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

EXECUTIVE COMMUNICATION 2433

LETTER OF TRANSMITTAL FROM THE SECRETARY OF THE
TREASURY AND TEXT OF THE SECOND ANNUAL REPORT
ON THE DEBT SITUATION IN THE DEVELOPING COUNTRIES
AND THE DEBT RELIEF PROVIDED BY THE UNITED
STATES AS REQUIRED BY SECTION 634(g) OF THE FOR-
EIGN ASSISTANCE ACT OF 1961, AS AMENDED



APRIL 5, 1976

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(II)

FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C., April 5, 1976.

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 second annual report to be received under that provision. It was forwarded to the committee by the Speaker of the House as Executive Communication 2433. I hope that Members may find it useful in future legislative deliberations.

THOMAS E. MORGAN, *Chairman.*

(III)

LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, D.C., January 30, 1976.

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

DEAR MR. SPEAKER: I am pleased to submit, as required by section 634(g) of the Foreign Assistance Act of 1961, as amended, the second annual report on the debt situation in the developing countries and the debt relief provided by the United States.

The report provides a historical perspective of the LDC debt situation as of December 1973, the latest date for which complete data are available. Additionally, the report reviews the balance of payments trends of the non-oil LDC's for the period 1973-76, and the implications of these trends for LDC debt. The report also contains information on the two major debt reschedulings in which the United States participated in fiscal year 1975.

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

Sincerely,

WILLIAM E. SIMON.

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(VII)

I. SUMMARY AND CONCLUSIONS

External public debts outstanding of the less developed countries (LDC's) totalled \$119 billion at the end of calendar year 1973, the latest year for which complete information is available. While outstanding debt increased about 20 percent in 1973, the ability of the LDC's to service their debt generally improved in 1973.

Export earnings of the LDC's were high in 1973, and increased capital flows contributed to their better overall positions, including a substantial accumulation of reserves. In fact, according to several analytical measures, the external debt positions of the LDC's improved in 1973. For example, the ratio of debt service payments to exports, a ratio which is used frequently to assess external debt burdens, decreased significantly for low income countries between 1972 and 1973.

The economic prospects for most of the non-oil exporting LDC's were significantly impaired by the events of late 1973 and early 1974. The sharp jump in oil prices placed an immediate and extreme burden on the balance of payments of the non-oil LDC's, costing them more than an additional \$10 billion in direct oil import payments. Higher food and fertilizer prices in 1974 and the worldwide recession of 1974/1975 also had a serious impact on the balance of payments of many LDC's, although food and fertilizer prices did fall in the second half of 1975.

Precise figures on the current account balances of the non-oil LDC's for 1975 are not yet available, thus the following data are only estimates and projections of the order of magnitude of these deficits for 1975 and 1976. The combined current account deficit of 88 non-oil LDC's rose some \$19 billion from 1973 to about \$28 billion in 1974, and rose again to approximately \$37 billion in 1975. Thus, most non-oil LDC's borrowed substantially more in calendar years 1974 and 1975 than they had in the past to finance these current account deficits. For 1976 the combined current account deficit is estimated to fall by at least \$3 billion to about \$34 billion.

It is normal for LDC's to be net importers of capital. This capital comes from a variety of sources consisting primarily of bilateral loans and grants, aid from multilateral institutions, private direct investment, private credits, and official trade credits. Some of these normal flows, such as aid grants and most direct investment will not result in increased debt service. A substantial portion of the remaining normal flows consists of long-term concessional credits. These credits often have grace periods and will increase debt service only slightly in the next few years. In 1975 these normal capital flows were estimated at \$25 billion, leaving some \$12 billion to be financed by a drawdown of reserves and borrowing above normal long-term trends.

For calendar 1976, the financing problem of the non-oil LDC's as a group will be smaller than in 1975. Current account deficits, while still high, will be at least \$3 billion smaller and normal capital flows will be about \$1 billion higher. Thus the requirement for reserve drawdowns or borrowing beyond long-term trend will be about \$8 billion, or about one-third less than that of 1975.

In response to their external financing problems, many LDC's have taken domestic policy measures that will reduce their current account deficits over the next few years, but with some reduction in their growth rates. However, these domestic measures will become effective only after a time lag. Although economic activity in the developing countries is expected to expand substantially in 1976, there will be lags in the effect of this growth on LDC export earnings. As the economic situation in the non-oil LDC's is expected to improve, it would appear that they will be able to arrange for the necessary financing.

In calendar year 1975 some countries initiated proposals in the United Nations Committee on Trade and Development (UNCTAD) for a multilateral debt moratorium or generalized debt rescheduling for the poorest LDC's. The United States opposed this initiative as did virtually all other creditor countries. The U.S. does not consider a generalized debt rescheduling or a debt moratorium to be appropriate instruments for alleviating the current financial difficulties of the LDC's. Nor does it deem such actions to be appropriate instruments for providing official assistance to the LDC's.

In fiscal 1975, the U.S. participated in a multilateral debt rescheduling for India which related to developments the previous year. The rescheduling was undertaken under the auspices of the World Bank-chaired Aid-to-India Consortium. The U.S. share of this rescheduling was \$45 million out of a total of \$248 million. At the Aid-to-India Consortium meeting in June 1975, the U.S. stated that it would not grant debt relief to India in its fiscal year 1976 (April 1, 1975--March 30, 1976). Improved short-term prospects should enable India to continue servicing fully its debt to the U.S. in India's fiscal year 1977.

The U.S. also participated in a debt rescheduling for Chile under the auspices of the "Paris Club Creditors." The U.S. share of this rescheduling was \$96 million out of a total of \$230 million. This rescheduling was undertaken after Chile reached an agreement with the IMF for a stabilization program which included an obligation by Chilean officials to implement a number of economic reform measures recommended by the IMF. The rescheduling was also predicated on a recommendation by the IMF that debt rescheduling was appropriate. The full servicing of external debts was beyond Chile's financial capacity in calendar year 1975.

II. THE DEBT OUTLOOK FOR NON-OIL LDC's

1. Introduction

The international economic and financial events of the last two years, particularly the sharply increased oil prices, radically changed the economic outlook for the non-oil developing countries. Prior to the oil price increases, the external positions and economic prospects of these countries had been rapidly improving. In the early 1970's, their real GNP growth exceeded six percent per annum and their terms of trade had improved substantially. By 1973, improved current account positions and increased capital inflows had contributed significantly to better overall external positions for the non-oil LDC's and resulted in a substantial accumulation of foreign exchange reserves. In general, the economic outlook for the non-oil LDC's at mid-year 1973 appeared encouraging.

The economic and financial prospects for most non-oil exporting developing countries were significantly impaired by events of late 1973 and early 1974. Higher and continually increasing oil prices placed an immediate and extreme burden on the balance of payments of these LDC's. The subsequent worldwide recession during calendar years 1974 and 1975 decreased the demand for many LDC exports and eroded commodity prices, thus inhibiting their ability to earn foreign exchange and intensifying their balance of payments problems. Increases in food and fertilizer prices in 1974 also had a serious impact on the balance of payments in many LDC's, although these prices fell somewhat in 1975. As a result, most non-oil LDC's borrowed substantially more in calendar years 1974 and 1975 than they had in the past to finance their current account deficits.

This chapter evaluates in broad terms the ability of non-oil LDC's to avoid debt servicing difficulties in calendar year 1976. The discussion is divided into two parts. The first part reviews the debt situation of all 88 non-oil LDC's as a group. The framework for this discussion is an analysis of the magnitude of the current account deficits of these 88 LDC's for calendar years 1975 and 1976 and the means by which these deficits are financed.

In the second part of this chapter, the situation of 23 non-oil LDC's is reviewed in more detail. These 23 LDC's were selected because they account for a substantial portion of the external debt, combined current account deficits, and volume of trade of all non-oil LDC's. They also reflect the broad spectrum of economic conditions in the entire group. For purposes of exposition, the 23 non-oil LDC's are divided into five groups.

2. Definitions, Assumptions, and Forecasting Methodology

Two important definitions used in this chapter must be stated explicitly at the outset. First, LDC's are defined as the less-developed countries in Latin America, Africa, Asia and the Middle East that are not members of OPEC. By definition, all European countries, all Communist countries, and all non-members of the IMF are excluded from this analysis. Israel and some oil-exporting countries that are not members of OPEC are included. Second, the current account deficit is defined as the balance on goods, services, and private transfers (before grant aid). For the purpose of this analysis, grant aid is considered a capital transaction, along with loans, direct investment, etc.

The underlying assumptions for the 1976 forecast of current account deficits are:

- (a) the price of oil will not change during the year;
- (b) the OECD countries will increase their total GNP by about 4 percent in real terms for the year;
and
- (c) the terms-of-trade for LDC's will not change.

Two approaches were used to forecast the 1976 current account deficit of the 88 LDC's. First, the balances of 23 LDC's were projected individually, and then combined with an estimated figure for the remaining 65 LDC's. Second, the aggregate current account for OPEC countries, developed countries, and Communist countries was estimated, leaving the LDC deficit as a residual. The two estimates were compared and found to be consistent.

3. LDC Current Account Deficits and the Pattern of Financing; 1972-1976

(a) 1972-1973

The current account deficit of the 88 non-oil LDC's amounted to about \$9 billion both in 1972 and 1973. In the context of historical trends, deficits of this size or even more were normal for these LDC's as they have a shortage of capital relative to the industrial countries and are normally net importers of capital. No particular financing difficulties were encountered. In fact, the LDC's added \$15 billion to their foreign exchange reserves in these two years.

"Normal" capital flows to the LDC's consist mainly of bilateral aid, aid from multilateral institutions, and private direct investment. In addition, they include net inflows of private supplier credits and government-sponsored export credits, both of which tend to increase as the volume of trade increases. Finally, they include a certain amount of other credits provided by private capital markets. These private flows are, however, subject to greater annual fluctuations than the other normal flows.

(b) 1974-1975

As a result of the precipitous increase in world oil prices and the recession among the industrial countries, the aggregate deficit increased sharply to about \$28 billion in 1974 and reached an estimated \$37 billion in 1975. Indications are that the aggregate deficit will fall by at least \$3 billion to around \$34 billion in 1976.*

The large deficits of 1974 and 1975 were financed without disrupting existing institutional arrangements. However, as in the case of developed countries, LDC growth rates on the whole fell. In some cases, import restrictions were imposed to contain the size of the current account deficits. The financing of these deficits was made possible by normal capital flows and by the use of new or enlarged sources of external capital. Increased flows of private capital were principally in the form of supplier credits and Euro-borrowings.

*This estimate of the 1975 deficit is subject to a margin of error of at least 5 percent, and the forecast for 1976 must be considered even more uncertain. Whatever the actual figures, there is clear evidence of a smaller overall deficit for non-oil LDC's in 1976 than in 1975.

For calendar year 1975, it is estimated that normal capital flows to non-oil LDC's were on the order of \$25 billion. This estimate is comprised of the following elements:

Bilateral grants and loans	\$ 9 billion
Multilateral grants and loans	\$ 3 billion
Grants and loans from centrally-planned economies	\$ 1 billion
Official trade credits	\$ 1 billion
Direct private investment	\$ 4 billion
Private credit	\$ 3 billion
OPEC loans and grants	<u>\$ 4 billion</u>
TOTAL	\$25 billion

Thus, in 1975, \$25 billion of the estimated \$37 billion combined current account deficit of the non-oil LDC's was financed by these normal flows. The balance, approximately \$12 billion, was financed by extraordinary means:

- \$2 billion by IMF credit (including the oil facility)
- \$3 billion by a drawdown of reserves, and about
- \$7 billion from the private sector in excess of normal private capital flows. Most of the private sector capital was in the form of commercial bank loans, including Euro-currency credits.

Most of the private bank credit in 1975 went to a few large borrowers such as Brazil, Mexico, and South Korea. These large borrowers have well-established credit ratings and were generally able to obtain the amounts they needed without difficulty. Even some countries which experienced major problems in 1975, such as Argentina and Chile, were able to obtain significant amounts of additional credit in 1975.

(c) 1976

For calendar year 1976, the combined current account deficit of the non-oil LDC's is projected to decline by at least \$3 billion to approximately \$34 billion. A current account deficit of this magnitude probably cannot be sustained indefinitely. Most LDC's have already taken domestic policy measures that will reduce their current account deficits in 1976 and in the following years. The benefits for their balance of payments from these domestic measures and the benefits of increased LDC exports from the recovery of the developed countries should be effective after a short time lag. In many cases, the LDC's have had to reduce their growth rates in order to avoid payments problems which could lead eventually to debt service problems.

Most LDC's are expected to be able to manage the financing of their current account deficits in 1976 for the following reasons. First, the foreign exchange reserve position of the non-oil LDC's as a group is good. At the end of calendar year 1975, these reserves, which were not used as a major source for financing the previous years' deficits, totalled about \$27 billion. The 1975 reserves were sufficient to cover an average of 2-1/2 to 3 months of imports. In 1976, reserves could be drawn down by as much as \$2-\$3 billion and leave the non-oil LDC's with about 2-1/2 months import coverage, an amount which is not inordinately low. Second, the financing problem of the LDC's as a group will be smaller in 1976 than it was in 1975. The detailed country analysis indicates a decline in the non-oil LDC current account deficit of at least \$3 billion to \$34 billion in 1976. Third, with an expected increase in bilateral grants and long-term loans, the normal capital flows will be at least \$1 billion larger than in 1975. After normal capital flows are used, the amount of the current account deficit to be financed by a combination of reserve drawdown, IMF credit, and private bank loans is on the order of \$8 billion. This is about \$4 billion, or one-third, less than in 1975. The LDC's should be able to maintain their access to private credit markets and, thus, most of this \$8 billion net new financing seems to be within the capability of the private capital markets, even though the developed countries are expected to increase their demand for private capital.

Should sufficient funds not be available for some countries through normal capital flows, private borrowing or reserve reduction, the resources of the International Monetary Fund may be drawn upon by countries experiencing temporary financing problems. The availability of IMF funds has been expanded by recent decisions of the IMF Interim Committee and Executive Board. These expanded resources include a temporary 45 percent increase in each member's access to IMF regular credit, the establishment of a Trust Fund to channel the profits on the sale of 1/6 of the IMF's gold (25 million ounces) to the poorest countries on concessional terms over four years, and the liberalization of the IMF's Compensatory Financing Facility.

IMF financing is not a permanent solution to the problems caused by the oil price increase for the LDC's. IMF programs are designed to provide temporary financing to countries that have short-term financial problems so that the countries can make the necessary internal adjustments. As the oil price increases do not appear to be short-term, the facilities of the IMF are not appropriate to handle the problems associated with these increases, and countries will have to take the necessary adjustment measures.

Expanded IMF access will also enhance the ability of the more developed LDC's to obtain the private credit, which will continue to be their principal source of financing. The availability of IMF financing and the policy conditions attached to use of Fund resources will increase the private sector's confidence in a country's ability to maintain its creditworthiness.

4. The Situation of 23 Non-oil LDC's

If there are LDC balance of payments and debt problems in calendar year 1976, these problems will be associated with individual countries, rather than the LDC's as a whole. The situation of 23 LDC's was selected for more detailed review. Together these LDC's account for about 75 percent of the trade of all non-oil LDC's that are members of the IMF, and they owe more than 85 percent of the long-term external public debt of all non-oil LDC's. As a group, these countries had a combined current account deficit in 1975 amounting to about \$30 billion, compared with about \$37 billion for all 88 non-oil LDC's. For 1976, the deficit for these 23 countries is projected to be about \$27 billion of the \$34 billion estimate for all non-oil LDC's.

The 23 countries can be divided into five groups with distinctive characteristics. Countries in the first four groups should be able to manage their deficits in 1976 without debt servicing problems. However, some countries in the last group may be vulnerable to balance of payments difficulties and debt servicing problems if they fail to take necessary policy measures or if they experience unexpected reverses in weather or other factors outside their control.

The first group of countries consists of LDC's that do not have unusually large balance of payments deficits and they should not incur debt servicing problems. They are: Thailand, Taiwan, Singapore, Malaysia, Colombia, and Morocco. These countries have generally followed sound and flexible policies. Generally, they have been able to attract direct investment on a continuing basis and have reserves to draw upon. They have low debt-service ratios and have been able to borrow in the private capital market. In some cases, these countries have not suffered declines in their terms of trade, and their deficits did not increase greatly in 1974 and 1975, although growth rates may have fallen significantly in some cases. The deficits of this group of countries are calculated to be about \$4.1 billion in 1975 and \$3.2 billion in 1976.

The second group consists of only two countries: Egypt and Israel. These two countries face large deficits in 1975 and 1976: \$6.2 billion and \$5.7 billion respectively. These countries depend on large amounts of bilateral official capital from DAC and OPEC countries to finance their balance of payments deficits.

The third group of countries consists of Ghana, Bangladesh, India, and Pakistan. This is the only group that is expected to have a slightly higher current account deficit in 1976 than in 1975, \$3.9 billion compared with \$3.7 billion. The growing deficits of these countries are a major source of concern since the debt service ratios of many of these countries are relatively high, around 20 percent. As these countries lack access to private capital markets and cannot afford to borrow on market terms, aid donors are devoting a great deal of attention to their problems. They will be among the primary beneficiaries of the new IMF Trust Fund and are also receiving increased bilateral and multilateral aid.

The economic outlook for India and Pakistan, two countries that have been recipients of substantial debt rescheduling in recent years, is guardedly optimistic for 1976. There are some encouraging signs that Pakistan may be overcoming its economic stagnation of the past two years. Nevertheless, serious economic problems remain. Pakistan's trade deficit is projected to be about \$1.2 billion in 1976 and it is expected to rely on external borrowing to finance the deficit. This borrowing will increase its future debt service obligations. Given the four-year (1974-1978) debt relief agreement concluded with the member countries of the Aid to Pakistan Consortium in June 1974, however, Pakistan should be able to avoid debt servicing difficulties in 1976.

India's short-term economic prospects have improved. The best monsoon rains in five years have produced a record grain harvest. Strict monetary controls have reduced inflation dramatically in calendar year 1975, and the large harvest will also help moderate inflationary pressures. Heavy foreign borrowing will, however, still be required to finance a 1976 projected trade deficit of about \$1.5 billion. Despite the increased foreign debt, it appears that India should be able to avoid debt service problems in 1976.

The fourth group of countries includes Brazil, Mexico, and South Korea. This group of countries is distinguished from those in the first group primarily by the size of their deficits and the large extent to which they have already borrowed from the private capital market. Together, they account for more than a third of the aggregate deficit of the 23 LDC's, \$11.9 billion in 1975 and \$10.9 billion in 1976. While these are sizeable deficits, these countries possess the most productive and diversified economies among the LDC's. Although they have stepped up their borrowing from private sources significantly in 1974 and 1975, and as a result have pushed up their previously high debt service ratios, they continue to be considered creditworthy by private lending institutions. Moreover, the exports of these countries are likely to respond quickly to renewed growth among the industrial countries. They should be able to finance their projected deficits and avoid debt servicing difficulties in 1976. If, however, countries in this group are not able to raise the necessary external finance to cover their current account deficits, they are capable of adjusting their policies to close balance of payments gaps--mainly by lowering growth rates. This group warrants continued attention since they have large private debts and any debt management problems could have an adverse impact on private capital markets.

The fifth group of countries includes: Argentina, Bolivia, Chile, Peru, Uruguay, Zaire, Zambia, and the Philippines. Most countries in this group have high debt service ratios and some have special problems. Some are highly dependent on a single export product like copper, the price of which has dropped precipitously in the past eighteen months to unusually low levels. Some face internal problems that limit their policy options. Others are feeling the effects of unwise economic policy decisions. As a group, the deficits of these countries amounted to \$4.3 billion in 1975 and are expected to decline to \$3.6 billion in 1976. Nevertheless, with somewhat more favorable external developments and the absence of any internal setbacks, these countries should be able to manage their deficits in 1976, and avoid debt servicing problems. Developments in these countries need to be watched very closely.

5. Remaining Non-oil LDC's

The combined current account deficit for 1976 of the remaining 65 non-oil LDC's is projected at \$6.7 billion, an amount which represents virtually no change from the \$6.8 billion estimated for 1975. Thirty five LDC's or approximately one-half of the countries in this group, are classified as MSA's. The magnitude of the projected current account deficits of these MSA's is not great because their economies and volume of international trade are small. Their access to the IMF Trust Fund, combined with some reallocation in aid from donor countries and financial institutions, should enable these countries to manage their economic affairs in calendar year 1976 without incurring serious debt service problems.

The remaining 30 non-oil LDC's would tend to be distributed among the various groups identified above. For example, the Latin American and African coffee exporting countries would fall in group 1 as coffee prices continue to be relatively high.

6. Beyond 1976

Projections beyond 1976 are difficult to make. If for example, countries should be afflicted by sudden droughts, floods or internal strife, or if unexpected bottlenecks develop which would impede these countries' exports, the outlook would be less optimistic. However, two general observations may be made. First, the recent increase in foreign indebtedness will tax countries' export earnings more heavily in future years than has been the case in the past. This is particularly true for those countries which have borrowed heavily on commercial terms. Thus several countries may have to make adjustments to cope with accelerating debt service burdens in the next 3-5 years. The result may be that they will have to accept lower growth rates unless they secure large increases in export earnings and internal savings so as to reduce their reliance on external finance. Secondly, the LDC's have not undertaken massive drawdowns of their international reserves. In fact, very few LDC's have drawn more than their first credit tranche in the IMF. Many LDC's have probably maintained reserve levels--now sufficient to cover at least 2-1/2 months of aggregate imports--to maintain their creditworthiness for private borrowing. The liberalization of access to IMF ordinary credit and to the Compensatory Financing Facility along with the establishment of the Trust Fund should help take pressure off reserves and, thereby, facilitate additional private borrowing by many LDC's.

III. A SUMMARY OF THE LDC DEBT SITUATION AS OF DECEMBER 31, 1973

1. Introduction

In contrast to Chapter II which focused on the debt outlook for the non-oil LDC's for calendar year 1976, this chapter provides an historical perspective of the LDC external debt situation as of December 31, 1973, the latest date for which complete data are available. The LDC's prospered in 1973. High export earnings and increased capital flows contributed to their better overall external positions and resulted in a substantial accumulation of reserves.

This chapter sets forth the external debt data of LDC's as of December 31, 1973, according to the institutions providing the loans to LDC's and the LDC's receiving these loans. Also, the data are presented for LDC's as divided into income groups and are discussed with regard to three ratios that are used frequently to assess their debt burdens.

A review of LDC debt obligations to the United States government and the government's debt "Early Warning System" is also presented in this chapter.

Several definitions underlie the data in this chapter.

- External public debts, or "official debts", are debts which are contracted or guaranteed by the public sector of the debtor country and are owed in foreign currency to creditors outside the debtor country. Such debts have an original or extended maturity of over one year. The public sector includes the national government, any of its political subdivisions or agencies, or autonomous public bodies.
- Debt outstanding includes the principal both on disbursed and undisbursed funds (amounts not yet drawn by the recipient) and is net of past repayments.

The country debt data are drawn from the Annual Report of the World Bank and the World Bank's World Debt Tables, as reported to the Bank by 86 developing countries. As the data consist only of public sector debts, they may understate a country's total external debt picture because they do not include debts incurred solely by private sector enterprises of the LDC's.

2. Debt Outstanding 1973

At the end of calendar year 1973, the value of the stock of outstanding external debt of 86 developing countries covered in the debt reporting system of the World Bank was \$119 billion. Table 1 shows that bilateral official lending was the largest component of this total, followed by private lending and multilateral lending. This pattern of lending did not change significantly in the period 1971-1973.

The \$119 billion outstanding debt of LDC's represents an increase of \$19 billion, or about 20 percent, compared to the amount outstanding at the end of 1972. This is higher than the 16 percent average increase recorded in the period 1970-1972. Excluding undisbursed debt, the value of LDC outstanding debt was \$83 billion at the end of 1973 compared to \$72 billion at the end of 1972.

3. Distribution of LDC External Debt

For a number of years, a small number of countries has accounted for a large proportion of the recorded debt. In calendar year 1973, five developing countries, India, Brazil, Iran, Mexico, and Indonesia, accounted for 35 percent of total LDC debt. Seven countries, Algeria, Israel, Korea, Turkey, Argentina, Pakistan, and Chile together owed 25 percent of the total. In sum, 12 of the 86 developing countries accounted for about 60 percent of recorded LDC debt in 1973.

Table 1

EXTERNAL PUBLIC DEBT OF
86 DEVELOPING COUNTRIES
AS OF DECEMBER 31, 1973
(in \$ million)

	<u>Amount</u>	<u>Percent of Total</u>
Bilateral Official	\$56.3	47
Multilateral	24.1	20
Private:	38.5	33
Suppliers	(12.8)	(11)
Banks	(17.8)	(15)
Other	<u>(7.9)</u>	<u>(7)</u>
TOTAL	\$118.9	100

(Note: Comprises undisbursed and disbursed debt outstanding of over one-year original maturity.)

Source: World Bank

Table 2 presents the external debt of each of the 86 developing countries for 1972 and 1973, as grouped according to income levels. In 1973, the oil producing and higher income countries accounted for \$75 billion, or about 60 percent of the total, a rise from \$64 billion, or about 65 percent, in 1972. The debt of medium income countries rose from \$13 billion in 1972 to about \$16 billion in 1973, an increase of 23 percent. The debts of the lower income countries increased from \$23 billion in 1972 to \$27 billion in 1973, an increase of only 17 percent. When recorded, the data for calendar years 1974 and 1975 are expected to show that the oil producing countries were no longer accumulating debt at previous rates, while the non-oil countries increased their debt significantly. This reflects the fact that many non-oil LDC's borrowed heavily to finance large balance of payments deficits.

The external public debt of those countries designated as "Most Seriously Affected" (MSA's) by the United Nations was just under \$30 billion as of December 31, 1973. This amount represented an increase of \$3.8 billion, or 15 percent, compared to the \$26 billion of MSA debt outstanding at the end of 1972. About 90 percent of the debt outstanding in 1973 and 90 percent of the increase between 1972 and 1973 was provided by bilateral official and multilateral institutions. Within the total MSA debt for 1973, three countries--India (\$12.4 billion), Pakistan (\$5.2 billion), and Egypt (\$2.3 billion)--account for two-thirds of the total.

4. The Debt Service Ratio

One indicator which has been used widely to provide a rough estimate of the debt burden of a country is the debt service ratio. This is the ratio of annual external debt service to annual earnings from exports of goods and services. This ratio indicates the percentage of export earnings which are expended to service external debt in a given year. A ratio of 20 percent or more may indicate a rather heavy debt burden and potential difficulties in servicing external debt. Moreover, if the ratio increases sharply to this level, it could signify the onset of a potentially serious foreign exchange problem.

Table 2

OUTSTANDING EXTERNAL DEBT OF 86 DEVELOPING COUNTRIES
1972 AND 1973

(In \$ Million)

<u>Oil Producing Countries</u>	<u>1972</u>	<u>1973</u>	<u>Change</u>
Algeria	2,827.0	4,788.9	1,961.9
Ecuador	466.4	549.0	82.6
Gabon	202.8	393.1	190.3
Indonesia	5,118.1	6,616.4	1,498.3
Iran	5,928.0	7,047.0	1,119.0
Iraq	460.0	736.8	276.8
Nigeria	1,035.2	1,101.2	66.0
Venezuela	1,629.1	1,901.2	272.1
Total	17,666.6	23,133.6	5,467.0
Percent of Total	17.7	19.5	28.7
<u>High Income Countries</u>	<u>1972</u>	<u>1973</u>	<u>Change</u>
Argentina	3,575.8	3,599.1	23.3
Turkey	3,364.4	3,778.1	413.7
Brazil	7,746.7	9,296.7	1,550.0
Chile	3,364.9	3,327.0	-37.9
China	1,593.6	1,813.2	219.6
Colombia	2,292.5	2,721.8	429.3
Costa Rica	275.0	340.9	65.9
Cypruss	73.4	79.1	5.7
Dominican Republic	317.4	430.4	113.0
Fiji Islands	29.9	64.7	34.8
Greece	1,744.0	2,250.1	506.1
Guatemala	199.8	192.3	-7.5
Guyana	204.4	228.7	24.3
Israel	3,863.6	4,766.1	902.5
Jamaica	335.2	458.9	123.7
Malaysia	979.0	1,119.6	140.6
Malta	21.8	22.5	.7
Mexico	4,842.1	7,031.1	2,189.0
Nicaragua	306.1	487.1	181.0
Panama	453.4	669.3	215.9
Peru	1,666.8	2,151.2	484.4
Singapore	436.7	525.7	89.0
Spain	2,064.2	1,980.3	-83.9
Trinidad & Tobago	134.3	182.7	48.4
Tunisia	1,091.1	1,265.8	174.7
Uruguay	492.8	453.3	39.5
Yugoslavia	3,040.7	2,443.0	597.7
Zambia	787.4	966.9	179.5
Total High Income	45,297.0	52,645.6	8,611.6
Percent of Total	42.2	41.3	36.8

Table 2 (cont'd)

<u>Middle Income Countries</u>	<u>1972</u>	<u>1973</u>	<u>Change</u>
Bolivia	763.6	770.5	6.9
Cameroon	301.5	418.0	116.5
Peoples Republic Congo	318.0	355.5	37.5
Egypt	2,040.9	2,325.4	284.5
El Salvador	156.3	193.6	37.3
Ghana	624.7	666.8	42.1
Honduras	169.9	207.2	37.3
Ivory Coast	699.8	882.9	183.1
Jordan	221.6	323.0	101.4
Republic Korea	3,633.4	4,413.1	779.7
Liberia	179.4	196.0	16.6
Mauritius	90.0	99.5	9.5
Morocco	1,112.4	1,244.9	132.5
Papua New Guinea	184.5	274.8	90.3
Paraguay	183.4	212.3	28.9
Philippines	1,275.4	1,376.2	100.8
Senegal	191.0	347.2	156.2
Swaziland	36.6	34.7	-1.9
Syrian	510.4	435.5	-74.9
Thailand	661.7	750.0	88.3
Botswana	78.3	162.4	84.1
Total Middle Income	13,432.8	15,689.5	2,410.3
Percent of Total	16.9	16.4	14.0
<u>Lower Income Countries</u>	<u>1972</u>	<u>1973</u>	<u>Change</u>
Afghanistan	773.8	973.5	199.7
Haiti	48.8	71.2	22.4
Bangladesh	333.5	835.5	502.0
Burma	305.6	417.4	111.8
Burundi	8.1	8.6	.5
Central African Republic	61.8	71.9	10.1
Chad	27.2	55.3	28.1
Dahomey	90.7	137.5	46.8
East African Comm.	263.6	305.1	41.5
Ethiopia	359.8	437.6	77.8
Gambia	14.6	12.7	-1.9
Viet Nam	95.8	172.8	77.0
India	11,652.8	12,365.8	713.0
Kenya	510.3	596.1	85.8
Lesotho	8.3	12.8	4.5
Malagasy Republic	140.7	198.9	58.2
Malawi	231.2	267.0	35.8
Mali	324.0	399.3	75.3
Mauritania	82.3	92.0	9.7
Niger	70.2	116.7	46.5
Pakistan	4,646.5	5,151.2	504.7
Rwanda	14.2	43.1	28.9
Sierre Leone	100.5	122.7	22.2
Somalia	231.8	267.7	35.9
Sri Lanka	671.9	636.1	35.8
Sudan	382.1	550.1	168.0
Tanzania	645.9	739.9	94.0
Togo	46.0	163.2	117.2
Uganda	214.5	235.2	20.7
Upper Volta	41.2	119.5	78.3
Zaire	762.6	1,519.1	756.5
Total Lower Income	23,160.3	27,078.3	3,912.2
Percent of Total	23.2	22.8	20.5
Overall Total	99,556.7	118,547.0	20,401.1

Source: World Bank

This ratio has been criticized on the grounds that it may overstate or understate the debt burden of a country. The ratio may understate the situation as it excludes payments arising from private sector debts. The ratio can overstate the debt burden, both because it fails to reflect the fact that the real burden of debt service payments is reduced by inflation and because it does not take into account a country's export growth potential. In some instances, a high debt service ratio may cause unnecessary alarm, particularly if the country in question employs sound economic policies, maintains a good credit rating, and borrows heavily from private sources. Notwithstanding these shortcomings, the debt service ratio is widely used by financial analysts.

Table 3 shows that the average debt service ratio for the 86 developing countries was 9.4 percent in calendar year 1973, compared to 10.1 percent in 1972. By income grouping, the debt service ratios for calendar year 1973 show that the ratio was 12.2 percent for low income countries, 9.8 percent for high income countries, and 8.9 percent for middle income countries. While the ratio for high income countries in 1973 was virtually unchanged from 1972, the ratios for middle and low income countries showed a substantial decline compared to 1972.

Table 4 ranks countries by debt service ratio and shows that in calendar year 1973 seven countries had debt service ratios in excess of 20 percent. These countries account for about one-third of the debt service payments for the 86 developing countries and only India is classified as an MSA. However, India's ratio at 20.1 percent in 1973 was down from 28 percent in 1970, in part owing to an increasing proportion of debt payments rescheduled in the period 1970-1973. The five countries with debt service ratios between 15 and 20 percent account for 9 percent of the total debt service payments of the 86 developing countries and, of these countries, only Pakistan is classified as an MSA. Pakistan's debt service ratio was just over 16 percent in 1973, compared to 24 percent in 1970. This reduction reflects a series of Pakistan's debt reschedulings associated with the events of 1971 in that country, and the subsequent division into two sovereign states, Pakistan and Bangladesh. Pakistan's debt service ratio may be further reduced as the final rescheduling of 1974 calls for partially relieving Pakistan of debt service payments falling due in the years 1974-1978.

Table 3DEBT SERVICE RATIOS
OF DEVELOPING COUNTRIES1970-1973

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
All Developing Countries	10.1	10.0	10.1	9.4
Oil Exporting Countries	6.4	7.0	9.0	7.5
Higher Income Countries	10.6	10.3	9.7	9.8
Middle Income Countries	10.4	10.6	10.6	8.9
Lower Income Countries	12.9	12.9	14.3	12.2

Table 4DEBT SERVICE RATIOS FOR COUNTRIES
WITH RATIOS OVER 10 PERCENT, 1970 & 1973

<u>Countries Grouped by 1973 Debt Service Ratios</u>	<u>1970 Debt Service Ratio (%)</u>	<u>1973 Debt Service Ratio (%)</u>
<u>Ratios over 20%</u>		
Egypt	26.2	34.6
India	28.0	20.1
Israel	18.6	20.8
Mexico	25.2	25.2
Peru	13.7	22.8
Uruguay	18.4	30.1
Zambia	5.1	28.0
<u>Ratios 15% to 20%</u>		
Afganistan	20.1	19.9
Argentina	21.0	18.3
Burma	16.1	18.6
Nicaragua	10.6	17.8
Pakistan	24.3	16.1
<u>Ratios 10% to 15%</u>		
Algeria	7.4	11.3
Bolivia	10.9	14.8
Brazil	15.3	13.9
Chile	18.3	11.0
Colombia	11.9	13.0
Congo	2.8	10.7
Costa Rica	9.7	10.2
Iran	11.5	10.6
Korea	23.4	13.9
Sri Lanka	9.7	12.6
Sudan	9.2	11.1
Swaziland	4.7	10.5
Tunisia	19.5	13.8
<u>Developing Countries</u>	<u>10.1</u>	<u>9.4</u>

SOURCE: World Bank, World Debt Tables.

Thirteen countries had debt service burdens in the moderate range of 10-15 percent. These countries account for nearly 30 percent of the total debt service payments of developing countries. Only two of these countries, Sri Lanka and Sudan, are classified as MSA's.

Chart 1 depicts the trend of debt service ratios of developing countries over the period 1967-1973. As this chart indicates, the debt service ratio for all developing countries in this period hovered around 10 percent per annum. The ratio for lower income countries rose slightly in 1969-72 and fell to just over 12 percent in 1973, which is a ratio nearly equal to that of 1967-1968. The ratio for middle income countries has generally paralleled the trend for all developing countries in 1970-1973. The ratio for the oil exporting countries increased from 3.6 percent in 1967 to 9 percent in 1972, and then fell sharply to 7.5 percent in 1973.

In calendar year 1974, the debt service ratio of the oil-exporting LDC's dropped sharply, reflecting the fact that exports of goods and services of these countries, i.e., oil, increased nearly threefold over 1973, while the rate of increase of debt service payments was nominal. For non-oil exporting LDC's, the debt service ratio appears to have declined. This reflects the fact that the 40 percent rate of growth of exports of goods and services exceeded the 20 percent rate of growth of debt service payments. For 1975 and 1976, the debt service ratio of the non-oil LDC's is expected to rise reflecting higher debt service payments incurred from short-term debt contracted to finance large balance of payments deficits.

5. Annual Debt Service Payments to Debt Outstanding.

The ratio of annual debt service payments to total external debt outstanding is an indicator which is used frequently as an approximation for the maturity structure of a country's external debt. A low ratio suggests a relatively long maturity structure, while a high ratio suggests a relatively short maturity structure.

Table 5 below shows that the wealthier LDC's have a shorter maturity structure as indicated by a higher ratio of future debt service payments to debt outstanding. For example, the two-year ratio, which shows the proportion of debt service payments falling due in 1974 and 1975 to debt outstanding in 1973, is 24 percent for high income countries and 13 percent for low income countries. The 10 year ratio shows the percent of debt service payments on 1973 debt outstanding that falls due between 1974 and 1984. The 10 year ratio is larger for all countries than the 2 or 5 year ratios because a larger proportion of the debt service will be paid over the longer period.

Table 5

DEBT SERVICE PAYMENTS AS A PERCENT
OF DEBT OUTSTANDING AS OF 1973

	<u>2-Year</u> <u>Ratio</u>	<u>5-Year</u> <u>Ratio</u>	<u>10-Year</u> <u>Ratio</u>
All developing countries	21	52	88
Oil exporting countries	24	56	93
Higher income countries	24	60	103 ^{1/}
Middle income countries	21	51	84
Lower income countries	13	33	58

Source: World Bank: World Debt Tables

6. Debt Service to GNP

This ratio shows the proportion of a country's gross national product which is devoted to servicing external debt. Chart 2 and Table 6 show a general upward trend in this ratio from 1970 to 1973 for the middle and higher income LDC's and the oil exporters. This indicates that a larger proportion of the GNP from these countries was devoted to debt service, than was the case for the lower income countries.

^{1/} The 10-year ratio for higher income countries is above 100 percent because interest and amortization payments raise total debt service above debt outstanding.

Chart 1
DEBT SERVICE RATIOS OF DEVELOPING COUNTRIES
1967 - 1973

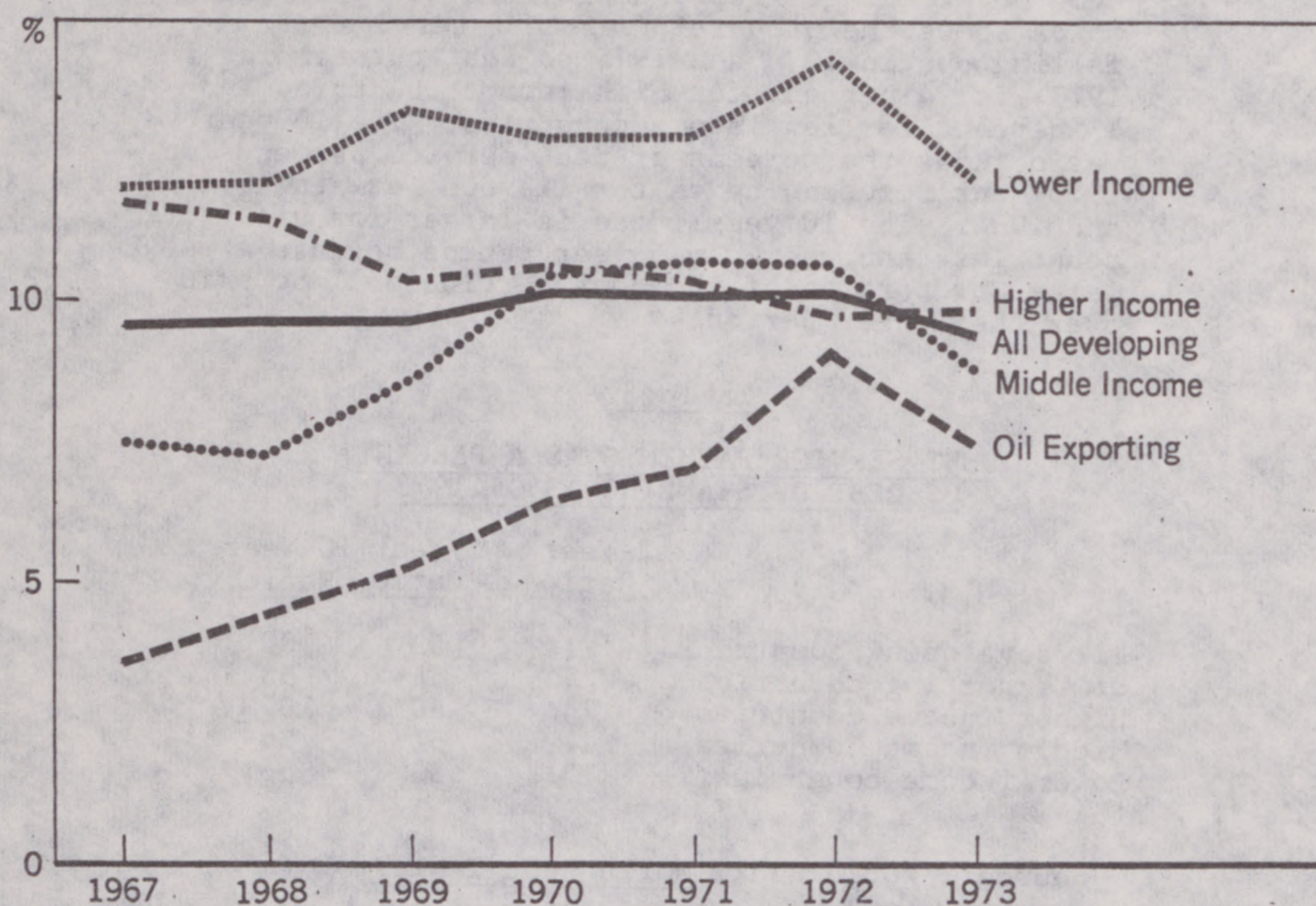
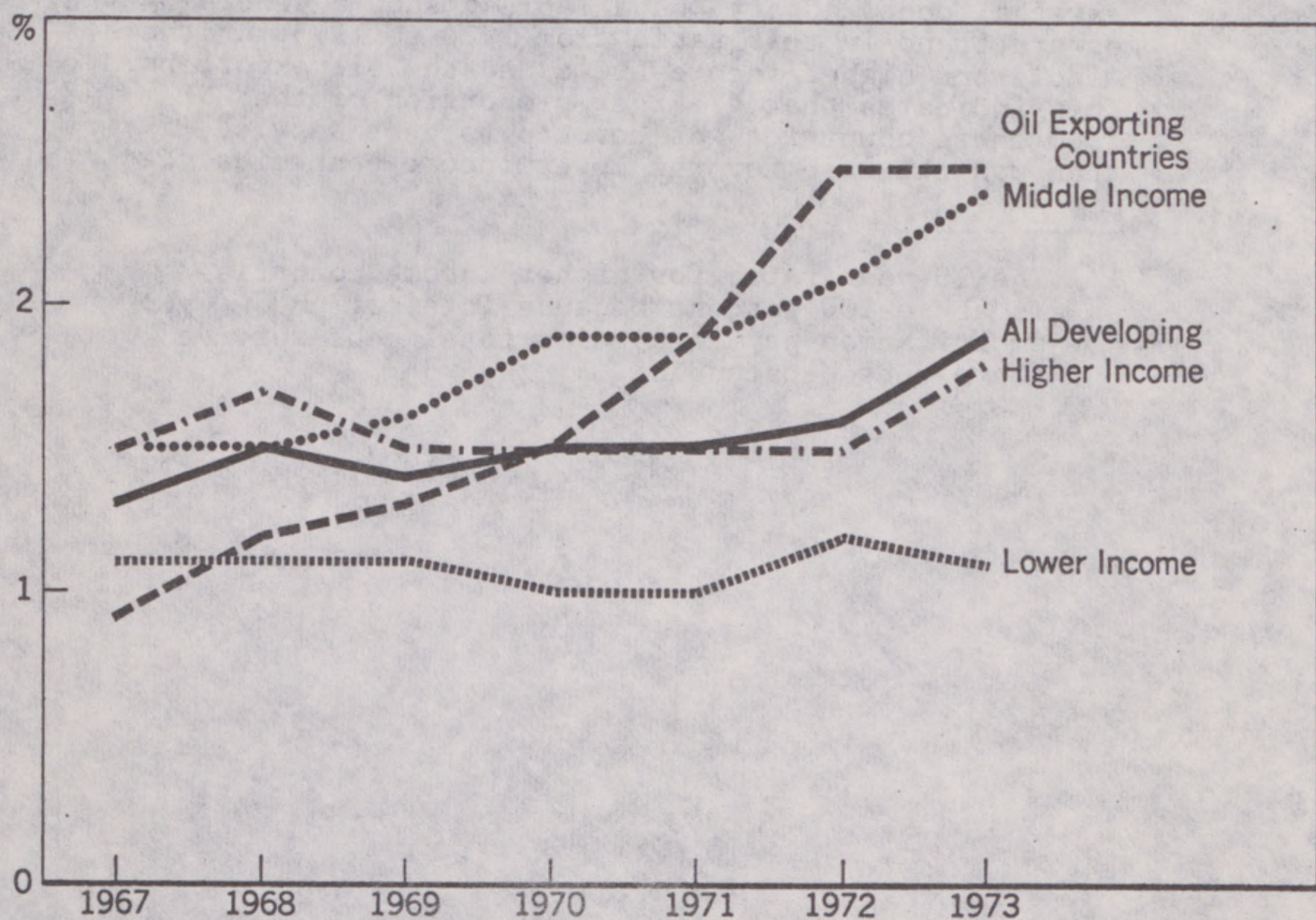


Chart 2
DEBT SERVICE AS A PERCENT OF GNP
1967-1973



Source: World Bank; World Debt Tables

Table 6

DEBT SERVICE AS A PERCENT OF GNP

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
All Developing Countries	1.5	1.5	1.6	1.9
Oil Exporting Countries	1.5	1.9	2.5	2.5
Higher Income Countries	1.5	1.5	1.5	1.8
Middle Income Countries	1.9	1.9	2.1	2.4
Lower Income Countries	1.0	1.0	1.2	1.1

Source: World Bank: World Debt Tables

7. Grant Equivalents and Grant Element

The grant equivalent and grant element are used to measure the concessional element of a loan. The grant equivalent of a loan is the face value of a loan commitment less the discounted present value of the future flow of amortization and payments of interest, using a discount rate of 10 percent. The grant element of a loan is the grant equivalent expressed as a percentage of the face value of the loan. For example, if a \$10 million loan is extended at a 4 percent annual rate of interest and repayable in 20 annual installments after five years' grace, the grant equivalent is \$4.3 million. The grant element would be 43 percent.

Table 7 shows average grant equivalents for official external borrowing for the period 1971-1973. It can be seen that, in general, the low income countries have the largest grant equivalent while the oil exporters have the smallest grant equivalent. Lower income countries also have the highest grant element while the higher income countries have the lowest grant element.

Table 7

AVERAGE GRANT EQUIVALENTS AND GRANT ELEMENTS
OF OFFICIAL BORROWINGS OF 86 LDC'S

	<u>Grant Equivalents</u> (in \$ M)	<u>Grant Elements</u> (in %)
Oil Exporting Countries	\$1,318	36%
Higher Income Countries	2,204	23%
Middle Income Countries	1,604	41%
Low Income Countries	3,495	74%

Source: World Bank: World Debt Tables

8. The U.S. Government Stake

As of June 30, 1975, the less developed countries owed the United States government, their largest creditor, a total of almost \$27 billion. An analysis of LDC debt by geographical region shows that South and East Asia is the U.S.'s largest LDC debtor with \$10.7 billion.

Latin America is second with a debt of \$7.2 billion, and the Near East is third with a \$4.2 billion debt. Table 8 shows LDC indebtedness to the U.S. by type of program and indicates that the foreign assistance programs have provided more than twice as many funds as were lent by the Department of Agriculture and the Eximbank combined. Table 9 shows the outstanding indebtedness of the 13 members of OPEC to the U.S. government as of June 30, 1974, and June 30, 1975. The indebtedness of Indonesia and Iran each exceeded \$1 billion and, together, accounted for 77 percent of OPEC debt to the United States.

Table 8

OUTSTANDING LONG TERM PRINCIPAL INDEBTEDNESS OF
LDC'S ON U.S. GOVERNMENT CREDITS BY MAJOR PROGRAM

(As of June 30, 1975)

<u>Program</u>	<u>Amount</u> (in \$ millions or equivalent)
Eximbank	\$ 6,052
Foreign assistance and related acts	14,459
Agricultural Trade Development and Assistance	5,475
CCC	381
Lend-Lease, surplus property and other war accounts	226
Other credits	126
TOTAL	\$26,719

Source: U.S. Treasury

Table 9

OUTSTANDING INDEBTEDNESS OF OPEC COUNTRIES
ON U.S. GOVERNMENT LONG TERM CREDITS

(\$ Million)

	<u>6/30/74</u>	<u>6/30/75</u>
Algeria	109	218
Ecuador	115	117
Gabon	2	8
Indonesia	1,125	1,250
Iran	1,107	1,006
Iraq	10	9
Kuwait	10	0
Libya	0	0
Nigeria	101	79
Qatar	0	0
Saudi Arabia	41	21
United Arab Emirates	0	0
Venezuela	<u>213</u>	<u>205</u>
TOTAL	2,813	2,913

Source: U.S. Treasury

9. U.S. Debt "Early Warning System"

In October 1974, members of the National Advisory Council on International Monetary and Financial Policies reiterated their belief in the necessity of developing a debt "Early Warning System" which should serve to identify countries with potential debt problems and trigger Council consideration and coordination of appropriate courses of action. On September 22, 1975, an initial system was submitted to the NAC for its consideration. The system consists of two elements:

- a quantitative element which seeks to identify those countries which may be headed for debt servicing difficulties,
- an historical element which seeks to identify common characteristics of those countries which have rescheduled debts in the past.

The quantitative element involves the computation of an equation with several debt related variables which can be used to help identify one year in advance countries which may encounter debt servicing difficulties.

The historical element reviews countries which have rescheduled their debts to identify relevant common characteristics. These characteristics are then used for in-depth individual country debt reviews as a benchmark to assist in formulating judgments on the debt servicing capabilities of a country.

10. Euro-currency Lending

Medium-term private bank Euro-currency lending to developing countries continued to be an important source of finance for the more wealthy LDC's in calendar year 1974 and the first three quarters of calendar year 1975. Euro-currency lending to developing countries was unusually low in the last two quarters of 1974 and the first quarter of 1975. This may reflect the depressed state of worldwide economic activity. Subsequently, Euro-currency credits extended to LDC's rose to \$3.2 billion and \$3.4 billion in the second and third quarters of 1975, respectively.

The largest increase in borrowing was among the oil producing and higher income countries which account for roughly 78 percent of the increase in the second quarter of 1975 and 91 percent in the third quarter. This may indicate that the poorer countries cannot afford to pay the higher costs of borrowing in this market, or do not represent an acceptable credit risk to the lender.

Apparently, the existence of a high level of debt outstanding has not been a barrier to borrowing from the Euro-currency market if the country is thought to have favorable long-term economic prospects. This is evidenced by the fact that countries with large debts are large borrowers from this market. Almost a half of the publicized lending for all non-oil LDC's in the second and third quarters of 1975 was to Brazil for \$1,080 million and to Mexico for \$990 million.

It should be noted that these country and aggregate 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 substantially less than the gross magnitude of Euro-borrowing.

Table 10

PUBLICIZED EUROCURRENCY CREDITS BY COUNTRY:
DEVELOPING IBRD MEMBER COUNTRIES

(US\$ millions)

Country of Borrower	1973	1974	1975		1975
			1st Qtr.	2nd Qtr.	3rd Qtr. Jan.-Sept.
OIL EXPORTERS					
Algeria	1,352.5	-	-	100.0	100.0
Ecuador	8.0	-	30.0	25.0	55.0
Gabon	64.0	67.0	-	-	30.0
Indonesia	478.0	348.5 ^{1/}	53.5	938.0	991.5
Iran	712.1	114.5	5.0	-	225.0
Iraq	-	-	-	-	500.0
Nigeria	-	20.0	-	-	-
Oman	35.0	14.0 ^{1/}	14.1	-	64.1
Saudi Arabia	4.9	-	-	-	-
United Arab Emirates	330.0	151.0	6.3	-	6.3
Venezuela	63.1	57.5	-	200.0	200.0
Sub-total	3,012.6	772.5	108.9	1,263.0	2,171.9
HIGHER INCOME COUNTRIES					
Argentina	87.3	558.6 ^{1/}	-	28.4	34.4
Bahamas	30.0	-	-	-	-
Bahrain	15.0	-	-	-	-
Brazil	718.1	1,667.5 ^{1/}	345.5	341.8	1,425.3
China, Republic of	-	197.0 ^{1/}	80.0	15.0	114.0
Colombia	170.0	8.0	-	100.0	100.0
Costa Rica	11.0	10.0	16.0	-	46.0
Dominican Republic	15.0	20.0	-	-	-
Greece	599.6	437.9	19.0	-	239.0
Guyana	12.5	15.0	-	24.0	24.0
Jamaica	35.6	95.0	-	53.0	53.0
Lebanon	20.0	93.1	-	-	-
Malaysia	-	140.0 ^{1/}	-	150.0	225.0
Mexico	1,572.5	1,478.4 ^{1/}	209.0	394.6	1,198.6
Nicaragua	92.0	51.4	-	-	30.0
Panama	251.0	101.0	-	85.0	110.0
Peru	733.6	366.0 ^{1/}	90.0	50.0	163.3
Spain	467.3	1,169.0 ^{1/}	66.8	272.0	693.0
Trinidad and Tobago	30.0	22.5 ^{1/}	-	5.1	5.1
Uruguay	-	-	-	-	130.0
Yugoslavia	235.0	549.3 ^{1/}	11.6	-	72.6
Zambia	150.0	-	-	160.0	160.0
Sub-total	5,280.5	6,979.7	837.9	1,678.9	4,823.3

Table 10 (cont'd.)

PUBLICIZED EURO CURRENCY CREDITS BY COUNTRY:
DEVELOPING IBRD MEMBER COUNTRIES

(US\$ millions)

Country of Borrower	1973	1974	1975		1975
			1st Qtr.	2nd Qtr.	Jan.-Sept.
MIDDLE INCOME COUNTRIES					
Bolivia	6.0	52.0	8.0	35.0	64.5
Cameroon	-	10.0	-	-	-
Egypt	-	230.0	-	-	-
El Salvador	-	50.0	-	30.0	30.0
Ivory Coast	95.0	63.0	-	35.0	50.0
Korea, Republic of	142.0	264.0 ^{1/}	245.2	56.0	301.2
Morocco	-	-	-	200.0	200.0
Philippines	178.5	883.0 ^{1/}	-	85.1	85.1
Senegal	65.0	-	-	-	-
Thailand	-	9.7	-	5.0	5.0
Turkey	20.3	-	-	20.0	20.0
Sub-total	506.8	1,561.7	253.2	246.1	755.8
LOWER INCOME COUNTRIES					
Haiti	10.0	-	-	-	-
India	10.0	-	-	-	-
Kenya	4.5	-	-	-	-
Malawi	5.3	-	-	-	-
Pakistan	-	-	7.5	-	7.5
Sudan	-	220.0	-	11.5	36.8
Zaire	286.9	71.3	-	27.0	27.0
Sub-total	316.7	291.3	7.5	38.5	71.3
TOTAL	9,116.6	9,605.2	1,207.5	3,226.5	7,822.3

^{1/} Credits for which the date of completion is not available are excluded from quarterly date, but included in 1974 total. These credits amounted to \$439.9 million for all borrowers included in this table.

Source: World Bank: Borrowing in International Capital Markets

IV. INTERNATIONAL CONSIDERATION OF LDC DEBT,
U.S. POLICY, AND DEBT RESCHEDULINGS IN
FISCAL YEAR 1975.

1. International Consideration of LDC Debt

The debt problems of the LDC's continued to be examined in several international fora during fiscal 1975, including the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), the United Nations Committee on Trade and Development (UNCTAD), and the World Bank.

With the increased balance of payments problems of the LDC's during 1974 and 1975, some countries including those that had accrued large amounts of external debt in previous years, initiated proposals in UNCTAD and other fora to obtain relief from their debt obligations. The relief these countries seek would take the form either of a multilateral debt moratorium or a generalized debt rescheduling for the poorest LDC's. The United States government has opposed a generalized debt rescheduling or debt moratorium. This position has also been taken by virtually all other creditor countries. In the U.S. view, these are not appropriate instruments to alleviate balance of payments financing difficulties of the LDC's. In addition, such proposals as have been advanced along these lines have serious shortcomings. For example, a generalized rescheduling or moratorium would be inequitable, since only twelve LDC's hold the bulk of this debt. As only two of the twelve are "MSA's", a general moratorium or rescheduling would provide only minor assistance to the poorest countries--those in greatest need of assistance--while other countries would receive windfall benefits. Most of these schemes either minimize or do not take into account debtor countries' monetary, fiscal, and exchange rate policies or the efforts of some debtor countries to deal effectively with their debt problems. Proposals of this character would tend to raise the cost of subsequent borrowing by LDC's in the short run and could affect adversely the flow of resources to LDC's in the long run.

2. U. S. Policy

It is U.S. government policy to extend credit on the explicit understanding that it will be repaid according to the schedule agreed upon by the borrower at the time the credit is authorized and signed. Accordingly, the United States does not consider debt rescheduling or relief to be appropriate instruments for alleviating the current financial difficulties of the developing countries nor does it deem such actions to be appropriate vehicles for providing official economic assistance to the LDC's.

Currently, the United States evaluates the merits of debt reorganization proposals on a case-by-case basis predicated on the principle of basic adherence to scheduled terms of credit payment. Within this framework, the U.S. objective is to encourage countries to undertake appropriate corrective policies in order to minimize the incidence of debt rescheduling and relief operations.

3. Rescheduling in Fiscal 1975

The developing countries have, by and large, an excellent record in honoring their debt obligations. It has been the exception, rather than the rule, that debt rescheduling has been provided to help ensure ultimate repayment by debtor countries. During fiscal 1975, the United States participated in two major multilateral debt reschedulings, India and Chile.

India

United States participation in the fiscal 1975 multilateral debt rescheduling arrangements for India related to developments which occurred during the previous fiscal year. At the June 1974 meeting of the Indian Aid Consortium, chaired by the World Bank, a \$248 million debt rescheduling for India was proposed. The Bank based its proposal on the need to provide free foreign exchange to help deal with mounting pressures on the Indian balance of payments arising, in large part, from increases in the price of imported food, fertilizer and oil.

The United States' share of this debt rescheduling proposal for India would have been \$64 million, compared to \$29 million the previous year. Had the United States accepted the proposal, the U.S. would have financed \$34 million of the \$60 million aggregate increase in rescheduled debt from the previous year. The United States did not accept the Bank's 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.

In the following months, the United States reassessed the Indian economic situation and, on the basis of available information, concluded that India faced major economic problems and serious balance of payments difficulties. As a result, the United States agreed, in September 1974, to reschedule up to \$45 million on terms providing a 62 percent grant element. A Memorandum of Understanding was signed by the World Bank on behalf of the Consortium members on October 30, 1974. The bilateral agreement between the United States and India implementing the U.S. share of the debt rescheduling was signed on May 2, 1975, subsequently sent to Congress for a 30-day review period on May 7, 1975, and became effective on June 13, 1975. (See Appendix.)

At the next Indian Aid Consortium meeting in June 1975, the World Bank proposed that the donor countries provide \$248 million of debt relief as part of the economic assistance package for Indian Fiscal Year 1976 (April 1, 1975 - March 30, 1976). The United States share of this would have been \$65 million. During this consortium meeting, the United States stated that it would not grant debt relief to India for its fiscal year 1976. The United States delegation noted that debt rescheduling was an inappropriate means of providing economic assistance under U.S. budgetary and legislative procedures but stated that this position should not deter other donor countries from providing debt reorganization if such action were appropriate under their governmental procedures. A World Bank proposal of agreed multilateral debt rescheduling for the Indian fiscal year 1976 which excluded participation by the U.S. was accepted by the Consortium members. Improved short-term economic prospects should enable India to continue servicing fully its debt to the U.S. in Indian fiscal year 1977 (April 1, 1976 - March 31, 1976).

Chile

Despite Chile's efforts to stabilize its economy in calendar year 1974 and the rescheduling of its external debts by the "Paris Club Creditors" in 1974, the increased oil prices, coupled with a precipitous drop in copper prices, raised serious doubts as to Chile's ability to service its external debts in calendar year 1975. In January 1975 Chile ceased payments on its external debts. Recognizing the magnitude of the problem, Chile's creditors urged Chilean officials to work with the International Monetary Fund (IMF) to restructure its stabilization program prior to requesting a rescheduling of its external debts in 1975. In early calendar year 1975, Chile agreed to a revised IMF stabilization program and borrowed \$95 million from the IMF's Oil Facility. The stabilization measures included the imposition of new taxes, a freeze on public employment levels, tightened limits on credit to the private sector, and adoption of flexible exchange rate policies to encourage non-traditional exports. Subsequently, Chile formally requested a meeting of the Paris Club creditors to consider rescheduling debt service payments in calendar year 1975.

In May 1975, the Paris Club met to consider rescheduling Chile's debts for calendar year 1975. The IMF noted that Chile had been, and would be for the foreseeable future, severely affected by the import price increases and the precipitous drop in the international price of its copper exports. Its balance of payments deficit was estimated at \$1 billion for 1975. The fact that the servicing of foreign debt due in 1975 would amount to almost one-third the value of projected exports made total settlement of the debts beyond Chile's capacity in calendar year 1975.

Under these circumstances, the IMF recommended debt rescheduling. The choices open to the creditors were either to reschedule or to accept default. Cognizant of the unfavorable financial precedent that would be established by default, seven of the Paris Club creditors, holding over 80 percent of Chile's external debt, agreed at the May 1975 meeting to reschedule \$230 million of Chile's total \$700

million debt service payments due. The United States agreed to reschedule \$96 million of some \$185 million due in calendar 1975. (The agreement was written so that others might join the rescheduling at a later date.) The terms of this multilateral agreement are: 10 percent of renegotiable payments are due in 1975; another 10 percent in 1976 and in 1977, respectively; with the balance to be paid in 13 equal semi-annual installments thereafter. The bilateral agreement between the U.S. and Chile was signed July 3, 1975 and sent to Congress on July 29, 1975 for a 30 day review period and became effective September 9, 1975. (See Appendix)

Pakistan

Pakistan's external debt structure was substantially improved by the June 1974 debt rescheduling agreement chaired by the World Bank. This agreement arose from the events in Pakistan in 1971 and the subsequent division of the country. Details of this agreement are discussed in the Treasury Report on Debt Relief submitted to Congress on February 28, 1975.

A number of technical issues regarding the division of responsibility between Pakistan and Bangladesh for the debts Pakistan incurred prior to 1971 delayed the signing of a bilateral agreement with the United States during fiscal 1975. These issues are now resolved, and it is expected that the agreement with Pakistan will be signed in the near future. Similarly, the agreement with Bangladesh covering those projects visibly located in that country should be signed in the near future.

4. Other Reschedulings.

Eximbank

During fiscal 1975, Eximbank rescheduled three loans:

A loan of \$1.5 million authorized in 1967 to finance port improvement in Antigua in which \$600,000 of principal was rescheduled for two and one-half years, with the reduced repayment to resume on September 15, 1975. The reason for this rescheduling was financial difficulties besetting Antigua as a result of a prolonged drought.

A loan authorized in 1971 for a nickel project in Australia was rescheduled. The original amount of the loan was \$8,960,000, and the amount rescheduled includes \$4,977,780 of principal and \$134,031.78 of interest. This rescheduling is also for two and one-half years, with resumed payments to begin on March 31, 1979. The reason for the rescheduling was financial problems of the borrower brought on by inflation.

The third rescheduling was of a \$2 million credit authorized in 1970 for relending in Nicaragua. The amount rescheduled is \$245,371.53 of principal and \$28,315.86 of interest. This rescheduling is for five years, with resumed repayment to begin on January 1, 1980. The borrower in this case has a negative net worth, and, hence, the rescheduling was deemed necessary to effect ultimate repayment.

Immediately, the effect of these reschedulings is to defer the reflow of funds to Eximbank and the balance of payments benefits of these reflows. On the other hand, rescheduling hopefully enhances the likelihood of ultimate repayment, as well as maintains the viability of the undertakings financed. Because of the relatively minor amounts rescheduled, there will be virtually no impact in Eximbank's ability to continue to make loans.

Defense Security Assistance Agency (DSAA)

Under authority granted by Section 31 (b) of the Foreign Military Sales Act, as amended, Israel was released from contractual liability to repay the United States government the \$100 million in direct credit provided in FY 1975 for procurement of defense articles and defense services. This \$100 million, combined with \$1.5 billion released in prior years, brings the total amount from which Israel has been released to \$1.6 billion.

Debt reschedulings or the granting of debt relief would have no effect on the availability of funds and the authority of DSAA to provide loans, credits, or guarantees to recipient countries.

Commodity Credit Corporation (CCC)

With the exception of Chile, the CCC provided no major debt relief in FY 1975. However, some debt relief was made available to Korea through the Private Trade Agreements (PTA) authorized under Section 107 of P.L. 83-480. This relief was provided to two private trade entities. Korea-Cargill, Ltd., had \$342 million in principal payments and 7-3/4 percent interest deferred from December 1974 to December 1975. Korea-Silo Company had its loan of \$230 million with an interest rate of 9 percent deferred from December 1974 to July 1975. These obligations to CCC are fully covered by Korean bank commercial type letters of credit. Debt relief was provided to these two companies because their financial statements indicated that their continued operations were in jeopardy.

This debt relief had no effect on the availability of funds since CCC funds are provided under its statutory borrowing authorization. However, if CCC funds are used for debt relief, then less is available to provide credit.

V. 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 the default by the debtor country lead to the placement of a legal prohibition on the extension of credit to that country. This prohibition is set forth in Section 620q of the Foreign Assistance Act. 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.

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, and Public Law 480.

Prior to its amendment, Section 203 of the Foreign Assistance Act of 1961 made funds from the repayment of AID credits available for the extension of new credits. Therefore, if a debt rescheduling occurred, the funds from repayments would, of course, not be available, and this would reduce the flow of new credits. Section 203 has since been amended twice with the result that the impact of debt reschedulings on the extension of new credits has been reduced. Section 203 was first amended in 1973. This amendment provided

that not more than 50 percent of dollar receipts payable in 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 other 50 percent of the receipts would go to Treasury. As a result of this amendment, the effect of debt reschedulings on the availability of new credits was reduced. The second amendment to Section 203 of the Foreign Assistance Act of 1961 was enacted in December 1974. This amendment provided that after July 1, 1975, none of the dollar receipts from loans made under Part I of this Act or predecessor foreign assistance legislation would be available for new loans. All such receipts are to be deposited with Treasury. Thus, debt reschedulings have no direct effect on funds available for new loans. It should be noted that the 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 P.L. 480 is also affected by debt reschedulings. Section 102 of P.L. 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.

Debt reschedulings may also reduce the ability of the Export-Import Bank to make new loans, 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).

VI. A SUMMARY OF NET FINANCIAL FLOWS TO COUNTRIES
RECEIVING MAJOR DEBT RELIEF

Comprehensive data on U.S. foreign assistance to all foreign countries from calendar year 1945 to calendar year 1974, the latest date for which complete data are available, can be found in the 1975 Annual Report to the National Advisory Council on International Monetary and Financial Policies. Table 11 is compiled from balance of payments information and shows the net foreign financial flows of the U.S. in calendar year 1974 to three major recipients: Chile, India, and Pakistan. These flows are categorized into grants, credits, and other assistance.

The amount of debt reorganization or debt rescheduling for each of these countries is noted in the first line of this table. Debt rescheduling of \$101 million to Chile, \$17 million to India and \$64 thousand to Pakistan constituted a portion of the net financial flows to these countries in 1974.

Also noted in the first line of this table is the net total financial flows from the U.S. to these three countries. For calendar year 1974 these amounts are \$122 million for Pakistan and \$87 million for Chile. Recoveries from India exceeded all forms of new flows resulting in a net flow to the U.S. of \$178 million dollars.

Table 11

Summary of major U.S. Government net foreign financial flows to Chile, India, and Pakistan
Calendar year 1974, 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)	87,019	100,602	- 178,196	16,959	122,077	64
Grants						
Total grants.....	5,864		2,138,042		23,644	
Under Foreign Assistance Act and related programs....	840		2,306		16,434	
Under authorizations for farm products disposals:						
From foreign currencies under the Agricultural						
Trade Development and Assistance Act.....	---		2,039,870		3,861	
For famine, other urgent, and extraordinary						
relief, for economic development, and through						
private welfare agencies.....	4,447		94,981		3,349	
Peace Corps.....	577		885			
Credits						
Net.....	81,164	100,602	-2,114,249	16,959	94,554	64
Gross (new).....	376,019	335,273	73,599	29,667	131,652	64
Under Export-Import Bank Act.....	259,775	257,369	7,641	---	25,276	---
Under Foreign Assistance Act and related programs:						
Country program loans.....	34,128	34,163	62,372	29,340	46,819	---
Financing of military sales.....	8,840	---	1,468	---	15	---
Social Progress Trust Fund.....	2,590	---	---	---	---	---
Investment incentive credits.....	25,389	25,389	---	---	---	---
Under Agricultural Trade Development and Assistance						
Act:						
Currency loans to foreign governments.....	4,031	4,031	---	---	---	---
Currency loans to private enterprises.....	---	---	2,118	327	64	64
Long-term dollar credits.....	14,321	14,321	---	---	26,015	---
Other credits.....	26,945	---	---	---	33,463	---
Under Commodity Credit Corporation Charter Act.....	26,931	---	---	---	33,463	---
Miscellaneous.....	14	---	---	---	---	---

Table 11 (cont'd.)

Summary of major U.S. Government net foreign financial flows to Chile, India and Pakistan
Calendar year 1974, 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 principal collections.....	294,855	234,671	2,187,848	12,708	37,098	---
Under Export-Import Bank Act.....	236,043	202,494	29,540	---	8,311	---
Under Foreign Assistance Act and related programs:						
Country program loans.....	23,866	18,748	306,565	12,708	11,365	---
Financing of military sales.....	4,337	---	2,326	---	558	---
Social Progress Trust Fund.....	2,404	---	---	---	---	---
Investment incentive credits.....	4,621	---	---	---	---	---
Under Agricultural Trade Development and						
Assistance Act:						
Currency loans to foreign governments.....	2,460	2,152	1,836,099	---	2,948	---
Currency loans to private enterprises.....	---	---	11,651	---	2,268	---
Long-term dollar credit sales.....	13,281	11,277	---	---	4,093	---
Other credits.....	7,843	---	1,667	---	7,555	---
Under Commodity Credit Corporation Charter Act...	7,843	---	---	---	7,555	---
Miscellaneous.....	---	---	1,667	---	---	---
Other Assistance (through Net Accumulation of						
Foreign Currency Claims)						
Net	- 9	---	- 202,989	---	3,879	---
Farm products sales:						
(Under Commodity Credit Corporation Charter Act)...	---	---	73	---	63	---
From 2d-stage operation (under Agricultural Trade						
Development and Assistance Act).....	8	---	1,872,049	---	11,920	---
Less currencies disbursed for grants, credits, and						
other uses.....	17	---	2,074,111	---	8,104	---
Under Mutual Security Acts.....	---	---	87	---	---	---
For economic grants and credits in recipient's						
currency.....	---	---	87	---	---	---
Under Agricultural Trade Development and						
Assistance Act.....	17	---	2,073,951	---	8,041	---
For economic grants and credits in recipient's						
currency.....	---	---	2,041,661	---	3,843	---
Other.....	17	---	32,290	---	4,198	---
Under Commodity Credit Corporation Charter Act:						
Other than for grants and credits.....	---	---	73	---	63	---

Table 11 (cont'd.)

Summary of major U.S. Government net foreign financial flows to Chile, India and Pakistan
Calendar year 1974, 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 :
MEMORANDUM: Interest Collections						
Total, interest collections.....	90,388	75,213	83,042	16,959	24,681	64
Under Export-Import Bank Act.....	62,547	54,875	10,676	---	3,456	---
Under Foreign Assistance Act and related programs:						
Country program loans.....	16,264	15,415	36,617	16,632	7,217	---
Financing of military sales.....	1,036	---	56	---	26	---
Social Progress Trust Fund.....	945	---	---	---	---	---
Investment incentive credits.....	1,418	---	---	---	---	---
Under Agricultural Trade Development and Assistance Act:						
Currency loans to foreign governments.....	1,995	1,879	17,322	---	6,023	---
Currency loans to private enterprises.....	---	---	7,304	327	745	64
Long-term dollar credit sales.....	3,736	3,044	9,817	---	5,571	---
Other credits.....	---	---	---	---	---	---
Under Atomic Energy Act.....	---	---	1,250	---	---	---
Under Commodity Credit Corporation Charter Act....	2,447	---	---	---	1,643	---
MEMORANDUM: Investment guaranty payments by OPIC						
Guaranties paid.....	12,454	---	---	---	---	---
Recovery on guaranties.....	25,389	25,389	---	---	---	---
MEMORANDUM TOTAL: Net assistance, interest, collec-						
tions, and investment guaranty transactions.....	-16,304	---	-261,238	---	97,396	---

NOTE: Excludes military grant 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 Report 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.

APPENDIX A

LETTERS TO CONGRESS ON INDIAN 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 \$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

July 31, 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.

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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.

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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

August 16, 1974

Honorable Thomas E. 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

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 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 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

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

5/6/75

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

JMA

Dear Mr. Speaker:

Section 4 of the Foreign Disaster Assistance Act of 1974 requires that the Department of State transmit to you in your capacity as Speaker of the House of Representatives and to the Chairman of the Senate Foreign Relations Committee the text of any international agreement proposing a modification in the terms of debt owed to the United States by a foreign government no less than thirty days prior to its entry into force.

To implement this provision the Secretary has asked me to transmit the enclosed bilateral agreement (Tab A) which will reschedule \$45 million in Indian debt service which became due to the United States during the Indian fiscal year ending March 31, 1975. This agreement will implement an understanding reached with India by the World Bank, in its capacity as chairman of the Aid-to-India Consortium, on October 31, 1974. Chairman Morgan of the International Relations Committee was informed of the debt rescheduling negotiations taking place last year by the Consortium in letters dated July 31, August 13, and October 10, 1974 (Tab B). Other debt service payments of approximately \$100 million due to the United States from India during the fiscal year are not affected by the agreement and have been paid.

As we noted in our letters to Chairman Morgan (and in the Administration's "Report on Debt Relief Granted by the United States to Developing Countries" transmitted to Congress on February 28, 1975), last year's Consortium discussions focused on India's balance of payments problems resulting from the sharply higher costs of such essential imports as petroleum, fertilizer, and foodgrains. The World Bank proposed that the creditor countries of the Consortium reschedule 45 percent of the Indian debt payments due them. The United States' share of relief under the Bank's proposal would

have amounted to approximately \$64 million. While the United States agreed that 1974 would be a particularly difficult year for the Indian economy and people, we did not accept the Bank's proposal although most other creditors did. After careful consideration of India's economic problems and balance of payments difficulties, the United States advised the World Bank that it was willing to reschedule \$45 million, representing about 31 percent of Indian debt service falling due to the United States. Following the United States offer, the World Bank reached an understanding with India on behalf of the Consortium creditors.

The debt relief package totals \$194 million. France and the United Kingdom will reschedule 40 percent of Indian debt service due. Seven other creditors will reschedule at least 45 percent of debt service due. In addition, Italy has indicated it would participate but has not yet determined the amount to be rescheduled while Norway had already written off the full stock of public debt held by India. In terms of the volume of debt to be rescheduled, the largest participants are Germany (\$57.70 million), the United States (\$45.0 million), Japan (\$43.4 million) and the United Kingdom (\$21.8 million).

The bilateral agreement between the United States and India will defer payments due on 49 loans over an approximate seven month period. In accordance with the multilateral understanding, repayments will be made over a 25 year period including seven years grace with an interest rate of 1.72 percent. This is the average weighted interest in the original agreements covered.

The United States is India's largest creditor, and as of March 31, 1974, accounted for \$3.3 billion of India's \$10.2 billion outstanding (and disbursed) external public debt. Given the difficult economic situation which confronted India last year, we believe the agreement to be in the United States' interest in that the \$45 million in United States relief -- as well as the \$149 million in relief from other creditors -- furthered economic stability in India and thus enhanced the probability of repayment of all debts to the United States and other creditors. We believe it may be possible for India to fully service its \$145 million debt to the United States in 1975.

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

Sincerely,

Robert J. McCloskey
Assistant Secretary
for Congressional Relations

Enclosures:

1. Tab A - Bilateral agreement
2. Tab B - Consortium letters

5/6/75

Honorable John Sparkman, Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C.

Dear Mr. Chairman:

Section 4 of the Foreign Disaster Assistance Act of 1974 requires that the Department of State transmit to you in your capacity as Chairman of the Senate Foreign Relations Committee and to the Speaker of the House of Representatives the text of any international agreement proposing a modification in the terms of debt owed to the United States by a foreign government no less than thirty days prior to its entry into force.

To implement this provision the Secretary has asked me to transmit the enclosed bilateral agreement (Attachment A) which will reschedule \$45 million in Indian debt service which became due to the United States during the Indian fiscal year ending March 31, 1975. This agreement will implement an understanding reached with India by the World Bank, in its capacity as chairman of the Aid-to-India Consortium, on October 30, 1974. Former Chairman Fulbright was informed of the debt rescheduling negotiations taking place last year by the Consortium in letters dated July 31, August 14, and October 10, 1974 (Attachment B). Other debt service payments of approximately \$100 million due to the United States from India during the fiscal year are not affected by the agreement and have been paid.

As we noted in our letters to Chairman Fulbright, (and in the Administration's "Report on Debt Relief Granted by the United States to Developing Countries" transmitted to Congress on February 28, 1975) last year's Consortium discussions focused on India's balance of payments problems resulting from the sharply higher costs of such essential imports as petroleum, fertilizer, and foodgrains. The World Bank proposed that the creditor

countries of the Consortium reschedule 45 percent of the Indian debt payments due them. The United States share of relief under the Bank's proposal would have amounted to approximately \$64 million. While the United States agreed that 1974 would be a particularly difficult year for the Indian economy and people, we did not accept the Bank's proposal although most other creditors did. After careful consideration of India's economic problems and balance of payments difficulties, the United States advised the World Bank that it was willing to reschedule \$45 million, representing about 31 percent of Indian debt service falling due to the United States. Following the United States offer, the World Bank reached an understanding with India on behalf of the Consortium creditors.

The debt relief package totals \$194 million. France and the United Kingdom will reschedule 40 percent of Indian debt service due. Seven other creditors will reschedule at least 45 percent of debt service due. In addition, Italy has indicated it would participate but has not yet determined the amount to be rescheduled while Norway had already written off the full stock of public debt held by India. In terms of the volume of debt to be rescheduled, the largest participants are Germany (\$57.70 million), the United States (\$45.0 million), Japan (\$43.4 million), and the United Kingdom (\$21.3 million).

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The United States is India's largest creditor, and as of March 31, 1974, accounted for \$3.3 billion of India's \$10.2 billion outstanding (and disbursed) external public debt. Given the difficult economic situation which confronted India last year, we believe the agreement to be in the United States' interest in that the \$45 million in United States relief -- as well as the \$149 million in relief from other creditors -- furthered economic stability in India and thus enhanced the probability of repayment of all debts to the United States and other creditors. We believe it may be possible for India to fully service

its \$145 million debt to the United States in 1975.

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

Sincerely,

Robert J. McCloskey
Assistant Secretary
for Congressional Relations

Enclosures:

1. Attachment A - Bilateral agreement
2. Attachment B - Consortium letters

APPENDIX B

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF INDIA REGARDING THE CONSOLIDATION AND RESCHEDULING OF CERTAIN DEBTS OWED TO THE UNITED STATES GOVERNMENT AND ITS AGENCIES

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

ARTICLE I

Application of the Agreement

1. Pursuant to the provisions and mutual undertakings, hereby incorporated into this Agreement, of the Record of Understanding among the member countries of the Indian Consortium signed in Washington on October 30, 1974, by the Government of India and the International Bank for Reconstruction and Development as Chairman of the Consortium, the Government of the United States of America and the Government of India agree to defer and reschedule certain dollar obligations to the United States Government and its agencies falling due between August 28, 1974, and March 31, 1975, under the agreements listed in Annex A, as provided in this Agreement.

2. The United States of America, acting through the Agency for International Development ("A.I.D."), has made certain loans to, or for the benefit of, the President of India ("Borrower"), pursuant to the loan agreements and special loan repayment agreements listed in Annex A to this Agreement and any prior amendments thereto ("Original Agreements"), and the Borrower has undertaken certain payment obligations to A.I.D. pursuant to such Original Agreements.

3. The amount to be deferred and rescheduled under the terms and conditions of this Agreement will be \$45,000,000, as indicated in said Record of Understanding. The estimated amounts available for deferral and rescheduling are listed in Annex B to this Agreement.

ARTICLE II

Definitions

For purposes of this Agreement:

1. The term "Original Agreements" shall refer to the agreements concluded between the Borrower and the Agency for International Development which are listed in Annex A.
2. The term "Consolidated Debt" shall refer to the principal, interest, and credit fees due and payable to the Government of the United States of America between August 28, 1974 and March 31, 1975, under the Original Agreements, which is computed to be \$45,000,000, as set forth in Annex B to this Agreement.
3. The term "Consolidation Interest" shall refer to interest accruing and payable on the Consolidated Debt after the respective due dates under the Original Agreements.

ARTICLE III

Terms and Conditions of Payment

1. Deferral and terms of repayment shall be as follows:

(a) Payment of all interest and credit fees and repayment of all installments of principal due and payable to A.I.D. by the Borrower pursuant to the Original Agreements during the period commencing on August 28, 1974, and terminating on March 31, 1975, amounting to \$45,000,000 ("Consolidated Debt") as set forth in Annex B to this Agreement, shall be deferred.

(b) The Borrower shall pay the Consolidated Debt to A.I.D. in nineteen equal annual installments on April 1 of each year commencing on April 1, 1982.

(c) The Borrower shall pay annually to A.I.D., on April 1 of each year, interest on the unpaid balance of the Consolidated Debt ("Consolidation Interest"), and on any Consolidation Interest due and unpaid, at the rate of 1.72 percent per annum computed on the basis of a three hundred and sixty (360) day year. Such interest shall commence to accrue on the due date specified in each of the Original Agreements for each payment of interest or credit fee and each repayment of principal deferred pursuant to subsection (a) of this Section. The first payment of Consolidation Interest shall be due and payable on April 1, 1975.

2. The amortization schedule for payment of the Consolidated Debt and Consolidation Interest is set forth in Annex C of this Agreement.

3. Except as otherwise expressly provided herein, payment of obligations which become due and payable by Borrower to A.I.D. pursuant to each of the Original Agreements shall be paid in accordance with the existing terms of each.

ARTICLE IV

Entry into Force

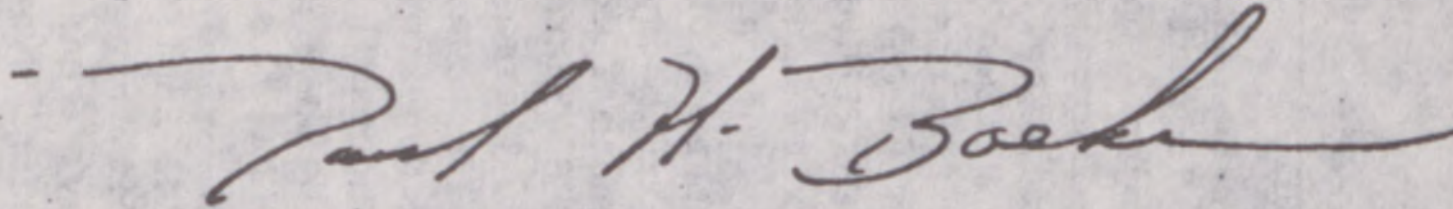
1. To the extent not amended herein, or rendered inconsistent hereby, the terms and conditions of the Original Agreements, including, but not limited to, events of default and remedies upon default, shall remain in full force and effect.

2. Except as A.I.D. may otherwise agree in writing, within thirty (30) days from the date of this Agreement, and as a condition to the effectiveness of this Agreement, Borrower shall furnish to A.I.D., in form and substance satisfactory to A.I.D., a legal opinion of counsel satisfactory to A.I.D. that this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of the Borrower and constitutes a valid and legally binding obligation of the Borrower in accordance with its terms.

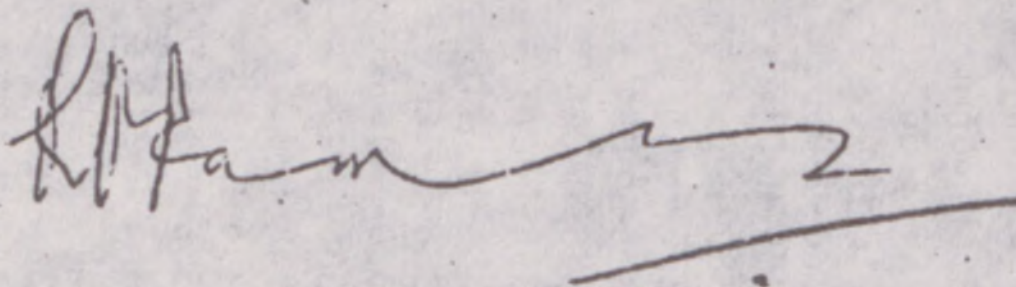
3. This Agreement will enter into force when the Government of the United States notifies the Government of India in writing that domestic United States laws and regulations covering debt rescheduling have been complied with.

DONE at Washington in duplicate this second day of May, 1975.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:



FOR THE GOVERNMENT OF INDIA:



ANNEX A
INDIA - AGENCY FOR INTERNATIONAL DEVELOPMENT
LIST OF LOANS RESCHEDULED

AID LOAN NUMBER	DATE OF AGREEMENT	TITLE	INTEREST RATE		INITIAL AMORT. DATE
			GRACE	AMORT.	
386-B-001	06-15-51	Food Grain Assistance	2-1/2	2-1/2	06-30-57
386-H-052	02-26-62	Canbar Thermal Power Project	3/4	3/4	04-06-72
386-H-055	06-21-62	Non-Project Imports	3/4	3/4	08-28-72
386-H-056	06-21-62	Dandal Thermal Power Project	3/4	3/4	10-01-72
386-H-057	06-21-62	Patherdih Coal Washery	3/4	3/4	11-01-72
386-H-058	06-21-62	Fourth Railway	3/4	3/4	03-18-73
386-H-059	06-28-62	Second Premier Automobiles	3/4	3/4	12-03-73
386-H-060	06-11-62	Rayon Tire Cord Project	3/4	3/4	07-15-73
386-H-061	06-28-62	Pamba-Kakki Hydroelectric Project	3/4	3/4	08-09-73
386-H-062	06-28-62	Industrial Finance Corporation - Second Loan	3/4	3/4	06-19-74
386-H-063	06-11-62	Trombay Thermal Power Station	3/4	3/4	01-02-73
386-H-066	11-08-62	Hindustan Motor Loan	3/4	3/4	08-23-73
386-H-067	09-25-62	Telco Truck Expansion	3/4	3/4	03-28-73
386-H-068	05-21-63	Ramagundam Thermal Power	3/4	3/4	06-18-75
386-H-069	03-08-63	Delhi "C" Thermal Power Extension Station	3/4	3/4	01-21-75
386-H-077	03-08-63	Satpura Thermal Power	3/4	3/4	10-30-74
386-H-081	10-21-63	Central Ropeway "F" Project	3/4	3/4	11-27-74
386-H-082	02-25-63	Second Non-Project Loan	3/4	3/4	05-06-73
386-H-084	10-21-63	Chandrapura Thermal Elec. Power Proj., Stage II	3/4	3/4	01-18-75
386-H-086	10-21-63	Fifth Railway	3/4	3/4	01-06-75
386-H-087	11-29-63	Dugda Coal Washery Plant II	3/4	3/4	06-02-74
386-H-091	12-07-63	Tarapur Nuclear Power	3/4	3/4	06-24-74
386-H-101	07-21-64	National Engineering Industries Ltd.	3/4	3/4	10-14-76
386-H-103	02-24-64	Commodity Program Assistance - 63-64	3/4	2	08-10-74
386-H-104	06-19-64	Trombay Methanol and Fertilizer Project	3/4	2	09-09-74
386-H-109	11-30-64	Sharavathi Hydroelectric Project III	3/4	2	09-27-76
386-H-111	11-30-64	Commodity Program "L"	3/4	2	04/13/75
386-H-115	03-31-65	Consulting Services "L"	3/4	2	10-19-75
386-H-118	05-03-65	Hindustan Motors - Trucks	3/4	2	04-18-76
386-H-119	05-03-65	Hindustan Motors - Shovels	3/4	2	01-12-76
386-H-120	12-31-64	Telco Truck Expansion	3/4	2	06-10-75
386-H-121	11-30-64	Sixth Railway	3/4	2	06-28-75
386-H-137	06-17-65	Seventh Railway	1	2-1/2	05-17-75
386-H-138	06-17-65	Commodity Program Assistance - 1964-1965	1	2-1/2	09-28-75

A.I.D.

AID LOAN NUMBER	DATE OF AGREEMENT	TITLE	INTEREST RATE		INITIAL AMORT. DATE
			GRACE	AMORT.	
386-H-141	05-25-66	Operation Hardrock	1	2-1/2	03-13-78
386-H-143	06-01-66	Dhuvanan Thermal Power II	1	2-1/2	01-08-78
386-H-152	01-04-66	Fertilizer Commodity Loan - 1966	1	2-1/2	02-25-76
386-H-155	05-13-66	Commodity Program Assistance - 1966	1	2-1/2	08-05-76
386-H-160	07-08-66	Commodity Program Assistance - 1966	1	2-1/2	01-18-77
386-H-164	06-02-67	Indian Higher Education	1	2-1/2	12-16-78
386-H-168	05-10-67	Commodity Program Assistance - 1967	1	2-1/2	12-04-77
386-H-176	10-28-67	Commodity Program Assistance - 1967	1	2-1/2	04-02-78
386-H-184	05-12-68	Production Loan - 1968	2	2-1/2	08-16-78
386-H-188	07-19-68	Fertilizer Commodity Loan - 1968-1969	2	2-1/2	09-25-78
386-H-196	12-26-68	Production Loan - 1969	2	3	06-24-79
386-H-200	10-16-69	Private Sector Capital Equipment Loan - 1970	2	3	08-03-80
386-H-201	06-18-71	Indian Farmers Fertilizer Cooperative Ltd.	2	3	07-13-81
386-H-207	06-23-70	Production Loan - 1970	2	3	09-14-80
386-H-212	03-13-71	Commodity Program Loan	2	3	06-17-81

12/11/74

ANNEX B

India - Agency for International Development
Payments Subject to Rescheduling
For the Period from August 28, 1974 to March 31, 1975
(in U.S. Dollars)

<u>Loan No.</u>	<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
386-B-001	12-31-74	3,522,647.47	1,473,057.79	4,995,705.26
386-H-052	10-06-74	543,389.28	113,971.50	657,360.78
055	08-28-74	3,274,194.21	227,542.71	3,501,736.92 ^{1/}
055	02-28-75	3,274,194.21	687,580.78	3,961,774.99
056	10-01-74	612,992.01	131,024.97	744,016.98
057	11-01-74	65,105.16	13,916.23	79,021.39
058	09-18-74	703,938.21	153,089.45	857,027.66
058	03-18-75	703,938.21	150,449.68	854,387.89
059	12-03-74	47,108.52	10,246.10	57,354.62
060	01-15-75	131,253.22	28,547.58	159,800.80
061	02-09-75	297,756.04	64,301.44	362,057.48
062	12-19-74	281,353.84	63,308.69	344,662.53
063	01-02-75	290,418.07	62,076.86	352,494.93
066	02-23-75	255,447.97	55,583.78	311,031.75
067	09-28-74	223,317.15	48,571.48	271,888.63
067	03-28-75	223,317.15	47,734.04	271,051.19
068	12-18-74	-	28,529.75	28,529.75
069	01-21-75	226,973.90	51,804.11	278,778.01
077	10-30-74	313,509.67	71,685.88	385,195.55
081	11-27-74	121,792.90	27,403.40	149,196.30
082	11-06-74	3,908,132.83	850,018.89	4,758,151.72
084	01-18-75	194,777.74	44,547.91	239,325.65
086	01-06-75	257,996.24	58,941.13	316,937.37
087	12-02-74	81,916.13	18,431.12	100,347.25
091	12-24-74	1,178,869.24	265,204.33	1,444,073.57
101	10-14-74	-	15,923.66	15,923.66
103	02-10-75	2,715,621.16	2,217,761.57	4,933,382.73
104	09-09-74	81,874.23	25,632.68	107,506.91
104	03-09-75	82,692.98	67,535.08	150,228.06
109	09-27-74	-	6,827.57	6,827.57
109	03-27-75	-	6,827.57	6,827.57
111	10-13-74	-	183,909.86	183,909.86
115	10-19-74	-	1,930.93	1,930.93
118	10-18-74	-	82,574.36	82,574.36
119	01-12-75	-	10,392.76	10,392.76
120	12-10-74	-	44,114.44	44,114.44
121	12-28-74	-	26,751.60	26,751.60
137	11-17-74	-	18,996.38	18,996.38
138	09-28-74	-	943,908.00	943,908.00
138	03-28-75	-	943,908.00	943,908.00
141	09-13-74	-	16,626.58	16,626.58
141	03-13-75	-	16,626.58	16,626.58
143	01-08-75	-	87,366.06	87,366.06
152	02-25-75	-	249,835.63	249,835.63
155	02-05-75	-	483,492.99	483,492.99
160	01-18-75	-	747,164.52	747,164.52
164	12-16-74	-	36,522.54	36,522.54
168	12-04-74	-	657,304.63	657,304.63
176	10-02-74	-	249,474.23	249,474.23
184	02-16-75	-	2,237,423.39	2,237,423.39
188	02-05-75	-	230,000.00	230,000.00
196	12-24-74	-	1,932,626.73	1,932,626.73
200	02-03-75	-	169,913.26	169,913.26
201	01-13-75	-	177,857.01	177,857.01
207	09-14-74	-	1,551,076.65	1,551,076.65
207	03-14-75	-	1,593,096.05	1,593,096.05
212	12-17-74	-	1,604,501.35	1,604,501.35
49 Loans		<u>23,614,527.74</u>	<u>21,385,472.26</u>	<u>45,000,000.00</u>

^{1/} Principal \$3,274,194.21 and interest \$699,859.01 totalling \$3,974,053.22 were paid. Upon signing of the agreement, AID will refund the total amount rescheduled, under Loan No. 386-H-055, \$3,501,736.92 to the Government of India.

April 1975

ANNEX C

India - Agency for International Development
Schedule of Repayment Resulting from Rescheduling
Certain Dollar Payments Due August 28, 1974 to March 31, 1975

<u>Due Date</u>	<u>Total</u>	<u>Interest</u> <u>1.72%</u>	<u>Principal</u>	<u>Outstanding</u> <u>Balance</u>
				45,000,000.00
April 1, 1975	194,927.00	194,927.00 ^{1/}		
April 1, 1976	774,000.00	774,000.00		
April 1, 1977	774,000.00	774,000.00		
April 1, 1978	774,000.00	774,000.00		
April 1, 1979	774,000.00	774,000.00		
April 1, 1980	774,000.00	774,000.00		
April 1, 1981	774,000.00	774,000.00		
April 1, 1982	3,142,421.10	774,000.00	2,368,421.10	42,631,578.90
April 1, 1983	3,101,684.21	733,263.16	2,368,421.05	40,263,157.85
April 1, 1984	3,060,947.37	692,526.32	2,368,421.05	37,894,736.80
April 1, 1985	3,020,210.52	651,789.47	2,368,421.05	35,526,315.75
April 1, 1986	2,979,473.68	611,052.63	2,368,421.05	33,157,894.70
April 1, 1987	2,938,736.84	570,315.79	2,368,421.05	30,789,473.65
April 1, 1988	2,898,000.00	529,578.95	2,368,421.05	28,421,052.60
April 1, 1989	2,857,263.15	488,842.10	2,368,421.05	26,052,631.55
April 1, 1990	2,816,526.31	448,105.26	2,368,421.05	23,684,210.50
April 1, 1991	2,775,789.47	407,368.42	2,368,421.05	21,315,789.45
April 1, 1992	2,735,052.63	366,631.58	2,368,421.05	18,947,368.40
April 1, 1993	2,694,315.79	325,894.74	2,368,421.05	16,578,947.35
April 1, 1994	2,653,578.94	285,157.89	2,368,421.05	14,210,526.30
April 1, 1995	2,612,842.10	244,421.05	2,368,421.05	11,842,105.25
April 1, 1996	2,572,105.26	203,684.21	2,368,421.05	9,473,684.20
April 1, 1997	2,531,368.42	162,947.37	2,368,421.05	7,105,263.15
April 1, 1998	2,490,631.58	122,210.53	2,368,421.05	4,736,842.10
April 1, 1999	2,449,894.73	81,473.68	2,368,421.05	2,368,421.05
April 1, 2000	2,409,157.89	40,736.84	2,368,421.05	-0-
Total	57,578,926.99	12,578,926.99	45,000,000.00	

^{1/} Interest is computed from last due date of individual loan to March 31, 1975 at contractual interest rate on total amount rescheduled.

April, 1975

APPENDIX C

LETTERS TO CONGRESS ON CHILEAN RESCHEDULING

March 13, 1975

Honorable Thomas E. 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.

The purpose of this letter is to advise you that the United States Government will be participating in a meeting requested by Chile on March 24 and 25 as a member of a group of creditor nations (the "Paris Club") to consider rescheduling certain amounts of Chile's public external debt due in 1975.

Chile previously sought and received rescheduling through the Paris Club of its public external debt in 1930, 1965, 1972 and 1974. Relevant documentation and background information concerning the two latter cases were submitted to the Congress under the terms of the Case Act. In both the 1972 and 1974 reschedulings, the creditors insisted that Chile enter into an economic stabilization program, preferably under the auspices of the International Monetary Fund (IMF). This "stand-by arrangement" with the IMF was made in conjunction with the 1974 rescheduling and is being repeated in 1975.

The current Chilean economic situation is such that the IMF is again recommending a rescheduling of Chile's debts. Given the status of their economy, the choices to the creditors are either to reschedule

or accept default. In spite of the stabilization measures adopted in 1974, Chile's 1975 economic prospects are poor largely because of external forces: the four-fold increase in the price of oil (Chile imports most of its consumption) and the precipitous drop in the price of copper, which accounts for almost 80 percent of Chile's foreign exchange earnings, to a level less than one-half the price reached in mid-1974. These factors have undermined much of the economic progress made in 1974 and the IMF now predicts that in spite of Chile's best efforts, there will be an extremely large unfinanced balance of payments gap in 1975.

The forum for this meeting, the creditor club, is the traditional multilateral mechanism for debt rescheduling. Its function is to examine a nation's ability to meet its debt service payments and, if it determines that the debtor is temporarily unable to meet its obligations, it may agree to reschedule the debtor country's service payments for the purpose of facilitating future repayments. Judgments for rescheduling are based on financial and other economic criteria and debt rescheduling is not used by the creditor governments for providing development assistance. Debt renegotiations have usually occurred within a multilateral framework, with creditors insisting upon the most favored nation principle to ensure that all creditors share the burden of rescheduling identically. The terms of rescheduling have in the past varied, depending on the composition and structure of the debt to be rescheduled and on the economic circumstances and prospects of the debtor country. Since Chile's 1975 debt service is heavily weighted by non-concessional borrowings, rescheduling terms are likely to be established on a near commercial basis.

Should a multilateral agreement setting parameters for rescheduling be concluded, creditor nations negotiate bilaterally with the debtor to establish final terms, including interest rates and, depending upon the specificity of the Paris Club Agreement, perhaps also some details of the repayment schedule. The United States creditor agency involved which extended loans authorized by the Foreign Assistance Act is the Agency for International Development (which is owed approximately \$16.1 million in 1975, not all of which will be eligible for rescheduling in the Paris Club). The Department of

Agriculture (\$24.9 million), the Export-Import Bank (\$45.3 million) and the Overseas Private Investment Corporation (\$8.7 million) will also be included. This does not include previously rescheduled debt, which will not be further rescheduled. The portion of debt due these United States agencies to be rescheduled, if any, will be determined by the terms of the Paris Club Agreement.

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

Sincerely,

Robert J. McCloskey
Assistant Secretary
for Congressional Relations

March 13, 1975

Honorable John J. Sparkman, 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.

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Chile previously sought and received rescheduling through the Paris Club of its public external debt in 1930, 1965, 1972 and 1974. Relevant documentation and background information concerning the two latter cases were submitted to the Congress under the terms of the Case Act. In both the 1972 and 1974 reschedulings, the creditors insisted that Chile enter into an economic stabilization program, preferably under the auspices of the International Monetary Fund (IMF). This "stand-by arrangement" with the IMF was made in conjunction with the 1974 rescheduling and is being repeated in 1975.

The current Chilean economic situation is such that the IMF is again recommending a rescheduling of Chile's debts. Given the status of their economy, the choices to the creditors are either to reschedule

or accept default. In spite of the stabilization measures adopted in 1974, Chile's 1975 economic prospects are poor largely because of external forces: the four-fold increase in the price of oil (Chile imports most of its consumption) and the precipitous drop in the price of copper, which accounts for almost 80 percent of Chile's foreign exchange earnings, to a level less than one-half the price reached in mid-1974. These factors have undermined much of the economic progress made in 1974 and the IMF now predicts that in spite of Chile's best efforts, there will be an extremely large unfinanced balance of payments gap in 1975.

The forum for this meeting, the creditor club, is the traditional multilateral mechanism for debt rescheduling. Its function is to examine a nation's ability to meet its debt service payments and, if it determines that the debtor is temporarily unable to meet its obligations, it may agree to reschedule the debtor country's service payments for the purpose of facilitating future repayments. Judgments for rescheduling are based on financial and other economic criteria and debt rescheduling is not used by the creditor governments for providing development assistance. Debt renegotiations have usually occurred within a multilateral framework, with creditors insisting upon the most favored nation principle to ensure that all creditors share the burden of rescheduling identically. The terms of rescheduling have in the past varied, depending on the composition and structure of the debt to be rescheduled and on the economic circumstances and prospects of the debtor country. Since Chile's 1975 debt service is heavily weighted by non-concessional borrowings, rescheduling terms are likely to be established on a near commercial basis.

Should a multilateral agreement setting parameters for rescheduling be concluded, creditor nations negotiate bilaterally with the debtor to establish final terms, including interest rates and, depending upon the specificity of the Paris Club Agreement, perhaps also some details of the repayment schedule. The United States creditor agency involved which extended loans authorized by the Foreign Assistance Act is the Agency for International Development (which is owed approximately \$16.1 million in 1975, not all of which will be eligible for rescheduling in the Paris Club). The Department of

Agriculture (\$24.9 million), the Export-Import Bank (\$45.3 million) and the Overseas Private Investment Corporation (\$8.7 million) will also be included. This does not include previously rescheduled debt, which will not be further rescheduled. The portion of debt due these United States agencies to be rescheduled, if any, will be determined by the terms of the Paris Club Agreement.

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

Sincerely,

Robert J. McCloskey
Assistant Secretary
for Congressional Relations

July 29, 1975

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

Dear Mr. Speaker:

Section 4 of the Foreign Disaster Assistance Act of 1974 requires that the Department of State transmit to you in your capacity as Speaker of the House of Representatives and to the Chairman of the Senate Foreign Relations Committee the text of any international agreement proposing a modification in the terms of debt owed to the United States by a foreign government no less than thirty days prior to its entry into force.

To implement this provision the Secretary has asked me to transmit the enclosed bilateral agreement (Attachment A) which will reschedule \$96 million in Chilean debt service falling due to the United States in 1975. On March 13 we advised Chairman Morgan of the Committee on Foreign Affairs (Attachment B) that the United States would be participating in a meeting requested by Chile of a group of creditor nations (the "Paris Club") to consider rescheduling certain amounts of Chile's external debt. This agreement will implement the May 6 multilateral understanding reached among Canada, France, Germany, Japan, Spain, Switzerland and the United States. These seven countries hold more than 80 percent of Chile's debt.

As we noted in our March 13 letter, the current Chilean economic situation is such that the IMF recommended debt rescheduling. The fact that the servicing of foreign debt due in 1975 to creditors would amount to almost one-third the value of projected exports made total settlement of the debts beyond Chile's capacity at least in the present year. Given the weak state of the Chilean economy, the choices open to the creditors

were either to reschedule or to accept default. Cognizant of the unfavorable financial precedent that would be established by default, the creditors determined a re-scheduling to be justified.

Creditors agreed that the maturities to be rescheduled should be limited to those falling due in 1975, and they specifically excluded debt service falling due on loans that had been renegotiated in previous reschedulings. Creditors also agreed that 30 percent of the eligible maturities would be due in the amount of 10 percent in 1975, 10 percent in 1976, and 10 percent in 1977. The remaining 70 percent would be paid in 13 semi-annual installments beginning January 1, 1978. The understanding specified that the Government of Chile would accord to each of the represented creditor countries treatment no less favorable than that which may be accorded to any other country not represented.

The bilateral United States-Chile agreement fully conforms to the multilateral understanding. The debt service to be rescheduled by United States Government lending agencies totals approximately \$96 million; Agency for International Development (\$16.1 million), Commodity Credit Corporation (\$9.5 million) Export-Import Bank (\$58 million), Overseas Private Investment Corporation (\$8.8 million) and PL-480 (\$3.7 million). The interest rate shall be approximately at the weighted average of 6.16 percent per annum.

We believe this agreement to be in the best interest of the United States in that it will maximize the possibility of ultimate repayment of the full amount of the debt. As the world's largest bilateral creditor, we lay great importance on the tradition of treating debt crisis situations such as that being encountered by Chile in accordance within overall creditor financial interests and within the context of traditional multilateral arrangements.

I will be happy to provide you with any additional information on this matter, and will continue to notify

you of all other pertinent developments affecting debts owed to the United States under the Foreign Assistance Act.

Sincerely,

Robert J. McCloskey
Assistant Secretary
for Congressional Relations

Enclosures:
As stated.

July 29, 1975

Honorable John Sparkman, Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C.

Dear Mr. Chairman:

Section 4 of the Foreign Disaster Assistance Act of 1974 requires that the Department of State transmit to you in your capacity as Chairman of the Senate Foreign Relations Committee and to the Speaker of the House of Representatives the text of any international agreement proposing a modification in the terms of debt owed to the United States by a foreign government no less than thirty days prior to its entry into force.

To implement this provision the Secretary has asked me to transmit the enclosed bilateral agreement (Attachment A) which will reschedule \$96 million in Chilean debt service falling due to the United States in 1975. On March 13 we advised you (Attachment B) that the United States would be participating in a meeting requested by Chile of a group of creditor nations (the "Paris Club") to consider rescheduling certain amounts of Chile's external debt. This agreement will implement the May 6 multilateral understanding reached among Canada, France, Germany, Japan, Spain, Switzerland and the United States. These seven countries hold more than 80 percent of Chile's debt.

As we noted in our March 13 letter, the current Chilean economic situation is such that the IMF recommended debt rescheduling. The fact that the servicing of foreign debt due in 1975 to creditors would amount to almost one-third the value of projected exports made total settlement of the debts beyond Chile's capacity at least in the present year. Given the weak state of the Chilean economy, the choices open to the creditors were either to reschedule or to accept default. Cognizant of the unfavorable financial precedent that would be established by default, the creditors determined a rescheduling to be justified.

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The bilateral United States-Chile agreement fully conforms to the multilateral understanding. The debt service to be rescheduled by United States Government lending agencies totals approximately \$96 million; Agency for International Development (\$16.1 million), Commodity Credit Corporation (\$9.5 million), Export-Import Bank (\$52 million), Overseas Private Investment Corporation (\$3.8 million) and PL-480 (\$3.7 million). The interest rate shall be approximately at the weighted average of 6.16 percent per annum.

We believe this agreement to be in the best interest of the United States in that it will maximize the possibility of ultimate repayment of the full amount of the debt. As the world's largest bilateral creditor, we lay great importance on the tradition of treating debt crisis situations such as that being encountered by Chile in accordance within overall creditor financial interests and within the context of traditional multilateral arrangements.

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

Sincerely,

Robert J. McCloskey
Assistant Secretary
for Congressional Relations

APPENDIX D

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 the Agreement

1. In accordance with the provisions of the Understanding reached by representatives of certain creditor nations, including the United States, of the Government of Chile on May 6, 1975 and agreed to by the Government of Chile on May 8, 1975, the Government of the United States of America and the Government of Chile hereby agree 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. The Agreement shall be implemented by separate bilateral agreements between the Agency for International Development, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, the Commodity Credit Corporation, and the United States Government with respect to P. L. 480 Agreements and the Government of Chile.

ARTICLE II

Definitions

For purposes of this Agreement:

1. The term "original agreements" shall refer to those agreements between the Government of the United States, and its agencies, and the Government of Chile, and its agencies, which are listed in Annex A. No prior agreement

regarding the consolidation and rescheduling of Chilean debts concluded between the Government of the United States and its agencies, and the Government of Chile and its agencies is listed.

2. The term "consolidated debt" shall refer to seventy percent (70%) of the sum of dollar principal and interest payments falling due from January 1, 1975, through December 31, 1975, in accordance with the "original agreements," as designated in the separate bilateral agreements referred to in Article I, paragraph 2.

3. The term "non-consolidated debt" shall refer to thirty percent (30%) of the sum of dollar principal and interest payments falling due from January 1, 1975 through December 31, 1975, in accordance with the "original agreements," as designated in the separate bilateral agreements referred to in Article I, paragraph 2.

4. The term "consolidation period" shall refer to the period from January 1, 1975 through December 31, 1975.

5. The term "consolidation interest" shall refer to interest on the consolidated debt. The term "non-consolidation interest" shall refer to interest on the non-consolidated debt. Consolidation interest and non-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 or non-consoli-

dated debt.

ARTICLE III

Terms 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 \$67.2 million shall be repaid in 13 equal semi-annual installments on January 1 and July 1 of each year beginning January 1, 1978 and ending January 1, 1984.

(b) The consolidation interest rate shall be at a weighted average of 6.16 percent per annum on the outstanding balance of the consolidated debt. All interest shall accrue and be payable as specified in the implementing bilateral agreements referred to in Article I, paragraph 2.

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

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

(a) The non-consolidated debt amounting to \$28.8 million shall be repaid in accordance with the following schedule:

(1) Thirty-three and one third percent

(33-1/3%) in 1975.

(2) Thirty-three and one third percent
(33-1/3%) in 1976.

(3) The balance of thirty-three and one
third percent (33-1/3%) in 1977.

Payments shall be made pursuant to the repayment terms specified in the implementing bilateral agreements referred to in Article I, paragraph 2.

(b) The weighted average of the non-consolidation interest rate shall be 6.16 percent per annum on the outstanding balance of the non-consolidated debt. All interest shall accrue and be payable as specified in the implementing bilateral agreements referred to in Article I, paragraph 2.

(c) A table summarizing the amounts of the non-consolidated debt owed to the United States Government and each Agency 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 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.

2. The provisions of paragraph 1 above 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 SDRs 1 million.

3. The Government of the United States and the Government of Chile agree that the interest rates provided in this Agreement may be reviewed and appropriately revised if the weighted average of 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 weighted average of the interest rates provided for in this agreement. 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 Agreement, up to the weighted average of interest rates resulting from agreements between the Government of Chile and other creditors on comparable debts.

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

ARTICLE V

Entry into Force

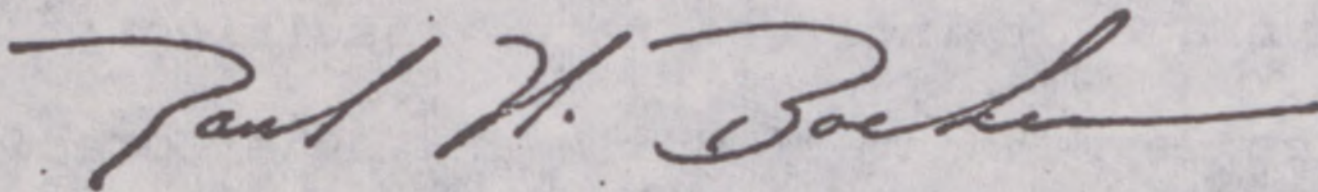
1. This Agreement will enter into force when the Government of the United States notifies the Government of Chile in writing that domestic United States laws and regula-

tions covering debt rescheduling have been complied with.

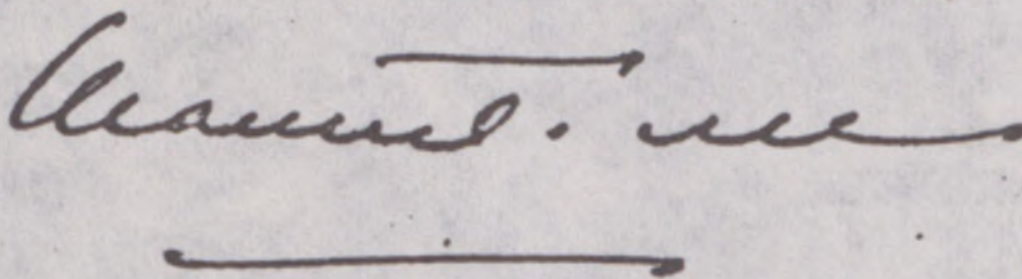
2. The Government of the United States of America shall be represented by the Honorable Paul H. Boeker and the Government of the Republic of Chile shall be represented by His Excellency, Manuel Trucco, Ambassador of Chile in the United States, who also represented the Autonomous Fund for Amortization of the Public Debt. The Fund is authorized by its charter to act on behalf of the Government of Chile and debtor corporations in concluding agreements with creditors.

DONE at Washington in duplicate this third day of July, 1975.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:



FOR THE GOVERNMENT OF CHILÉ:



ANNEX A

LOAN AGREEMENTS SUBJECT TO RESCHEDULINGAgency for International Developmentunder 40 years

513-B002
513-G003
513-A006
513-M011
513-L026

40 years

513-L017
513-L018
513-L019
513-L020
513-L021
513-L022
513-L023
513-L024
513-L025
513-L028
513-L030
513-L031
513-L033
513-L034
513-L036
513-L037
513-L040
513-L041

Commodity Credit Corporation (GSM-4)GSM Numbers

12011
12013
12014
12015

Export-Import BankDIRECT CREDITSCredit
No.

808
1172
1299
1340
2139
2187
2221
2381
2382
2383
2390
2393
2416
2418
2435
2436
2437
2471
2486
2551
2601
2609

EXPORTER CREDITSGUARANTEESGuarantee
No.

G-6-166
G-7-54
G-10-219
G-10-245
OG-12-215
G-20-5
G-21-30
G-40-256
G-40-271
G-40-283
G-41-18
G-45-49

G-47-359
G-50-239
G-50-240
G-50-245
G-50-265
G-50-269
G-56-9
G-138-9
G-161-3

EXPORTER CREDITSINSURANCEPolicy
No.

MT-4756	MT-6648
MT-5485	MT-6719
MT-0-5644	MT-6746
MT-6032	MT-6782
MT-6249	MT-6785
MT-6290	MT-6820
MT-6291	MT-6891
MT-6325	MT-0-6921
MT-6384	MT-7825
MT-6405	MT-8055
MT-6444	MT-8056
MT-6460	MT-8058
MT-6480	MT-8059
MT-6584	MT-8060
MT-6596	

OVERSEAS PRIVATE INVESTMENT CORPORATION

Series A Promissory Notes issued by Sociedad Minera El Teniente, S.A. to Braden Copper Company and guaranteed by the Republic of Chile pursuant to instruments of guarantee dated as of May 4, 1967.

P.L. 480

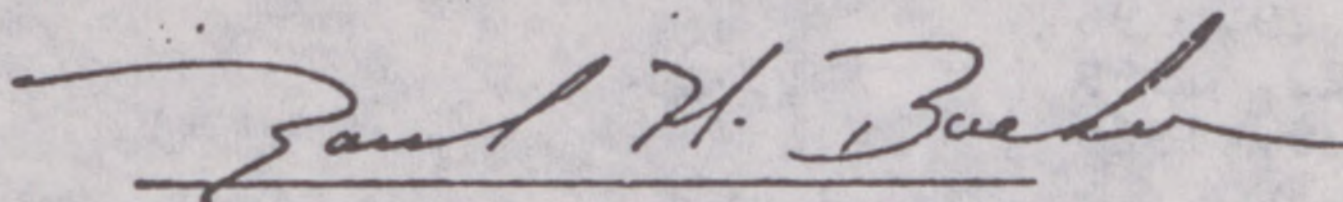
Agreements dated:

August 7, 1962
 December 29, 1967
 A - January 23, 1969
 January 29, 1969

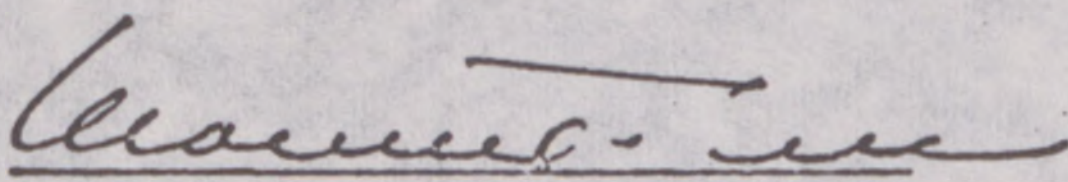
During the negotiation of the Agreement Between the Government of the United States and the Government of Chile Regarding the Consolidation and Rescheduling of Certain Debts Owed to, Guaranteed or Insured by the United States Government and its Agencies signed today, it was agreed, with respect to Article III of that Agreement, that the particular interest rates (resulting in a weighted average of 6.16 percent) shall be as follows:

a) seven percent (7%) per annum on the outstanding balance of the consolidated and non-consolidated debt due to Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the Commodity Credit Corporation and

b) three percent (3%) per annum on the outstanding balance of the consolidated and non-consolidated debt due to the Agency for International Development, and to the United States Government with respect to P.L. 480 Agreements.



FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA



FOR THE GOVERNMENT OF CHILE

ANNEX B

SUMMARY OF CONSOLIDATED DEBT*
(Millions of Dollars)

Agency for International Development	11.3
Commodity Credit Corporation	6.6
Export-Import Bank	40.6
Overseas Private Investment Corporation	6.2
PL-480	<u>2.6</u>
TOTAL	67.2

*Totals do not add up due to rounding and are subject to revision per Article III, Paragraph 3

ANNEX C

SUMMARY OF NON-CONSOLIDATED DEBT*
(Millions of Dollars)

Agency for International Development	4.8
Commodity Credit Corporation	2.9
Export-Import Bank	17.4
Overseas Private Investment Corporation	2.6
PL-480	<u>1.1</u>
TOTAL	28.8

*Totals are rounded and subject to revision per Article III, Paragraph 3

