency which he regards as having a devaluation bias, and extending maturity periods by stretching out debt service periods or obtaining longer grace periods.

As the market tends to limit access to oil producing and higher income developing countries, it is reasonable to assume that Euro-credits will not create many serious debt servicing problems.

9. The U.S. Stake

At year end FY 1974, the United States was owed a total of some \$24 billion from less developed countries. This amount, which accounts for about 25 percent of total external debt of developing countries, places the U.S. as the largest creditor of these countries.

India, with \$3.6 billion, and Pakistan, with \$2.3 billion, account for nearly all the debt in South Asia, while Latin American countries owe us about \$6.6 billion with the largest credits being Brazil (\$1.9 billion), Chile (\$1.0 billion), and Colombia (\$0.9 billion). East Asian and Near East countries owe some \$4.6 billion and \$4.9 billion, respectively, with the largest debtors in these regions being Indonesia (\$1.1 billion), Korea (\$1.1 billion) and Turkey (\$1.4 billion). Low-income countries also account for a large portion of these credits and, by and large, have been the largest recipients of U.S. foreign assistance.

The U.S. government extends credit on the basis of an explicit understanding that the credit will be repaid according to the schedule agreed upon between the U.S. government and the borrower at the time the credit is signed. The record of the developing countries in honoring these agreements has been good, and it has been the exception that debt reschedulings have been required to help insure the ultimate repayment by the debtor country. In U.S. fiscal year 1974, the U.S. was party to three major multilateral reschedulings: India, Pakistan and Chile (see Section III below), rescheduling debt of about \$220 million, an amount equal to less than one percent of the total outstanding debt owed to the United States.

As the largest creditor of developing countries, the U.S. government maintains an acute awareness of developing countries' debt problems, particularly as they may have been magnified by the impact of oil price increases. The U.S. has actively participated in the work of the OECD and UNCTAD, which continually monitor the debt problems of the LDC's. The U.S. has maintained that LDC debt problems, in general, and those arising from higher prices of oil, in particular, cannot be resolved through massive debt reschedulings. Debt rescheduling is not a policy instrument for providing official economic assistance. However, the U.S. has taken a leadership role in establishing the IMF Oil Facility. In December 1974, the United States proposed that a Special Trust Fund of the IMF be established with resources of \$1.5 billion to \$2 billion for balance of payments support to the poorest and neediest countries in 1975.

III. MAJOR DEBT RESCHEDULINGS IN FY 1974

A. Pakistan

1. Background. Adverse economic conditions in Pakistan in 1970 and 1971 and the political situation in East Pakistan led the Government of Pakistan to declare in April 1971 a unilateral six-month moratorium on payment of its external debt obligations. During this period and in subsequent months, Pakistan's economic situation continued to deteriorate, owing to the economic costs of hostilities in its East Wing, rising budget/defense outlays financed in large part through the banking system, and a cessation of inward foreign aid flows. In early 1972, the Government of Pakistan informed the creditor countries that full resumption of its debt service obligations threatened to reduce its foreign exchange reserves to a dangerously low level. Seeking to avoid a default situation, and to encourage resumption of debt payments by the Government of Pakistan, creditor countries agreed in May 1972 to provide Pakistan with short-term debt relief on 56 percent of the service payments falling due, retroactive to May 1, 1971, and extending to June 30, 1973. The aggregate amount of relief was \$233 million and the U.S. share was \$51 million. The terms of relief, two years grace, three years repayment, and an average weighted rate of interest of not more than 5 percent, provided immediate relief, but left for early negotiation a resolution of the debt division problem between it and the former East Wing, now Bangladesh.

At that time, the necessity of determining responsibility for debts incurred on behalf of Pakistan's former East Wing was recognized by creditor countries as the major issue to be resolved in order to insure complete coverage and ultimate repayment of debts by either Pakistan or Bangladesh. Resolution of this issue was established as a pre-condition for any long-term debt arrangement. The Government of Pakistan, for its part, argued that debts resulting from programs of primary benefit to Bangladesh, which it estimated at \$1.2 billion of its total external debt of some \$3.5 billion, should be paid by Bangladesh. Bangladesh refused to accept this liability, and as the Government of Pakistan was the legal obligor, it accepted responsibility for servicing the debt.

2. Debt Rescheduling in U.S. FY 1974. While this interim relief agreement concluded in May 1972 was

expected to be followed by a long-term agreement at the earliest date possible, it became increasingly clear that such a long-term arrangement was not at hand owing to the inability to resolve the division of debt issue. Additionally, Pakistan and its creditors could not agree on Pakistan's long-term economic prospects and future debt servicing capacity. Consequently, on July 31, 1973, Pakistan and the Consortium countries agreed on another interim rescheduling.

This second short-term rescheduling, provided Pakistan \$106 million in debt relief on terms comparable to those of the 1972 agreement -- two years grace, three years repayment with interest not to exceed a weighted average of 5 percent for any country. The U.S. share was just over \$23 million, bringing its total for the two interim reschedulings to \$73.9 million or about 17 percent of the total.

In the Memorandum of Understanding signed July 31, 1973, it was agreed that as of July 1, 1974, creditors would not take punitive action against Pakistan for failure to service any debts for projects visibly located in Bangladesh. Representatives of creditor countries further agreed to try to persuade the Government of Bangladesh to assume, as a minimum, liability for debts arising from all projects visibly located in Bangladesh. When in October 1973, Bangladesh indicated its agreement in principle to accept this liability, the stage was set for a long-term settlement.

3. Economic Developments in Pakistan in FY 1973/74. During fiscal year 1973/74, the Pakistan economy encountered many difficulties. The floods of August and September 1973 inflicted a heavy blow on the economy, particularly against stored wheat and the standing cotton crop. The effect of these losses were compounded by a considerable deterioration in Pakistan's terms of trade, reflecting increases in prices not only of petroleum products but also of other imports such as fertilizers, edible oil and wheat. The value of exports rose by about 35 percent, while the value of imports rose by more than 60 percent, resulting in a trade deficit of about \$400 million compared with a deficit of \$124 million in 1972. Debt servicing amounted to \$197 million, after the rescheduling of \$106 million, and the overall balance of payments registered a deficit of some \$170 million during 1973/74. Pakistan's reserves at the end of fiscal year 1973/74 (June 30, 1974) were \$360 million, an amount equal to about three months' imports.

Including the service payments on amounts rescheduled under the two short-term debt relief operations, Pakistan's scheduled debt service payments would rise to \$337 million in fiscal year 1974/75, to \$378 million in 1975/76, and \$388 million in 1976/77 before declining somewhat to \$311 million in 1977/78, a total of \$1.4 billion for the four-year period. In the absence of debt rescheduling, it was estimated that some 25 percent of Pakistan's foreign exchange earnings would be allocated for servicing its external debt in the Pakistani fiscal years 1975 to 1977.

4. The Long-Term Rescheduling. In February 1974, the participating countries of the Pakistan Consortium met to consider the World Bank's study on long-term debt relief for Pakistan. The Consortium met again in June at which time agreement in principle was reached on a long-term rescheduling as follows:

a. Total debt relief on an amount equal to \$650 million would be given to Pakistan over four years beginning July 1, 1974, distributed as follows: \$175 million for the first three years and \$125 million for the last year.

b. The rescheduled obligations would be repaid on terms of 30 years with a ten-year grace period and a 2 1/2 percent rate of interest. The terms could be varied by mutual agreement between the countries as long as the overall grant element was kept at 62 percent.

c. The debt relief would be equivalent, in each year, to a certain percentage of the debt service due in that year on public and publicly-guaranteed civil debt incurred prior to July 1, 1973, including those debts that had been previously rescheduled. For the first year, the percentage would be 71 percent; for the next two years, it would be 61 percent and, for the fourth year, it would be 55 percent. It was expected that Pakistan would continue to service purely private obligations according to the original schedules.

d. Those participating countries unable to provide the agreed amount of debt relief for any one year would be able to give compensating relief to Pakistan in any other year. The amount of any such relief, however,

would have to cover the original shortfall after having been discounted at 10 percent per annum from the year in which it should have been given.

The United States' share of relief to be provided over four years is \$211 million, or approximately 32 percent of the total. This share is quite reasonable in view of the fact that the U.S. is the creditor on two-thirds of the \$1.2 billion of debts originally disputed by Pakistan. As the U.S. does not wish that Pakistan or other creditors lose sight of the unique circumstances underlying this rescheduling -- a country split by civil strike and the necessity to divide responsibility for debt in a rational manner -- it will reschedule only those debts owed to the U.S. which the Government of Pakistan claimed benefitted the East Wing, now Bangladesh. To do so, the U.S. will elect to meet its share of relief over approximately five years and the nominal amount of relief will be about \$230 million.

During the course of the negotiations, the Secretary of State advised members of Congress on the discussion by written communication (Annex 2). As stated in these letters, the United States sought to uphold the sanctity of contracts and to insure that all debt obligations were met in full either by Pakistan or Bangladesh. The U.S. representative to these negotiations repeatedly stressed to the Government of Pakistan and representatives of other governments that the U.S. decision to participate in a long term rescheduling was based on the unique circumstances of the situation and emphasized that both the terms and amount involved reflected this uniqueness. Further, the U.S. made it clear to all representatives, and the Government of Pakistan has agreed, that this is a final rescheduling of Pakistan's debt based on the events of 1971 in Pakistan.

A Memorandum of Understanding on the terms and amount of rescheduling was signed by the Government of Pakistan and Mr. William Diamond of the World Bank on behalf of Pakistan's creditor countries on June 28, 1974. At year end 1974, the U.S. was in the process of concluding its formal bilateral negotiations with the Government of Pakistan so as formally to implement this rescheduling.

Directly related to the agreement with Pakistan, is an agreement with the Government of Bangladesh to assume liability

for projects visibly located in Bangladesh. The Government of Bangladesh will accept repayment obligations on approximately \$82 million in principal amount of visible United States project loans. The United States and other members of the Consortium have agreed that such loans assumed by Bangladesh will be on terms equivalent to a minimum grant element of 84 percent grant element. For the United States, these loans will be repayable over 40 years, to include 15 years grace period.

PAKISTAN

Table 5. Pakistan: Debt Relief Arrangements
(In millions of U.S. dollars)

	1972 Relief	1973 Relief	1974 Relief ^{1/}
Belgium	0.7	0.3	3.1
Canada	6.5	3.1	13.5
France	16.5	7.4	41.7
Germany	63.2	24.2	142.1
Italy	18.7	10.2	71.5
Japan	42.0	20.7	72.0
Netherlands	3.3	2.0	11.4
Sweden	0.3	0.1	.8
United Kingdom	31.4	15.7	83.4
United States	<u>51.2</u>	<u>23.1</u>	<u>210.6</u>
Total	233.8	106.8	650

Source: IMF and World Bank

^{1/} Estimates for final rescheduling. Total does not add due to rounding.

B. India

Beginning in 1968 and extending through 1974 the U.S. has participated in multilateral debt relief exercises for India through the Aid to India Consortium chaired by the World Bank. During this seven-year period, the U.S. agreed to reschedule \$138 million of Indian debt service payments, while other members of the Aid to India Consortium rescheduled approximately \$765 million. Over the same period, India made payments of approximately \$600 million on her dollar debt to the United States.

Debt Relief in 1968/69-1971/72

In the mid-1960's, India experienced a number of economic setbacks which cut across virtually all sectors of its economy. Agricultural production was adversely affected by sudden and prolonged droughts, and the rate of growth of industrial production fell resulting in an average annual increase of net domestic product of only 2.6 percent. Accompanying this slowdown was a sharp increase in the rate of inflation from about 2 percent in Indian fiscal year 1961-1962 to about 14 percent in 1966/67. This price pressure reflected recurring shortages of raw materials and budget deficit-induced increases in the money supply which outstripped increases in real output.

Although the gross flow of foreign assistance from Consortium countries was \$8.4 billion in the seven-year period 1962-68, the annual net transfer of resources, that is, gross flows less repayments of principal and interest, was \$6.7 billion. Over 30 percent of the gross inflow was in the form of food aid, reflecting the adverse impact of drought shortfalls and the need to rebuild buffer stocks. During this period, the U.S. provided \$5.3 billion of foreign assistance to India on concessional terms -- ten years' grace and 30 years' repayments. About 45 percent of our assistance was in the form of food aid.

It became increasingly clear that despite these massive inflows of aid, India might not be able to accelerate its growth momentum, particularly as the net transfer of resources was projected to decline to \$740 million in Indian fiscal year 1968/69. The

relatively short grace periods of many of the loans (other than those provided by the U.S.), coupled with Indian economic policies which produced no substantial change in the rate of growth of its exports, served to increase its debt service ratio threefold -- from about 9 percent in 1962 to just over 27 percent in 1968. It was believed that in the absence of a rapid infusion of free foreign exchange, India would not be able to finance a development program large enough to obtain an acceptable rate of growth. Furthering India's growth was viewed by the U.S. as enhancing the probability of repayment of all India's debt, one-third of which was held by the U.S.

The World Bank, at the request of Consortium members, arranged for a consultant to work out a debt relief proposal. As the terms of aid of most of India's donors were relatively hard in their early aid-giving years, the debt relief proposal -- the so-called Guindeg formula -- called for a lengthening of terms of past aid commitments to equate a grant element of 49 percent. This was to be undertaken by creditors providing debt relief of \$320 million during the three Indian fiscal years 1968/69-1970/71. As U.S. assistance was provided on concessional terms, our share was relatively small, just under \$9 million in each year. The arrangement was extended for a fourth year, involving debt relief of \$86 million.

With the termination of debt relief under the Guindeg Agreement, the India Aid Consortium examined the need for additional debt relief in view of India's existing high debt service ratio. The World Bank, at the request of the Consortium, intended to prepare a study on India's long-term financial requirements and development prospects. However, the uncertainties associated with the hostilities on the Sub-continent greatly reduced the possibility of making reliable long-run projections. Under these circumstances, it was decided to develop a short-run solution designed to limit the decline of the Consortium's net transfer of resources to India in the immediate future. As had been the case in 1968, and as is evident from overall balance of payments developments in the interim period, the debt relief proposal of 1972 was not based on the assumption of an imminent danger of default, but rather was seen as furthering growth prospects by providing a modest adjustment to the terms of lending to India in previous years. The 1972 debt rescheduling exercise

was being considered at a time when the level of debt service payments to the consortium countries exceeded \$500 million and absorbing a high proportion of free foreign exchange earned from exports of goods and services. In view of the reduced levels of the Consortium's commitments of new aid to India and the fact that the pipeline of committed but undisbursed amounts was almost exhausted, debt relief was seen as an effective vehicle for providing some immediate balance of payments assistance.

In February 1973, a new agreement was reached on debt relief that covered the two Indian fiscal years 1972/73 and 1973/74; this was the so-called Coombs Agreement. The Members of the Consortium agreed to debt relief of \$153 million and \$187 million, respectively, and aimed for a grant element of not less than 62 percent. As matters turned out, not all Members were able to meet the 62 percent grant element and, as a result, the overall grant elements were 59 and 55 percent, respectively. The U.S. share in each of these reschedulings, \$29 million for each year, was provided on terms yielding a grant element of 62 percent.

The debt relief agreement of 1973/74 occurred during U.S. fiscal year 1974 with a Memorandum of Understanding being signed by the World Bank on behalf of the Members of the Consortium on December 19, 1973, and implementing bilateral agreement between the U.S. and India being signed on June 7, 1974.

Debt Relief 1974/75

Following the termination of the Coombs Agreement, there was little, if any, scope for further use of debt relief to adjust terms of past-aid commitments. India enjoyed a debt structure based on largely concessional assistance as reflected in the fact that 90 percent of its total external debt was comprised of loans with an original maturity of over 15 years and 64 percent of over 25 years. The stock of debt at the end of the fiscal year 1972/73 amounted to about \$9.8 billion and the grant element was 66 percent. At the same time, India's debt service ratio was projected to rise to 23.5 percent of export receipts in 1979, assuming an 8 percent rate of export growth.

Notwithstanding this favorable debt structure, the World Bank proposed a \$248 million debt relief operation for India at the annual meeting of the Indian Aid Consortium, June 1974. The Bank predicated its proposal on the need to provide free foreign exchange to help deal with mounting balance of payments pressures arising, in large part, from increases in the price of food, fertilizer and oil.

As indicated in letters to Congress of July 1974 and October 1974 (Annex 3), the U.S. share of this debt relief proposal would have been \$64 million, compared to \$29 million the previous year. Had we accepted the proposal, the U.S. would have financed \$34 million of the \$60 million aggregate increase from the prior year. The United States did not accept the proposal but indicated a willingness to reschedule at a level well below the Bank's recommended share, with a pledge to review the situation at a later date.

During the Consortium discussions with the Indian delegation, most of the creditors, including the United States, indicated some concern with India's allocation of scarce domestic and foreign resources. At the end of U.S. fiscal year 1974, the discussions remained inconclusive.

In the following months, the U.S. reassessed the Indian economic situation and, on the basis of the latest information available at that time, concluded that India faced major economic problems and serious balance of payments difficulties. As a result, it agreed to reschedule up to \$45 million on terms providing a grant element of 62 percent.

A Memorandum of Understanding was signed by the World Bank on behalf of the Consortium members on October 30, 1974, and at year end the bilateral agreement was still under negotiation with Indian authorities.

The U.S. has advocated the view that any future debt reschedulings for India in which it participates should be negotiated in the framework of a creditor's club rather than the Aid to India Consortium. Most other major creditors still prefer using the Consortium mechanism. Increased bilateral aid flows from the U.S. and other creditors, together with multilateral flows, could in any case make it possible for India to service its debt to the United States fully in 1975.

Table 6

India: Debt Relief

(In millions of U.S. Dollars)

	Guindeg Formula					Coombs Formula			
	1968/69	1969/70	1970/71	1971/72		1972/73	1973/74	1974/75 ^{1/}	
Austria	1.4	1.1	2.5	1.0		2.4	2.9	2.4	
Belgium	1.1	1.1	1.1	1.1		1.7	1.9	1.8	
Canada	1.2	1.2	1.2	0.8		1.9	1.9	-	
Denmark	-	-	-	-		0.2	-	0.8	
France	4.9	5.0	5.0	5.0		6.5	10.3	15.1	
Germany, Fed. Republic	27.5	30.0	30.0	30.0		43.4	53.1	57.7	
Italy	5.5	4.6	7.8	5.9		-	17.4	-	
Japan	16.8	19.6	25.4	20.6		43.4	47.9	43.4	
Netherlands	0.6	0.6	0.7	0.7		2.7	3.2	4.6	
Ecuador	-	-	-	-		0.8	0.8	1.3	
United Kingdom	18.0	18.0	18.0	18.0		20.9	18.5	21.8	
United States	8.7	8.7	8.8	8.7		29.1	29.1	45.0	
Bank/IDA	<u>15.0</u>	<u>15.0</u>	<u>15.0</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	
Total	100.7	104.9	115.5	91.8		153.0	187.25	194.0	

Source: IMF, World Bank

^{1/} Estimates; total may not add due to rounding.

C. Chile

Background

During the latter part of the 1960's, Chile's external public debt and official guaranteed private debt increased sharply. Public debt rose about 80 percent from \$1.1 billion to \$2.0 billion between 1967 and 1970, while exports of goods and services increased by 32 percent during this same period. There was a large concentration of new borrowing in medium-term supplier credits and loans on commercial terms so that the average maturity structure of the debt was shortened. Faulty external debt management and a lack of concern over the future impact of higher debt service payments, at a time when copper prices were rising, appear to have been the major causes of Chile's emerging debt problem.

At the beginning of 1971, scheduled service payments on Chile's public external debt were 21 percent of its foreign exchange earnings from goods and services of the previous year. During 1971, central government expenditures increased about 70 percent over the previous year and as revenues increased by only 28 percent, a large budget deficit emerged. This deficit was financed entirely through the banking system and, overall, the money supply more than doubled. While disbursements from the IBRD and IDB continued to record levels, severe balance of payments pressures ensued: the foreign escudo was depreciated sharply in the brokers' market, exchange reserves fell from \$305 million to \$38 million and, overall, the balance of payments registered a \$355 million deficit compared to a \$91 million surplus the previous year. On the basis of debt outstanding at the end of 1971, debt service payments were projected to rise to \$344 million in 1972, and \$367 million in 1973.

Rescheduling of Debts Due in 1971 and 1972

Faced with these conditions, Chile in November 1971 suspended payments on its foreign debts and announced to its creditors its intention to renegotiate the repayment terms of these obligations. For this renegotiation, Chile requested a meeting of the "Paris Club", an ad hoc group of major Western creditor countries meeting under the chairmanship of a French Treasury official.

Four meetings between Chile and the Paris Club were held in Paris between February 2 and April 9, 1972. These protracted negotiations culminated in a multilateral debt rescheduling arrangement (the Paris Minute) after a declaration regarding Chile's external financial policies which gave its creditors a reasonable assurance that, following the debt rescheduling, Chile would be able to honor fully the new schedule of debt service payments.

The Paris Minute provided the basis for short-term debt relief by deferring 70 percent of principal and interest falling due in the 14-month consolidation period November 1971 - December 31, 1972 (approximately \$175 million) to be repaid in 13 semi-annual installments beginning January 1, 1975. The interest rate for all rescheduled amounts and the repayment terms for the remaining 30 percent portion (approximately \$68 million) were to be determined bilaterally between Chile and the creditor countries. In the Paris Minute, the Chilean representatives declared their Government's decision to recognize and pay all foreign debts and Chile's acceptance of the principle of payment of just compensation for all nationalized properties in accordance with Chilean and international law. In addition, a provision for non-discrimination among creditors was included.

Protracted bilateral negotiations to implement the Paris Minute took place between Chilean and U.S. representatives between June 1972 and August 1973. A number of issues could not be resolved during this period. Chile was unwilling to accept all the commitments undertaken under the Paris Minute such as acknowledgement of all debts and compensation for expropriated property.

The rapidly deteriorating state of the Chilean economy also brought demands from other creditors that Chile accept a standby agreement with the International Monetary Fund. In order to do this, strict economic guidelines would have to be jointly established by the Fund and the Chilean Government. This was rejected by Chile.

Negotiations continued between the United States and the new Chilean Government after the coup d'etat in September 1973. Chile's new government expressed its willingness to comply with the provisions of the Paris Minute; to recognize the validity of all debts, including

the compensation owed for expropriated property; and to accept a mission from the International Monetary Fund. As a result, the United States and Chile concluded a Memorandum of Understanding on December 20, 1973, followed by an Intergovernmental Agreement signed on February 6, 1974. 1/

The bilateral agreement between the United States and Chile reflects the terms of the Paris Minute. With regard to the 70 percent portion of principal and interest payments due from November 1, 1971, to December 21, 1972, payments amounting to \$68.5 million will be paid over a period of six years, beginning on January 1, 1975. The remaining 30 percent of these payments, as well as certain other credits not covered under the Paris Minute, amounting to \$60.4 million are to be paid over a four-year period with the first payment having been made in December 1973 at the time of signing of the Memorandum of Understanding. The annual interest rate has been fixed at 6 percent per year.

1/ This Agreement has been transmitted to the Congress under the provisions of the Case Act (Public Law 92-403). See Annex 4.

The Agreement provides that Chile will give most favored nation treatment to the United States with respect to the 70 percent portion of the rescheduled credits. In addition, Chile agrees to guarantee the full transferability of payments relating to the debts covered by the Agreement. Chile also undertakes to carry out direct negotiations aimed at providing just compensation for outstanding nationalizations of United States interests.

The Agreement has been implemented by separate bilateral agreements between Chile and the Agency for International Development, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the United States Government with respect to PL 480 Agreements. All four implementing agreements were concluded in February 1974.

Rescheduling of Debts Due in 1973 and 1974

The short-term debt renegotiation for 1971-1972 debt payments did not resolve Chile's economic difficulties. Chile's balance of payments continued to be under heavy pressure owing in large part to inappropriate financial policies and the burden of large external debt service payments on the current debt contracted in recent years. Prior to rescheduling, debt service payments due in 1973 amounted to \$367 million. Adjustments in the original schedule, arrears and payments postponed in 1972 resulted in an estimated \$512 million due in 1973. At this amount, debt service payments would have required more than one third of Chile's proceeds from exports. For 1974, debt service payments were estimated at \$434 million, which meant that approximately 30 percent of export receipts would have been needed to service external debts.

In early 1973, Chile again sought a renegotiation, under Paris Club auspices, of debt service payments falling due in 1973 and 1974. Two meetings were held between Chile and Paris Club creditors but no agreement was reached because of Chile's lack of an acceptable economic reform program which would give creditors confidence that Chile's debt could be serviced in the future.

In late 1973, after the new government had assumed power, another meeting of the Paris Club was called to consider rescheduling Chile's external public debt falling due in 1973-1974. The Paris Club requested an economic report from the International Monetary Fund assessing Chile's economic situation, as well as the establishment of a Chilean economic stabilization program, which had been recommended in the 1972 Paris Club arrangements.

With these preconditions met, the creditor nations and Chile met on February 21-23, 1974, to agree on the rescheduling arrangements. Chile had made no payments on its 1973 or 1974 debts. The Paris Minute was signed in a subsequent meeting, on March 25, 1974.

The Paris Minute rescheduled an estimated \$428 million in debt service payments falling due between January 1, 1973, and December 31, 1974. On 80 percent of the rescheduled debt, repayment was to be made in 14 semi-annual installments beginning on January 1, 1977, and ending on July 1, 1983. On the remaining 20 percent of the debt, repayment was to be made over a three-year period beginning in 1974: 5 percent in 1974, 5 percent in 1975, and 10 percent in 1976. The Minute also provided that Chile would not grant any creditor treatment more favorable than any other creditor with regard to the debts included in the Minute. The interest rate was left to be decided through bilateral negotiation.

In April 1974, Chile and the United States began to negotiate a bilateral agreement to implement the Paris Minute. A Memorandum of Understanding ^{2/} the terms of which closely followed the Paris Minute, was signed by the two countries June 17, 1974. The Memorandum of Understanding between the United States and Chile reflects the distinction in the Paris Minute with regard to the 80 percent and 20 percent portion of principal and interest due. The repayment schedule follows the Paris Minute - the 80 percent portion is to be paid in 14 semi-annual installments beginning in January 1, 1977; the remaining 20 percent over three years beginning in 1974. The interest rate is set at six percent but may be adjusted under certain circumstances if it is significantly out of line with interest rates agreed to by Chile with other creditors.

^{2/} The Memorandum of Understanding has been transmitted to the Congress pursuant to the terms of the Case Act (Public Law 92-403). See Annex 4.

The Memorandum of Understanding provides that Chile will give most-favored-nation treatment to the United States with respect to the rescheduled credits. In addition, Chile agrees to guarantee the full transferability of payments relating to the debts covered by the Memorandum of Understanding. Chile also undertakes to carry out direct negotiations aimed at providing just compensation for outstanding nationalizations of United States interests.

The Memorandum of Understanding rescheduled approximately \$170 million of credits owed to the United States. Payments are being made by Chile pursuant to the terms of the Memorandum. A final agreement implementing the Memorandum is presently being negotiated between the two countries.

Participation in the Chile debt rescheduling was to the advantage of the United States. In the case of both reschedulings, the United States agreed to renegotiate the Chilean debt at a time when Chile because of economic difficulties had suspended payments on its debts to foreign creditor countries, including the United States.

As a result of the rescheduling, the United States has already begun to receive payments on the rescheduled credits and, in light of the economic programs undertaken in connection with the reschedulings, has a reasonable assurance that Chile will be able to adhere to the new schedule of debt service payments. The multilateral negotiating forum of the Paris Club and the non-discrimination clause included in the Paris Minute gave the United States the assurance that it would get treatment from Chile comparable to that of other creditor nations. Finally, in the context of the debt renegotiations, Chile, as urged by the United States and other countries, undertook to carry out direct negotiations aimed at providing just compensation for outstanding nationalization of United States interests - thus showing its intent to resolve a matter that had caused grave difficulties between the two countries. Recently, Chile reached agreement with ITT on outstanding claims. Other settlements have been reached with Exotica, Cerro, Kennecott and Anaconda. Finally, the Overseas Private Investment Corporation (OPIC) has resolved all outstanding claims with the Chilean government.

IV. OTHER DEBT RESCHEDULING IN FY 1974

Ghana

In a public statement on February 5, 1972, the new military Government of Ghana announced its decision to unilaterally take a number of actions affecting its foreign debt obligations including repudiating for British credits worth \$90 million and to review all other Nkrumah period supplier credits to see if they, too, would be repudiated.

The U.S. had approximately \$500,000 directly at stake, as well as nearly \$200 million in long term-credits which were not then affected by the February 5 announcement.

After two years of negotiations, the Government of Ghana and its western creditors concluded a new debt rescheduling accord in March 1974. The Agreed Minute provided that creditor countries due less than \$1.5 million were not subject to rescheduling for administrative and technical reasons. Belgium and the U.S. fell under this category. The U.S. debt has subsequently been rapid.

The United States Government, by obtaining a deminimis clause, and by successfully confining the rescheduling to the Nkrumah era debt, was not obliged to reschedule any of the approximately \$200 million owed it by the Government of Ghana.

Korea

The Commodity Credit Corporation provided debt relief to three Korean private trade entities under agreements entered into in accordance with Section 107, P.L. 83-480, the Agricultural Trade Development and Assistance Act. Principal installments totalling some \$580,000, which were due in December 31, 1973, were deferred until December 31, 1974. These reschedulings were undertaken to provide Korean private trade entities a measure of relief to help meet unforeseen adverse financial developments.

Jamaica

The Commodity Credit Corporation also rescheduled for one year, from December 31, 1973, to December 20, 1974, principal payments of \$109,000 from a Jamaican private

trade entity. Rescheduling was provided because of unforeseen delays in output of a new cornmeal plant and subsequent shortfalls in sales revenues.

Uruguay

Service payments of \$1.4 million due in November 1973 on two Government of Uruguay credits were rescheduled by the Department of Defense to January 1, 1975, and the original repayment period was extended from eight to ten years.

Israel

P.L. 93-199, "The Emergency Security Assistance Act of 1973", enacted on December 26, 1973, authorized the President to release Israel from its contractual liability to pay for defense articles and defense services purchased or financed during the period beginning October 6, 1973, and ending June 30, 1974, to the extent of \$2.2 billion. Pursuant to this authority the President released Israel from its contractual liability to the extent of \$1 billion on April 23, 1974, and to the extent of an additional \$500 million on June 29, 1974.

V. A SUMMARY OF THE EXTERNAL DEBT SITUATION OF DEVELOPING COUNTRIES OF PARTICULAR INTEREST TO THE UNITED STATES

In this section, the external debt situation of the following countries is reviewed: India, Pakistan, Chile, Korea, Brazil, Indonesia, Turkey, and Israel. India, Chile and Pakistan were selected for review as the U.S. participated in multilateral rescheduling of their debts in 1974. The remaining developing countries were selected as they represent developing countries whose external debt to the United States exceeds \$1 billion. As no major debt problems are foreseen in this second grouping, the information on their external debt situation is provided in abbreviated form.

Pakistan

1. Debt Owed the United States

As of June 30, 1974, the outstanding indebtedness of the GOP to the U.S. totalled \$2,282.6 million. The largest single component, some \$1,628.4 million or 71 percent of the total was attributable to loans made under the Foreign Assistance and related Acts.

2. Total External Debt

As of January 1, 1974, Pakistan's external debt totalled \$4,803 million. Loans from Governments accounted for \$3,556 million, or nearly 70 percent of this sum. The U.S. accounted for nearly 53 percent of the government loans and about 37 percent of the total external Pakistan debt outstanding. Loans from International Organizations (IDA, IBRD, ADB) amounted to \$948 million or about 19 percent of the total.

3. Current Economic Situation

Pakistan managed a strong recovery from the effects of the 1971 war with India and the 1973 floods, with gross domestic product increasing about 6 percent in real terms in FY 1974 (July-June) to the equivalent of about \$7.6 billion. This economic performance compares fairly well with the adjusted 1973 figure of 7.5 percent real growth. In FY 1974, the agricultural sector and manufacturing sector each posted real gains of about 5 percent while services gained by about 7 percent. These gains are now

challenged by widespread drought which has reduced the water level of Pakistan's rivers to precarious low levels.

Inflation also clouded the economic performance of Pakistan as wholesale prices registered a 22 percent annual increase through June 1974. The trend is apparently not slowing appreciably. Growth in the money supply has been held to an annual rate of 7.4 percent through April 1974, and for FY 1975, Pakistan's central government budget is estimated to increase only a nominal 7 percent (i.e., a decline in real terms) from 1974 levels to the equivalent of about \$1.1 billion. The Pakistani decision to drop export duties on cotton and to increase food subsidies contribute to the projected budget deficit in Pakistan's FY 1975.

On the external side, exports gained more than 25 percent to \$1.05 billion, but imports increased sharply to almost \$1.4 billion in the fiscal year ending in June 1974. The June announcement of a \$650 million FY 1975-78 long-term rescheduling for foreign debt with members of the Paris Aid-to-Pakistan Consortium and a \$580 million loan from Iran over the period 1975-77 were encouraging signs in an otherwise difficult year for Pakistan.

4. Impact of Oil Price Hikes and Related Problems

Oil prices have had a serious impact on Pakistan, with import costs going from \$73 million in 1973 to an estimated \$300 million in 1974. Fertilizer, wheat, and vegetable oil imports -- all affected by worldwide scarcities -- combined with petroleum accounted for more than half of Pakistan's FY 1974 imports. Pakistan's determination to obtain self-sufficiency in foodstuffs and the expansion of its domestic fertilizer industry (which now supplies about half of the nation's demand) bode well for its longer term growth. However, the serious drought means that the short term will see continuing need for substantial wheat imports and perhaps diminished exports of traditional commodities -- rice and cotton.

5. Balance of Payments

There are two major inter-related problems facing Pakistan in the short run: poor immediate agricultural prospects owing to the current shortage of water will contribute heavily to Pakistan's rising imports in 1975, while a softening in prices for its major exports will retard the rate of growth of exports.

6. Ability to Service Debts in 1975

Pakistan's external debt structure was substantially improved by its June 1974 agreement with the creditor countries and the easing of what has been a heavy concentration of debt service due over the next four years. Subsequent to that agreement, Pakistan has borrowed heavily from abroad (including from the oil producing countries) and, as a result, its debt service obligations will rise again over the next several years. The large prospective trade deficit, combined with increased debt service obligations and a relatively low level of foreign reserves poses a difficult year for Pakistan. However, it appears that Pakistan has access to ample international credit facilities, such as the IMF, to enable it to cover the projected deficit in its balance of payments and to meet its foreign obligations in 1975.

PAKISTANTable 1Outstanding Indebtedness of the Government of Pakistan to the
US Government as of June 30, 1974

<u>Major Program</u>	<u>Amount</u>
Under Export-Import Bank Act	\$87.5
Under Foreign Assistance and Related Acts	1,628.4
Under Agricultural Trade Development and Assistance Act	525.6
Commodity Credit Corporation Export Credits	<u>41.1</u>
Total	2,282.6

PAKISTANTable 2Total External Debt Outstanding as of December 31, 1973,
by Type of Creditor, (including undisbursed credit)

<u>Type of Creditor</u>	<u>Amount</u> (\$ in millions)
Suppliers	\$242.2
Private Banks	54.0
Other Private Financial Institutions	4.2
Loans from International Organizations	947.6
Loans from Governments	3,555.6
Total	<u>4,803.6</u>

INDIA

1. Debt Owed the United States:

India's outstanding indebtedness to the United States Government totaled \$3,570 million on June 30, 1974. The bulk of this debt amounting to \$2,865 million was incurred under the foreign assistance and related acts. Credits extended under the Agricultural Trade Development and Assistance Act accounted for another \$524 million.

2. Total External Debt:

As of March 31, 1974, India's outstanding external official indebtedness, disbursed and undisbursed, totaled \$12,858 million. The bulk of these loans, some \$9,022 million came from other governments. IDA and IBRD credits totaling \$3,387 million accounted for most of India's remaining indebtedness.

3. Current Economic Situation

The immediate economic outlook for India is not bright. Foodgrain production for 1974 fell short of expectations as the lack of rainfall in the summer of 1974 has significantly reduced production of rice and coarse grains below earlier predictions. Problems in the domestic economy are exacerbated by greatly increased import prices for petroleum, fertilizers, and other essential commodities. Shortfalls in electric power production have restricted output in the industrial and agricultural sectors, and as a result India is expected to generate a very modest rate of growth in 1975.

Consumer prices which were relatively stable only three years ago are now rising at an annual rate of 28 percent. Inflation is fostered not only by price increases of vital imports, but also by large budgetary deficits and increases in the money supply. While India's foreign exchange reserves (estimated at \$1.0 billion) are modest, increased costs for vital imports and a continuing balance of trade deficit make her look to outside sources for help particularly in purchases of food grains on a concessional basis.

4. Impact of Oil Price Hikes

India is one country considered to be "most seriously affected" by the United Nations as a result of recent increases in international prices for oil, fertilizer, and foodgrain. India in 1973 consumed 25.4 million tons of petroleum products, of which just over seven million tons came from domestic fields and the remainder was imported. Given the impact of higher petroleum prices on its balance of payments, India saw the need to reduce consumption in the public sector and by large industrial users, and by raising prices significantly for petroleum products. In addition, India has begun an active program for development of new domestic sources of petroleum and has undertaken initiatives designed to substitute more abundant coal for oil where feasible.

In calendar year 1974, the cost of imported oil to India rose to almost \$1 billion compared to \$485 million in 1973. Since May of 1974, however, India has obtained some medium-term credits from OPEC countries. India also has access to drawing a maximum of \$431 million from the IMF's oil facility and another \$235 million from its second credit tranche with the IMF.

5. BOP Outlook

India's balance of payments in 1973 showed a deficit of \$574 million. Exports performed relatively well during 1973, increasing 18 percent over 1972. This expansion was aided by the general boom in commodity prices. Imports rose by about 16 percent during 1973 with the petroleum import bills rising by 45 percent and foodgrain imports increasing sharply both in volume and price.

Exports are estimated to have increased 30 percent to \$3.9 billion in 1974 and imports by 60 percent to \$5.0 billion. The resulting increase in the trade deficit is matched only in part by the increase in aid flows, including credits from the oil producing countries.

6. Appraisal of ability of India to service debt in 1975

As India's trade deficit is expected to widen in 1975, India's ability to avoid a debt servicing problem will largely depend upon the degree to which bilateral and multilateral inflows cover the projected gap in her external accounts.

INDIATable 1Outstanding Indebtedness of the Government of India
to the U.S. Government, June 30, 1974

<u>Major Program</u>	<u>Amount</u>
Export-Import Act	\$ 162.5
Foreign Assistance and Related Acts	2,864.6
Agricultural Trade Development and Assistance Act	524.0
Lend-Lease Surplus Property and Other War Accounts	1.8
Other	16.7
Total	<u>\$ 3,569.6</u>

Table IITotal External Debt Outstanding as of March 31, 1974
Including Undisbursed Credit(\$ millions)

<u>Type of Creditor</u>	<u>Amount</u>
Suppliers	405.2
Private Banks	40.3
Publicly Issued Bonds	2.2
Loans from International Organizations	3,387.3
Loans from Governments	8,560.9
Total	<u>12,395.9</u>

Chile

1. Debt Owed the United States

As of June 30, 1974 Chile's outstanding indebtedness to the United States was just over \$1 billion. Of this total, \$592 million comprised foreign assistance credits, \$332 million was Export Import Bank credits and the balance consisted of Agricultural Trade Development and Assistance and Commodity Credit Corporation credits.

2. Total External Debt

Chile's outstanding indebtedness, including disbursed and undisbursed funds, totalled \$3.7 billion as of December 31, 1973. Some \$2.1 billion of these loans came from other governments. Supplier credits and private bank loans accounted for another \$911 million of the total.

3. Current Economic Situation

Chile's Gross Domestic Product grew at a 6 percent annual rate in 1974. This growth, however, was preceded by two years of decline. The 1974 increase was stimulated primarily by a recovery in the copper industry, a partial recovery of the agricultural sector, and a resurgence of the construction industry. Strong consumer demand and the removal of price controls on most products resulted in a 350 percent rate of inflation in 1974. This is, however, less than half the annual rate of inflation on 1973.

Notwithstanding Chile's economic reforms and stabilization measures adopted in 1974, the economy's performance in 1975 will be significantly determined by exogenous factors. World demand for copper and its consequent price level is the prime determinant of Chile's immediate prospects. Copper, which earns more than 75 percent of Chile's foreign exchange, is currently selling at less than one half the price levels reached in mid-1974.

4. Impact of Oil Price Hikes

Chile imports more than two-thirds of its crude oil requirements. In 1973, petroleum imports comprised about 7 percent of the total import bill or less than \$100 million. In 1974, after the OPEC price hike, Chile's petroleum import bill rose to \$385 million, or 18 percent to total imports.

Efforts to conserve petroleum and to develop domestic sources of oil are underway. However, no major production is expected for a number of years. In the meantime, the Government is allowing the price of petroleum products to allocate supplies and to curtail consumption.

The IMF loaned Chile about \$142 million in FY 1974 under its Oil Facility and additional loans from the Fund's Oil Facility are expected this year.

5. BOP Outlook

Chile recorded a balance of payments deficit of about \$500 million in 1974. There was a trade deficit of about \$200 million and the deficit on current account was \$440 million. During 1974, exports increased by more than 33 percent, primarily as a result of a large increase in the price and output of copper, while imports increased by about 40 percent due mainly to the increase in oil imports and the continuing high cost of imported food.

Chile faces a difficult year in 1975. With copper prices at about one-third the highest levels of 1974, export earnings are expected to decline sharply. At the same time, Chile faces its largest debt service payments scheduled to date. Consequently, Chile is expected to incur a sizeable increase in its balance of payments deficit.

6. Appraisal of Ability of Chile to Service Debt' in 1974

With a deteriorating trade balance and a substantially higher debt service schedule for 1975, Chile cannot meet its debt payments. It has requested that the Paris Creditor's Club convene for purposes of rescheduling its debt. The United States intends to participate in this debt rescheduling exercise.

CHILETable 1Outstanding Indebtness on U.S. Government
Credit, as of June 30, 1974

<u>Type</u>	<u>Amount</u> (million \$)
Eximbank	\$332.3
Foreign Assistance	592.2
Agricultural Trade Development and Assistance	67.0
Commodity Credit Corporation	41.1
Other Credits	0.1
Total	<u>1,032.7</u>

Table 2External Debt as of December 31, 1973
By Type (includes Undisbursed)

<u>Type</u>	<u>Amount</u> (thousand \$)
Suppliers	\$420,378
Private Banks	490,408
Publically issued bonds	38,522
Nationalization	123,833
Other private financial institutions	105,873
International organizations	216,257
Loans from governments	2,131,903
Unclassified multiple lenders	210,228
Total	<u>3,728,402</u>

KOREA1. Debt Owed the United States

As of June 20, 1974, Korea's indebtedness to the United States government totalled \$1,062.9 million. This included: \$463 million due on AID developmental loans and \$391 million due on agricultural commodity loans, principally under the PL 480 program.

2. Total External Debt

Korea's total external outstanding debt as of December 31, 1973, amounted to \$4.3 billion. Of this, disbursed loans were \$3.1 billion and undisbursed commitments were \$1.2 billion. Principal creditors are: private suppliers \$1.3 billion, international organizations \$737 million, the USA \$1.1 billion and Japan \$554 million.

3. Debt Indicators

Korea's debt service for 1973 was about 15 percent of export earnings, down from just under 20 percent in the previous two year. Foreign exchange reserves in December 1974 were \$980 million, providing import coverage for less than two months. In 1974, Korea's current account deficit increased some \$1.5 billion to an estimated \$1.8 billion.

4. Outlook for Korea to Service Its Debts in 1975

Sharply increased oil import costs coupled with a softening of demand for Korean exports in Japanese and American markets will probably result in slower growth of exports and gross national product in 1975 than in 1974. This will necessitate a number of adjustment measures on Korea's part and may also necessitate further borrowing at medium term from multilateral financial institutions. Overall, however, Korea should be able to meet its external debt service obligations in 1975.

KOREA

Table 1: Outstanding Indebtedness of the
Republic of Korea to the U.S. Government
as of June 30, 1974.

<u>Program</u>	<u>Amount (\$ million)</u>
Export-Import Bank	\$ 94.7
Foreign Assistance and Related Acts	462.6
Agriculture Assistance Acts	391.1
Lend Lease	26.9
Commodity Credit Corporation	<u>87.6</u>
TOTAL	<u>\$1,062.9</u>

Table 2: Total Korean External Debt Outstanding
as of December 31, 1973.

<u>Creditor</u>	<u>Amount (\$ million)</u>
Suppliers	\$1,256
Private Banks	400
Other Private Institutions	131
Loans from International Organizations	736
Loans from Governments: USG	1,062
Japan	554
Others	145
TOTAL	<u>\$4,286</u>

BRAZIL1. Debt Owed the United States

As of June 30, 1974, Brazilian debt outstanding to the U.S. Government totalled \$1.9 billion, the largest share of which, 62 percent, resulted from the foreign assistance program. Approximately one-third of the total is owed to the Export-Import Bank.

2. Total External Debt

Brazil's foreign debt has grown rapidly in recent years, reaching an estimated \$20 billion by the end of 1974, as compared with \$5.3 billion at the end of 1970. (It should be noted that Brazil's published debt statistics are more comprehensive of private sector debt than the statistics of most other countries. Comparisons will thus tend to overstate Brazil's relative indebtedness and debt service burden.) Approximately two-thirds of the debt is owed to private creditors.

3. Debt Indicators

Brazil's debt service ratio for 1974 was about 32 percent (see parenthetical note above). The ratio of amortization payments to outstanding debts is around 9 percent. Foreign exchange reserves at the end of the year amounted to \$5.5 billion, or roughly 5 months import coverage.

4. Outlook for Brazil to Service Its Debts in 1975

Despite the severe impact of higher oil prices, the Brazilian economy is basically sound and dynamic, and the government's growth strategy gives major priority to the maintenance of the nation's international creditworthiness. Brazil looks forward to a period of slower growth than it has experienced in the recent past, but there appears little cause for concern regarding the servicing of foreign debt in 1975.

BRAZIL

Table I: Outstanding Indebtedness of Brazil to the
U.S. Government, June 30, 1974
(Millions of dollars)

<u>Program</u>	<u>Amount</u>
Export-Import Bank	585.9
Foreign Assistance and related acts	1,154.8
Agricultural Assistance Acts	125.3
Lend Lease	1.7
Other	0.3
TOTAL	1,868.0

Table 2: Brazilian External Debt as of March 31, 1974
(Millions of dollars)

<u>Type of Credit</u>	<u>Amount</u>
Suppliers	1,454
Private Financial Institutions	8,449
International Organizations	1,031
Government Agencies	1,944
Bonds	149
TOTAL	13,027

INDONESIA1. Debt Owed the United States

As of June 30, 1974, Indonesian indebtedness to the U.S. government was \$1.13 billion. This includes \$641 million under the Agricultural Trade Development and Assistance Act, \$333 million under the Foreign Assistance Act and related legislation, and \$117 million under Export-Import Bank loans.

2. Total External Debt

As of December 31, 1973, Indonesia's total external public debt amounted to \$6.6 billion, of which \$4.9 billion had been disbursed. Principal debtors are private banks and suppliers \$674 million, international organizations \$627 million, and loans from other governments \$5.024 million.

3. Debt Indicators

Indonesia's debt service ratio was just under 11 percent in 1973, up from 8 percent in 1972. The ratio of amortization payments to outstanding debt is about 5 percent. Foreign exchange reserves stand at nearly \$1.8 billion or about four months' coverage.

4. Ability of Indonesia to Service Debt in 1975

Indonesia's position as an oil exporter of some importance accounts for its strong balance of payments position. Since Indonesia plans to augment oil production in the coming years, its ability to service debt payments in 1975 and beyond appears to be extremely good.

Indonesia

Table 1: Outstanding Indebtedness of the Government
of Indonesia to the U.S. Government
June 30, 1974.

<u>Program</u>	<u>Amount (\$million)</u>
Under Export-Import Bank Act	117.3
Under Foreign Assistance and Related Acts	333.2
Under Agricultural Trade Development and Assistance Act	641.0
Lend-Lease, Surplus Property and other War Accounts	35.5
Other Credits	<u>-1.9</u>
Total	1,125.1

Table 2: Total External Debt Outstanding as of
December 31, 1973 (Including undisbursed credit)

<u>Type of Credit</u>	<u>Amount (\$ million)</u>
Suppliers	406.0
Private Banks	267.5
Other Private Fin. Institutions	54.7
Nationalization Compensation	210.3
Loans from International Org's	626.9
Loans from Governments	<u>5,024.2</u>
Total	6,589.6

ISRAEL

1. Debts Owed the U.S.

As of June 30, 1974, Israel's debt outstanding to the United States was \$1,463 million. This included \$978 million under The Foreign Assistance and Related Acts, \$385 million under The Agricultural Trade Development and Assistance Act, and \$100 million to The Export-Import Bank.

2. Total External Debt

As of June 30, 1974, Israel's total foreign debt was \$5,093 million. Of this amount, loans from other Governments, \$2030 million and Israeli bonds, \$1,746 million, accounted for nearly 75 percent of the total.

3. Debt Indicators

Israel's debt service ratio for 1973 was nearly 36 percent, up from nearly 17 percent in 1972. Its foreign exchange reserves are slightly over \$1.0 billion and provide import coverage of about two months.

4. Outlook for Israel to Service Its Debts in 1975

Israel's relatively favorable debt structure and its demonstrated ability to refinance some 60 percent of its long-term debt falling due augers favorably for Israel's ability to meet its external debt service obligations. Although Israel has increased its short-term debt obligations recently, its ability to service external debt remains good.

ISRAEL

Table 1: Israel's Long-Term Debt to the U.S. Government
June 30, 1974
(\$ Millions)

<u>Program</u>	<u>Amount</u>
Foreign Assistance and Related Acts	\$ 978.2
Agricultural Trade Development and Assistance Acts	
In dollars	278.6
In local currency	106.6
Export-Import Bank	100.2
Total	<u>\$1,463.6</u>

Table 2: Total External Debt Outstanding as of
December 31, 1973, by Type of Creditor

<u>Type of Creditor</u>	<u>Amount</u> (\$ in millions)
Suppliers	\$ 269
Private Banks and other financial institutions	948.6
Israel Bonds	1746.9
Loans from International Organizations	98.0
Loans from Governments	2030.5
Total	<u>\$5093.0</u>

TURKEY1. Debt Owed to the United States

As of June 30, 1974, Turkey's indebtedness to the U.S. Government totalled approximately \$1.5 billion. Just over \$1 billion of this amount is attributable to loans extended under the Foreign Assistance and Related Acts.

2. Total External Debt

As of January 1, 1974, Turkey's external debts totalled \$3.9 billion. Loans from governments accounted for \$2.6 billion, or nearly 67 percent of this amount, while loans from international organizations amounted to \$0.9 billion or approximately 23 percent of the governmental loans.

3. Debt Indicators

Turkey's debt service payments for 1974 are estimated at \$230 million, or about 15 percent of exports. Its foreign exchange reserves at the end of 1974 were \$1.6 billion, an amount equivalent to about five months coverage of imports. During 1974, Turkey's economy experienced a number of difficulties. Imports increased nearly 75 percent over the previous year reflecting in large part higher prices of oil and other commodities required for Turkey's growth, while exports rose by only 19 percent. The trade deficit for 1974 is estimated at some \$2 billion, compared to \$780 million in 1973.

4. Outlook for Turkey to Service Its Debts in 1975

Notwithstanding the deterioration in Turkey's balance of payments, Turkey is expected to maintain a comfortable, albeit lower, level of reserves in 1975 which should enable it to meet its debt service payments.

TURKEY

Table 1: Outstanding Indebtedness of the Government of Turkey to the U.S. Government as of June 30, 1974.

<u>Program</u>	<u>Amount</u> (\$ Millions)
Under Export-Import Bank Act	64.8
Under Foreign Assistance and Related Acts	1,089.7
Under Agricultural Trade Development and Assistance Act	161.4
European Monetary Agreement	<u>114.0</u>
Total	1,429.9

Table 2: Total External Debt Outstanding as of December 31, 1973, by Type of Creditor, Undisbursed Credit Included

<u>Type of Credit</u>	
Suppliers	156.7
Private Banks	40.1
Publicly Issues Bonds	18.7
Other Private Fin. Institutions	37.4
Loans from International Org.'s	923.8
Loans from Governments	<u>2602.1</u>
Total	3778.7

VI. EFFECT OF DEBT RESCHEDULING ON THE EXTENSION OF NEW CREDITS

The relationship between debt rescheduling and the extension of new credits is complex. The effect of a rescheduling on the extension of new credits by the United States will depend on various factors such as the economic situation of the debtor country both before and after the rescheduling; the reasons for and the terms of the rescheduling; whether the United States had suspended the extension of credits to the debtor country as well as the nature of the new credits.

For example, a rescheduling may lead to extensions of new credits in those situations where because of legal prohibitions no credit had been extended because of a default by the debtor country (e.g. see Sec. 620q of the Foreign Assistance Act of 1961, as amended). A rescheduling may also lead to extensions of additional credits because of the improvement in the creditworthiness of the debtor country. On the other hand, the necessity of a rescheduling and the fact that a country was unable to meet its current obligations may lead to greater caution by creditor countries and an unwillingness to provide new credits which the debtor country might be unable to service.

Although one cannot generalize about the effects of debt reschedulings on the extension of new credits, the level of new credits may be directly affected by the terms of the rescheduling because of certain legislative provisions. This was the case with regard to loans extended under the Foreign Assistance Act of 1961 and is presently the case for loans extended under the Export-Import Bank Act of 1945, as amended, as well as Public Law 480.

Prior to passage of the Foreign Assistance Act of 1973, repayments on AID credits were authorized to be made available for the extension of new credits. A debt rescheduling reduced the reflow of funds that would be available for new loans and, therefore, had a direct effect on the level of these loans. This provision was changed by the 1973 amendment to Section 203 of the Foreign Assistance Act of 1961.

The amendment provided that not more than 50 percent of dollar receipts scheduled to be paid during each of the fiscal years 1974 and 1975 from loans made under the Foreign Assistance Act and predecessor foreign assistance legislation would be available for making new loans. The remainder of dollar receipts will go to Treasury's miscellaneous receipts. The effect of this provision is to remove the direct effect of debt rescheduling on funds available for loans. Because 50 percent of scheduled dollar repayments are provided to AID that amount will not be changed through reschedulings. The rescheduling will only reduce the miscellaneous receipts portion of the repayments. After July 1, 1975, all dollar repayments will be deposited into miscellaneous receipts. This removal of authority to use receipts does not affect the authority of the Executive branch to reschedule debts.

The level of dollar credits which can be extended under PL 480 is affected by debt reschedulings. Section 102 of PL 480 provides that the Commodity Credit Corporation is authorized to finance the sale and exportation of agricultural commodities. Funds for dollar credits can be obtained either through appropriations or by resorting to CCC's borrowing authority [15 U.S.C. 714b(i)]. In determining the yearly appropriations for the P.L. 480 programs, one of the factors taken into account is the funds that will be received through debt repayments. To the extent that P.L. 480 debts are rescheduled and receipts diminished, CCC must seek additional appropriations or resort to use of its borrowing authority. Since there is a limit on the obligations that CCC can have outstanding, such financing by CCC represents a drain in the resources of CCC and makes these resources unavailable for other uses.

The same is true in the case of the Export-Import Bank. Because of the limitation both on the commitment authority and on the obligations that Eximbank can have outstanding (Sections 6 and 7 of the Export-Import Bank Act of 1945, as amended), debt reschedulings may reduce the ability of the Bank to make new loans.

VII. A SUMMARY OF NET AID FLOWS TO COUNTRIES RECEIVING
MAJOR DEBT RELIEF

Comprehensive data on net aid flows to creditor countries are presented in tables B-1 through B-6 in the annual reports of the National Advisory Council. These net aid figures customarily exclude interest collections, which are shown separately in table B-11. The tables are compiled in conjunction with the U.S. balance of payments and are, therefore, presented on a calendar year basis, rather than a fiscal year basis.

In Table 7 below, net aid flows for calendar year 1973 for Chile, India and Pakistan are presented by major category: grants, credits, and other assistance. This table shows that for Chile, debt relief was not an element in the \$28 million net aid flow.

For India, the net aid flow was \$68 million, excluding deductions for interest collected. Debt relief constituted \$21 million of the net aid flow. Including interest and debt relief, there was a negative net aid flow from the U.S. to India of \$58 million.

For Pakistan, the net aid flow was \$134 million, excluding deductions for interest collected. Debt relief constituted \$9 million of the net aid flow. Including interest and debt relief, the net aid flow to Pakistan was \$103 million.

Table 7

Summary of major U.S. Government net foreign assistance to Chile, India, and Pakistan,
Calendar year 1973, gross and returned, by type and program
(In thousands of dollars and equivalents)

	Chile		India		Pakistan	
	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization
Net total, all programs (excluding interest collections).....	27,891	-	66,770	21,371	133,974	8,649
<u>Grants</u>						
Total Grants.....	4,679	-	107,992	-	30,958	-
Under Foreign Assistance Act and related programs...	1,357	-	4,582	-	10,908	-
Under authorizations for farm products disposals:						
From foreign currencies under the Agricultural Trade	-	-	28,414	-	7,445	-
Development and Assistance Act.....	-	-	-	-	-	-
For famine, other urgent, and extraordinary relief,						
for economic development, and through private wel-	2,428	-	53,482	-	10,550	-
fare agencies.....	529	-	20,726	-	2,055	-
Payment of transportation.....	365	-	788	-	-	-
Peace Corps.....						
<u>Credits</u>						
Net.....	23,200	-	-38,110	21,371	104,950	8,649
Gross (new).....	29,612	-	81,276	29,280	136,600	14,052
Under Export-Import Bank Act.....	1,400	-	233	-	1,293	-
Under Foreign Assistance Act and related programs:						
Country program loans.....	154	-	66,478	23,588	86,092	11,115
Financing of military sales.....	1,298	-	2,449	-	18	-
Social Progress Trust Fund.....	3,230	-	-	-	-	-

Table 7 (cont'd)

Summary of major U.S. Government net foreign assistance to Chile, India, and Pakistan,
Calendar year 1973, gross and returned, by type and program
(In thousands of dollars and equivalents)

	Chile		India		Pakistan	
	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization
Under Agricultural Trade Development and Assistance Act:						
Currency loans to private enterprises.....	-	-	6,562	139	-	-
Long-term dollar credits.....	-	-	5,554	5,553	47,426	1,166
Other credits.....	23,530	-	-	-	1,771	1,771
Under Commodity Credit Corporation Charter Act....	23,530	-	-	-	1,771	1,771
Less principal collections.....	6,412	-	119,386	7,909	31,650	5,403
Under Export-Import Bank Act.....	-	-	42,256	-	7,405	-
Under Foreign Assistance Act and related programs:						
Country program loans.....	200	-	52,916	7,909	14,886	3,632
Financing of military sales.....	4,151	-	902	-	768	-
Social Progress Trust Fund.....	2,048	-	-	-	-	-
Under Agricultural Trade Development and Assistance Act:						
Currency loans to foreign governments.....	6	-	9,619	-	2,775	-
Currency loans to private enterprises.....	6	-	11,955	-	2,006	-
Other credits.....	1	-	-	-	3,810	1,771
Under Commodity Credit Corporation Charter Act....	-	-	1,738	-	3,810	1,771
Miscellaneous.....	1	-	-	-	-	-
Other Assistance (through Net Accumula- tion of Foreign Currency Claims)						
Net.....	12	-	-3,112	-	-1,934	-
Farm products sales:						
(Under Commodity Credit Corporation Charter Act)....	-	-	84	-	2	-
From 2d-stage operation (under Agricultural Trade De- velopment and Assistance Act).....	19	-	74,312	-	11,669	-

Table 7 (cont'd)

Summary of major U.S. Government net foreign assistance to Chile, India, and Pakistan,
Calendar year 1973, gross and returned, by type and program
(In thousands of dollars and equivalents)

	Chile		India		Pakistan	
	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization
Less currencies disbursed for grants, credits, and uses.....	7	-	77,508	-	13,605	-
Under Mutual Security Acts.....	-	-	-	-	21	-
For economic grants and credits in recipient's currency.....	-	-	-	-	21	-
Under Agricultural Trade Development and Assistance Act.....	-	-	77,424	-	13,582	-
For economic grants and credits in recipient's currency.....	-	-	34,837	-	7,445	-
Other.....	7	-	42,587	-	6,137	-
Under Commodity Credit Corporation Charter Act: other than for grants and credits.....	-	-	84	-	2	-

Table 7 (cont'd)

Summary of major U.S. Government net foreign assistance to Chile, India, and Pakistan, Calendar year 1973, gross and returned, by type and program
(In thousands of dollars and equivalents)

	Chile		India		Pakistan	
	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization	Total	Of which: Debt reor- ganization
<u>MEMORANDUM: Interest Collections (-)</u>						
Total, interest collections.....	2,978	-	123,951	21,371	31,127	8,649
Under Export-Import Bank Act.....	283	-	12,077	-	3,429	-
Under Foreign Assistance Act and related programs.....	2,688	-	44,962	15,679	15,371	7,483
Country program loans.....	74	-	44,820	15,679	15,270	7,483
Financing of military sales.....	1,696	-	142	-	101	-
Social Progress Trust Fund.....	918	-	-	-	-	-
Under Agricultural Trade Development and Assistance Act:						
Currency loans to foreign governments.....	5	-	45,659	-	6,036	-
Currency loans to private enterprises.....	2	-	7218	139	1,098	-
Long-term dollar credits.....	-	-	12,674	5,553	4,492	1,166
Other credits.....	-	-	1,361	-	701	-
Under Atomic Energy Act.....	-	-	1,250	-	-	-
Under Commodity Credit Corporation Charter Act.....	-	-	111	-	701	-

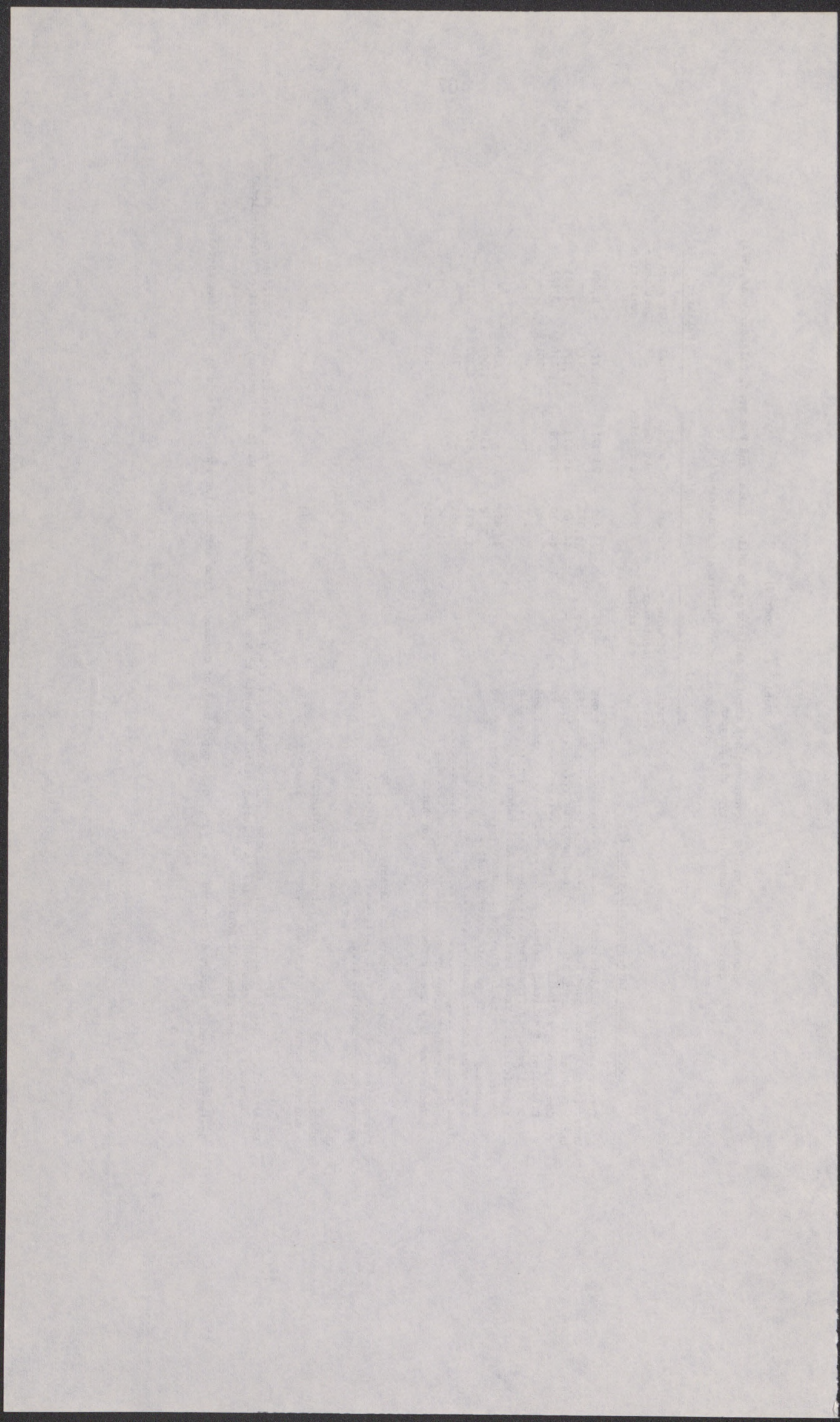
MEMORANDUM: Investment guaranty payments by OPIC

Guaranties paid.....	12,966
Recovery on guaranties.....	146

MEMORANDUM TOTAL: Net assistance, interest, collections,
and investment guaranty transactions..... 37,733

Note: Excludes military assistance. For other important qualifications affecting this table and for definitions of terms, see the explanatory note to the corresponding tables in the statistical appendix to the Annual Reports of the National Advisory Council on International, Monetary and Financial Policies.

Source: Compiled by Bureau of Economic Analysis, U.S. Department of Commerce, from information made available by operating agencies.



ANNEX 1

COUNTRIES DESIGNATED "MOST SERIOUSLY AFFECTED" BY THE UNITED NATIONS

1. Bangladesh
2. Central African Republic
3. Chad
4. Dahomey
5. Democratic Yemen
6. El Salvador
7. Ghana
8. Guinea
9. Guyana
10. Haiti
11. Honduras
12. India
13. Ivory Coast
14. Kenya
15. Lesotho
16. Madagascar
17. Mali
18. Mauritania
19. Niger
20. Pakistan
21. Senegal
22. Sierra Leone
23. Somalia
24. Sri Lanka
25. Sudan
26. United Republic of Cameroon
27. United Republic of Tanzania
28. Upper Volta
29. Yemen
30. Ethiopia
31. Laos
32. Cambodia

ANNEX 2

SUBMISSIONS TO CONGRESS ON PAKISTAN RESCHEDULING

June 27, 1974

Honorable Thomas E. Morgan, Chairman
Committee on Foreign Affairs
House of Representatives
Washington, D.C.

Dear Mr. Chairman:

The Secretary has asked me to advise you of the status of the United States Government's debt rescheduling negotiations taking place within the framework of the Aid-to-Pakistan Consortium, which is composed of a group of creditor countries under the chairmanship of the World Bank.

These negotiations are in response to unique circumstances that have arisen as a result of the 1971 war and the independence of Bangladesh. In view of applicable international law, Pakistan retains responsibility for all external debts contracted prior to the war totalling some \$3.5 billion. After the war Pakistan nonetheless insisted that debts resulting from programs of primary benefit to Bangladesh, which it estimated at about \$1.2 billion, should be paid by Bangladesh. For its part, Bangladesh affirmed its intention to assume the international responsibilities incumbent upon a sovereign state, including a portion of the external debt of the formerly united Pakistan, but only within the context of an overall financial settlement.

The western creditors, including the United States, have been working to develop a procedure to overcome the impasse. Our primary objective has been to avoid a default on any portion of the total debt. We have also sought to frame any agreement in the context of Pakistan's unique situation so as to avoid setting an undesirable precedent for other countries.

A solution to the problem acceptable to the creditors now appears at hand. Bangladesh has agreed in principle to assume liability for projects visibly located in its territory and negotiations to identify such projects and determine terms of repayment are well advanced. Bangladesh is likely to assume liabilities of about \$400-500 million from all Consortium creditors. The United States has been particularly successful in its negotiations with Bangladesh, with the Government of Bangladesh having indicated a willingness to accept United States' claims totalling approximately \$80 million. Consortium members have agreed in principle to provide generous terms on the debt which Bangladesh accepts.

Pakistan has also indicated a willingness to fully repay all debts not picked up by Bangladesh, including those arising from commodities delivered to the former East Pakistan, provided debt relief is given so as to reduce the burden of these debts. All creditor countries agree that there is merit to Pakistan's position and have been engaged in informal debt relief discussions over the past several months.

At a special meeting of the Pakistan Consortium on June 12, the World Bank informed the Consortium that the Finance Minister of Pakistan has accepted the Consortium's proposal for debt relief in the form of rescheduling debt payments totalling \$650 million. This represents a little more than one-half of Pakistan's original \$1.2 billion request for debt relief. The \$650 million proposal will spread debt relief over four years, providing \$175 million for each of the first three years and \$125 million for the fourth. The proposal allows a creditor not meeting its relief quota in a particular year to provide additional compensating relief in a subsequent year or years, so long as the present value of the relief remains unchanged. The United States' share of relief to be provided over the four years is about \$211 million (we will actually elect to reschedule about \$230 million over 5-1/2 years), or approximately 32.5 percent of the total. We believe this amount is reasonable, particularly since the United States is the creditor on two-thirds of the debts originally disputed by Pakistan.

The rescheduling arises from unique circumstances, and both the amounts and terms involved reflect this. Furthermore, the United States has made it clear that this rescheduling is a final settlement of the debt division issue and that there will be no further rescheduling based on the events of 1971 in Pakistan.

All of the Consortium creditors at the June 12 meeting indicated their intention to recommend formal acceptance of the agreement to their governments. The creditors were hopeful that a final settlement could be officially approved by June 30.

I will be happy to provide any additional information you may require on this matter.

Sincerely,

Linwood Holton
Assistant Secretary
for Congressional Relations

August 13, 1974

Honorable Thomas F. Morgan, Chairman
Committee on Foreign Affairs
House of Representatives
Washington, D.C.

Dear Mr. Chairman:

Pursuant to the provisions of Section 4 of the Foreign Disaster Assistance Act of 1974, (the "Act") the Department of State is to notify you prior to the United States entering into discussions which could have the impact of liberalizing the repayment terms of any debt owed to the United States by a foreign government for loans extended under the authority of the Foreign Assistance Act of 1961, as amended. Section 4 of the Act also requires that the text of each bilateral rescheduling agreement with a debtor foreign government be transmitted to the Speaker of the House of Representatives and to the Chairman of the Senate Committee on Foreign Relations at least thirty days before its entry into force.

To initiate implementation of the above mentioned legislation, the Secretary has asked me to inform you of the status of all pending matters covered by Section 4. At the present time these consist of the recent understanding within the Aid-to-Pakistan Consortium which resolved the complex issues of Pakistan/Bangladesh debt, and the ongoing discussions taking place in the Aid-to-India Consortium.

On June 28, 1974, the World Bank, acting in its capacity as chairman of the thirteen member Aid-to-Pakistan Consortium, signed a Memorandum of Understanding with the Government of Pakistan providing for a rescheduling of approximately \$650 million payments owed by Pakistan over the four year period beginning July 1, 1974. The United States' share of relief to be provided over the four years is about \$211 million, or approximately 32.5 percent of the total. (In order to lower somewhat the amount of debt relief granted in the first years of the rescheduling period, the United States elected to reschedule

about \$230 million over 5-1/2 years which in terms of discounted present value is equivalent to the \$211 million/four year figure.) My June 27 letter to you on this topic provides additional background to the unique circumstances -- arising out of the 1971 war and the independence of Bangladesh -- leading up to this understanding.

Directly related to the understanding negotiated with Pakistan is an agreement by the Government of Bangladesh to assume the responsibility to service payments on debt -- formerly the responsibility of a united Pakistan -- for projects visibly located in Bangladesh. About \$80 million in such debt to the United States will now be serviced by Bangladesh. All the members of the Aid-to-Pakistan Consortium have agreed to provide generous terms on the debt which Bangladesh agrees to service. The bilateral agreements implementing our understandings with Pakistan and Bangladesh will be forwarded to you as soon as they are prepared and will not enter into force until at least thirty days after being transmitted to you.

My July 31 letter to you regarding discussions on debt taking place in the Aid-to-India Consortium provides some of the background on the status of a possible debt rescheduling agreement with India. Although the United States has participated in Consortium-sponsored debt rescheduling exercises begun six years ago, the United States did not accept a recent World Bank proposal calling on the thirteen Consortium creditors to reschedule 45 percent of the roughly \$550 million in Indian debt payments due to them this Indian fiscal year, ending March 31, 1975. Since debt falling due to the United States from India this year is just over \$145 million, the United States share of relief under the Bank's proposal would have amounted to approximately \$64 million. The Bank is currently attempting to revise its proposal in a manner that would be acceptable to all Consortium creditors.

I will be happy to provide any additional information on these matters, and will notify you of all other pertinent developments affecting these and any other debts owed to the United States under the Foreign Assistance Act.

Cordially,

Linwood Holton
Assistant Secretary
for Congressional Relations

June 27, 1974

Honorable J. William Fulbright, Chairman
Foreign Relations Committee
United States Senate
Washington, D.C.

Dear Mr. Chairman:

The Secretary has asked me to advise you of the status of the United States Government's debt rescheduling negotiations taking place within the framework of the Aid-to-Pakistan Consortium, which is composed of a group of creditor countries under the chairmanship of the World Bank.

These negotiations are in response to unique circumstances that have arisen as a result of the 1971 war and the independence of Bangladesh. In view of applicable international law, Pakistan retains responsibility for all external debts contracted prior to the war totalling some \$3.5 billion. After the war Pakistan nonetheless insisted that debts resulting from programs of primary benefit to Bangladesh, which it estimated at about \$1.2 billion, should be paid by Bangladesh. For its part, Bangladesh affirmed its intention to assume the international responsibilities incumbent upon a sovereign state, including a portion of the external debt of the formerly united Pakistan, but only within the context of an overall financial settlement.

The western creditors, including the United States, have been working to develop a procedure to overcome the impasse. Our primary objective has been to avoid a default on any portion of the total debt. We have also sought to frame any agreement in the context of Pakistan's unique situation so as to avoid setting an undesirable precedent for other countries.

A solution to the problem acceptable to the creditors now appears at hand. Bangladesh has agreed in principle to assume liability for projects visibly located in its territory and negotiations to identify such projects and determine terms of repayment are well advanced. Bangladesh is likely to assume liabilities of about \$400-500 million from all Consortium creditors. The United States has been particularly successful in its negotiations with Bangladesh, with the Government of Bangladesh having indicated a willingness to accept United States' claims totalling approximately \$80 million. Consortium members have agreed in principle to provide generous terms on the debt which Bangladesh accepts.

Pakistan has also indicated a willingness to fully repay all debts not picked up by Bangladesh, including those arising from commodities delivered to the former East Pakistan, provided debt relief is given so as to reduce the burden of these debts. All creditor countries agree that there is merit to Pakistan's position and have been engaged in informal debt relief discussions over the past several months.

At a special meeting of the Pakistan Consortium on June 12, the World Bank informed the Consortium that the Finance Minister of Pakistan has accepted the Consortium's proposal for debt relief in the form of rescheduling debt payments totalling \$650 million. This represents a little more than one-half of Pakistan's original \$1.2 billion request for debt relief. The \$650 million proposal will spread debt relief over four years, providing \$175 million for each of the first three years and \$125 million for the fourth. The proposal allows a creditor not meeting its relief quota in a particular year to provide additional compensating relief in a subsequent year or years, so long as the present value of the relief remains unchanged. The United States' share of relief to be provided over the four years is about \$211 million (we will actually elect to reschedule about \$230 million over 5-1/2 years), or approximately 32.5 percent of the total. We believe this amount is reasonable, particularly since the United States is the creditor on two-thirds of the debts originally disputed by Pakistan.

The rescheduling arises from unique circumstances, and both the amounts and terms involved reflect this. Furthermore, the United States has made it clear that this rescheduling is a final settlement of the debt division issue and that there will be no further rescheduling based on the events of 1971 in Pakistan.

All of the Consortium creditors at the June 12 meeting indicated their intention to recommend formal acceptance of the agreement to their governments. The creditors were hopeful that a final settlement could be officially approved by June 30.

I will be happy to provide any additional information you may require on this matter.

Sincerely,

Linwood Holton
Assistant Secretary
for Congressional Relations

August 14, 1974

Honorable J. William Fulbright, Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C.

Dear Mr. Chairman:

Pursuant to the provisions of Section 4 of the Foreign Disaster Assistance Act of 1974 (the "Act"), the Department of State is to notify you prior to the United States entering into discussions which could have the impact of liberalizing the repayment terms of any debt owed to the United States by a foreign government for loans extended under the authority of the Foreign Assistance Act of 1961, as amended. Section 4 of the Act also requires that the text of each bilateral re-scheduling agreement with a debtor foreign government be transmitted to you in your capacity as Chairman of the Senate Foreign Relations Committee and to the Speaker of the House of Representatives at least 30 days before its entry into force.

To initiate implementation of the above mentioned legislation, the Secretary has asked me to inform you of the status of all pending matters covered by Section 4. At the present time these consist of the recent understanding within the Aid-to-Pakistan Consortium which resolved the complex issue of Pakistan/Bangladesh debt, and the on-going discussions taking place in the Aid-to-India Consortium.

On June 23, 1974, the World Bank, acting in its capacity as chairman of the thirteen member Aid-to-Pakistan Consortium, signed a Memorandum of Understanding with the Government of Pakistan providing for a rescheduling of approximately \$650 million in payments owed by Pakistan over the four year period beginning July 1, 1974. The United States' share of relief to be provided over the four years is about \$211 million, or approximately 32.5

percent of the total (in order to lower somewhat the amount of debt relief granted in the first years of the rescheduling period, the U.S. elected to reschedule about \$230 million over 5-1/2 years which in terms of discounted present value is equivalent to the \$211 4 year figure). My June 27 letter to you on this topic provides additional background to the unique circumstances - arising out of the 1971 war and the independence of Bangladesh - leading up to this understanding.

Directly related to the understanding negotiated with Pakistan is an agreement by the Government of Bangladesh to assume the responsibility to service payments on debt - formerly the responsibility of a united Pakistan - for projects visibly located in Bangladesh. About \$80 million in such debt to the United States will now be serviced by Bangladesh. All the members of the Aid-to-Pakistan Consortium have agreed to provide generous terms on the debt which Bangladesh agrees to service. The bilateral agreements implementing our understandings with Pakistan and Bangladesh will be forwarded to you as soon as they are prepared and will not enter into force until at least thirty days after being transmitted to you.

My July 31 letter to you regarding discussions on debt taking place in the Aid-to-India Consortium provides some of the background on the status of a possible debt rescheduling agreement with India. Although the United States has participated in Consortium-sponsored debt rescheduling exercises begun six years ago, the United States did not accept a recent World Bank proposal calling on the thirteen Consortium creditors to reschedule 45 percent of the roughly \$550 million in Indian debt payments due to them this India fiscal year, ending March 31, 1975. Since debt falling due to the United States from India this year is just over \$145 million, the United States share of relief under the Bank's proposal would have amounted to approximately \$64 million. The Bank is currently attempting to revise its proposal in a manner that would be acceptable to all Consortium creditors.

I will be happy to provide any additional information on these matters, and will notify you of all other pertinent developments affecting these and any other debts owed to the United States under the Foreign Assistance Act.

Cordially,

Linwood Holton
Assistant Secretary
for Congressional Relations

ANNEX 3

SUBMISSIONS TO CONGRESS ON INDIAN DEBT RESCHEDULING

July 31, 1974

Honorable Thomas E. Morgan, Chairman
Committee on Foreign Affairs
House of Representatives
Washington, D.C.

Dear Mr. Chairman:

The Secretary has asked me to inform you of the status of discussions on debt taking place in the Aid-to-India Consortium, an organization of thirteen creditor countries chaired by the World Bank. Although there have been no new United States bilateral loan commitments to India since 1971, the United States has continued to participate in Consortium-sponsored debt rescheduling exercises begun six years ago. Last year the United States rescheduled \$29 million of the total \$179 million rescheduled by the Consortium creditors. However, India still paid debt service totalling \$115 million to the United States.

At the two meetings of the Consortium held this year, attention has focused on India's debt and aid needs in the light of the country's economic problems. These problems are dominated by needs for petroleum, fertilizer, and foodgrains and for measures to meet balance of payments problems resulting from the sharply higher costs of these essential imports. I shall refer shortly to another aspect of the Indian economic situation, that of its nuclear development program.

Of course, India's long run development depends mainly on India's own efforts to mobilize its resources in the most efficient manner possible. For the present year, however, members of the Consortium agreed that 1974 will be particularly difficult for the Indian economy and people. In view of India's economic difficulties, most Consortium members have already scheduled increases in their economic assistance programs to India.

In addition, the World Bank proposed at a Consortium meeting on June 13-14 that the thirteen Consortium creditors reschedule 45 percent of the roughly \$550 million in Indian

debt payments due them this Indian fiscal year, ending March 31, 1975. The proposal would provide total debt relief of \$243 million. Since debt falling due to the United States from India this year is just over \$145 million, the United States share of relief under the Bank's proposal would have amounted to approximately \$64 million.

Most members accepted the Bank proposal but the United States did not. The United States stated a willingness to reschedule at a level well below the Bank's suggested share for us, with a pledge to review India's situation later in the year if such was warranted by economic conditions.

During the Consortium discussions with the Indian delegation most of the creditors, including the United States, referred to India's nuclear explosion. The general views were that the explosion had raised questions of India's economic priorities for the future, and that its economic implications would have to be carefully examined. In our judgment, no significant transfer of Indian economic resources is involved in its nuclear explosion. India's annual budget is about \$12 billion. Total expenditures for nuclear development in FY-1973 were \$91 million, the vast bulk of which was used on nuclear power development, to provide electricity badly needed for the Indian development effort. The total cost of the nuclear explosion, including prior research and development, was less than one-tenth of one percent of India's budget.

At the present time, the World Bank is reportedly attempting to revise its debt relief proposal in a manner that would be acceptable to all Consortium creditors. I will be happy to provide any additional information on this subject, and will keep you informed of any further developments.

Cordially,

Linwood Holton
Assistant Secretary
for Congressional Relations

July 3/ 1974

Honorable J. William Fulbright, Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C.

Dear Mr. Chairman:

The Secretary has asked me to inform you of the status of discussions on debt taking place in the Aid-to-India Consortium, an organization of thirteen creditor countries chaired by the World Bank. Although there have been no new United States bilateral loan commitments to India since 1971, the United States has continued to participate in Consortium-sponsored debt rescheduling exercises begun six years ago. Last year the United States rescheduled \$29 million of the total \$179 million rescheduled by the Consortium creditors. However, India still paid debt service totalling \$115 million to the United States.

At the two meetings of the Consortium held this year, attention has focused on India's debt and aid needs in the light of the country's economic problems. These problems are dominated by needs for petroleum, fertilizer, and foodgrains and for measures to meet balance of payments problems resulting from the sharply higher costs of these essential imports. I shall refer shortly to another aspect of the Indian economic situation, that of its nuclear development program.

Of course, India's long run development depends mainly on India's own efforts to mobilize its resources in the most efficient manner possible. For the present year, however, members of the Consortium agreed that 1974 will be particularly difficult for the Indian economy and people. In view of India's economic difficulties, most Consortium members have already scheduled increases in their economic assistance programs to India.

In addition, the World Bank proposed at a Consortium meeting on June 13-14 that the thirteen Consortium creditors reschedule 45 percent of the roughly \$550 million in Indian debt payments due them this Indian fiscal year, ending

March 31, 1975. The proposal would provide total debt relief of \$248 million. Since debt falling due to the United States from India this year is just over \$145 million, the United States share of relief under the Bank's proposal would have amounted to approximately \$64 million.

Most members accepted the Bank proposal but the United States did not. The United States stated a willingness to reschedule at a level well below the Bank's suggested share for us, with a pledge to review India's situation later in the year if such was warranted by economic conditions.

During the Consortium discussions with the Indian delegation most of the creditors, including the United States, referred to India's nuclear explosion. The general views were that the explosion had raised questions of India's economic priorities for the future, and that its economic implications would have to be carefully examined. In our judgment, no significant transfer of Indian economic resources is involved in its nuclear explosion. India's annual budget is about \$12 billion. Total expenditures for nuclear development in FY-1973 were \$91 million, the vast bulk of which was used on nuclear power development, to provide electricity badly needed for the Indian development effort. The total cost of the nuclear explosion, including prior research and development, was less than one-tenth of one percent of India's budget.

At the present time, the World Bank is reportedly attempting to revise its debt relief proposal in a manner that would be acceptable to all Consortium creditors. I will be happy to provide any additional information on this subject, and will keep you informed of any further developments.

Cordially,

Linwood Holton
Assistant Secretary
for Congressional Relations

October 10, 1974

Honorable Thomas E. Morgan, Chairman
Committee on Foreign Affairs
House of Representatives
Washington, D.C.

Dear Mr. Chairman:

The Secretary has asked me to inform you of current developments with respect to a rescheduling of India's debt to the United States. As I noted in my letter of August 13, the United States was not able to accept a World Bank proposal requesting the thirteen creditors of the Aid-to-India Consortium to reschedule 45 percent of the Indian debt service falling due this Indian fiscal year. Under this proposal, the United States share of relief would have amounted to \$64 million.

After careful consideration of India's current economic problems and the serious balance of payments difficulties that she confronts, the United States has advised the World Bank that it is willing to reschedule up to a maximum of \$45 million. It is our hope that this offer will facilitate early agreement by creditors on a rescheduling for India within the Consortium. Even though this represents about 31 percent of Indian debt service falling due to the United States, the World Bank is hopeful that most of the other creditors will participate at the 45 percent rate requested in the original Bank proposal.

Pursuant to the provisions of Section 4 of the Foreign Assistance Act of 1974, the text of any bilateral rescheduling agreement negotiated with India will be transmitted to the Chairman of the Senate Foreign Relations Committee and to the Speaker of the House of Representatives at least 30 days before its entry into force.

I will be happy to provide any additional information on this subject.

Cordially,

Linwood Holton
Assistant Secretary
for Congressional Relations

October 10, 1974 2833

Honorable J. William Fulbright, Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C.

Dear Mr. Chairman:

The Secretary has asked me to inform you of current developments with respect to a rescheduling of India's debt to the United States. As I noted in my letter of August 15, the United States was not able to accept a World Bank proposal requesting the thirteen creditors of the Aid-to-India Consortium to reschedule 45 percent of the Indian debt service falling due this Indian fiscal year. Under this proposal, the United States share of relief would have amounted to \$64 million.

After careful consideration of India's current economic problems and the serious balance of payments difficulties that she confronts, the United States has advised the World Bank that it is willing to reschedule up to a maximum of \$45 million. It is our hope that this offer will facilitate early agreement by creditors on a rescheduling for India within the Consortium. Even though this represents about 31 percent of Indian debt service falling due to the United States, the World Bank is hopeful that most of the other creditors will participate at the 45 percent rate requested in the original Bank proposal.

Pursuant to the provisions of Section 4 of the Foreign Assistance Act of 1974, the text of any bilateral rescheduling agreement negotiated with India will be transmitted to you in your capacity as Chairman of the Senate Foreign Relations Committee and to the Speaker of the House of Representatives at least 30 days before its entry into force.

I will be happy to provide any additional information on this subject.

Cordially,

Linwood Holton
Assistant Secretary
for Congressional Relations

ANNEX 4

SUBMISSIONS TO CONGRESS ON CHILE DEBT RESCHEDULING

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES

OF AMERICA AND THE GOVERNMENT OF CHILE

REGARDING THE CONSOLIDATION AND RESCHEDULING OF CERTAIN

DEBTS OWED TO, GUARANTEED OR INSURED BY THE UNITED STATES

GOVERNMENT AND ITS AGENCIES

The Government of the United States of America and the Government of Chile agree as follows:

Article I

Application of Agreement

1. In accordance with the provisions of the Memorandum of Understanding agreed upon ad referendum by representatives of the Government of the United States of America and the Government of Chile on December 19, 1973, the Government of the United States of America and the Government of Chile have agreed to consolidate and reschedule certain Chilean debts owed to, guaranteed or insured by the United States Government and its Agencies, as provided for in this Agreement.

2. This Agreement shall be implemented by separate bilateral agreements between the Government of Chile and the Agency for International Development, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the United States Government with respect to P.L. 480 Agreements.

Article IIDefinitions

For purposes of this Agreement:

1. The term "original agreements" shall refer to agreements concluded between the Government of Chile, its agencies or nationals, and the Government of the United States, its agencies or nationals, which are listed in Annex A.

2. The term "consolidated debt" shall refer to seventy percent (70%) of the sum of dollar repayable principal and interest payments falling due from November 1, 1971, through December 31, 1972, in accordance with the original agreements, as designated in the separate bilateral agreements referred to in Article I, paragraph 2.

3. The term "consolidation interest" shall refer to interest on the consolidated debt. Consolidation interest shall begin to accrue on the due dates specified in each of the original agreements for each payment of principal or interest which is part of the consolidated debt.

Article IIITerms and Conditions of Payment

1. The Government of Chile agrees to repay the consolidated debt in accordance with the following terms and conditions:

(a) The consolidated debt amounting to \$68,522,639.61 shall be repaid in 13 equal semi-annual installments on due dates of

January 1, and July 1 of each year beginning January 1, 1975 and ending January 1, 1981.

(b) The consolidation interest rate shall be 6 percent per annum on the outstanding balance of the consolidated debt.

(c) Consolidation interest accruing from January 1, 1974,^{1/} shall be paid semi-annually beginning July 1, 1974.

(d) A table summarizing the amounts of the consolidated debt owed to the United States Government and each Agency is attached as Annex B.

2. (A) The Government of Chile agrees to make payments totalling \$60,471,415.70 on certain other debts which are listed in paragraph (B) below in accordance with the following schedule:

(1) \$16,177,282.25 on or before the date of the coming into force of this Agreement.

(2) \$16,177,282.25 in four quarterly installments with the first payment on March 31, 1974.

(3) The balance of \$28,116,851.20^{2/} in 12 quarterly installments with the first payment on March 31, 1975.

(B) Debts covered under Article III, paragraph 2(A) shall include:

(1) Thirty percent (30%) of the sum of dollar repayable principal and interest payments falling due from November 1, 1971

^{1/} December 28, 1973, for certain debts described in the separate bilateral agreements with the Export-Import Bank of the United States referred to in Article I, paragraph 2.

^{2/} This figure is subject to adjustment resulting from amendment of the separate bilateral agreements with the Export-Import Bank of the United States referred to in Article I, paragraph 2.

through December 31, 1972, in accordance with the original agreements, less any such payments made prior to December 31, 1972, as designated in the separate bilateral agreements referred to in Article I, paragraph 2.

(2) The sum of principal and interest payments due and unpaid as of December 31, 1972, as designated in the separate bilateral agreements referred to in Article I, paragraph 2, under:

- (a) Debt rescheduled prior to this Agreement.
- (b) Loans with a maturity of 40 years or more.
- (c) OPIC investment guarantees (Sociedad Minera El Teniente, S.A.: Series A Notes).
- (d) Promissory notes dated on or after January 1, 1971, and insured or guaranteed by Eximbank under its Exporter Credit Program.

(3) Amounts due and unpaid as of November 1, 1971, under Eximbank direct, guaranteed and insured debt.

(4) Eximbank commitment fees and other charges which were due and unpaid as of December 28, 1973.

(5) Consolidation interest accruing from the due dates under the original agreements through December 31, 1973.^{3/}

(6) Interest on amounts due under subparagraphs (1), (2) and (3) of this paragraph calculated at their contractual interest rates from the due dates through December 31, 1973.^{4/}

^{3/} See footnote 1.

^{4/} See footnote 1.

(C) Interest shall accrue on the outstanding balance of the amounts deferred under subparagraphs (A)(2) and (3) of paragraph 2 of this Article at the rate of 6 percent per annum from January 1, 1974,^{5/} and shall be payable at each of the payment dates specified in those subparagraphs.

(D) A table summarizing the amounts of the debts owed to the United States Government and each Agency referred to in paragraph 2(B) is attached as Annex C.

3. It is understood that minor adjustments may be made in the amounts specified in paragraphs 1 and 2 of this Article by amendment of the implementing bilateral agreements referred to in Article I, paragraph 2.

Article IV

General Provisions

1. The Government of Chile will notify the Government of the United States of America of the terms that it may hereafter accord to any other creditor country with regard to the consolidation and rescheduling of 70 percent of installments of principal and interest on debts to that country falling due during the consolidation period in respect of (a) commercial credits guaranteed by appropriate agencies or the government of the creditor country pursuant to contracts entered into on or before January 1, 1971, under which payments are due over a period of more than one year, and (b) loans by the government or government agencies of the creditor country concluded prior to January 1, 1971

^{5/} See footnote 1.

for which the repayment period is less than 40 years except for loans granted in connection with a prior consolidation. If such terms or any future modifications thereof are or may become more favorable than those which the Government of Chile has accorded the Government of the United States of America in this Agreement or will accord the Government of the United States of America in modifications of this Agreement, the Government of the United States of America shall have the right to have this Agreement (as presently concluded or as modified by future agreements) conform to the more favorable terms granted to other countries.

2. The provisions of paragraph 1 above shall not be applicable to creditor countries whose claims for payment of principal and interest on comparable debts during the consolidation period constitute less than \$1 million.

3. The Government of Chile agrees to guarantee the free transferability of payments relating to the debts covered by this Agreement.

4. The Government of Chile reaffirms the commitments made by the Chilean delegation in Article 4 of the Memorandum of Agreement Regarding the Consolidation of Chilean Debts of April 1972, and undertakes to carry out direct negotiations under subparagraph 2 of that Article for the purpose of reaching an agreement on just compensation.

Article VEntry into Force

This Agreement shall enter into force on the date when:

(a) It has been signed in duplicate by representatives of the Government of the United States of America and the Government of Chile and

(b) The bilateral agreements provided for in Article I, paragraph 2, of this Agreement have been signed by the respective parties to these agreements.

Done at Washington in duplicate this 6th day of February, 1974.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

Harry W. McDonald

J. Matz

FOR THE GOVERNMENT OF CHILE:

[Signature]
[Signature]

ANNEX AChile - Agency for International Development
Agreement IdentificationLoan Agreements - 513-B-002
513-G-003
513-A-006
513-L-026
513-M-011Chile - P.L. 480 Title I
Agreement Identification

<u>Treasury Loan Number</u>	<u>Date of Agreement</u>
62-0156	8-07-62
67-0056	12-29-67
69-0017	4-29-69

Chile - Overseas Private Investment Corporation
Agreement Identification

<u>Date</u>	<u>Borrower</u>	<u>Lender</u>
June 27, 1968	Industrias de Celulosa Arauco, S.A.	Bank of America

Chile - Export-Import Bank of the United States
Agreement Identification

Direct Credits

<u>Credit No.</u>	<u>Obligor</u>	<u>Guarantor</u>
374	Corporacion de Formento de la Produccion	Republic of Chile
808	Anglo-Lautaro Nitrate Corporation	CORFO
809	Cia Salitrera de Tarapaca y Antotagasta	None
1172	(Corporacion de Formento de la Produccion) Banco Central de Chile	None
1299	Cia Chilena de Electricidad, Ltda.	Republic of Chile
1340	Chilean State Railways	Republic of Chile
2139	Corporacion de Fomento de la Produccion	None
2152	Banco Central de Chile	None
2187	Bosques e Industrias Madereras, S.A.	CORFO
2381	Cia de Acero del Pacifico, S.A.	Republic of Chile
2382	Sociedad Minera El Teniente, S.A.	Republic of Chile
2383	Compania Minera Andina, S.A.	Republic of Chile
2393	Compania de Productos de Acero, S.A.	CORFO
2416	Linea Aerea Nacional - Chile	Republic of Chile
2418	Manufacturas de Cobre, S.A.	Republic of Chile
2435	Compania de Cobre Salvador, S.A.	None
2436	Compania de Cobre Chuquicamata, S.A.	None
2437	Cia Minera Exotica, S.A.	None
2471	Empresa Nacional de Telecomunicaciones	CORFO
2486	Chilean State Railways	Republic of Chile
2551	Petroquimica - Dow, S.A.	CORFO

<u>Credit No.</u>	<u>Obligor</u>	<u>Guarantor</u>
2601	Refractarios Chilenos, S.A.	Republic of Chile
2609	Empresa Nacional del Petroleo	CORFO
2183	Rayon Said Industrias Químicas, S.A.	Antonio, Juan, Jacobo, Domingo, & Jose Said K
2196	Comandari, S.A.	Juan Hector Comandari & Manuel Comandari
2221	Laja Crown S.A. Papeles Especiales	None

<u>Guarantees</u>			<u>*Exporter Retentions</u>
<u>Guarantee No.</u>	<u>Obligor</u>	<u>Guarantor</u>	
G-1-541	Empresa Nacional de Electricidad	None	
OG-1-573	Cia Minera Disputada de las Condes, S.A.	Banco de Chile	
G-6-166	Corporacion De Fomento De La Produccion	None	
G-7-54	Cia Minera Disputada Las Condes	CORFO	30%
G-8-59	Sociedad Products Lacteos Haysktim, S.A.	Banco Pan Americano	30%
G-8-93	Hugo Leon Puelma	Banco Israelita de Chile	30%
G-9-240	Sociedad Minera El Teniente, S.A.	None	
G-10-135	Algodones Hirmas, S.A.	Herman Briones G. & Miguel Hirmas	
G-10-219	Compania Manufacturera de Papeles y Cartones, S.A.	Herman Briones	
G-10-245	Cia Manufacturera de Papeles y Cartones, S.A.	None	
G-12-148	Municipality of Conchali	Banco del Estado de Chile	
G-20-5	Algodones Hirmas, S.A.	Hirmas Ataza Family	

*Exporter retentions which are not included in rescheduling.

<u>Guarantee No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
G-20-10	Fuerza Aerea de Chile	CORFO	
G-21-30	Minera Santa Fe, S.A.	Minera Santa Barbara	
G-23-16	Empresas Ralco, S.A.	None	
G-29-3	Algodones Hirmas, S.A.	Hirmas Ataza Family	
G-40-197	Matadero Industrial San Miguel	Banco Pan-Americano	
G-40-225	Empresa Nacional de Telecomunicaciones (Entel)	CORFO	
G-40-254	CORFO	None	30%
G-40-256	CORFO	None	
G-40-271	Treasurer General of the Republic of Chile	None	
G-40-283	Compania de Refineria de Azucar de Vina del Mar	None	
G-41-18	Empresa El Mercurio, S.A.P.	None	
G-47-121	Cia Minera Disputada de las Condes	None	
G-47-137	Cemento Cerro Blanco de Polpaico	None	
G-47-140	Establecimientos Nobis	Banco de A. Edwards y Cia	
G-47-218	Constructora Longhi	Salinas y Fabres (SALFA)	
G-47-231	Jaime Urdangarin Beltran	Salinas y Fabres, (SALFA)	
G-47-231	Jaime Urdangarin Beltran	Salinas y Fabres (SALFA)	50%

<u>Guarantee No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
G-47-277	Jaime Urdangarin B.	None	
G-50-82	CORFO	None	30%
G-50-89	CORFO	None	30%
G-50-89	CORFO	None	30%
G-50-100	Consorcio Periodistico de Chile	Banco Espanol Chile	30%
G-50-211	Club Aereo de Carabineros	Banco del Estado de Chile	30%
G-50-239	CORFO	None	30%
G-50-240	Allende Cousino Ugarte Ltda.	Banco de Chile	10%
G-50-245	Sociedad Periodistica "Chile" Ltda.	Banco del Estado de Chile	10%
G-50-265	Servicio de Equipos Agrícolas Mecanizados (CORFO)	None	30%
G-50-269	Compania de Acero del Pacifico, S.A.	None	10%
G-56-9	Petroquímica Chilena S.A.	CORFO	
G-73-6	Empresa Nacional de Minería	None	30%
G-73-6	Empresa Nacional de Minera	None	30%
G-73-6	Empresa Nacional de Minera	None	30%
G-73-6	Empresa Nacional de Minera	None	30%

<u>Guarantee No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
G-73-6	Empresa Nacional de Minera	None	30%
G-73-13	Empresa Nacional de Minera	None	30%
G-73-14	Empresa Nacional de Minera	None	30%
G-73-14	Empresa Nacional de Minera	None	30%
G-88-13	Bosques E Industrias Maderas	None	
G-138-9	Empresa El Mercurio S.A.P.	Banco de A. Edwards y Cia	30%
G-161-3	Compañia de Acero del Pacifico, S.A.	None	

<u>Insurance</u>			<u>*Exporter Retentions</u>
<u>Policy No.</u>	<u>Obligor</u>	<u>Guarantor</u>	
MT-1418	Industrias Pesqueras Delucchi & Cia, Ltda.	Ernesto Eelucchi Marinkovic, Eduardo Cepada Godoy, Flores, Iversen y Labra Ltda.	
MT-2565	Sedylan SAC	Victor Guillermo and Fernando Anania	
MT-2607	CORFO	None	
MT-2915	Hilanderia Lo Espejo Ltda.	Juan, Solomon and Abraham Massu	
MT-3161	Industone S.A.P.	Compania Industrial	
MT-3289	Empresa Pesquera Emperva S.A.	Grace y Cia, S.A.	
MT-3857	Universidad Catolica de Chile	None	
MT-3864	Municipalidad Vina del Mar	Banco de Chile	30%
MT-3926	Bezanilla Salinas	Gildemeister	30%
MT-3950	Cervecerias Unidas	None	
MT-4114	Empresa Ing. Civil, S.A.	Gildemeister	30%
MT-4120	Comunidad Navarro Infante	Gildemeister	30%
MT-4125	Algodones Hirmas, S.A.	Hirmas Ataza Family	

<u>Policy No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
MT-4204	Cia Standard Electric	None	
MT-4254	Cuerpo de Bomberos de Nuncia	Treasurer General of the Republic	
MT-4295	Figalem Ing.	Gildemeister	30%
MT-4370	Abalos y Gonzalez	Gildemeister	30%
MT-4374	Rosenberg Hermanos	None	
MT-4501	Concretos Ready Mix	Banco Sud Americano	
MT-4542	Constructora Longhi	Gildemeister	30%
MT-4756	CORFO	None	30%
MT-5009	Ing. y Obras, S.A.	Banco de Credito e Inversiones	30%
MT-5103	Peter Rajsick	Gildemeister	30%
MT-5162	Oscar Speichiger & Cia Ltd.	Gildemeister	30%
MT-5173	Cia Minera Disputada Las Condes, S.A.	Gildemeister	30%
MT-5204	Yaconi Hnos y Cia	Gildemeister	30%
MT-5214	Empresa Constructora Delta S.A.	Gildemeister	30%
MT-5485	Compania Minera Disputada	Banco de A. Edwards y Cia	
MT-5548	Figalem Ing.	None	30%
MT-5623	Cia Miñera Metalmine	Gildemeister	30%

<u>Policy No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
MT-0-5644	Cia Manufacturera de Papeles y Cartones, S.A.	None	
MT-5646	Miguel Calvo Aguirre	Banco del Estado de Chile	
MT-5686	Tesorero General de la Republica	None	
MT-5978	Transportes Pareschi Soc. Ltd.	Banco Sud Americano	
MT-6009	Tesorero General de la Republica	None	
MT-6032	Claro, Vicuna, Valenzuela y Cia Ltda.	None	
MT-6049	Figueroa Alemparte Figalem Ingenieria S.A.	None	
MT-6135	Tesorero General de la Republica	None	
MT-6147	Club Aereo de Carabineros	Banco del Estado de Chile	
MT-6249	CORFO	None	10%
MT-6290	Cuerpo Bomberos de Talca	Ministry of Finance	
MT-6291	Cemento Cerro Blanco de Polpaico	None	10%
MT-6292	Peter Rajsic Kukic	Gildemeister	10%
MT-6320	Figueria y Alemparte Figalem Ingenieria	Gildemeister	10%
MT-6325	Constructora Longhi S.A.	Gildemeister	10%

<u>Policy No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
MT-6384	Constructora Longhi, S.A.	Lorca Castillo S.A.	
MT-6395	Constructora Faenas Mecanizadas	Gildemeister	10%
MT-6396	Direccion General de Investigaciones	None	
MT-6405	Municipalidad de Quilpue	Banco del Estado de Chile	30%
MT-6419	Empresa Constructora Belfi, S.A.	Gildemeister	30%
MT-6453	Soc. Cons. Alca Ltda.	Gildemeister	10%
MT-6460	Industrias Forestales S.A.	CORFO	
MT-6480	Selim Pualuan	Gildemeister	10%
MT-0-6546	Club Aero de la Serena y Coquimbo	Banco Nacional del Trabajo	
MT-6584	Figalem Ingenieria S.A.	Gildemeister	10%
MT-6596	Aerotaxi Ltda. Chile	Sociedad el Tattersall	
MT-6648	Aste Cofre y Dela Cerda Ingenieria Civil, Ltda.	Sociedad el Tattersall	10%
MT-6746	Eduardo y Hernan Godoy Pena	Gildemeister	10%
MT-6785	Claro, Vicuna, Valenzuela & Cia Ltda.	Gildemeister	10%
MT-6820	Periodistica Chile	Banco del Estado de Chile	

<u>Policy No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
MT-6891	Industrias Forestales S.A.	Gildemeister	10% .
MT-0-6921	Cia Minera Santa Fe	Gildemeister	17%
MT-7140	Productora de Azufre Carrasco	Banco Nacional Del Trabajo	
MT-7195	Municipalidad de Valparaiso	Banco del Estado de Chile	30%
MT-8056	Juan Torreabla Morales	Gildemeister	30%
MT-8058	Soc. Clasificadora de Materiales de Minería Ltda.	Gildemeister	30%
MTP-350	Canadera Tierra del Fuego S.A.	Banco Sud Americano	
MTP-464	Linea Aerea Alas Agricolas	Aero Salta Ltda & S.A.C.I. Salinas y Fabres	

Financial Guarantees

<u>Guarantee No.</u>	<u>Obligor</u>	<u>Guarantor</u>	<u>*Exporter Retentions</u>
2390 Morgan	Industria Nacional de Neumaticos S.A.	None	
2601 Citybank	Refractarios Chilenos S.A.	None	

ANNEX BConsolidated Debt

Agency for International Development	\$3,351,889.98
Overseas Private Investment Corporation	\$1,957,172.56
United States Government for P.L. 480	\$4,470,474.73
Export-Import Bank of the United States	<u>\$58,743,092.34</u> ^{6/}
TOTAL	\$68,522,639.61

^{6/} This figure is subject to adjustment by amendment of the separate bilateral agreements with the Export-Import Bank of the United States referred to in Article I, paragraph 2.

ANNEX COther Debts

Agency for International Development	\$6,816,667.55
Overseas Private Investment Corporation	\$6,271,148.47
United States Government for P.L. 480	\$2,383,599.68
Export-Import Bank of the United States	<u>\$45,000,000.00</u>
TOTAL	\$60,471,415.70

MEMORANDUM OF UNDERSTANDING REGARDING THE CONSOLIDATION
AND RESCHEDULING OF CERTAIN CHILEAN DEBTS OWED TO,
GUARANTEED OR INSURED BY THE UNITED STATES
GOVERNMENT AND ITS AGENCIES

Application of Memorandum of Understanding

1. This Memorandum of Understanding provides the basis for the consolidation and rescheduling of certain Chilean debts owed to, guaranteed or insured by the United States Government and its agencies, in accordance with the Memorandum of Agreement Regarding the Consolidation of Chilean Debts signed in Paris on March 25, 1974. A formal rescheduling agreement setting out the specific terms of consolidation and rescheduling shall be entered into promptly between the Governments of the United States of America and of Chile and shall be implemented by separate formal bilateral agreements between the Government of Chile and the Agency for International Development, the Export-Import Bank of the United States, the Overseas Private Investment Corporation and the United States Government with respect to P.L. 480 Agreements.

Definitions

2. For purposes of this Memorandum of Understanding:

(a) The term "original agreements" shall refer to agreements (except for the rescheduling agreements implementing the Memorandum of Agreement Regarding the Consolidation of Chilean Debts of April 19, 1972) concluded between the Government of the United States of America, its agencies or nationals, and the Government of Chile, its agencies or nationals, which shall be listed in the formal agreements based on this Memorandum referred to in paragraph 1.

(b) The term "consolidated debt" shall refer to 80 percent of the sum of all principal and interest payments falling due from Jan. 1, 1973, through December 31, 1974, in accordance with the "original agreements."

(c) The term "non-consolidated debt" shall refer to 20 percent of the sum of all principal and interest payments falling due from January 1, 1973 through December 31, 1974, in accordance with the "original agreements."

(d) The term "consolidation period" shall refer to the period from January 1, 1973 through December 31, 1974.

Terms and Conditions of Payment

3. The Government of Chile agrees to repay the consolidated debt in accordance with the following terms and conditions:

(a) The consolidated debt shall be repaid in 14 equal semi-annual installments on due dates of January 1 and July 1 of each year, beginning on January 1, 1977, and ending on July 1, 1983.

(b) Interest shall accrue at the rate of 6% per annum beginning on May 15, 1974 or on due dates under the original agreements, whichever is later, on the outstanding balance of the consolidated debt payable as specified in the formal agreements.

4. The Government of Chile agrees to repay the non-consolidated debt according to the following schedule:

(a) Approximately 25% in 1974, with the first installment due on May 15, 1974.

(b) Approximately twenty-five percent in 1975.

(c) The balance in 1976.

5. The Government of Chile agrees to pay interest on the outstanding balance of the consolidated and non-consolidated debt accruing at a rate of 6 percent per annum from the due dates under the original agreements to May 15, 1974, as specified in the formal agreements. *pre Jan 75*

6. Notwithstanding any other provision of this Memorandum, the Government of Chile agrees to repay in two semiannual installments, with the first payment on May 15, 1974, the sum of all principal and interest payments due and unpaid on debt rescheduled under the 1965 rescheduling of debts with Chile. These installments shall include interest at 6 percent per annum accrued from the due dates to May 15, 1974, as specified in the formal agreements.

7. The Government of Chile agrees to make payment of interest at 6 percent per annum accrued from May 15, 1974 or the due dates under the original agreements, whichever is later, on the outstanding balance of the debt referred to in Paragraph 4, as specified in the formal agreements. The Government of Chile also agrees to make payment at

6 percent per annum accrued from May 15, 1974, on the outstanding balance of the amounts referred to in Paragraphs 5 and 6, as specified in the formal agreements.

8. With respect to the Overseas Private Investment Corporation, the provisions applying to the Consolidated debt shall also apply to 80% of the sum of principal and interest payments falling due from October 1, 1971 through December 31, 1972, in accordance with the agreements evidencing loans by the Bank of America to Petroquimica Dow S.A. and Industrias de Celulosa Arauco, S.A. with respect to which payment will be made by the Overseas Private Investment Corporation on or about June 30, 1974.

9. With respect to the Overseas Private Investment Corporation, the provisions applying to the non-consolidated debt shall also apply to 20% of the sum of principal and interest payments falling due from October 1, 1971 through December 31, 1972, in accordance with the agreements evidencing loans by the Bank of America to Petroquimica Dow S.A. and Industrias de Celulosa Arauco, S.A. with respect to which payment will be made by the Overseas Private Investment Corporation on or about June 30, 1974.

10. The Government of Chile has paid \$14,900,645.83 on May 15, 1974, distributed as follows: Export-Import Bank \$12 million, Overseas Private Investment Corporation \$1,226,443.63, Agency for International Development \$1.4 million, Department of Agriculture \$274,203.20. Such payments will be applied to the

amounts scheduled for payment on May 15, 1974, under the formal agreements and shall be subject to adjustment in conformity with such formal agreements, as specified therein.

General Provisions

11. The Government of Chile agrees to grant the Government of the United States of America and its agencies treatment no less favorable than that which may be accorded to any other creditor country for the consolidation of comparable debts.

12. The provisions of paragraph 11 of this Memorandum shall not be applicable to creditor countries where claims in respect of principal and interest on comparable debts during the consolidation period constitute less than \$1 million.

13. The Government of the United States and the Government of Chile agree that the interest rate provided in this Memorandum may be reviewed and appropriately revised if the interest rates provided in other agreements between the Government of Chile and creditor countries relating to the consolidation of comparable debts are significantly higher or lower than the rate provided for in this Memorandum. In any revision resulting from this review, the United States shall have the option of exercising the right to require an increase in the interest rate provided for in this Memorandum, up to the weighted average of interest rates resulting from agreements between the Government of Chile and other creditors on comparable debts.

14. The Government of Chile agrees to guarantee the free transferability of payments relating to the credits covered by this Memorandum.

15. The Government of Chile reaffirms the commitments made by the Chilean delegation in Article 4 of the Memorandum of Agreement Regarding Consolidation of Chilean Debts of March 1974, and will carry out direct negotiations under subparagraph B of that Article for the purpose of reaching an agreement on just compensation.

16. The provisions of this Memorandum shall be effective as of May 15, 1974.

Done at Washington in duplicate this 17th day of June, 1974.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

Sidney Winitz
Richard L. Lasser

FOR THE GOVERNMENT OF CHILE:

[Signature]

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ADDENDUM

MAR 17 1975

Dear Mr. Speaker:

This letter transmits an addendum to the "Report on Developing Countries' External Debt and Debt Relief Provided by the United States". You will recall that Secretary Simon's letter accompanying the main report stated that such an addendum would be provided to reflect recent debt information compiled by the World Bank.

This supplemental material does not alter the analyses or conclusions of the report, but does permit it to reflect the latest data available.

Sincerely yours,

(Signed) John A. Bushnell

John A. Bushnell
Acting, Assistant
Secretary

The Honorable
Carl Albert
Speaker of the House of Representatives
Washington, D.C. 20515

Enclosure

cc: The Honorable Thomas Morgan

OASIA:BDPO:SCanner:3/13/75:mwpreston

(115)

ADDENDUM TO THE
REPORT ON DEVELOPING COUNTRIES' EXTERNAL DEBT
AND DEBT RELIEF PROVIDED BY THE UNITED STATES

The supplemental information of this addendum is of a statistical nature, updating some of the data of Chapter II of the main report, "A Summary of the Worldwide Dimensions of Debt-Servicing Problems of the Developing Countries". The data do not alter the analysis or conclusions of the report.

With respect to the external public debt of the 86 developing countries (pages 5-6), the World Bank estimates this debt at \$117 billion at year end 1973, compared to recorded external debt of \$99.3 billion at year end 1972. The estimate in the report for year end 1973 was \$115 billion. Owing to the preliminary nature of the Bank's 1973 estimates, the debt figure could be raised or lowered marginally pending more complete information.

The components of the external debt in 1973 remained virtually unchanged from that of the previous year (page 5, revised table attached). Bilateral official debt continued to account for approximately half of the total at \$55.3 billion, multilateral lending again constituted 20 percent of this amount at \$23.9 billion, while suppliers' credits and private bank loans increased marginally from 30 to 32 percent, or from \$30.6 billion to \$37.7 billion.

Only partial information is available on the external public debt for each of the 86 developing countries for year end 1973 and, as a result, no meaningful revisions can be made on the basis of country income groupings. A partial listing of countries' external debt for 1973 is attached.

In the realm of Euro-currency lending (page 16), data are now available for the fourth quarter and full year 1974 (revised table attached). In 1974, borrowing by developing countries in the Euro-currency markets was unchanged from 1973 at \$9.1 billion. The oil producing and higher income countries again accounted for the lion's share of this LDC total with these two groups accounting for 83 percent of the total, compared to 90 percent in 1973. Middle income countries' share increased from 10 to 17 percent, while the share of low income countries was virtually unchanged.

Table 1: (Revised)
Authorized External Outstanding Public Debt
of 86 Developing Countries at Year End 1973

(in \$ billions)

Bilateral Official	\$55.3
Multilateral	23.9
Private	<u>37.7</u>
Total	<u>\$117.0</u>

Source: World Bank

Table 2

External Public Debt Outstanding of 86 Developing Countries,
by Country and Type of Creditor, December 31, 1972
and Partial Estimates as of December 31, 1973
(\$ millions)

Area Country	1972 Disbursed only	Including undisbursed (1972)						1973 Est. (Including Undisbursed)
		Total	Bilateral official	Multi- lateral	Suppliers	Banks	Other	
Africa-Total	10,900.5	16,247.6	8,661.7	2,965.8	2,524.9	1,162.7	932.7	21,331.0
Algeria.....	1,625.0	2,827.0*	1,227.8	16.9	1,152.2	368.0	62.1	N.A.
Botswana.....	46.3	78.3	30.4	44.3	0.4	-	3.2	132.2
Burundi.....	6.9	8.1	1.6	5.3	1.0	-	0.2	8.6
Cameroon.....	217.1	301.5	132.6	106.7	43.7	18.1	0.4	418.0
Central African Republic...	33.7	61.8	33.8	12.7	9.1	2.5	3.7	70.8
Chad.....	18.3	27.2	11.1	11.8	3.5	-	0.8	N.A.
Congo, People's Republic of	160.8	318.0	148.2	47.7	116.2	-	5.9	N.A.
Dahomey.....	44.6	90.7	48.2	18.1	10.8	13.4	0.2	N.A.
East African Community.....	165.4	263.6	30.2	175.7	-	-	57.6	N.A.
Egypt, Arab Republic of....	1,571.1	2,040.9	1,622.4	67.2	105.9	44.9	200.4	2,143.9
Ethiopia.....	227.2	359.8	151.3	170.0	3.6	34.9	-	437.2
Gabon.....	190.7	202.8	46.3	31.9	82.7	34.6	7.4	393.1
Gambia, The.....	10.8	14.6	11.2	3.4	-	-	-	N.A.
Ghana.....	572.0	624.7	333.6	78.3	212.8	-	-	666.8
Ivory Coast.....	402.4	699.8	259.0	133.7	140.6	96.5	70.0	815.3
Kenya.....	353.4	510.3	245.5	187.4	13.3	23.2	40.9	N.A.
Lesotho.....	8.3	8.3	2.8	4.5	-	0.6	0.5	N.A.
Liberia.....	153.7	179.4	123.9	30.8	17.1	6.2	1.4	N.A.
Malagasy Republic.....	89.5	140.7	61.9	58.6	10.5	6.2	3.5	119.5
Malawi.....	172.7	231.2	151.8	52.2	8.0	1.2	17.9	263.3
Mali.....	262.0	324.0	282.2	29.0	12.1	0.7	-	368.0
Mauritania.....	36.4	82.3	63.3	17.6	1.4	-	-	N.A.
Mauritius.....	29.6	90.0	73.3	13.8	-	-	3.0	99.5
Morocco.....	852.1	1,112.4	678.7	282.7	49.3	63.9	37.9	N.A.
Niger.....	48.4	70.2	47.8	16.0	6.4	-	-	116.2
Nigeria.....	609.0	1,035.2	483.3	467.0	57.2	23.4	4.3	N.A.
Rwanda.....	3.0	14.2	1.7	12.3	0.1	-	-	43.1
Senegal.....	112.9	191.0	85.4	60.1	18.7	-	26.8	346.2
Sierra Leone.....	80.1	100.5	44.7	22.9	27.3	-	5.6	119.6
Somalia.....	106.7	231.8	200.7	25.3	-	-	5.9	267.7
Sudan.....	297.6	382.1	190.7	137.6	9.1	44.7	0.2	N.A.
Swaziland.....	33.1	36.6	17.3	8.5	6.6	4.2	-	N.A.
Tanzania.....	310.9	645.9	464.7	126.9	0.3	21.2	32.8	789.9
Togo.....	42.4	46.0	34.7	5.4	5.4	0.5	-	N.A.
Tunisia.....	697.7	1,091.1	700.8	199.6	70.4	112.5	7.8	1,290.5
Uganda.....	168.0	214.5	128.2	54.3	-	3.3	28.6	234.4
Upper Volta.....	19.0	41.2	22.0	17.9	1.3	-	-	119.5
Zaire.....	584.8	762.6	162.3	83.6	308.5	203.5	4.8	1,530.6
Zambia.....	536.8	787.4	306.3	128.2	19.5	34.7	298.7	N.A.
East Asia-Total	9,664.9	13,823.8	7,558.0	2,724.7	1,954.5	979.0	607.6	16,788.2
China, Republic of.....	811.4	1,593.6	848.2	393.8	305.6	41.3	4.8	1,817.4
Fiji.....	11.9	29.9	7.8	18.7	-	-	3.4	N.A.
Indonesia.....	4,026.3	5,118.1	3,937.6	406.1	298.6	172.3	303.6	6,589.5
Korea, Republic of.....	2,603.1	3,633.4	1,526.3	551.8	1,169.6	263.1	122.7	4,444.2
Malaysia.....	629.8	979.0	255.5	387.5	31.7	201.7	102.7	1,110.1
Philippines.....	853.8	1,275.4	603.3	339.4	43.8	271.2	17.8	1,356.0
Singapore.....	268.2	436.7	133.3	207.5	22.2	21.1	52.7	504.0
Thailand.....	396.3	661.7	198.1	408.7	46.5	8.3	-	729.9
Viet-Nam.....	64.2	95.8	48.0	11.3	36.5	-	-	172.7
Middle East-Total	7,781.6	11,035.9	6,399.6	842.1	1,216.4	1,033.4	1,544.4	12,411.8
Iran.....	3,463.5	5,928.0	3,532.5	566.4	1,088.5	676.7	63.8	6,564.8
Iraq.....	318.6	460.0	389.5	57.6	12.9	-	-	N.A.
Israel.....	3,570.9	3,863.6	1,777.2	171.3	83.1	351.3	1,480.6	N.A.
Jordan.....	161.1	221.6	193.9	22.3	-	5.4	-	N.A.
Syrian Arab Republic.....	243.2	510.4	455.7	22.9	31.8	-	-	N.A.
Yemen, People's Democratic Republic of.....	24.2	52.4	50.8	1.6	-	-	-	N.A.

Table 2 (cont'd)

External Public Debt Outstanding of 86 Developing Countries,
by Country and Type of Creditor, December 31, 1972
and Partial Estimates as of December 31, 1972

(\$ millions)

Area Country	1972 Disbursed only	Including undisbursed (1972)					1973 Est. (Including Undisbursed)	
		Total	Bilateral official	Multi- lateral	Suppliers	Banks		Other
South Asia-Total	15,050.9	18,384.2	13,098.5	3,998.6	1,124.6	154.5	8.1	20,140.9
Afghanistan.....	680.1	773.8	740.0	21.0	12.0	0.8	-	N.A.
Bangladesh.....	61.0	333.5	112.2	109.3	112.0	-	-	834.0
Burma.....	163.5	305.6	227.6	10.2	65.5	2.3	-	417.4
India.....	9,856.9	11,652.8	8,196.9	2,812.4	574.6	66.5	2.4	N.A.
Pakistan.....	3,847.3	4,646.5	3,345.4	934.3	302.9	63.5	0.5	5,106.8
Sri Lanka.....	442.2	671.9	476.3	111.3	57.6	21.4	5.3	713.3
Southern Europe-Total	7,030.8	10,308.5	5,179.1	1,917.9	758.2	1,735.4	718.0	10,451.4
Cyprus.....	40.8	73.4	15.9	47.7	9.1	0.7	-	79.4
Greece.....	1,311.2	1,744.0	281.3	194.1	175.8	805.6	287.2	2,237.4
Malta.....	21.8	21.8	17.9	3.9	-	-	-	N.A.
Spain.....	1,473.1	2,064.2	723.1	374.4	102.9	612.7	251.0	1,887.3
Turkey.....	2,454.6	3,364.4	2,403.4	711.9	133.8	43.9	71.5	3,778.7
Yugoslavia.....	1,729.3	3,040.7	1,737.4	585.9	336.5	272.6	108.3	2,443.0
Western Hemisphere-Total	21,458.4	29,575.7	8,197.9	7,314.0	4,607.8	5,888.1	3,567.9	35,856.4
Argentina.....	2,607.3	3,575.8	440.5	741.0	892.0	665.6	836.7	3,423.0
Bolivia.....	628.1	763.6	376.5	89.2	87.9	35.2	174.8	770.5
Brazil.....	4,883.6	7,746.7	2,294.3	1,947.0	1,651.2	1,386.5	467.8	N.A.
Chile.....	2,619.2	3,364.9	1,705.4	219.8	457.6	496.7	485.3	3,728.4
Colombia.....	1,625.7	2,292.5	957.3	955.0	171.4	146.8	61.9	2,650.3
Costa Rica.....	192.0	275.0	73.0	142.1	15.5	33.0	11.5	338.1
Dominican Republic.....	270.2	317.4	238.0	36.4	12.8	28.7	1.5	417.4
Ecuador.....	304.2	466.4	140.8	123.7	105.3	64.6	32.0	548.9
El Salvador.....	109.3	156.3	54.6	78.5	-	20.4	2.9	193.6
Guatemala.....	110.7	199.8	69.7	91.5	7.6	28.7	2.3	192.3
Guyana.....	152.6	204.4	115.2	22.9	-	7.1	59.3	228.7
Honduras.....	119.3	169.9	39.3	122.6	5.0	3.0	-	207.2
Jamaica.....	188.1	335.2	111.2	58.7	24.5	82.8	58.0	458.9
Mexico.....	3,988.4	4,842.1	460.3	1,559.3	348.4	1,519.3	954.8	6,995.4
Nicaragua.....	211.9	306.1	83.4	116.7	2.6	78.1	25.4	487.1
Panama.....	336.0	453.4	107.2	137.1	37.8	108.5	62.9	N.A.
Paraguay.....	114.9	183.4	102.6	50.0	25.2	4.1	1.5	212.1
Peru.....	1,152.3	1,666.8	533.0	196.4	386.0	349.9	201.6	2,151.2
Trinidad and Tobago.....	109.7	134.3	21.1	54.5	4.0	41.2	13.5	182.7
Uruguay.....	412.8	492.8	143.5	113.6	85.6	131.0	19.1	453.2
Venezuela.....	1,322.3	1,629.1	131.1	458.0	287.7	657.1	95.1	1,769.5
GRAND TOTAL	71,887.0	99,375.8	49,094.7	19,762.9	12,186.4	10,953.1	7,378.8	116,980.0

Source: World Bank.

Table 4: PUBLICIZED EUROCURRENCY CREDITS BY COUNTRY:
(Revised) DEVELOPING IBRD MEMBER COUNTRIES
 (US\$ millions or equivalent)

Country of Borrower	1973	1974	1974			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
OIL EXPORTERS						
Algeria	1,352.5	-	-	-	-	-
Ecuador	8.0	-	-	-	-	-
Gabon	64.0	67.0	52.0	15.0	-	-
Indonesia	478.0	332.5	187.5	-	-	145.0
Iran	712.1	112.5	25.0	65.0	-	22.5
Nigeria	-	20.0	-	-	-	20.0
Saudi Arabia	4.9	-	-	-	-	-
United Arab Emirates	330.0	151.1	-	86.0	60.0	5.1
Venezuela	63.1	57.5	57.5	-	-	-
Sub-total	3,012.6	740.6	322.0	166.0	60.0	192.6
HIGHER INCOME COUNTRIES						
Argentina	87.3	468.6	130.2	282.5	-	55.9
Bahamas	30.0	-	-	-	-	-
Bahrain	15.0	-	-	-	-	-
Brazil	718.1	1,437.5	195.4	427.3	303.0	511.8
China, Republic of	-	183.0	8.0	47.0	128.0	-
Colombia	170.0	8.0	8.0	-	-	-
Costa Rica	11.0	10.0	-	-	-	10.0
Dominican Republic	15.0	20.0	-	-	20.0	-
Greece	599.6	437.9	250.0	59.6	128.3	-
Guyana	12.5	15.0	-	-	-	15.0
Jamaica	35.6	95.0	30.0	50.0	15.0	-
Lebanon	20.0	93.1	-	5.1	88.0	-
Malaysia	-	140.0	-	-	-	140.0
Mexico	1,572.5	1,517.2	560.0	421.8	141.0	394.4
Nicaragua	92.0	21.4	-	-	15.0	6.4
Oman	35.0	-	-	-	-	-
Panama	251.0	101.0	12.0	89.0	-	-
Peru	733.6	394.5	80.0	212.0	92.0	10.5
Spain	467.3	1,097.6	50.0	878.9	158.7	10.0
Trinidad and Tobago	30.0	12.0	12.0	-	-	-
Yugoslavia	235.0	516.5	54.6	116.1	77.4	268.4
Zambia	150.0	-	-	-	-	-
Sub-total	5,280.5	6,568.3	1,390.2	2,589.3	1,166.4	1,422.4
MIDDLE INCOME COUNTRIES						
Bolivia	6.0	52.0	-	49.0	3.0	-
Cameroon	-	10.0	-	-	10.0	-
Egypt	-	230.0	50.0	80.0	100.0	-
El Salvador	-	50.0	-	15.0	-	35.0
Ivory Coast	95.0	63.0	60.0	-	3.0	-
Korea, Republic of	142.0	221.8	80.0	11.0	80.8	50.0
Philippines	178.5	869.0	437.0	340.5	8.0	83.5
Senegal	65.0	-	-	-	-	-
Thailand	-	9.7	-	9.7	-	-
Turkey	20.3	-	-	-	-	-
Sub-total	506.8	1,505.5	627.0	505.2	204.8	168.5
LOWER INCOME COUNTRIES						
Haiti	10.0	-	-	-	-	-
India	10.0	-	-	-	-	-
Kenya	4.5	-	-	-	-	-
Malawi	5.3	-	-	-	-	-
Sudan	-	231.5	200.0	-	20.0	11.5
Zaire	286.9	105.3	63.4	41.9	-	-
Sub-total	316.7	336.8	263.4	41.9	20.0	11.5
TOTAL	9,116.6	9,151.2	2,602.6	3,302.4	1,451.2	1,795.0

Source: World Bank