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External Debt Histories of Ten Low-Income Developing Countries: Lessons from Their Experience

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Abstract

The external debt burden of many low-income developing countries has increased significantly since the 1970s. Developments in a sample of ten countries show that the main factors behind the buildup of debt were (1) exogenous (adverse terms of trade shocks or weather), (2) a lack of sustained macroeconomic adjustment and structural reforms, (3) nonconcessional lending and refinancing policies of creditors, (4) inadequate debt management, and (5) political factors (civil war and social strife). Future policies should limit the need for external financing and create an environment conducive to diversifying export growth, managing debt more prudently, and basing economic projections on more cautious assumptions.

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Contents

Summary

The external debt burden of many low-income developing countries has increased significantly since the 1970s. An analysis of developments in a sample of ten countries shows the main factors behind the buildup of debt to be a combination of (1) exogenous shocks, such as adverse terms of trade or bad weather, which particularly affected countries with a concentration of exports in a single or very few products; (2) a lack of sustained macroeconomic adjustment policies and structural reforms, which obstructed a strong policy response to such shocks; (3) lending and refinancing by creditors that was initially predominantly on nonconcessional terms, but since the 1980s has increasingly been shifted toward concessional assistance and grants; (4) a widespread lack of prudent debt management by borrowing countries; and (5) political factors in these countries, such as civil war and social strife that often had devastating economic consequences.

Several lessons can be drawn from the experience of these countries for future adjustment and their external debt strategies, and for poor countries and creditors more generally. First, strong and sustained implementation of sound macroeconomic and structural adjustment policies, particularly in response to exogenous shocks, was crucial in limiting the need for financing, especially of the public sector, and in creating an environment conducive to export growth. Second, a diversified export base, with limited reliance on commodities that are subject to large price swings, was important in reducing the vulnerability of export receipts to commodity price shocks. Third, the lack of a prudent debt management strategy created difficulties in many cases. And fourth, more cautious assumptions with regard to debt-servicing capacity may have limited the amount of loan financing and encouraged more adjustment.

I. INTRODUCTION

This paper assesses the main factors behind the increase in the external debt burden in the past twenty years[2] for 10 low-income developing countries with high external debt (Bolivia, Cameroon, Democratic Republic of the Congo, Côte d'Ivoire, Ghana, Kenya, Nicaragua, Niger, Uganda, and Zambia) and attempts to draw some lessons from their experience. This sample of countries was selected to represent a cross-section of the 41 heavily indebted poor countries (HIPCs)[3] covered in the analysis that led to the adoption in the fall of 1996 of the HIPC Initiative.[4] This varied sample includes countries with high external debt burdens (Democratic Republic of the Congo, Nicaragua) and with more sound debt management (Ghana, Kenya), countries with a high fiscal burden of debt (Niger, Cameroon) or a relatively low one (Bolivia, Kenya), countries with a highly concentrated export base and thus vulnerable to commodity price shocks (Uganda, Niger, Zambia), or with less of an export concentration (Bolivia, Côte d'Ivoire, Kenya), or countries with significant debt to private creditors (Cameroon, Côte d'Ivoire).

Section II briefly analyzes the evolution of the debt burden over the period 1976–95, using data from the World Bank Debtor Reporting System (DRS) and IMF Staff Reports. Section III discusses the common factors behind the increase in the debt burden for these cases, while Section IV draws some lessons from the experience of these countries. Summaries of the main factors behind the increase in the debt-burden for each of the ten countries and a more in-depth analysis of the debt burden indicators, the composition of debt and new financing, and the factors behind the increase in the debt burden are presented for each case in Appendix I–X.[5]

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[2]At the time of writing, DRS debt data were available only through 1995. The debt situation of some countries, e.g., Cameroon, may have improved somewhat since then, reflecting in part higher export receipts from oil exports with the increase in world market prices in 1996–97.

[3]These 41 developing countries included 32 countries classified by the World Bank as severely indebted low-income countries (i.e., with a 1993 GNP per capita of US$695 or less and 1993 present value of debt to export higher than 220 percent or present value of debt to GNP higher than 80 percent) and 9 countries that have received concessional rescheduling from Paris Club creditors or (are potentially eligible for such rescheduling).

[4]For a summary of the HIPC initiative, see Appendix 1 of "Official Financing for Developing Countries," World Economic and Financial Surveys (IMF, Washington, February 1998), or for more background Boote and Thugge, "Debt Relief for Low-Income Countries —The HIPC Initiative," IMF Pamphlet Series #51, 1997 (Revision 1).

[5]Note that DRS data on which this paper is largely based, are subject to a number of short-comings, including at times inconsistent reporting and updating of the figures by debtor

(continued...)

II. EVOLUTION OF THE EXTERNAL DEBT BURDEN

In all cases, the debt burden increased markedly between the late 1970s and the early 1990s (Table 1), which is typical of the wider set of 41 HIPCs. In the late 1970s, the external debt-to-exports[6] ratio in all ten countries was at relatively moderate levels, generally about 200 percent or below (Bolivia was the highest at 260 percent), and for four countries (Cameroon, Ghana, Niger, and Uganda) the ratio was somewhat lower at about 100 percent. However, by the early 1990s the debt-to-exports ratio had increased by at least three or four times in most cases. In the case of Nicaragua, the ratio increased to 2,500 percent in the early 1990s, compared with an average ratio of only 200 percent in the late 1970s, while in Uganda the ratio increased to 1,100 percent. In four other cases (Côte d'Ivoire, Democratic Republic of the Congo, Niger, and Zambia) the ratio exceeded 500 percent by the 1990s. Only in Cameroon, Ghana, and Kenya did the debt-to-exports ratio increase at a more moderate pace (by 1991–95 the ratio had reached about 320 percent for Cameroon, 390 percent for Ghana, and 300 percent for Kenya). In the case of Bolivia, the deterioration in this indicator occurred sooner, reaching a peak of almost 900 percent already in 1987.

In Nicaragua and Uganda, the two cases with the largest increase in the debt-to-exports ratio between the periods 1976–80 and 1991–95, the ratios rose as a result of a large increase in the nominal debt stock (some 600 percent in U.S. dollar terms) combined with a significant fall in exports over the same period (14–18 percent in U.S. dollar terms) (Table 1). Clearly, the external borrowing was not used to enhance effective export capacity. Indeed the need for borrowing and rescheduling to support adjustment efforts arose in part due to the weak export performance. In the case of Kenya, which experienced one of the smallest increases in the debt-to-exports ratio between the periods 1976–80 and 1991–95, its relative success in limiting the increase in the debt burden reflected its success in achieving high export growth in parallel with substantive borrowing. Kenya's debt stock increased by 215 percent between the periods 1976–80 and 1991–95, which was a larger increase than for Democratic Republic of the Congo and Zambia, yet Kenya achieved export growth of about 55 percent in U.S. dollar terms over the same period (the second strongest growth of the ten cases), which was the key factor in containing the debt burden to manageable levels. In the case of Bolivia, the deterioration of the debt-to-exports ratio occurred earlier—between 1976 and 1987 (a more than fourfold increase); it was due to the accumulation of debt, which grew by 450 percent, while exports, after a rapid rise through 1980, declined to close to the initial level.

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[5](...continued)
countries. It is, however, the only source available of longer time series data on debt flows and stocks.

[6] The debt-to-exports ratio is defined as total external debt (including short-, medium-, and long-term debt and non-publicly guaranteed debt) in nominal U.S. dollar terms relative to exports of goods and services in U.S. dollars.

The present value of debt-to-exports ratios were lower than the nominal debt-to-exports ratios in most cases in the early 1990s[7] because a significant share of debt was on concessional terms (Table 1, right-hand column). Given that the share of debt on concessional terms increased over time, the present value of debt-to-exports ratios would not have increased as quickly as the nominal debt-to-exports ratios, though lack of available data for the present value of debt for the period before 1991 makes the extent of this change difficult to judge. Nonetheless, the present value of debt-to-exports ratios were still above 220 percent in 1991–95 for half of the ten countries and despite the sizeable share of concessional debt[8]; the grant element of external debt outstanding averaged 50 percent or less for five of the ten cases.

III. FACTORS BEHIND THE INCREASE IN THE EXTERNAL DEBT BURDEN

The factors behind the increase in the external debt burden in the ten cases covered in the study are varied and interrelated. In most cases, no single factor was responsible. Rather, it was a combination of factors that led to the increase in the debt, and these included: (1) exogenous factors, such as adverse terms-of-trade shocks and, to a lesser extent, adverse weather conditions; (2) the lack of sustained adjustment policies, particularly when facing exogenous shocks, which gave rise to sizeable financing needs and failed to strengthen the capacity to service debt; this includes inadequate progress in most cases with structural reforms that would promote sustainable growth of output and exports; (3) the lending and refinancing policies of creditors, particularly lending on commercial terms with short repayment periods by many creditors in the late 1970s and early 1980s and non-concessional rescheduling terms for most of the 1980s; (4) the lack of prudent debt management by debtor countries, driven in part by excessive optimism by creditors and debtors about the prospects for increasing export earnings and thereby building debt-servicing capacity; (5) lack of careful management of the currency composition of debt; and (6) political factors, such as civil war and strife.

All ten cases suffered adverse terms-of-trade shocks of varying magnitudes over the period 1975–95, but those countries with the least diversified export bases were hardest hit, particularly Niger, Uganda, and Zambia which obtained more than 80 percent of their exports from a single commodity in the early 1980s (Table 2). Uganda, which had the most concentrated export base with 99 percent of its exports from coffee in the early 1980s, lost almost half its export earnings as a result of the slump in world coffee prices in 1987–93, which had a devastating impact on its capacity to service debt. These coffee price shocks, as well as the slump in world prices for cocoa in the early 1980s and late 1980s–early 1990s, also severely affected Côte d'Ivoire, albeit it had a more diversified export base; yet coffee was still the most important export item, accounting for one-third of all export receipts. Niger, which

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[7]Data for the present value of debt is not available from the World Bank DRS prior to 1991.

[8]As defined by the OECD/DAC: based on a grant element of at least 25 percent using a discount rate of 10 percent for all currencies.

in 1980 obtained about 80 percent of its exports from uranium, borrowed heavily during the uranium boom years of 1978–81 on the strength of its uranium prospects. However, in the early 1980s the world price of uranium fell sharply which led to cutbacks in uranium production and exports were considerably lower than expected. As a result, Niger was not able to meet its debt-servicing obligations in the 1980s. In Zambia, the initial debt-servicing problems stemmed from the fall in copper prices in the early 1980s, which increased financing needs and adversely affected its debt-servicing capacity. All three countries have required successive and increasingly comprehensive Paris Club reschedulings since the early 1980s.

While Ghana was not as vulnerable to commodity price shocks as Niger, Uganda or Zambia, it nonetheless relied on cocoa for about 60 percent of its export earnings and was hit by a fall in cocoa prices in the early 1980s which sharply increased the burden of its debt. In the case of Cameroon, one cause of excessive debt accumulation and the consequent debt-servicing problems was a disproportionate dependence on oil exports (60 percent of export receipts in the early 1980s) and overly optimistic world oil price projections. The main terms-of-trade shock experienced by Cameroon was the drop in oil prices in 1986; the earner oil boom in the early 1980s helped mitigate the impact of lower prices for basic commodities such as cocoa and coffee. Bolivia's export earnings were heavily concentrated in two products, tin and natural gas, which in the early 1980s accounted for more than three-fourths of export receipts, but by 1987, the export prices of these products had fallen sharply, in the case of tin by more than 60 percent. Other countries that had more diversified export bases, such as Democratic Republic of the Congo and Kenya, did not suffer as much from commodity price shocks.

The strength of the policy response to the terms-of-trade shocks was a key determinant of whether these shocks had a lasting impact on the debt burden of the country concerned. Although Uganda was hit by a severe terms-of-trade shock that persisted for 5–6 years with coffee prices at historical lows, the strong and sustained record of policy implementation from 1986 onwards enabled it to achieve impressive growth in exports in the early 1990s, as well as a measure of diversification which should lessen its vulnerability to future shocks. Also, its debt-servicing capacity was enhanced by a recovery in coffee prices in 1993/94. In Ghana, its reasonably good record of policy implementation (including exchange and trade liberalization) for several years following the slump in cocoa prices in the early 1980s was an important factor in achieving strong growth in exports from 1983 onwards, and the debt burden was kept at manageable levels, despite slippages in policy implementation in 1992–94 and a further decline in cocoa prices in the late 1980s. Kenya also strengthened its debt-servicing capacity by encouraging broad-based export growth through reform of its exchange and trade regime, although it had a mixed record of reform in other areas and suffered policy slippages in the early 1990s that adversely affected financing needs and the pace of export growth. Ghana and Kenya both avoided the need for rescheduling during the 1980s. In the case of Bolivia, the deterioration in the terms of trade in the early 1980s and later in the mid-1980s had a profound impact on the fiscal position, which was heavily dependent on taxes and transfers from the gas and tin sectors. Since mid-1980s, Bolivia has implemented strong adjustment and structural reform programs, which resulted in export diversification and improvements in debt-servicing capacity.

However, in Cameroon, Côte d'Ivoire, Niger, and Zambia the policy response to the initial commodity price shocks in the early 1980s was inadequate, and exports and debt-servicing capacity stagnated thereafter. In the case of the CFAF zone countries in the sample (Côte d'Ivoire, Cameroon, and Niger), this partly reflected the rigid exchange rate regime, as the fixed parity of the CFA franc prevented any nominal adjustment of the exchange rate (pending a realignment) to adverse movements in the terms-of-trade. In addition, beginning in 1985, the CFA franc became increasingly overvalued as the French franc, to which it is pegged, appreciated considerably against the U.S. dollar with the resultant dampening of export growth in the CFAF zone.

In many cases where a commodity price shock adversely affected a country's debt-servicing capacity, the countries sought support from the IMF and the rest of the international community. Where IMF-supported programs were implemented, creditors provided significant support in the form of new finance and rescheduling. However, before the mid-1980s a large share of this support was in the form of nonconcessional loans, particularly from the IMF, IBRD, and multilateral development banks. This support was often based on the premise that the country would achieve reasonably strong growth in exports as a result of its adjustment efforts and the assumption of a recovery in commodity prices, both of which would strengthen the country's capacity to service such debt. However, in many cases one or both of these assumptions did not materialize, notwithstanding the consistency of the commodity price projections with views broadly held among the economic community at the time, which ex post turned out to be forecasting errors.[9] For instance, following a slump in copper prices in the early 1980s, Zambia in 1983 negotiated an arrangement supported under the Extended Fund Facility (EFF) which assumed a 45 percent increase in copper prices over four years. In the event, copper prices fell over this period by about 12 percent, leaving Zambia with a considerably higher level of mainly nonconcessional debt and a lower-than-expected payments capacity. At the same time, the authorities' policy response was inadequate.

In most of the cases, optimistic export-growth projections, which were normally based on the assumption of full implementation of reform programs, contributed to excessive

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[9]It should be noted that the commodity price projections used in IMF programs were generally consistent with projections used widely in the World Bank and the IMF (particularly for the Compensatory and Contingency Financing Facility) at that time. The projections prepared in the early 1980s assumed a higher rate of world inflation, particularly U.S. dollar inflation, than actually occurred (and therefore the nominal price projections did not fully materialize). Furthermore, most projections assumed some recovery in the real level of commodity prices. These turned out to be forecasting errors as in many cases real commodity prices fell further in the late 1980s, particularly cocoa and coffee prices. For an analysis of forecasting errors in the IMF's World Economic Outlook exercise, see Artis, Michael J., 1996, "How Accurate are the IMF's Short-Term Forecasts? Another Examination of the World Economic Outlook," IMF Working Paper 96/89 (Washington: International Monetary Fund).

borrowing, both on concessional and nonconcessional terms.[10] This borrowing was often consistent with IMF arrangements.

In many cases the bulk of new loan financing was from multilaterals, particularly where debt-service problems arose and private creditors no longer viewed the country as creditworthy. The new financing from multilaterals was increasingly on concessional terms, particularly as over time all ten countries became eligible for financing from the Structural Adjustment Facility (SAF) established by the IMF in 1986 and the Enhanced Structural Adjustment Facility (ESAF) established in 1987[11], and from the International Development Association (IDA), with all ten cases categorized as IDA-only by the early 1990s.[12] [13] In contrast, in Bolivia the share of nonconcessional disbursements from multilateral organizations remained at about 50 percent over the 1986–95 period.

However, while the new financing in the late 1980s was on more concessional terms than in the early and mid-1980s, in some cases such lending was nevertheless inconsistent with their debt-servicing capacity, particularly for the countries that faced already very high debt-to-export and debt-service ratios in the mid-1980s (e.g., Bolivia, Nicaragua, Uganda, and Zambia). In this period, most bilateral creditors and donors recognized that these countries lacked the capacity to service debt and moved to provide financing in the form of grants, and from the late 1980s provided sizeable amounts of debt reduction and relief. The earlier nonconcessional reschedulings granted by external creditors actually contributed to an increase in the debt stock to the extent that interest payments were capitalized. This changed sharply with the adoption by the Paris Club of concessional rescheduling terms in 1988. A number of countries completed private debt buy-back operations at substantial discounts to face value. At the same time, multilaterals were fulfilling a key role of providing balance of payments and development financing in support of adjustment programs in the form of loans.

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[10]See "Sources of Debt Accumulated in a Small Open Economy", IMF WP/97/146, which shows that an optimistic view of policy makers is compatible with rational behavior and can generate persistent overborrowing.

[11]The SAF and ESAF lending is in SDRs with 0.5 percent interest rate, 10 year maturity, 5½ years' grace; assuming as a discount rate a market interest rate of 6 percent results in a grant element of about 40 percent.

[12]IDA terms are: 0.75 interest rate, 40-year maturity, 10 years' grace. IDA loans carry a grant element of about 70 percent, using a discount rate of 6 percent.

[13]Until 1990, Côte d'Ivoire could only borrow nonconcessional terms from the IBRD; it gained access to concessional funding as a blend country in 1991–93, and was declared IDA-only following the CFAF devaluation in 1994; it became ESAF-eligible in 1992. Similarly, Nicaragua became ESAF-eligible in 1992 and Cameroon in 1994.

The lack of sustained implementation of sound macroeconomic and structural policies was a particular problem in Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, Nicaragua, and Zambia, and to a lesser extent Kenya and Niger. In the case of Cameroon, the first three adjustment programs supported by the IMF and the World Bank over 1988–95 period were abandoned due to serious policy slippages. In the Democratic Republic of the Congo, the poor track record of policy implementation failed to limit the financing needs and encourage export growth. This, coupled with the poor management of public enterprises (particularly the state-owned copper mine, GECAMINES), contributed to the collapse of export earnings in the early 1990s. In Côte d'Ivoire, delays in the adoption of adjustment policies and a poor track record of policy implementation contributed to the buildup of the debt burden. In Nicaragua, lack of fiscal and monetary policy discipline in the 1980s led to severe imbalances and the resultant hyperinflation and appreciation of the real exchange rate damaged the competitiveness of the export sector. In Zambia, the authorities' response to a fall in export earnings that resulted from a slump in copper prices in the early 1980s was inadequate to encourage export growth and to limit the financing needs, as adjustment programs supported by the IMF in the 1980s had a mixed record on policy implementation. In Niger, a series of IMF-supported programs were adopted but there was a mixed record of implementation, with periods of strong performance interspersed with periods of weak performance when external imbalances worsened the debt problem.

In a wider sense, sound policies also include the efficient use of borrowed resources. The financing of inefficient public investments, e.g., import-substitution industrialization, also contributed to the build-up of burdensome external debt and hindered the development of a dynamic, export-oriented private sector. A detailed analysis of these factors, however, is beyond the scope of this paper.

Civil strife was a major factor affecting the debt burden in Nicaragua and Uganda, and to a lesser extent in the Democratic Republic of the Congo and Niger. In Nicaragua, the armed conflict throughout the 1980s eroded the export base and led to a very large build-up of external debt to finance both military and non-military imports. In Uganda, civil strife in the 1970s and early 1980s destroyed the country's infrastructure and left large areas of fertile land uncultivated. As a result, by the mid-1980s, non-coffee exports were virtually nonexistent.

Exchange rate changes among major currencies also contributed to the increase in the debt burden depending on the currency composition of debt. Most countries did not appear to consider the currency composition of debt an important factor in the management of their external debt. Hence, little emphasis was placed on matching the currency composition of debt with the currency in which export earnings were determined.[14] For instance, Zambia, where only a relatively small proportion of debt was denominated in U.S. dollars, experienced a significant increase in external debt in U.S. dollar terms as a result of the depreciation of the U.S. dollar over the period 1985–89.

IV. LESSONS FROM THE EXPERIENCE OF THE TEN COUNTRIES

The experience of the ten cases covered here suggests some important lessons for the future adjustment and external debt strategies for these countries, and poor countries and creditors more generally:

(1) *Strong and sustained implementation of sound macroeconomic and structural adjustment policies, particularly in response to exogenous shocks, was crucial in limiting the need for financing, especially of the public sector, and in creating an environment conducive to export growth.* Bolivia's export earnings doubled between 1987 and 1995, notwithstanding a sharp deterioration in the export price of gas in the early 1990s, reflecting a successful diversification of the export base. Uganda and Ghana were more successful than the other countries in adjusting to sizeable terms-of-trade shocks by achieving some export growth as a result of sound policy implementation over an extended period. Exchange and trade liberalization in these countries, supported by tight financial policies, appeared to be key ingredients in achieving export growth. On the other hand, those countries that failed to put in place a sustained record of strong policies throughout the period 1975–94 (Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, Niger, Nicaragua, and Zambia,) failed to encourage the broad-based growth in exports that would have strengthened their debt-servicing capacity, and also reduced their financing needs.

(2) *A diversified export base, with limited reliance on commodities that are subject to large price swings, was important in reducing the vulnerability of export receipts to commodity price shocks.* This is illustrated by Kenya's success in the face of terms-of-trade shocks, which was mainly due to its already reasonably well diversified export base, and the export growth and increased diversification achieved over the past 20 years, particularly following fundamental reform of the exchange and trade regime. Uganda and Ghana, as well as Bolivia and Nicaragua, were also successful in reducing their vulnerability to future shocks by achieving some diversification of their export base.

(3) *The lack of a prudent debt management strategy created difficulties in many cases.* This is illustrated by the problems faced by several countries (particularly Bolivia,

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[14]The currency of denomination of export earnings is not necessarily relevant in this analysis. For instance, if copper prices are denominated in U.S. dollars but not influenced in a significant way by demand and supply factors in the United States economy, a depreciation of the U.S. dollar would simply be reflected by an increase in the price of copper in U.S. dollars (and the price in, say, Deutsche Marks would remain unchanged).

Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, Niger, Nicaragua, and Zambia) as a result of sizeable borrowing on nonconcessional terms with relatively short maturities in the late 1970s and early 1980s—often from private sources. A more prudent approach to debt management and risk assessment from both debtors and creditors is necessary to avoid a recurrence of such difficulties, with an emphasis on only contracting loans on highly concessional terms, and with more emphasis on the use to which the resources are put.[15] In many cases the build-up of debt resulted from concessional borrowing from multilaterals rather than from nonconcessional borrowing. In the cases that already faced a heavy debt burden (particularly Bolivia, Nicaragua, and Uganda), the concessionality of new financing was not sufficiently high. This suggests that a more prudent debt strategy should be followed, including taking greater care to assess the most appropriate currency composition of debt, so as to avoid large cross-currency fluctuations adversely impacting on debt-servicing capacity.

(4) *More cautious assumptions with regard to debt-servicing capacity may have limited the amount of loan financing and encouraged more adjustment.* Given that in many cases sizeable borrowing was based in large part on the assumption of a recovery in export earnings which in the event did not occur, this underlines the need for the projections of debt-servicing capacity to be based on cautious assumptions with regard to future export growth. Also, large increases in commodity prices may have given rise to an inappropriate assessment of a country's permanent capacity to generate income and thus to excessive borrowing. Overall there is a need for more in-depth analysis of the risks that a country faces based on its vulnerability to shocks in a historical experience; this could be shown in alternative projection scenarios.

[15]While it is difficult to define prudent debt management, it should be geared to keeping external obligations at sustainable levels. In the context of the Initiative to Resolve the Debt Problems of the Heavily Indebted Poor Countries (HIPCs), external debt is considered to be sustainable if the NPV of debt to exports is within a range of 200–250 percent or below, and the debt-service ratio is between 20–25 percent or below.

Table 1. External Debt, Export and Debt-to-Export Ratio, 1975-79 to 1990-95

	Total External Debt (In $US millions) Annual averages		Percent Change	Export of Goods & Service (In $US millions) Annual averages		Precent Change	Debt-to-Exports Ratio (In percent) Annual averages		Percent Change	Grant Element of Debt (In percent of total debt)	Net Present Value of Debt (In percent of exports)
	1976-80	1991-95		1976-80	1991-95		1976-80	1991-95		1991-95	1991-95
Bolivia	2,089	4,548	118	792	1,030	30	261	450	72	50	221
Cameroon	1,608	7,860	389	1,316	2,449	86	117	322	176	45	177
Côte d'Ivoire	4,094	18,428	350	2,959	3,638	23	132	513	289	46	275
Congo, Dem. Rep. of	4,072	11,704	187	1,714	1,498	-13	237	798	236	49	400
Ghana	1,147	5,018	337	1,058	1,294	22	107	389	262	55	174
Kenya	2,285	7,204	215	1,594	2,467	55	141	296	110	56	129
Nicaragua	1,466	10,468	614	532	458	-14	205	2,512	1,128	50	1,147
Niger	480	1,592	232	392	308	-21	113	522	360	67	173
Uganda	460	3,133	580	395	326	-18	123	1,126	816	72	274
Zambia	2,626	6,924	164	1,106	1,196	8	243	581	139	75	146

Sources: Global Development Finance, The World Bank, 1997; and WEO, IMF, 1997.

Table 2. Change in Concentration of Exports of Goods

Country	Main Export	Percentage of Total Export	Top Three Exports	Percentage of Total Export
Bolivia				
1975-77	tin	28	tin, hydrocarbon, zinc	60
1990-92	hydrocarbon	22	tin, hydrocarbon, zinc	58
Cameroon				
1981-85	petroleum	64	petroleum, coffee, cocoa	84
1991-95	petroleum	48	petroleum, lumber, cocoa	62
Côte d'Ivoire				
1982-84	cocoa	31	cocoa, coffee, timber	64
1993-95	cocoa	35	cocoa, coffee, timber	56
Congo, Dem. Rep. of				
1980	copper	50	copper, cobalt, crude oil	71
1993-95	diamonds	24	diamonds, crude oil, cobalt	46
Ghana				
1983	cocoa	61	cocoa, gold, residual oil	92
1993-95	gold	43	gold, cocoa, timber	84
Kenya				
1981-83	petroleum products	32	petroleum, coffee, tea	65
1992-94	tea	26	tea, coffee, petroleum products	47
Nicaragua				
1979	coffee	28	coffee, sugar, foodstuff	74
1993-95	coffee	19	coffee, seafood, meat (beef)	46
Niger				
1980	uranium	80	uranium, livestock, cowpeas	74
1993-95	uranium	62	uranium, livestock, cowpeas	86
Uganda				
1981-82	coffee	99	coffee, cotton , tea	100
1994-95	coffee	76	coffee, cotton , tea	78
Zambia				
1984	copper	83	copper, zinc, lead cobalt	98
1993-95	copper	71	copper, cobalt	85

Source: Data provided by country authorities.

Bolivia

Summary

Bolivia's debt-servicing problems emerged in the late 1970s/early 1980s in the face of rapid debt accumulation earlier in the decade and poor economic performance. Reflecting the rapid increase in the debt stock and a protracted deterioration in export performance, in part as a result of large terms-of-trade losses, the debt-to-exports ratio rose steadily from about 200 percent in 1976 to 875 percent in 1987 before declining to about 410 percent in 1995. Similarly, the scheduled debt-service ratio climbed from 20 percent in 1976 to almost 100 percent in the mid-1980s before falling back into the range of 40–50 percent in the 1990s.

A key factor in Bolivia's debt problems was the heavy borrowing on commercial terms by the government and its public enterprises in the 1970s for the exploitation and export development of tin, and natural gas resources. The borrowing was undertaken on the strength of the promising prospects for these commodities, rising commodity prices in world markets and was facilitated by a general expansion in commercial bank credit to the region. However, the collapse of tin and gas prices in the 1980s led to a decline in these exports. As a result, the low returns from these foreign-financed investments did not generate adequate foreign exchange receipts and Bolivia experienced difficulties in servicing the debt. Further, in the early 1980s, to arrest the impact of private sector capital flight the government undertook heavy borrowing for balance of payments support. In addition, the early refinancing agreements with commercial banks, which helped support growing fiscal deficits, proved insufficient to cope with the deteriorating external debt situation.

Severe macroeconomic imbalances in Bolivia in the 1980s culminated in hyperinflation and output declines. An overvalued exchange rate and international reserve losses triggered the rapid accumulation of external payments arrears while private financing was drying up. Reflecting higher international interest rates and continued borrowing from bilateral and multilateral creditors in the context of a stalled economy, Bolivia's debt burden increased. Scheduled debt-service obligations rose dramatically, though actual payments increased more modestly as Bolivia accumulated arrears to both private and official creditors.

In the first half of the 1980s, efforts by the Bolivian authorities to stabilize and restructure the economy attracted financing from multilateral organizations in support of Bolivia's economic reform. Initially economic performance was poor in the face of exogenous shocks and strong domestic opposition to the adjustment program that resulted in stop-and-go policy implementation. In the aftermath of six failed attempts to stabilize the economy, Bolivia remained plagued with severe financial imbalances.

The new government that took office in 1985 adopted a sweeping reorientation of economic policy with IMF support. Follow-up ESAF arrangements underpinned a deepening of structural reforms, the liberalization of prices and continued macroeconomic stabilization. Debt relief from private and Paris Club creditors in 1985–95 improved Bolivia's debt-

servicing capacity and reduced the debt burden on the economy. Although significant progress was made in reducing financial imbalances, Bolivia's external position remained fragile and vulnerable to external developments and the country continues to face a heavy debt burden.

Debt burden indicators

Bolivia's external debt obligations increased rapidly between 1975 and 1987, with a rise in the debt-to-exports ratio from 203 percent in 1976 to 875 percent in 1987 (Chart 1). Several factors underlie the deterioration of this indicator including: (i) sizeable disbursement of medium-term commercial banks loans between 1975 and 1981 to finance tin and hydrocarbons exploitation projects in the public sector; (ii) unprecedented balance of payment support borrowing to arrest the impact of private sector capital flight in the early 1980s; and (iii) slumping export receipts, which after peaking at $1 billion in 1980, continuously declined to $0.6 billion in 1987. By the early 1980s, the expiration of the grace period on the commercial loans coincided with a rise in international interest rate and a deterioration in Bolivia's terms of trade. Not surprisingly, the scheduled debt-service ratio deteriorated very quickly: it had remained at or below 40 percent during the late 1970s (except for 1978), but climbed very rapidly over the next several years to nearly 100 percent (Chart 2). Bolivia was not able to meet its obligations in full, and the initial debt restructuring agreements with commercial banks, in the context of weakening financial policies, turned out to be insufficient to cope with the mounting external debt problem. The scheduled debt-service ratio continued rising reaching 94 percent of exports in 1985.

From 1988 onwards, the debt-to-exports ratio improved through the combined effects of a recovery in export receipts, moderation in external borrowing, and significant debt-reduction operations with commercial banks and some bilateral creditors, and concessional flow reschedulings with other official bilateral creditors. At end-1995, the debt-to-exports ratio stood at about 400 percent while the scheduled debt-service ratio declined to about 40 percent.

Composition of external debt

There were significant shifts in the creditor composition of Bolivia's external debt between 1975 and 1995 with official, in lieu of private, creditors playing an increasingly important role in external financing over the period. In 1975, the share of private creditors in the total debt stock amounted to 34 percent. Debt accumulation through the late 1970s was dominated by new loans from private creditors though this changed significantly by the early 1980s (Table 1). Between 1976 and 1980, 60 percent of long-term disbursements to Bolivia were from private creditors as compared to 26 percent in 1981–85 and 2 percent in 1986–95. Reflecting Bolivia's increased difficulties in tapping private sources of financing after 1982/83 and debt restructuring operations involving large discounts, the share of private creditors plummeted to 1 percent of the total debt stock in 1995. Similarly, short-term debt obligations declined to only 6 percent of total public debt outstanding in 1995 as compared to 16 percent in 1975 (Chart 3).

In 1975, Bolivia's debt obligations to official creditors represented 50 percent of total public and publicly guaranteed debt outstanding with the claims of bilateral creditors accounting for about three-quarters of debt owed to official creditors (Chart 3). By 1995, the share of official creditors had risen rapidly to 93 percent. In particular, lending by multilateral organizations accelerated so that by 1995 multilateral debt accounted for more than half of Bolivia's total public debt outstanding. The share of bilateral credits remained broadly stable at 36 percent.

The share of debt on concessional terms in new financing rose from about 16 percent in 1976–80 to about 58 percent in 1986–90, consistent with the shift from private to official creditors in long-term disbursements (Table 1), and remained high in the 1990s.

Elements of the increase of external debt

Bolivia's total external debt stock rose from $1.3 billion in 1976 to a peak of $5.8 billion in 1987, stood at about $4.1–4.3 billion in 1989–93, and rose again to $5.3 billion by 1995. As noted, the main sources of new financing in 1976–80 were loans from private creditors. However, after the mid-1980s, new financing from multilateral creditors (other than the IMF) contributed significantly to the increase in the debt stock and comprised about 63 percent of new loans in 1986–1995.

Throughout the entire period of analysis, gross loan disbursements from official bilateral creditors remained fairly stable at around $0.1 billion a year. However, over this period there was a significant shift towards concessional financing from about 50 percent of gross bilateral disbursements during the first decade to about 90 percent in the second decade. Furthermore, this shift towards concessional financing was complemented by rising grant disbursements, which increased markedly from $0.8 billion in 1976–85 to $3.8 billion in 1986–95.

Other significant factors affecting the evolution of Bolivia's total debt stock included debt reduction and valuation changes. Between 1989 and 1995, debt reduction amounted to US$1.7 billion as a result of a series of very concessional debt buyback agreements with commercial banks and a non-Paris Club bilateral creditor, mutual stock-of-debt cancellation with Argentina, and concessional reschedulings with Brazil and Paris Club creditors. This was partially offset by increases in the debt stock due to the capitalization of interest ($0.3 billion) and adverse valuation effects ($0.7 billion).[16]

[16]The figure reported in Table 1 for capitalization does not include the amounts covered in debt restructuring operations undertaken with commercial banks during the 1981–85 period because of lack of data. This is one reason for the large residual figure reported for this period.

Factors influencing financing needs and capacity to service debt

The expansionary stance of domestic policies (large public sector deficits), the low productivity of large foreign-financed public investment projects and severe price distortions, including in the foreign exchange market, led to increasingly severe external payments' pressures on Bolivia in the late 1970s and early 1980s. This situation was made worse in the early 1980s by exogenous factors, including a world recession, falling commodity prices (for tin and gas)[17], rising interest rates and adverse weather conditions. In this context, real GDP growth decelerated as of 1976 and remained negative from 1981 to 1985. An overvalued exchange rate and international reserve losses triggered the rapid accumulation of external payments arrears. Moreover, to arrest the impact of private sector capital flight, in the early 1980s the Government borrowed heavily for balance of payments support purposes. Severe macroeconomic imbalances culminated in hyperinflation with a record inflation rate of 23,500 percent (annual basis) in September 1985. The external environment worsened over the next two years as the prices of tin and gas collapsed in 1986/87, which put additional pressure on the stabilization program launched by the authorities in August 1985. Exports, and taxes and transfers from these two sectors had played a critical role in Bolivia's economic performance during the 1980s as they accounted for more than three-fourth of export earnings and half of public sector revenue. Not surprisingly in this context, Bolivia's debt-servicing capacity dwindled.

Political instability accompanied the deteriorating economic situation and frustrated the implementation of credible and consistent adjustment measures. For example, during 1978–83, Bolivia experienced seven military and three civilian governments and twelve finance ministers. Six attempts to stabilize the economy ended in failure, either because key elements in fiscal and wage policy were absent or because implementation was not sustained in the face of strong domestic opposition.

Against this background of political and social instability, coupled with uncertainty over the course of economic policy, traditional sources of external financing to Bolivia were sharply curtailed. At the same time, repayment obligations rose substantially as grace periods expired on loans disbursed during the period of heavy project implementation in the late 1970s. Therefore, to finance the large external payments gaps Bolivia drew down its international reserves and accumulated arrears.

In August 1985, a new government embarked on what is recognized as the most sweeping re-orientation of economic policy. The policy thrust of the Stand-by Arrangement (SBA) and subsequently SAF-supported program encompassed strong fiscal adjustment, restructuring of public enterprises, liberalization of international trade and adoption of an

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[17]Between 1980 and 1986, the world market price of tin declined by more than 60 percent, while the average price of gas exports to Argentina declined by 30 between 1985 and 1987. The export value of these products declined from $0.6 billion in 1980 to $0.3 billion in 1987.

auction-determined exchange rate. The authorities also moved to normalize relations with external creditors and arrears to Paris Club bilateral creditors were rescheduled in 1986.

Notwithstanding the progress made in reducing financial imbalances during 1986–87, Bolivia's external position remained fragile. The economy remained vulnerable to external developments, export receipts continued to decline, and debt-servicing capacity eroded. To transform the economy, the Government adopted a three-year ESAF arrangement in 1988 aimed at further macroeconomic adjustment and broad-based structural reforms. Real GDP growth expanded, export earnings recovered, supported also by favorable external developments, and substantial progress was made in normalizing relations with external creditors and reducing external indebtedness.

The performance under the 1988 ESAF-supported program was generally satisfactory as progress was made in reducing financial imbalances and structural reforms were initiated. However, there were fiscal slippages resulting from expenditure overruns in 1991 and 1992 and delays in the implementation of some structural measures leading to an extension through mid-1992 of the third annual arrangement. However, the authorities adopted corrective actions to bring the program back on track and an additional annual arrangement was approved.[18] As a result of the policies pursued, the rate of inflation was reduced from hyperinflation to single digit levels, significant progress was made toward external viability and real GDP growth was restored.

During the program period, Bolivia benefited from three flow reschedulings by Paris Club creditors, debt forgiveness by selected bilateral creditors and debt-reduction operations with foreign commercial banks. The external debt burden improved substantially but remained high, especially in view of the continued vulnerability of the external sector to adverse shocks. The authorities sought to deepen structural reforms and consolidate macroeconomic gains in the context of a comprehensive policy package supported by a second ESAF arrangement approved in 1994.

Structural reforms combined with sound financial policies and accompanying exceptional financing improved Bolivia's capacity to service its debt. Furthermore, the reforms attracted the return of private capital inflows, though modest, which also helped to finance the balance of payments. By end-1996, the structural reforms of the previous 11 ½ years had removed most of the distortions that affect the economy in the early 1980s. Bolivia also achieved a considerable degree of macroeconomic stability with an improvement in the net international reserve position and a reduction in inflation. Despite progress in restructuring the economy, and several episodes of debt relief granted by foreign creditors—including a concessional stock-of-debt operation by Paris Club creditors in December 1995—Bolivia remains vulnerable to external shocks and continues to face a heavy debt-burden.

[18]From July 1988 to May 1994, Bolivia made all of the drawings available under the ESAF arrangement.

Table 1. Bolivia: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	1,690	2,102	-530	991	4,253	100
Net flows on debt (short- and long-term)	1,523	491	862	1,265	4,140	97
Net flows on long-term debt	1,523	481	992	1,126	4,122	97
Net flows on public sector debt	1,448	506	1,015	1,064	4,032	95
Multilateral (incl. IMF), net	447	257	831	855	2,389	56
Gross disbursements	491	477	1,457	1,510	3,934	93
Non-concessional	315	271	756	774	2,115	18
Concessional	176	206	701	735	1,819	17
Principal repayments	-44	-220	-626	-655	-1,545	-36
Bilateral, net	277	194	253	249	973	23
Gross disbursements	421	437	418	391	1,667	39
Non-concessional	214	248	43	34	539	13
Concessional	207	189	376	357	1,128	27
Principal repayments	-144	-243	-165	-142	-693	-16
Private sector with govt. guarantee, net	724	55	-69	-40	669	16
Gross disbursements	1,280	249	46	29	1,604	38
Principal repayments	-556	-195	-115	-69	-935	-22
Net flows on private sector debt (unguaranteed by debtor government)	76	-25	-24	63	90	2
Gross disbursements	119	71	0	145	335	8
Principal repayments	-43	-96	-24	-82	-245	-6
Net flows of short-term debt 1/	...	10	-130	138	18	0
Net change in interest arrears 2/	...	...	-101	14	-87	-2
Interest capitalized 2/	...	...	115	194	308	7
Debt forgiveness or reduction 2/	...	...	-958	-786	-1,744	-41
Valuation changes 3/	38	-116	497	240	659	15
Residual	128	1,727	-944	65	977	23
Memorandum items:						
Grants	301	498	1,248	2,547	4,594	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	-247	540	-252	41	...

Source: Global Development Finance, World Bank, 1997.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Bolivia: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995
Arrears to official creditors	16.9	242.4	11	27.7
Principal	14.9	170.8	8.8	20.7
Interest	2.0	71.6	2.2	7.0
Arrears to private creditors	7.3	648.9	26.2	32.4
Principal	6.8	411.5	22.1	19.1
Interest	0.5	237.4	4.1	13.3

Source: World Bank DRS.

Table 3. Bolivia: Overview of Rescheduling of Official Bilateral Debt, 1976-96

Number of Rescheduling	Date of Agreement	Amount Consolidated 1/ (In millions of U.S. dollars)	Consolidation Period (In months)	Terms: Grace (In years)	Terms: Maturity (In years)
I	6/25/86	449.0	12.0	6.0	9.5
II	11/14/88	226.0	15.0	8.2	9.3
III	3/15/90	276.0	24.0	Toronto terms	
IV	1/24/92	65.0	29.0	London terms	
V	3/24/95	482.0	36.0	Naples terms	
VI	12/14/95	881.0	Stock	Naples terms	
Total		2,379.0			

Source: Official Financing for Developing Countries, IMF, 1998.

1/ Includes debt-service formally rescheduled as well as deferred maturities.

Table 4. Bolivia: Chronology of IMF Support, 1976-95

Type	Approval Date	Expiration Date	Amount Approved (In SDR millions)	Amount Drawn (In SDR millions)
ESAF	12/19/94	12/18/97	100.96	33.65
ESAF	7/27/88	5/31/94	163.26	163.26
CFF 1/	7/27/88	--	45.28	45.28
SAF	12/15/86	7/26/88	57.59	18.14
CFF 1/	Dec. 86	--	64.10	64.10
Stand-by	6/19/86	7/20/87	50.00	32.70
BSFF	Jun. 82	--	24.47	24.47
CFF 1/	Jun. 83	--	17.90	17.90
Stand-by	Feb. 80	Jan. 81	66.38	53.38
CFF 1/	Jul. 78	--	15.00	15.00

Source: IMF.

1/ Contingency and Compensatory Financing Facility.

Chart 1. Bolivia: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

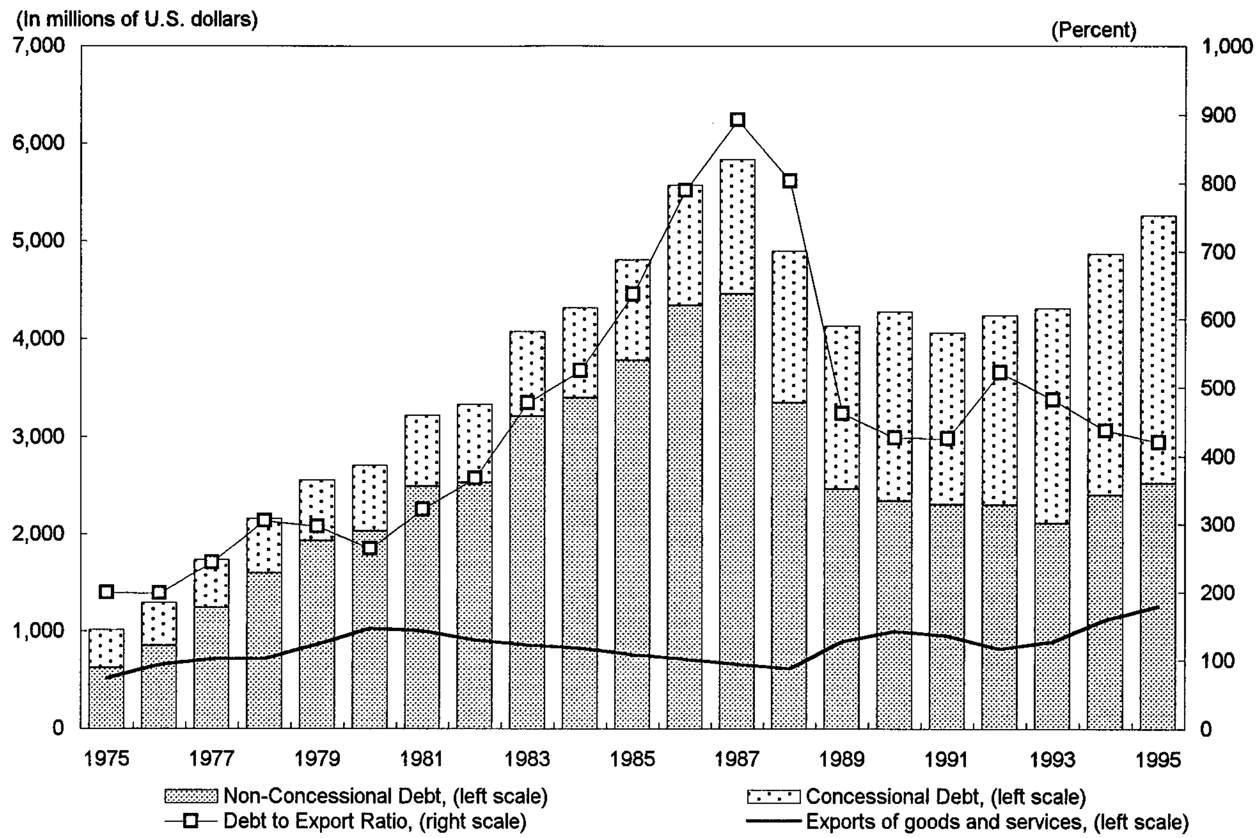
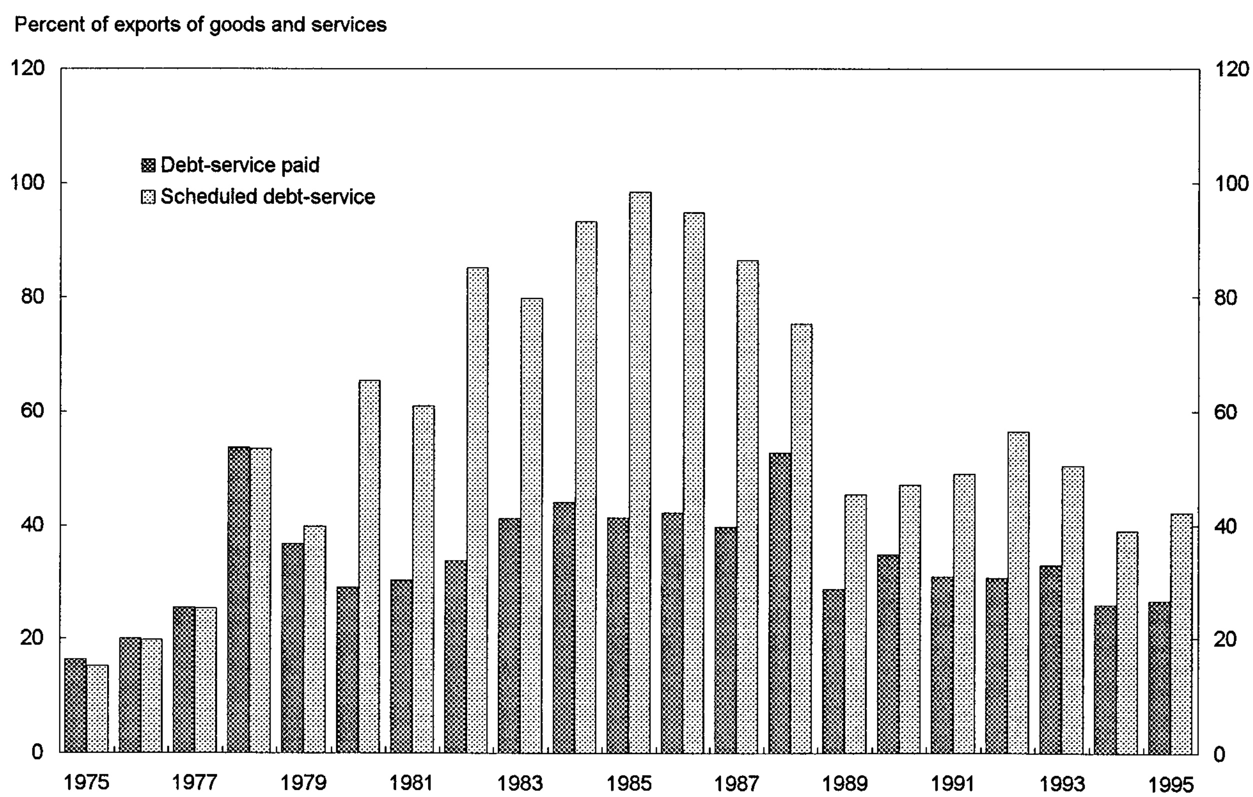
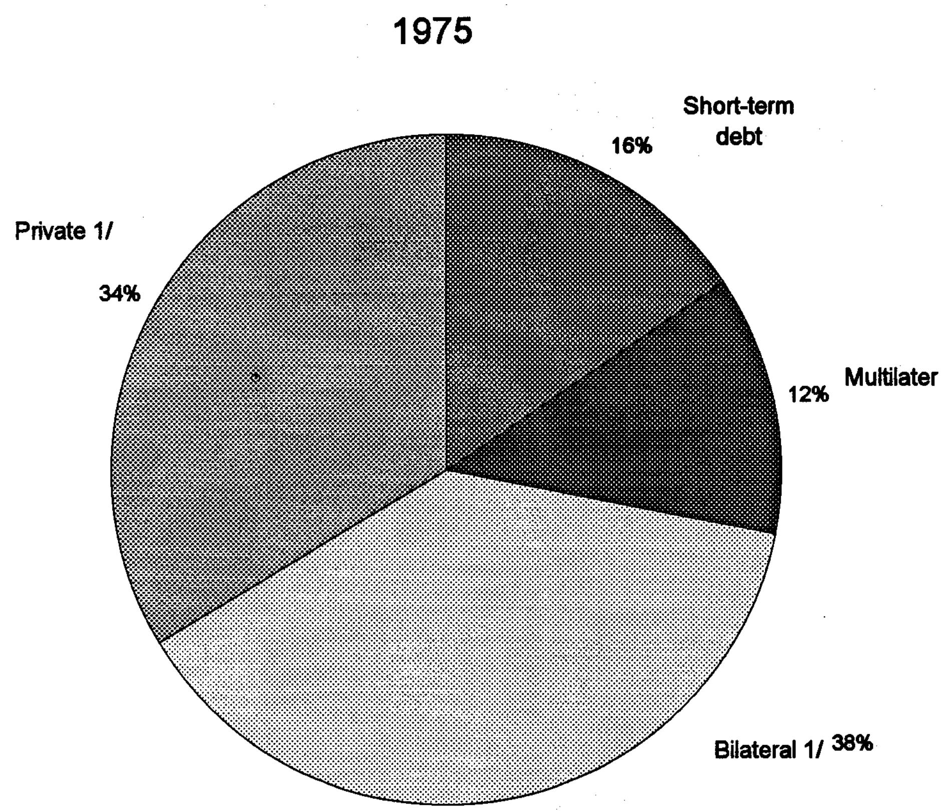


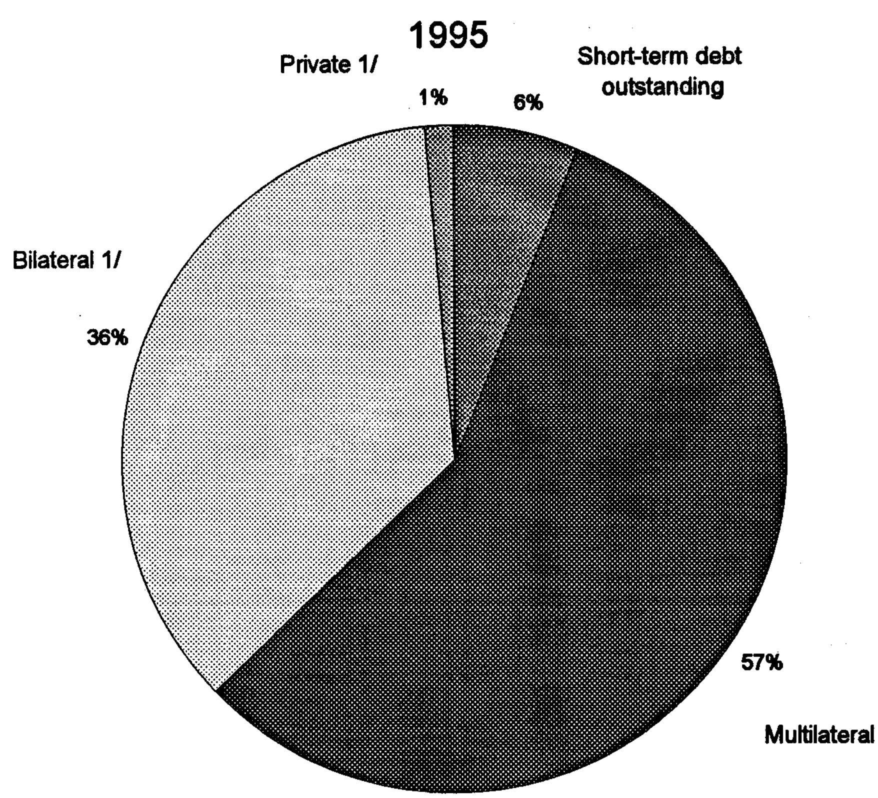
Chart 2. Bolivia: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Bolivia: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Bolivia: Average Grant Element of New Commitments, 1975-95 1/

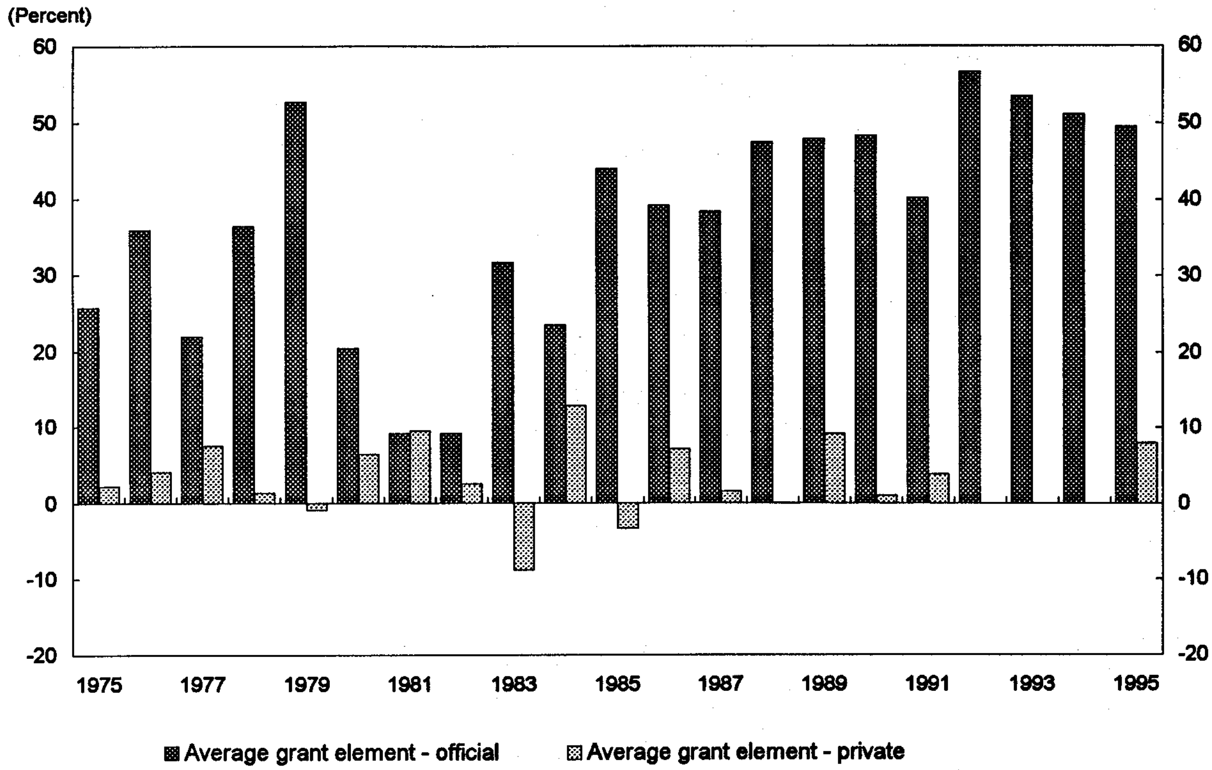
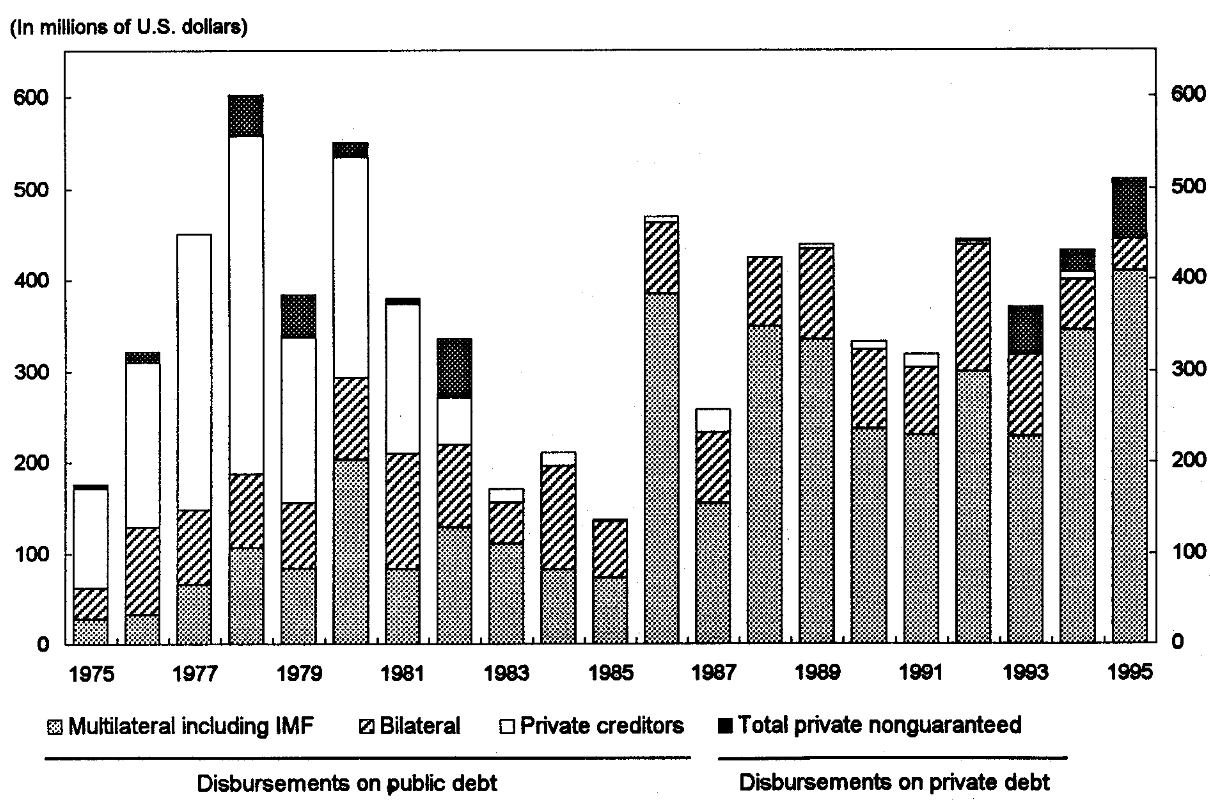


Chart 5. Bolivia: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Bolivia: Breakdown of Debt Stock Increase, 1975-95

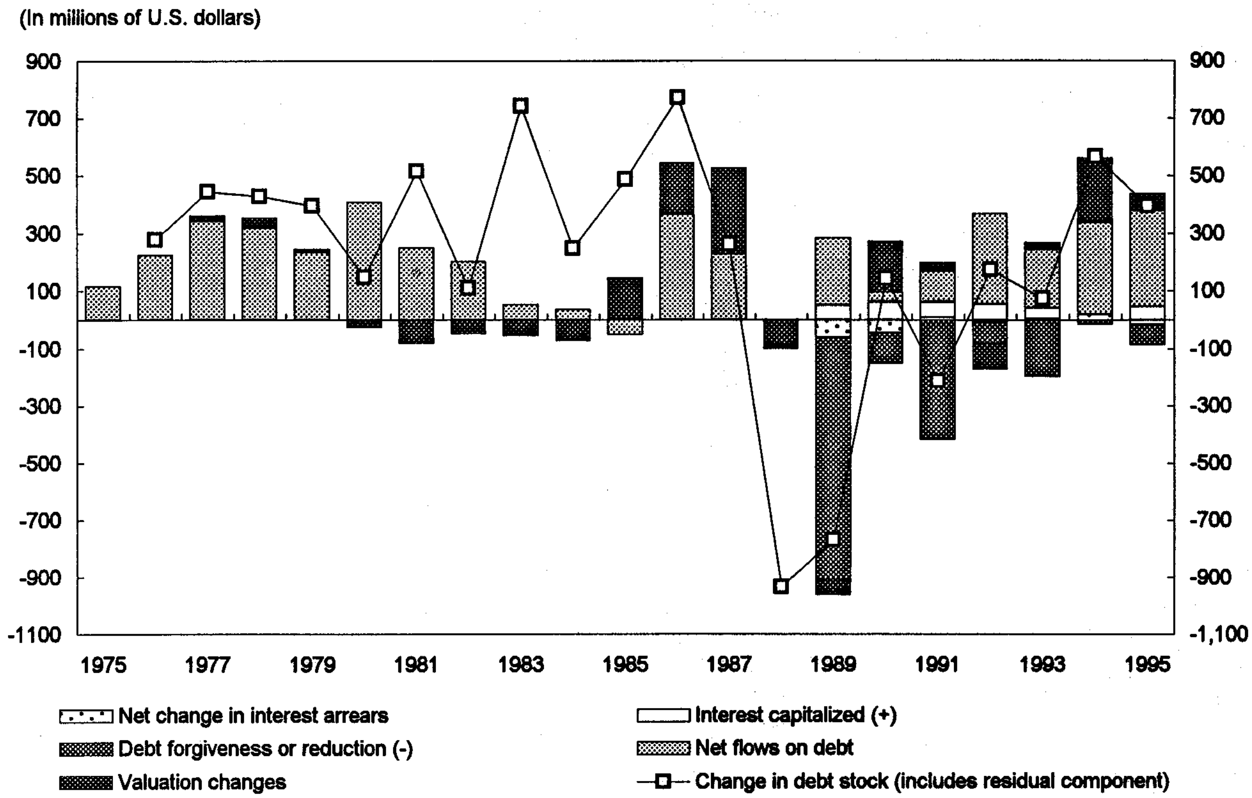
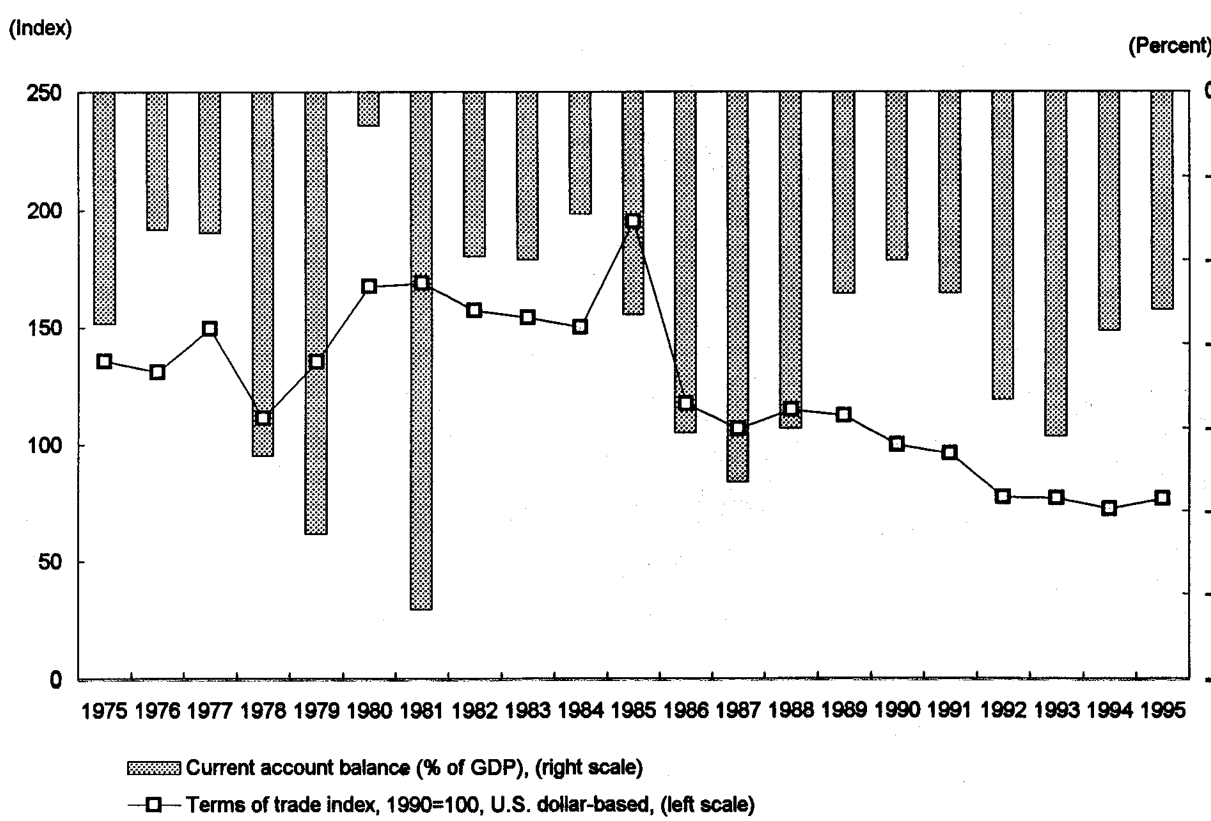


Chart 7. Bolivia: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Cameroon

Summary

After gradually rising throughout the late 1970s and essentially plateauing in the early 1980s, Cameroon's debt-burden indicators rose rapidly during the 1986–95 period, as a result of numerous adverse terms of trade shocks, an appreciating real exchange rate and frequent policy slippages. From 1975 to 1985, debt stocks grew moderately and in line with exports. However, from 1986 onwards growth in debt and exports diverged as debt stocks expanded sharply while the nominal value of exports fell. The debt-to-exports ratio rose from about 120 percent in 1985 to some 340 percent by 1995, while the scheduled debt-service ratio rose from 20 percent up to 1985 to a peak of 75 percent in 1994 before falling back to 60 percent in 1995.

The total external debt stock, which had stabilized at $3 billion in 1985, expanded during 1986–89 as nonconcessional private sector credit, both publicly-guaranteed and non-guaranteed, continued to comprise over half of all financing flows. Debt stocks have continued to expand in the 1990s due to sizeable new disbursements from bilateral and multilateral sources in support of adjustment programs with the IMF and World Bank. Performance under these programs in the early 1990s has been lackluster in terms of reducing internal and external imbalances and restoring economic growth—and they ultimately were abandoned. These programs floundered mainly on account of persistent shortfalls in tax revenues, the authorities' inability to adjust the exchange rate, delays in implementing public enterprise reform, and sustained declines in the international prices of Cameroon's main export commodities. In general, as world prices for Cameroon's main export commodities (coffee, cocoa, cotton, and oil) declined continuously since the mid-1980s, the authorities tended to protect the domestic economy from these effects through fiscal expenditures and subsidies.

As the necessary adjustment was delayed during this period, external payments arrears developed to official bilateral, multilateral and commercial bank creditors, in spite of several Paris Club rescheduling agreements. In addition, the adjustment effort and implementation of structural reforms was plagued by political turmoil and social disturbances. Since the devaluation of the CFA franc in early 1994, economic performance has improved steadily, with resurgent economic growth and inflation has fallen back to international levels following the jump in the price level associated with the 1994 devaluation. Still, overall performance under the fourth SBA with the IMF was disappointing. Following the devaluation of CFA franc in 1994, Cameroon became IDA-eligible and as a result benefited from a concessional rescheduling from Paris Club creditors in 1995.

Debt burden indicators

Cameroon's debt burden gradually increased over the 1975–79 period, then stabilized during 1981–85 and rose sharply since the late 1980s due to a number of factors, especially adverse terms of trade shocks and an appreciated real effective exchange rate. From 1976 to

1985, the debt stock grew moderately and in line with exports. However, from 1986 onwards growth in debt and exports diverged as the debt stock expanded rapidly while the nominal value of exports dropped. As the economy worsened and world prices for Cameroon's main exports (crude oil, cotton, coffee, and cocoa) continued to soften, the authorities were unable to stay current on external debt-service payments and started to accumulate sizeable arrears (Table 2). These events have been reflected in the continued deterioration in external debt-burden indicators since 1986. The debt-to-exports ratio rose from about 70 percent in 1975 to about 120 percent by 1985, before expanding rapidly to some 340 percent by 1995 (Chart 1). While the scheduled debt-service ratio remained below 20 percent until 1985, subsequently it expanded quickly reaching a peak of over 70 percent in 1994 before falling back to 60 percent in 1995. Reflecting the accumulation of arrears as well as debt relief granted, paid debt-service fluctuated around 20–30 percent of exports in the 1990s.

Composition of external debt

Between 1975 and 1995, the composition of Cameroon's debt by creditor changed significantly with a switch from multilateral and private sector debt to a greater reliance on bilateral and short-term debt (Chart 3). In 1975, debt to bilateral and multilateral (including the IMF) creditors comprised just below 40 percent each of total public and publicly-guaranteed debt, with private creditors comprising 22 percent. By 1995, the share of bilateral debt had risen to 60 percent (over a third to France) while multilateral debt had fallen to some 20 percent. Strikingly, as the share of debt to private creditors fell to 10 percent, that of short-term debt, which was minute in 1975, comprised 11 percent by 1995.

The share of debt on concessional terms fell from around 35 percent in 1975 to approximately 27 percent in 1991, as a sizeable portion of new financing over the period was from private sector sources on non-concessional terms. After 1986, the majority of new bilateral loans were on concessional terms while those from multilateral creditors were on nonconcessional terms until the mid-1990s; given the predominance of bilateral financing, the share of concessional debt rose to approximately 45 percent in 1995.

Elements of the increase of external debt

Between 1975 and 1982, the total external debt stock increased steadily from $0.4 billion to about $2.8 billion. The bulk of the new financing occurred during 1977–80 and took the form of loan disbursements from bilateral and private sector creditors (some 84 percent of total long-term disbursements, of which 28 percent was on concessional terms). Much of the private financing was publicly guaranteed and tied to the development of the oil sector, which started to export petroleum products in 1978. The total external debt stock stabilized at around $3 billion during 1983–85, as private financing without government guarantee to the private sector partly replaced inflows to the public sector of bilateral and multilateral financing.

Loans from private creditors, both publicly-guaranteed and non-guaranteed, continued to comprise nearly half of all financing flows until 1989, averaging some 50 percent of new long-term flows over the 1976–90 period (Table 1). However, when the world oil price (expressed in CFA francs) fell by two-thirds and coffee and cocoa prices dropped by one-half and one-third, respectively, between 1985 and 1988, the authorities kept producer prices for these commodities unchanged. As the economy faltered and economic growth declined, losses mounted for the government's commodity marketing board. As external payment arrears accumulated, private sector in-flows slowed to some 15 percent of all disbursements in 1990–95.

By 1990 bilateral and multilateral creditors (particularly the AfDB and the EU) had become an important source of new financing providing nearly half of the total long-term flows. However, in the 1992–93 period, over 63 percent of all new disbursements were made by bilateral creditors (59 percent on a concessional basis) as Cameroon ran up sizeable arrears to various multilateral creditors including the World Bank, AfDB, and the Islamic Development Bank (Tables 1 and 2). In the aftermath of the CFA franc devaluation in February 1994, Cameroon became IDA-eligible and a majority of disbursements (over 69 percent) in 1994–95 were from multilateral creditors.

In the 1990s, the debt stock has continued to grow as sizeable new disbursements have been coupled with the capitalization of moratorium interest in Paris Club rescheduling agreements. The rescheduling agreement reached with Paris Club creditors in 1994 on London terms provided over $500 million in debt reduction. However, valuation changes reflecting the depreciation of the U.S. dollar against European currencies in the second half of the 1980s increased the debt by $1.4 billions during 1986–95.

Factors influencing financing needs and capacity to service debt

Prior to 1979, increases in the world price for cocoa and coffee led to an improvement in the terms of trade and current account balance, which moved from a deficit of 7 percent of GDP in 1975 to a deficit of 3 percent in 1979 (Chart 7). During this period, the economy of Cameroon was considered to be one of the better performers in Africa. During 1978–85, the structure of Cameroon's exports changed drastically as oil exports became the main source of export revenues. The authorities were able to avoid the deleterious effects of the oil export receipts on the real exchange rate by saving a substantial portion of what was considered to be a temporary windfall and through the depreciation of the French franc against the U.S. dollar between 1980–85. In addition, as world prices for coffee, cocoa, and banana fell during 1982–83 and export volumes suffered from the effects of a prolonged drought, the windfall income from the oil boom softened the blow on agricultural producers by allowing the government to substantially raise producer prices as well as improve vital infrastructure linked to farm production.

In the second half of the 1980s, Cameroon experienced a steady decline in economic activity, as well as significant deterioration in its terms of trade resulting from a further fall in world prices of crude oil, cotton, coffee, and cocoa. Much of the decline in coffee and cocoa prices can be tied to the entry of new South East Asian suppliers who used more advanced technology than that used in Cameroon. At first, the authorities responded by keeping producer prices unchanged and absorbing through the budget the increasing losses of the marketing board. In addition, the authorities attempted to boost aggregate demand through expansionary fiscal policy. In the event, unbudgeted expenditures shifted the overall fiscal balance to a deficit equivalent to 13 percent of GDP by 1986–87. At the same time, the management of public enterprises became lax, and they also experienced growing deficits. While the authorities tightened fiscal policy in 1987–88 through improving expenditure control and raising non-oil tax revenue, the overall fiscal deficit still reached some 6 percent of GDP.

By 1988, Cameroon faced deteriorating macroeconomic imbalances, stemming from the continued decline in its terms of trade, the loss of external competitiveness and economic mis-management. The authorities responded by implementing a series of adjustment programs supported by the IMF and the World Bank over 1988–95 period. The first three of these adjustment programs were only marginally successful at reducing internal and external imbalances and restoring economic growth—and ultimately were abandoned. These programs floundered mainly due to persistent shortfalls in tax revenues, delays in implementing public enterprise reforms, and sustained declines in the international prices of Cameroon's main export commodities at a time when the CFAF appreciated in real terms. Also, during this period external payments arrears developed, despite the cash-flow relief procured through three Paris Club rescheduling agreements. Since the devaluation of the CFA franc in early 1994, economic performance has improved steadily, with resurgent economic growth and low inflation. Still, overall performance under the fourth SBA has been disappointing.

Table 1. Cameroon: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	2,148	586	3,505	2,671	8,910	100
Net flows on debt (long- and short-term)	1,849	1,177	2,104	957	6,088	68
Net flows on long-term debt	1,849	1,043	1,851	1,084	5,828	65
Net flows on public sector debt	1,705	701	2,114	1,105	5,624	63
Multilateral (incl. IMF), net	327	277	465	191	1,259	14
Gross disbursements	389	387	753	812	2,342	26
Non-concessional	189	239	723	506	1,658	19
Concessional	200	147	30	307	684	8
Principal repayments	-63	-110	-288	-621	-1,082	-12
Bilateral, net	634	418	847	931	2,830	32
Gross disbursements	703	584	1,034	1,045	3,366	38
Non-concessional	142	191	468	109	911	10
Concessional	561	393	566	936	2,455	28
Principal repayments	-68	-167	-187	-114	-536	-6
Private sector with govt. guarantee, net	744	7	802	-18	1,535	17
Gross disbursements	913	367	1,100	97	2,477	28
Principal repayments	-170	-360	-298	-114	-942	-11
Net flows on private sector debt	144	342	-263	-20	204	2
(unguaranteed by debtor government)						0
Gross disbursements	217	890	669	243	2,018	23
Principal repayments	-72	-548	-931	-263	-1,814	-20
Net flows of short-term debt 1/	...	134	253	-127	260	3
Net change in interest arrears 2/	...	...	59	209	268	3
Interest capitalized 2/	...	...	130	1,071	1,201	13
Debt forgiveness or reduction 2/	...	...	-16	-587	-604	-7
Valuation changes 3/	1	-517	1,035	388	907	10
Residual	297	-74	193	633	1,049	12
Memorandum items:						
Grants (including technical co-operation)	453	501	1,245	1,715	3,913	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	556	898	696	2,150	...

Sources: Global Development Finance, World Bank, 1997; and IMF staff estimates.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Cameroon: Principal and Interest Arrears, 1980-95

(In millions of U.S. dollars)

	1980	1985	1990	1995
Arrears to official creditors	5	6	190	499
Principal	2	2	103	247
Interest	3	4	87	253
Arrears to private creditors	11	52	351	524
Principal	5	25	247	376
Interest	6	27	105	147

Source: Global Development Finance, World Bank

Table 3. Cameroon: Overview of Rescheduling of Official Bilateral Debt, 1976-95

Number of Rescheduling	Date of Agreement	Amount Consolidated 1/ (In millions of U.S. dollars)	Consolidation Period (In months)	Terms: Grace (In years)	Terms: Maturity (In years)
I	5/24/89	535.0	12.0	6.0	9.5
II	1/23/92	1,080.0	9.0	8.2	14.6
III	3/25/94	1,259.0	18.0	London terms*	
IV	11/16/95	1,129.0		Naples terms*	
Total		4,003.0			

Source: Official Financing for Developing Countries, IMF, 1997.

1/ Includes debt service formally rescheduled as well as deferred maturities.

* With 50 percent of NPV reduction.

Table 4. Cameroon: Chronology of IMF Support, 1976-95

Type	Date of Approval	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
CCFF 1/	Sep-88		46.4	46.4
CCFF 1/	Jul-76		17.5	17.5
Oil Facility	Mar-76		4.3	4.3
Oil Facility	Dec-75		7.5	7.5
Oil Facility	Oct-74		4.6	4.6
Stand-by	09/27/95	09/26/96	67.6	28.2
Stand-by	03/14/94	03/14/94	81.1	21.9
Stand-by	12/20/91	09/12/92	28.0	8.0
Stand-by	09/19/88	06/30/90	61.8	38.6
Trust Fund	Mar-81		0.1	0.1
Trust Fund	Jul-80		1.7	1.7
Trust Fund	Apr-80		4.3	4.3
Trust Fund	Jan-80		3.0	3.0
Trust Fund	Oct-79		2.3	2.3
Trust Fund	Sep-79		8.3	8.3
Trust Fund	Jul-78		8.5	8.5
Trust Fund	Mar-78		6.1	6.1

Sources: IMF staff reports and IFS, Transactions of the Fund 1997.

1/ Contingency and Compensatory Financing Facility.

Chart 1. Cameroon: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

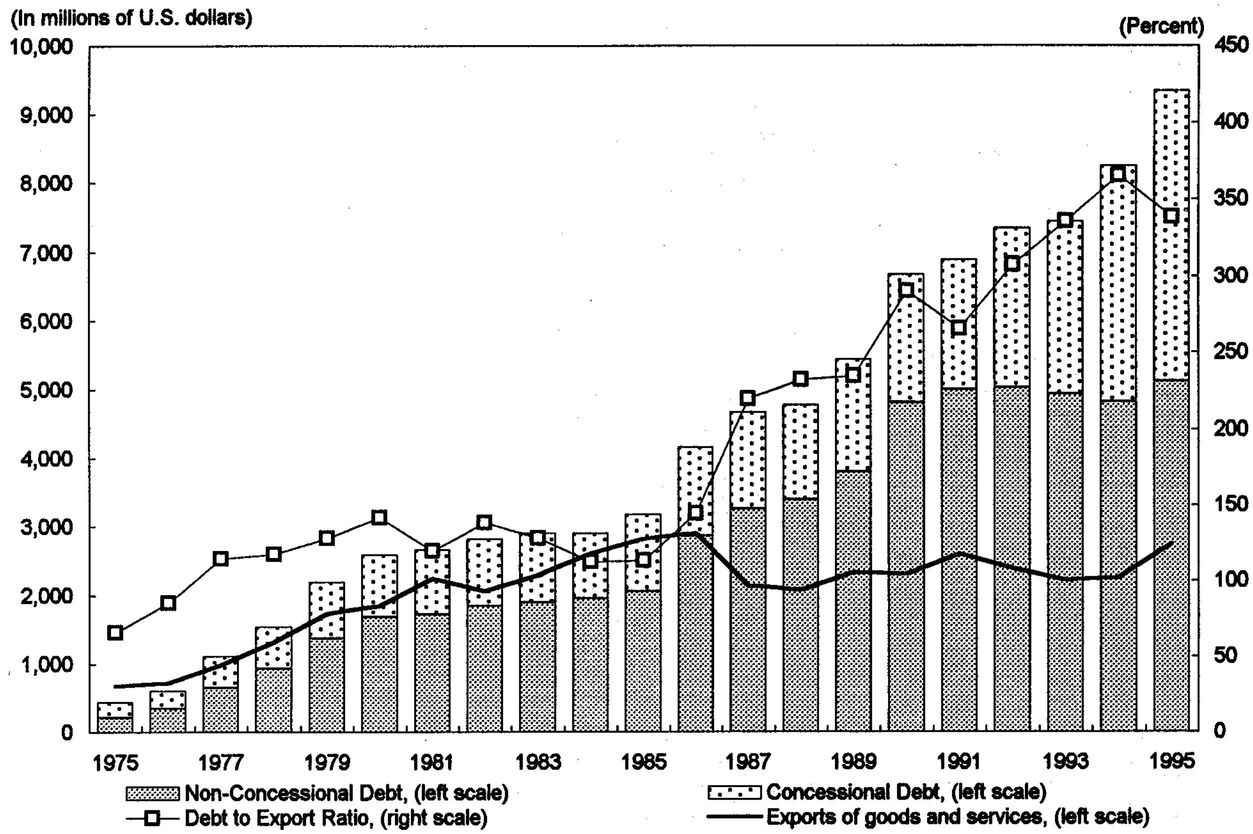
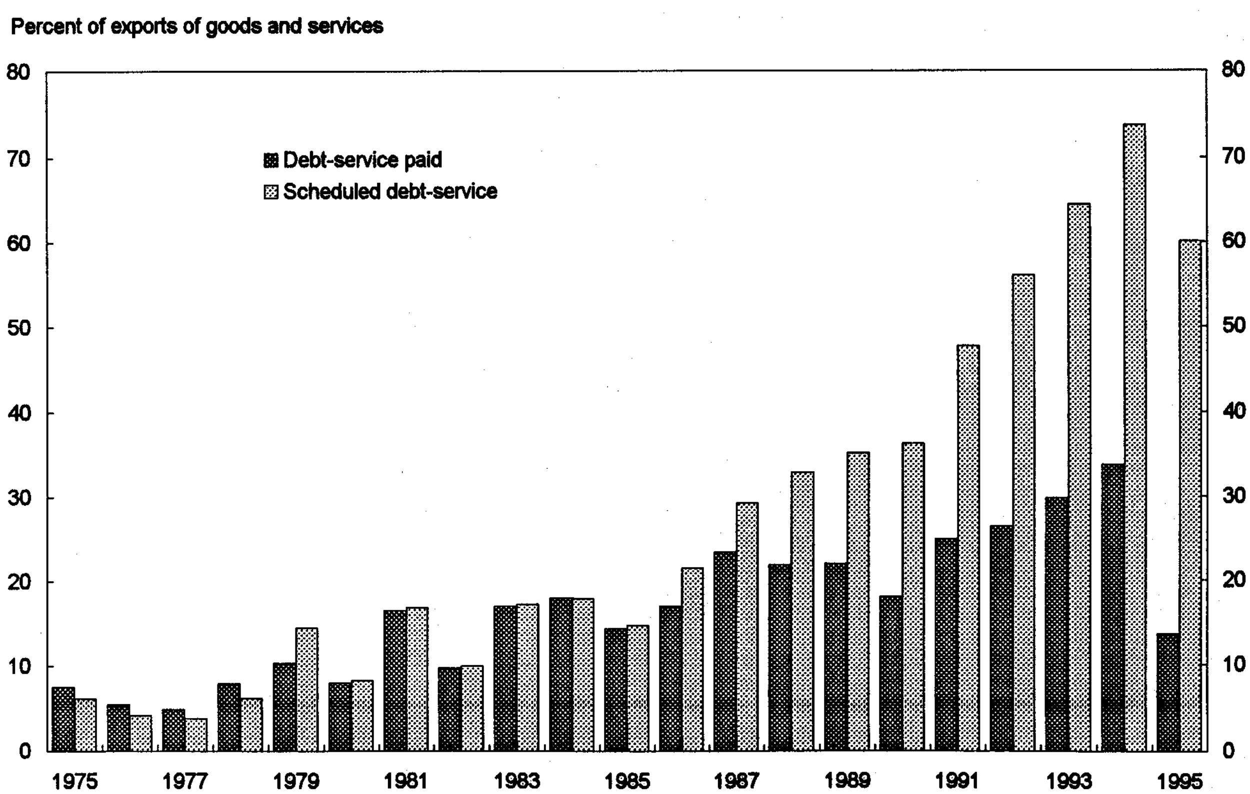
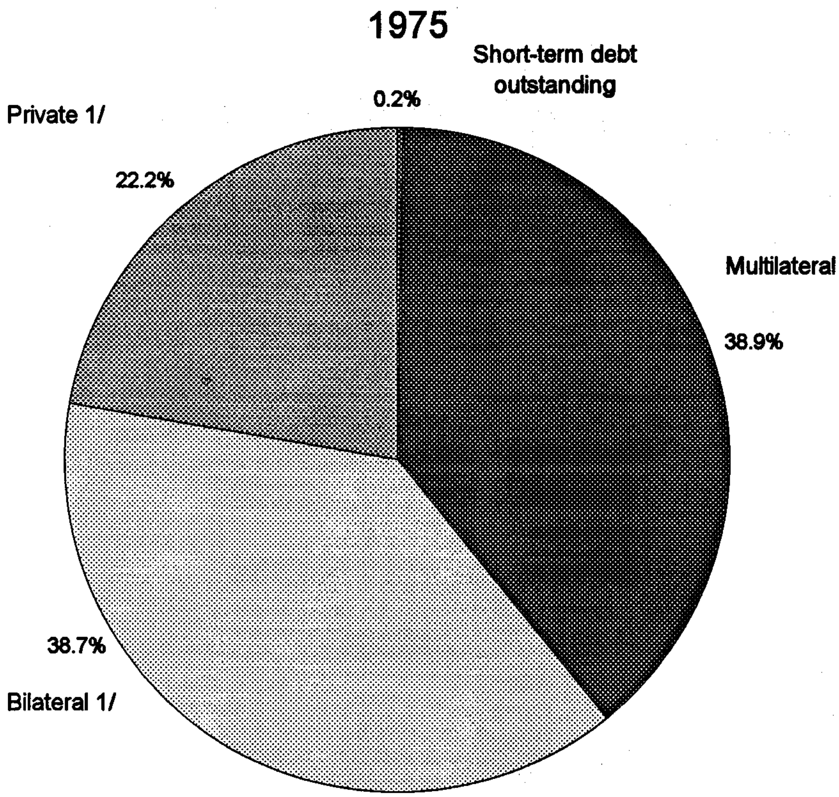


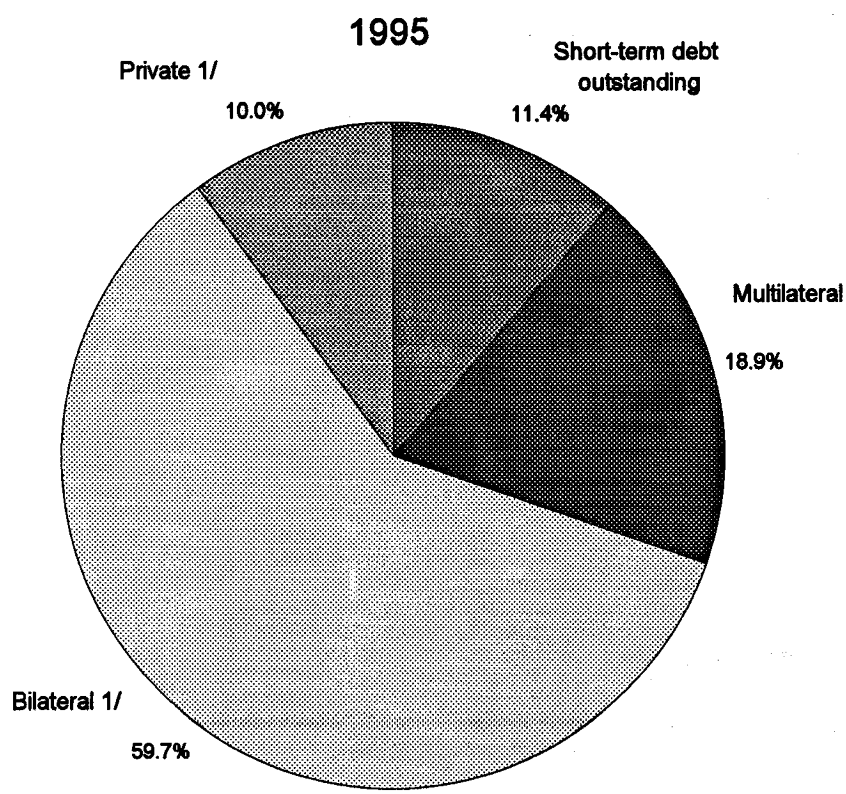
Chart 2. Cameroon: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt service ratios and IMF staff estimates.

Chart 3. Cameroon: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Cameroon: Average Grant Element of New Commitments, 1975-95 1/

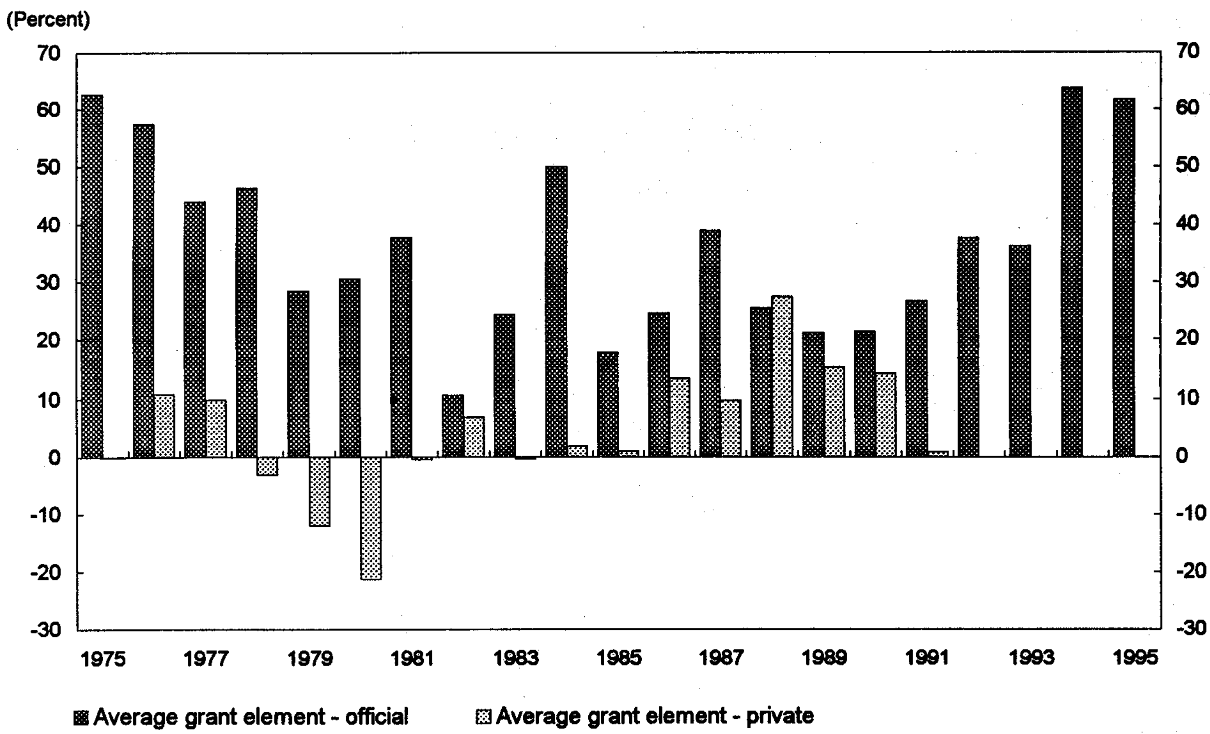
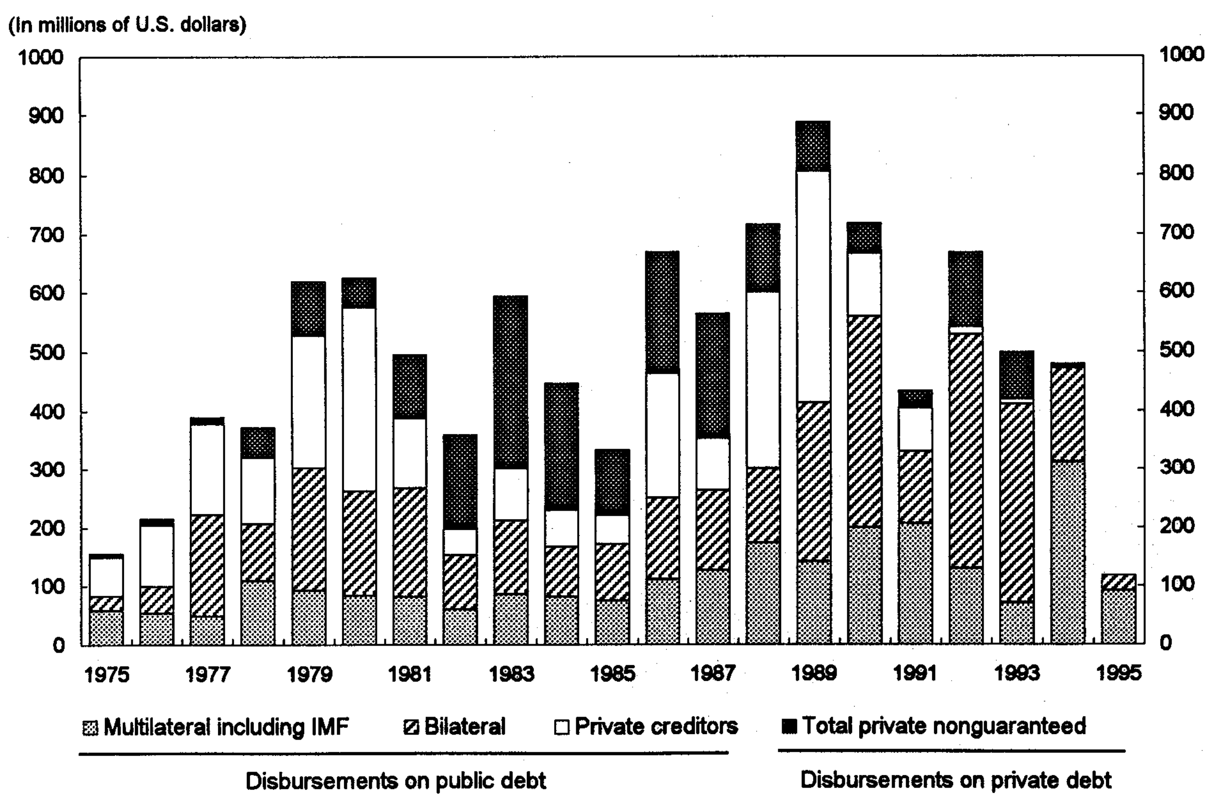


Chart 5. Cameroon: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Cameroon: Breakdown of Debt Stock Increase, 1975-95

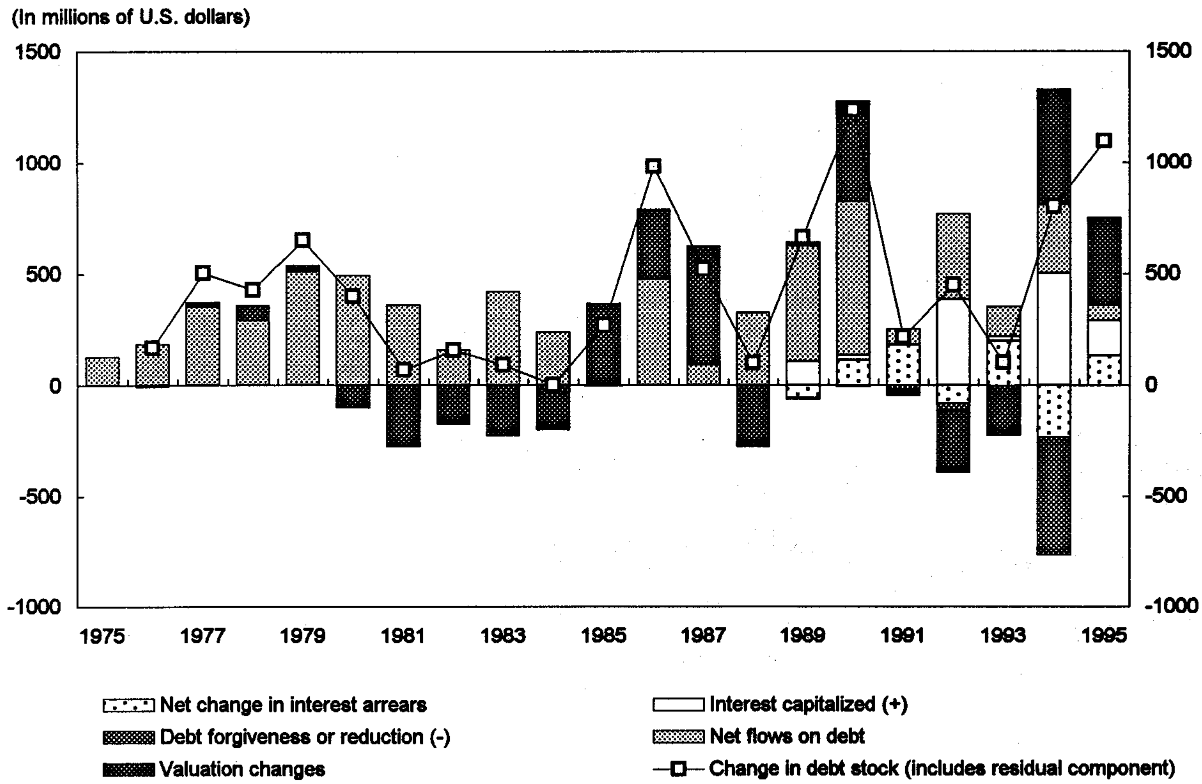
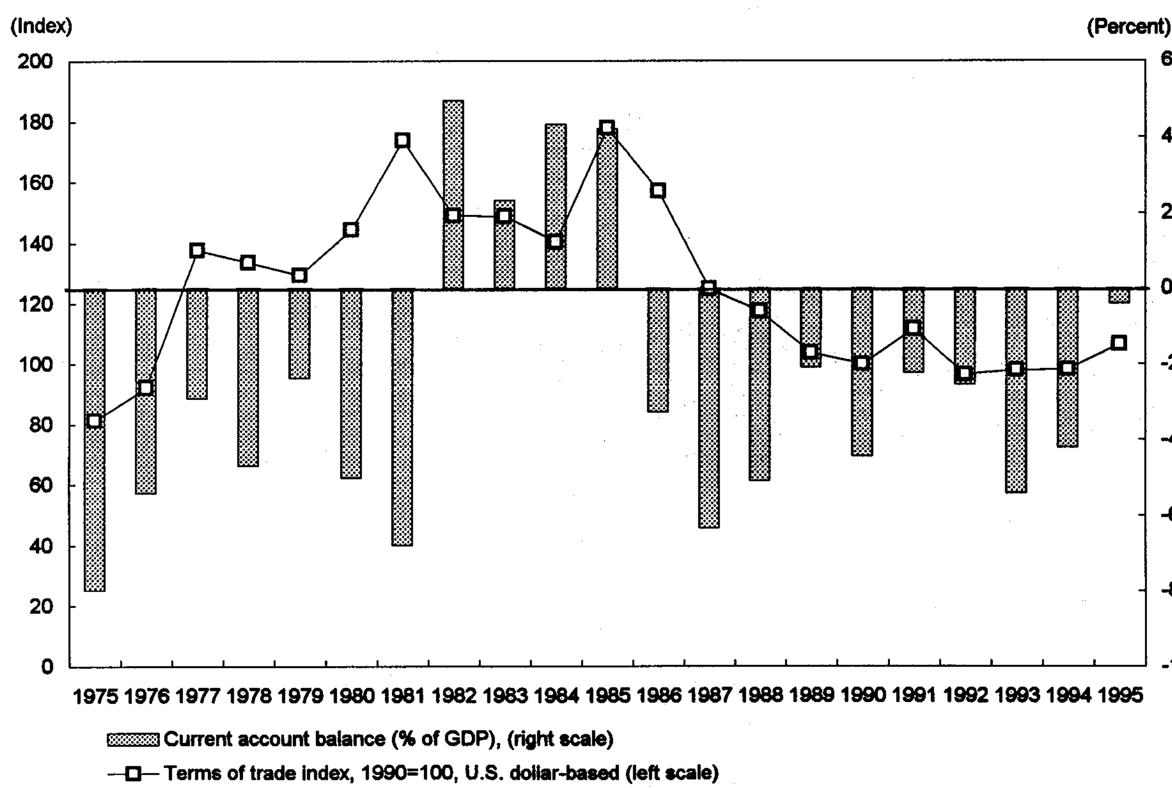


Chart 7. Cameroon: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Democratic Republic of Congo

Summary

The Democratic Republic of the Congo's external debt stock rose six-fold over the past twenty years, from $2 billion in 1975 to over $13 billion in 1995. As a result, the debt-to-exports ratio increased from 193 percent in 1975 to over 900 percent in 1994, before falling back somewhat in 1995; the rise was particularly sharp in the period 1990–94.

Early debt-servicing problems stemmed from sizeable borrowing from private and bilateral creditors in the late 1970s and early 1980s to finance overly ambitious and ill-prepared investment projects. As the economic situation worsened, the Congo fell into arrears on its debt-service and required successive reschedulings from the Paris Club, particularly in the early 1980s when the copper boom came to a halt. The bulk of these reschedulings was on nonconcessional terms and proved to be inconsistent with the country's limited debt-servicing capacity.

Later problems emerged, in part, from borrowing from multilateral creditors including the IMF on nonconcessional terms, largely in support of the IMF arrangements and outside the scope of credit limits in these programs—e.g., debt-service to the IMF alone amounted to 16 percent of exports in 1989. However, the Congo failed to strengthen its debt-servicing capacity as the projected export growth did not materialize. As a result, the country was unable to meet its debt-servicing obligations.

The lack of sustained implementation of sound macroeconomic and structural policies was the main factor behind the escalation in the debt-burden and the failure to meet debt-service obligations. A period of strong policy performance in 1983–85 was followed by stop-and-go policy implementation in the period 1986–89 and hyperinflation in the early 1990s as fiscal and monetary policies were relaxed. The poor track record of policy implementation failed to encourage export growth, despite substantial mineral resources and the relatively diverse export base.

The dramatic economic decline in recent years, which featured a 50 percent fall in exports in U.S. dollar terms in 1990–94, also stemmed from mismanagement of public enterprises. The collapse of GECAMINES (the government-owned mining company, which was the source of about 60 percent of exports in 1990) was the main reason behind the sharp fall in exports. GECAMINES collapsed as a result of poor management decisions (including lack of investment which led to decay of equipment and a cave-in at a major mining site), and security and personnel problems associated with civil unrest.

Debt burden indicators

The Congo's external debt burden increased steadily over the late 1970s and 1980s, with a rise in the debt-to-exports ratio from 193 percent in 1975 to 380 percent in 1989. The rise in the ratio primarily reflected sizeable disbursements of new financing which raised the total external debt stock from $2 billion in 1975 and to US$9 billion in 1989 (Chart 1). However, after 1989, there was only a limited amount of new financing, yet the debt-to-exports ratio rose sharply to a peak of over 900 percent in 1994 before falling to 774 percent in 1995. The main factor behind the sharp rise in the debt burden in the 1990s was the collapse in export earnings, due in large part to problems faced by the government-owned mining company, GECAMINES. By 1994 exports had fallen to about $1.6 billion from about $2.4 billion in the late 1980s.

The composition of external debt

The creditor composition of the debt stock changed markedly between 1975 and 1995, as the share of external debt to private creditors decreased from 59 percent in 1975 to 7 percent in 1995. The largest creditor groups in 1995 were bilateral and multilateral creditors, with 48 percent and 22 percent of total public and publicly-guaranteed external debt respectively, up from 22 percent and 8 percent in 1975. The switch in the composition of debt from private creditors to bilateral creditors was due to a combination of sharply reduced new financing from private creditors after 1981 (Chart 5) as well as successive Paris Club reschedulings of loans from private creditors' claims which had been guaranteed by export credit agencies.[19] The share of concessional debt in the total debt stock rose from 15 percent in 1975 to 27 percent over the period 1976–95 (Chart 4).

Elements of the increase of external debt

The primary contributor to the debt stock increase in the period 1976–85 was a large flow of new financing from private and bilateral creditors. New financing from private creditors amounted to $1.5 billion in the period 1976–85 or about 35 percent of long-term disbursements in this period (Table 1). Disbursements from private creditors were particularly large in 1975–78 (and again in 1980) and accounted for the doubling of the debt stock between 1975 and 1979. Bilateral creditors provided new financing of about $1.1 billion over the same period, about two-thirds of which was on concessional terms. IMF purchases were

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[19]Rescheduling of debt guaranteed by export credit agencies by the Paris Club meant that the debt changed category from private to bilateral. For instance, in 1979 the Paris Club rescheduled $1 billion of claims on the Congo. Largely as a result of this rescheduling, debt to bilateral creditors recorded in the World Bank DRS increased from $1.3 billion at end-1978 to $2.3 billion at end-1980 (of which only $0.1 billion of the increase was accounted for by new financing less repayments). Over the same period, debt to private creditors fell from $2.1 billion to $1.5 billion.

also significant in this period, amounting to almost $1.2 billion, but new financing from other multilaterals was relatively small at about $0.7 billion.

Another factor that influenced the debt stock in U.S. dollar terms in this period was exchange rate fluctuations. Between 1981 and 1985, the debt stock in U.S. dollar terms was reduced by about $0.4 billion as a result of the appreciation of the U.S. dollar against other major currencies, while dollar depreciation in the late 1980s is estimated to have added at least about $0.8 billion to the debt stock.

The pattern of new financing by creditors changed markedly in the early 1980s. By 1985, financing from private creditors came to a virtual standstill, with less than $0.1 billion disbursed by private creditors in the period 1986–95, while net flows from private creditors became negative from 1983 onwards. After 1984, the bulk of the new financing (almost 80 percent) came from the IMF and other multilaterals. The IMF lent $0.6 billion in this period under SBAs and a CCFF (Table 2)[20], while new financing from other multilaterals (mainly the IDA and African Development Bank (AfDB) and Fund (AfDF)) amounted to $1.6 billion in the period 1986–95.

A significant portion of new financing after 1985 was on non-concessional terms. About 42 percent of the financing from the multilaterals was on non-concessional terms, mainly under IMF SBAs (Table 2) and thus with relatively short maturities, and from the AfDB. The World Bank, AfDB, and AfDF continued to lend sizeable amounts after 1990, even though the Congo was in arrears to the IMF—during this period the AfDB and AfDF accounted for more than half of all new loan financing.

Bilateral lending comprised a smaller share of total new financing in 1986–95 than in 1976–85. Total bilateral lending accounted for about 20 percent of new financing in the period 1986–90, and fell sharply in recent years with virtually no new bilateral lending in 1991–95. The fall in bilateral lending was in part offset by increased grant financing in the last decade, although grants fell from $1.7 billion in 1986–90 to 1.4 billion in 1991–95. Also, bilateral creditors provided successive Paris Club reschedulings, until 1989 all on non concessional terms, and after capitalizing interest obligations.

Several other factors influenced the level of external debt in 1986–95, including exchange rate fluctuations, debt reduction, and the accumulation of interest arrears (Chart 6). The impact of the depreciation of the U.S. dollar against other major currencies led to an increase in debt stock of about $1 billion in 1986–95, as only about 40–45 percent of the debt was denominated in U.S. dollars in 1985. Debt reduction largely associated with the 1989 rescheduling agreement with Paris Club creditors under Toronto terms (Table 3) reduced the nominal debt stock by a total of $0.5 billion over the period 1985–89. However, this did not

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[20] In 1991 the Congo was declared ineligible for use of IMF resources as a result of the accumulation of arrears to the IMF.

effectively slow the growth rate of total debt as interest arrears of $2.6 billion accumulated after 1990, which was the primary factor behind the debt stock increase in the early 1990s.

Factors affecting financing needs and capacity to service debt

From the mid-1970s through the early 1980s, the Congo's economic and financial situation deteriorated sharply as a result of financial mismanagement, ill-advised policies that disrupted the productive sector (including the nationalization of foreign-owned properties and their redistribution to Congolese nationals) and the abrupt end of a boom in copper prices.

Following a surge in copper prices during 1973–74 the Government borrowed heavily to finance overly ambitious and ill-prepared investment projects. When copper prices fell back to their pre-boom levels, external borrowing requirements increased further, with sizeable disbursements, in particular from private creditors, until the government lost creditworthiness and accumulated sizeable external payments arrears by end-1979. Large budget deficits, financed by the domestic banking system, fueled inflation and led to an appreciation of the real exchange rate which had an adverse impact on the export sector.

From 1983 to 1995, the Congo's economic and financial performance evolved in three phases: (i) a period of strong performance in 1983–85, when financial policies were tightened and considerable and bold structural reforms were implemented. Reform in this period centered on the removal of a wide range of price controls, liberalization of the exchange and trade regime, and the introduction of a floating exchange rate; (ii) a subsequent period of stop-and-go policies in 1986–89, characterized by a recovery in copper prices and an overall improvement in the terms of trade. Budgetary and monetary policies became expansionary, eroding to some extent the gains made in 1983–85; and (iii) gradual disintegration of the economy, starting in late 1990, as unrestrained monetary financing of government expenditure in the face of rapidly declining revenue ignited a spiral of hyperinflation, currency depreciation, and output contraction.

By 1994, export earnings were 90 percent (in U.S. dollar terms) of the annual average for the period 1975–79, compared with an almost sixfold increase in debt over the same period, severely constraining the country's capacity to service its debt. The decline in exports was particularly dramatic in the early 1990s, as total exports (in U.S. dollar terms) fell by almost 50 percent between 1990 and 1994, due to a sharp decline in mineral export earnings. Export earnings of GECAMINES (which comprised about 60 percent of total exports in 1990) fell from $1.3 billion in 1990 to less than $0.2 billion in 1994, reflecting a collapse in output of GECAMINES due to insufficient investment, decay and obsolescence of equipment, and a cave-in at a major mining site in 1990. The output decline also reflected security and personnel problems related to civil unrest. Other exports grew by more than one-third during 1990–94 reflecting the private sector's initiative in ensuring a sufficient supply of foreign exchange to finance essential imports.

Overall, the collapse in exports during 1990–94 led to severe external imbalances. The external current account deficit averaged about 11–12 percent of GDP in the period (Chart 7) and overall balance of payments deficits were financed mainly by the accumulation of external debt-service payments arrears (equivalent to about $5 billion between end-1990 and end-1995). About half of the accumulated arrears were interest arrears and thereby added to the debt stock. Only limited financing was available from the international community during this period, as noted earlier—program and project assistance was halted completely in 1993—and a sizeable share of the grants provided were for humanitarian purposes.

In sum, the Congo's capacity to service debt was eroded over time by the lack of sustained implementation of sound macroeconomic and structural policies and poor management of public enterprises, particularly GECAMINES. The sizeable disbursements of nonconcessional financing in support of the IMF arrangements in the 1980s added to the already high debt-service burden, and the country's ability to service debt worsened as exports did not grow as expected.

Table 1. Democratic Republic of Congo: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	2,737	1,401	4,100	2,867	11,105	100
Net flows on debt (short- and long-term)	2,069	1,189	1,095	17	4,370	39
Net flows on long-term debt	2,069	1,124	925	314	4,432	40
Net flows on public sector debt	2,069	1,124	925	314	4,432	40
Multilateral (incl. IMF), net	538	772	593	312	2,214	20
Gross disbursements	744	1,167	1,736	425	4,071	37
Non-concessional	447	859	718	195	2,219	20
Concessional	297	308	1,018	229	384	3
Principal repayments	-206	-395	-1,144	-113	-1,857	-17
Bilateral, net	462	331	385	20	1,198	11
Gross disbursements	631	528	508	21	1,689	15
Non-concessional	190	139	55	...	384	3
Concessional	441	389	453	21	1,305	12
Principal repayments	-169	-198	-123	-2	-491	-4
Private sector with govt. guarantee, net	1,069	22	-53	-18	1,020	9
Gross disbursements	1,273	191	84	...	1,549	14
Principal repayments	-204	-169	-137	-18	-529	-5
Net flows on private sector debt (unguaranteed by debtor government)	0	0	0	0	0	0
Gross disbursements	0	0	0	0	0	0
Principal repayments	0	0	0	0	0	0
Net flows of short-term debt 1/	...	65	170	-297	-63	-1
Net change in interest arrears 2/	...	...	-76	2,585	2,509	23
Interest capitalized 2/	...	...	550	...	550	5
Debt forgiveness or reduction 2/	...	...	-132	...	-132	-1
Valuation changes 3/	82	-380	777	181	660	6
Residual	586	592	1,885	84	3,147	28
Memorandum items:						
Grants	1,075	1,041	1,713	1,387	5,215	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	516	1,942	-265	2,193	...

Source: Global Development Finance, World Bank, 1997.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Democratic Republic of Congo: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995 1/
Arrears to official creditors	31.6	229.9	773.2	1,142.7
Principal	23.3	152.0	674.4	816.9
Interest	8.3	77.9	98.8	325.8
Arrears to private creditors	36.5	218.0	1,049.2	4,555.1
Principal	0.0	0.0	0.0	0.0
Interest	36.5	218.0	1,049.2	4,555.1

Source: Global Development Finance, World Bank.

1/ GDF figures for 1995 are preliminary and appear to underestimate arrears, IMF data put arrears at US$7.7 billion at end-1995.

Table 3. Democratic Republic of Congo: Rescheduling of Official Bilateral Debt, 1976–July 1995

				Terms	
Number of Rescheduling	Date of Agreement	Amount Consolidated (In millions of U.S. dollars)	Consolidation Period (In months)	Grace (In years)	Maturity (In years)
I	6/16/76	270	18	1.0	7.5
II	7/7/77	170	12	3.0	8.5
III	12/1/77	40	6	3.0	9.0
IV	12/11/79	1,040	18	3.5	9.0
V	7/9/81	500	12	4.0	9.5
VI	12/20/83	1,497	12	5.0	10.5
VII	9/18/85	408	15	4.9	9.4
VIII	5/15/86	429	12	4.0	9.5
IX	5/18/87	671	13	6.0	14.5
X	6/23/89	1,530	13	Toronto Terms	

Source: "Official Financing for Developing Countries" IMF, December 1995.

Table 4. Democratic Republic of Congo: Chronology of IMF Support, 1976–96

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
Stand-by	6/9/89	6/8/90	116	75
SAF	5/15/87	6/8/90	204	146
CFF	5/15/87	...	45	45
Stand-by	5/15/87	5/14/88	100	24
Stand-by	5/28/86	Canceled 4/87	214	48
Stand-by	4/24/85	4/23/86	162	162
Stand-by	12/27/83	3/26/85	228	198
CFF	3/19/82	...	106	107
EFF	6/22/81	Canceled 6/82	912	175
Stand-by	8/27/79	2/26/81	118	118
Stand-by	4/25/77	4/24/78	45	5
CFF	4/25/77	...	28	28
Stand-by	3/22/76	3/21/77	41	41
CFF	3/22/76	...	56	56

Source: IMF.

Chart 1. Democratic Rep. of Congo: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

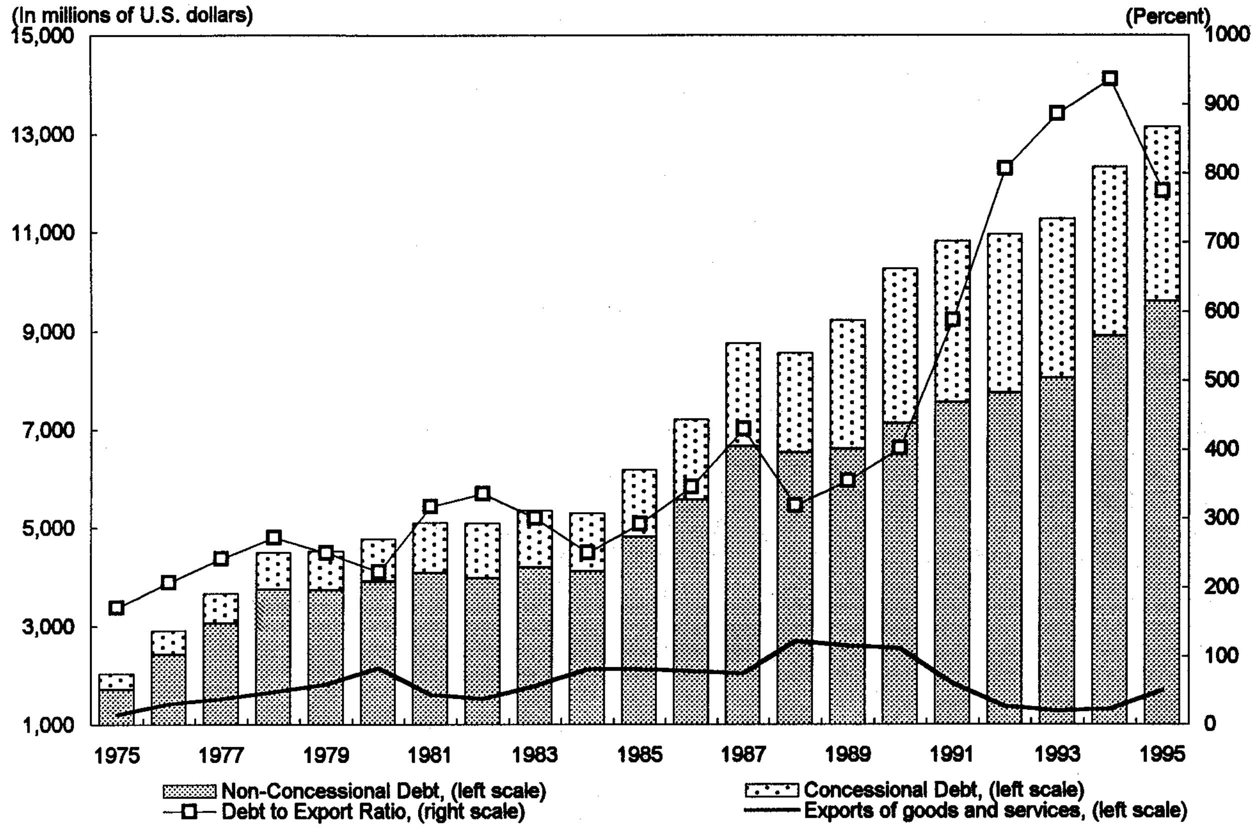
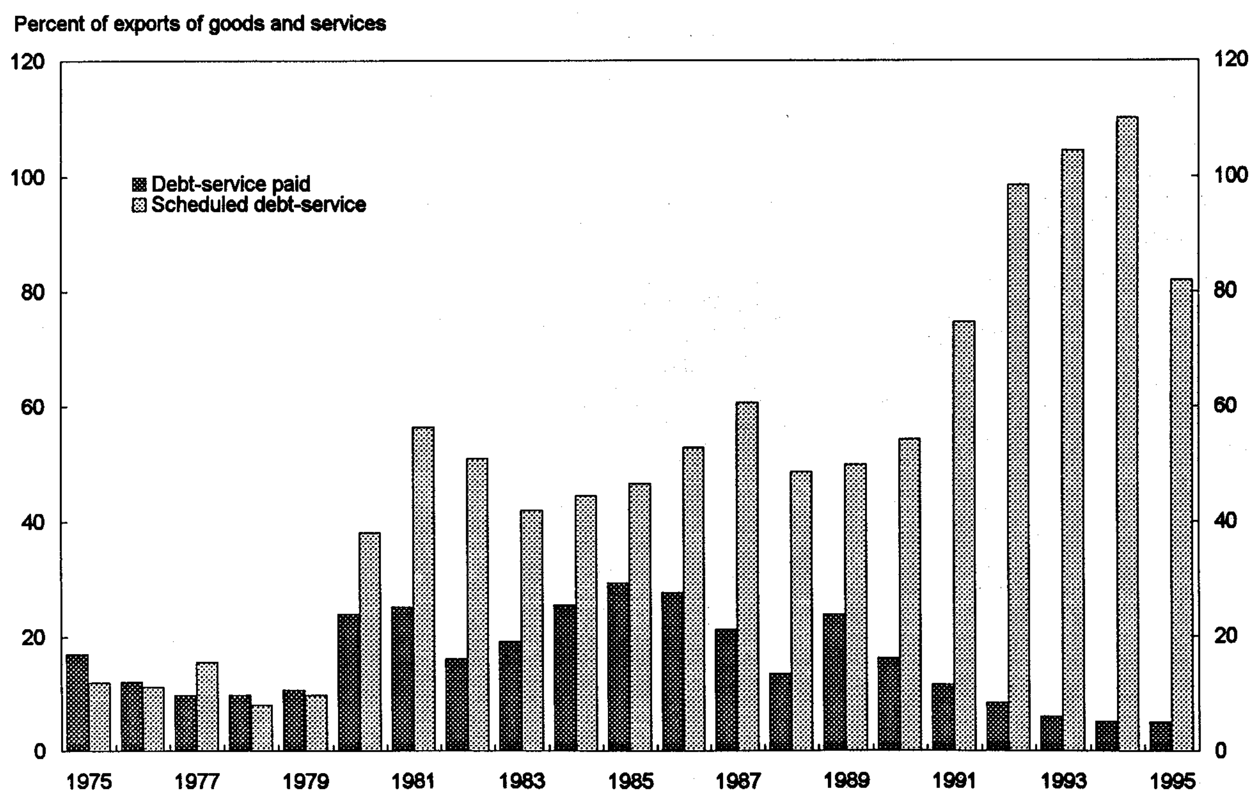
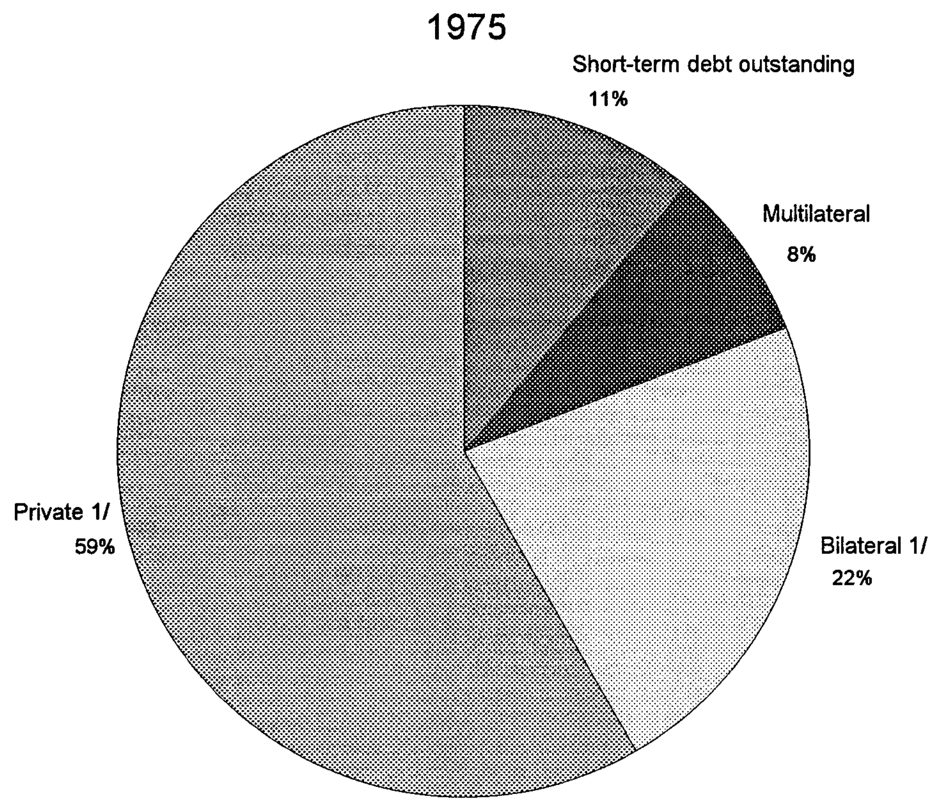


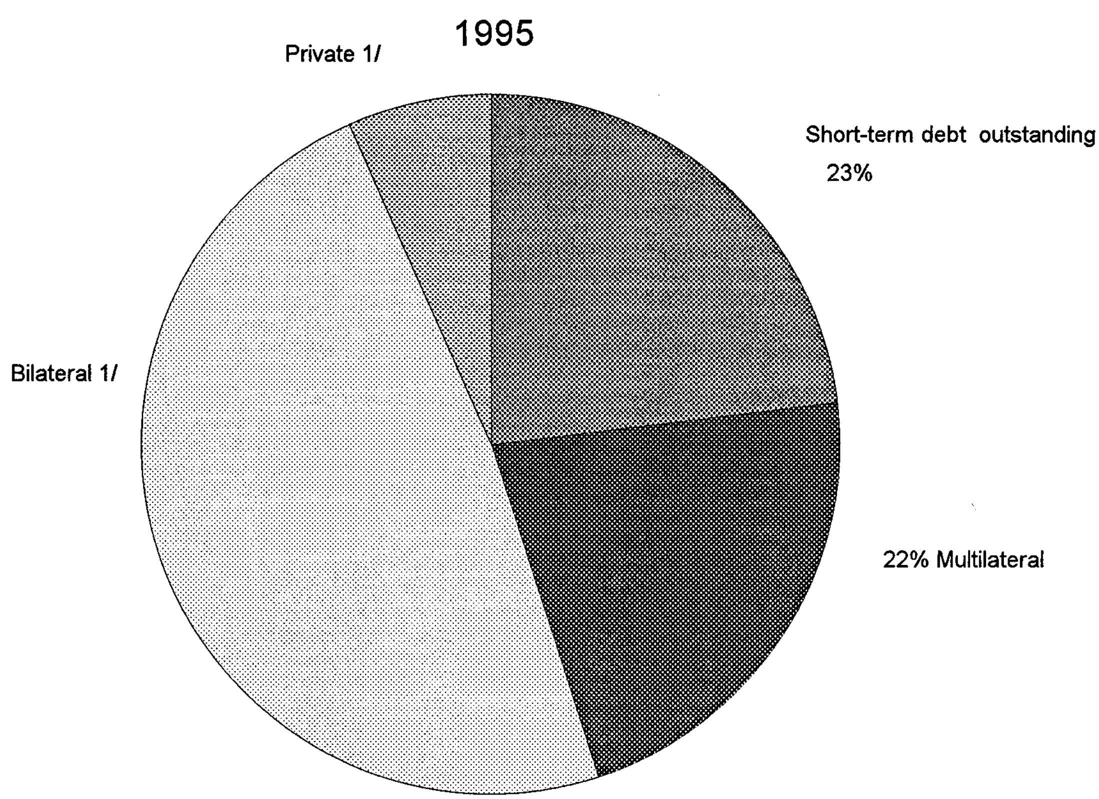
Chart 2. Democratic Rep. of Congo: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt service ratios and IMF staff estimates.

Chart 3: Democratic Rep. of Congo: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95 1/





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Democratic Rep. of Congo: Average Grant Element of New Commitments, 1975-95 1/

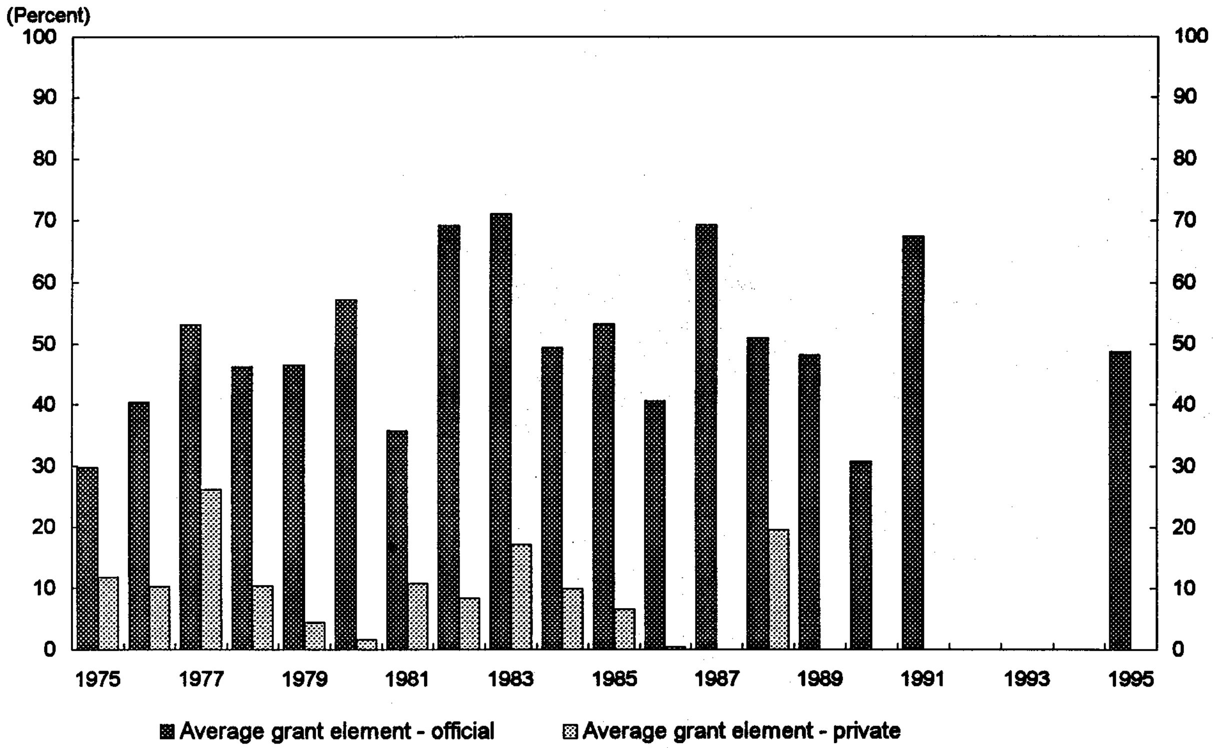
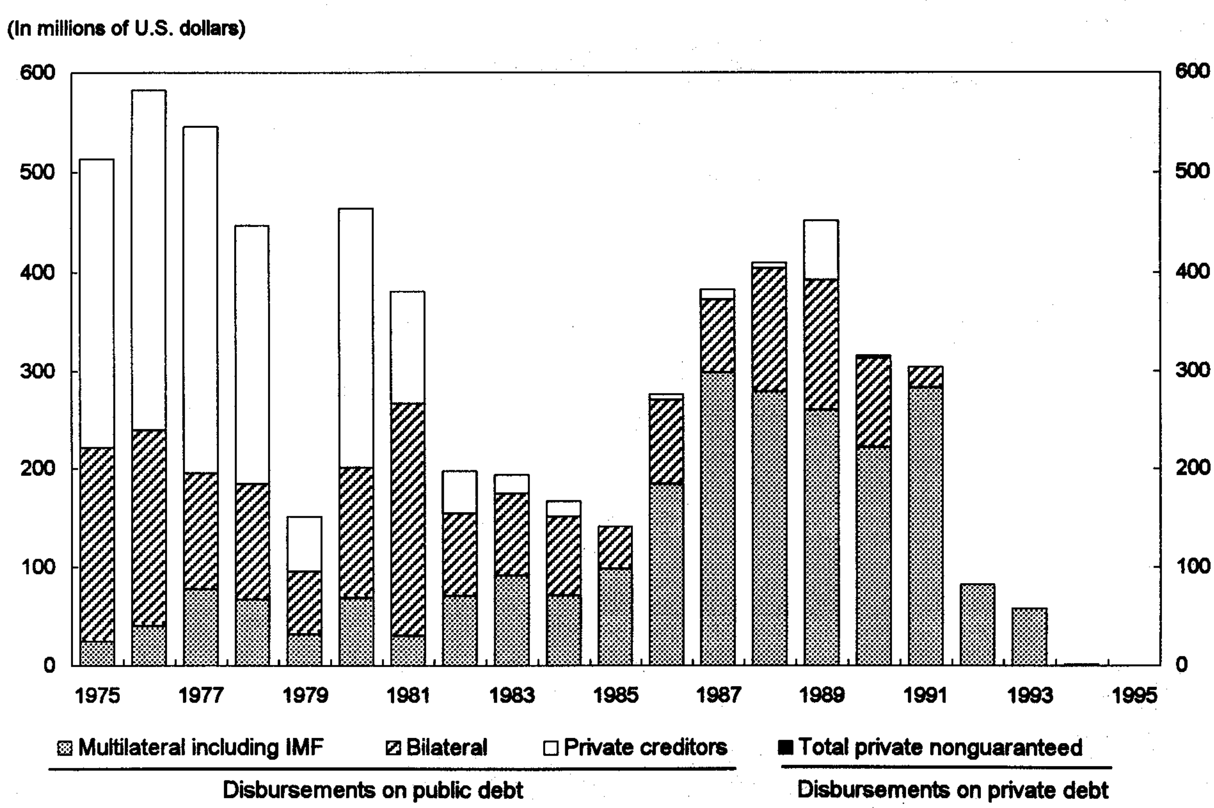


Chart 5. Democratic Rep. of Congo: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Democratic Rep. of Congo: Breakdown of Debt Stock Increase, 1975-95

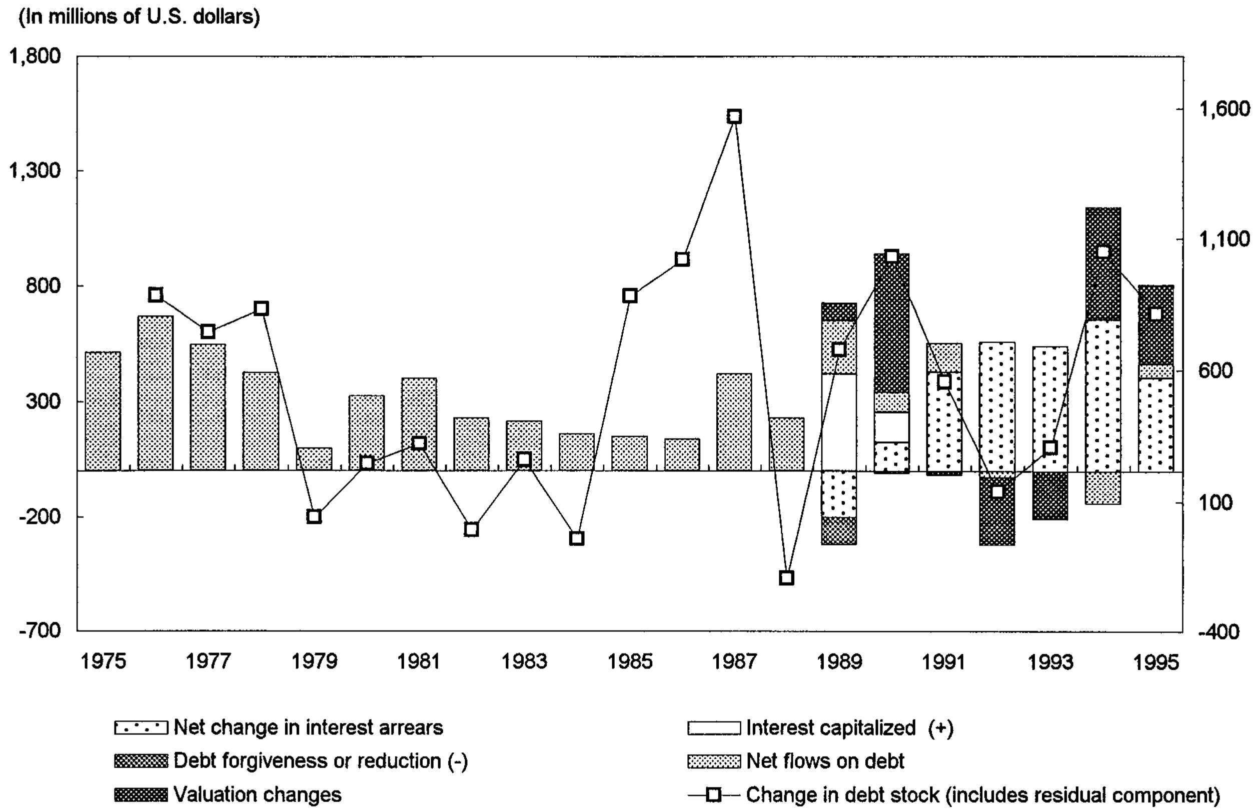
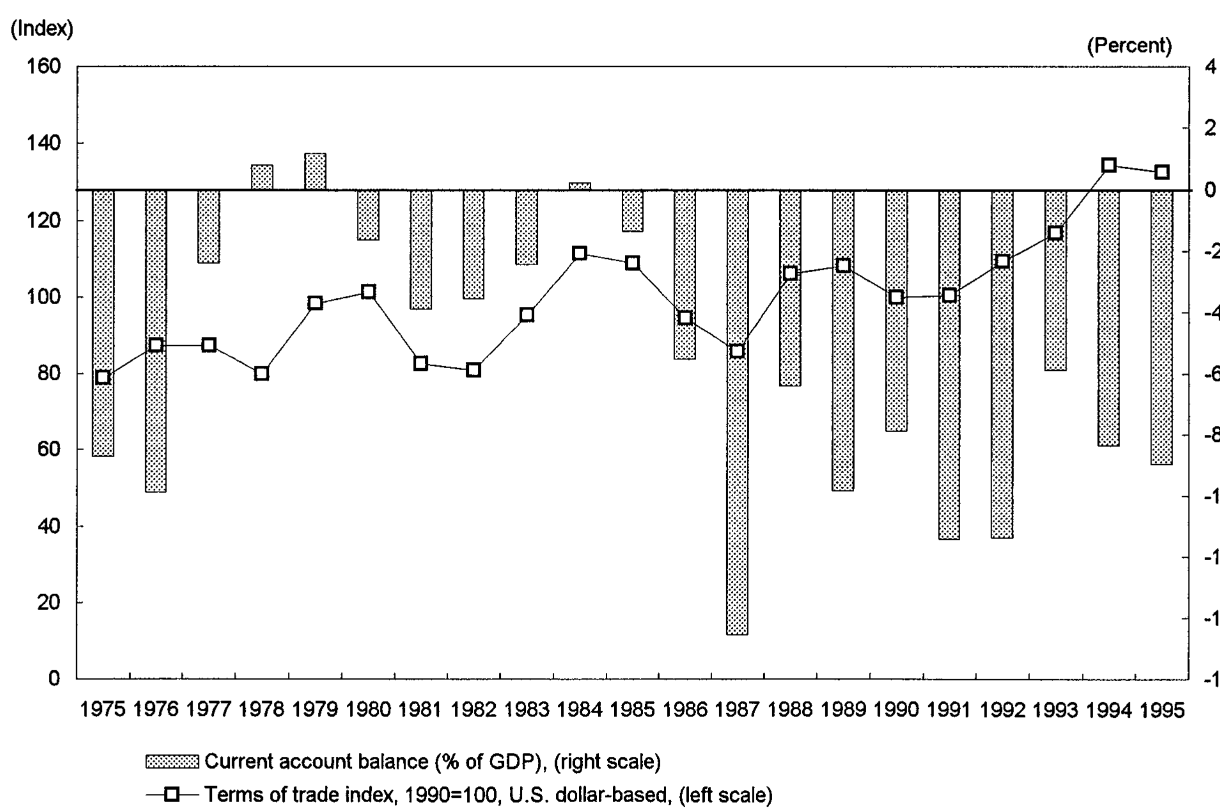


Chart 7. Democratic Rep. of Congo: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Côte d'Ivoire

Summary

Côte d'Ivoire's external debt rose ten-fold from 1975 to 1995—faster on average than the growth in export earnings (Chart 1). Accordingly, the debt-to-exports ratio increased from 100 to 560 percent over the same time period. Private creditors were the main source of new financing between 1975 and 1983, though this financing fell sharply thereafter as arrears were accumulated. From 1983 onwards loans from official creditors dominated new long-term disbursements with financing from bilateral creditors growing in importance after 1985. By 1995, bilateral debt represented one-third of total debt as compared to 18 percent in 1975 (Chart 3). Loans (net of repayment) from multilateral creditors also comprised an important component of new financing after 1980, and, as a result, the share of multilateral in total debt outstanding more than doubled from 11 percent in 1975 to 27 percent in 1995. In comparison, the shares of medium- and long-term debt to private creditors and of short-term debt in total public debt fell from 40 percent and one-third, respectively, in 1975 to less than 20 percent and one-quarter in 1995, respectively.[21]

Côte d'Ivoire's capacity to service its rising debt burden weakened markedly between 1975 and 1995. Debt problems first emerged with the collapse in cocoa and coffee prices in 1980–82 and the concomitant large expansion in foreign debt-financed public investment. A sharp deterioration in the country's external position exacerbated by a severe drought in 1983 cut access to new long-term private credit and further impaired Côte d'Ivoire's debt-servicing capacity. Despite efforts to reduce financial imbalances and restore creditworthiness in the context of IMF-supported programs in 1981 and 1984, as well as Paris Club flow reschedulings in 1984 and 1985, the stabilization gains were short-lived.

Côte d'Ivoire's capacity to service debt was further undermined in the late 1980s and early 1990s by a prolonged recession, several episodes of adverse commodity price shocks, poor export performance and delayed corrective policy actions. Believing these adverse economic developments to be temporary, the authorities delayed in implementing offsetting measures and the financial imbalances worsened. Adjustment efforts intensified in the context of SBAs approved in 1988, 1989, and 1991 that were supported by three Paris Club reschedulings between 1986 and 1989. Export price and terms-of-trade shocks between 1989 and 1993, in the face of an overvalued real exchange rate, compromised export performance and the economy experienced a six-year output decline. As a result, the large debt-service payments falling due proved to be a heavy burden and external payments arrears to official and private creditors were accumulated.

The situation improved in the mid-1990s, although the debt burden remained high. The devaluation of the CFA franc in 1994 and a renewed adjustment and structural reform effort was broadly successful in stimulating economic growth, reducing inflation and restoring

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[21]All arrears on private debt are included in short-term debt.

export competitiveness. Good progress was made subsequently in normalizing relations with external creditors. Paris Club creditors provided concessional debt relief (London terms—50 percent NPV reduction) for Côte d'Ivoire in the context of an ESAF agreement in 1994. Agreement in principle was reached in May 1997 with commercial bank creditors on a debt reduction and restructuring operation involving debt reduction of about 80 percent in NPV terms.

Debt burden indicators

Côte d'Ivoire's debt burden appeared sustainable in the 1970s as debt-service payments and debt accumulation grew broadly in line with export receipts and nominal GDP. Thereafter, a combination of adverse export price shocks, poor export performance, delayed policy adjustments, and poor debt management, in the face of mounting debt accumulation, led to an increasingly unmanageable debt burden. Reflecting this, between 1975 and 1978, the debt-burden indicators for Côte d'Ivoire (summarized in Charts 1 and 2) reveal relatively stable debt-to-export and debt-service ratios. From 1979 onward, the stock of debt increases outstripped stagnating export growth and the debt-to-export ratio reached 560 percent in 1995. Similarly, the debt-to-GNP ratio, at about 43 percent in 1975–78, rose to 114 percent in 1981–82, subsequently soaring to 320 percent in 1994, reflecting the impact of the 1994 devaluation.

Reflecting the increased debt burden on the Ivoirien economy, the scheduled debt-service-to-export ratio rose from 20 percent in 1979 to 71 percent in 1989 before falling back to 39 percent in 1995 (Chart 2). The capacity of the economy to service the debt weakened markedly through the early 1990s resulting in arrears accumulation and the need for six reschedulings with Paris Club creditors between 1982 and 1993.

Composition of external debt

Between 1975 and 1995, the composition of Côte d'Ivoire's external debt by creditor changed significantly with a shift from private to official financing and also away from short-term to long-term debt obligations (Chart 3). In 1975, debt to private creditors amounted to 41 percent of total public and publicly-guaranteed debt, with official creditors comprising 29 percent. By 1995, the share of private creditors had more than halved to 16 percent; this was offset by the doubling (to 60 percent) of debt obligations to official creditors. The claims of both multilateral and bilateral official creditors grew pari passu during this period representing 33 and 27 percent of debt outstanding in 1995, respectively. The share of short-term debt declined from 30 percent in 1975 to 24 percent in 1995, notwithstanding a surge in short-term borrowing between 1986 and 1990 (Table 1).

The low concessionality of Côte d'Ivoire's debt in the 1980s reflected broadly the country's reliance on private financing in the late 1970s and early 1980s (Charts 1 and 4). With the shift to official creditors and more favorable terms thereafter, the share of concessional debt rose from only 6 percent in 1981 to 25 percent in 1995.[22] Disbursements of concessional loans in total gross official financing rose from 17 percent in 1981–85 to over 70 percent in 1991–95 reflecting more favorable terms from official creditors since 1994 when Côte d'Ivoire became IDA-only and ESAF-eligible following the CFAF devaluation (Table 1). Accordingly, the average grant element of new commitments from official creditors rose from 11 percent in 1975 to 65 percent in 1995. In contrast, private creditors charged above market rates for most of the period (Chart 4).

Elements of the increase in external debt

From 1975 to 1995, Côte d'Ivoire's total external debt spiraled from \$1.8 billion to \$19 billion, a ten-fold increase (Chart 1). The bulk of the increase occurred in the first decade representing loans from private creditors (Table 1 and Chart 5). Between 1976 and 1985, private creditors disbursed 70 percent of new long-term disbursements to both public and private debtors in Côte d'Ivoire. Most of the private financing was publicly guaranteed and mainly funded investment in the petroleum sector. Official financing—and in particular nonconcessional financing from multilateral creditors—also grew significantly between 1976 and 1985, while bilateral disbursements were fairly stable.

Private flows declined after 1983, and net flows from private creditors were negative since 1986 (Table 1). The sizeable drop in net long-term flows in 1986-90 was offset by a surge (by some \$2 billion) in net short-term financing arising from an increase in export credits and the financing of arrears accumulated on long-term debt to private creditors. From 1987 onwards, external financing shifted to direct sovereign borrowing and flows from multilateral and bilateral creditors became dominant. Official financing rose from one-fourth of net long-term disbursements in 1976–80 to half in 1981–85 and constituted all net long-term inflows thereafter (Table 1). Concessional lending from bilateral sources picked up in the second half of the 1980s, and surged from all official sources in the 1990s. At the same time grant flows to Côte d'Ivoire rose sharply to \$2.4 billion in 1991–95, exceeding net debt flows.

Other significant developments during that period include a build-up of arrears and the capitalization of interest in debt reschedulings with bilateral creditors (see Chart 6), and large valuation changes in 1986-90. During 1991–95, Côte d'Ivoire benefited from debt forgiveness of \$1.7 billion largely from bilateral creditors.

Factors influencing financing needs and capacity to service debt

Sizeable foreign borrowing combined with the low return of public investments partly explains the sharp increase in the burden of public and publicly-guaranteed debt since the mid-1970s. A combination of exogenous factors (including commodity price and terms of trade shocks, and drought), financial mismanagement and delayed corrective policy responses

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[22]Grant element/concessionality as defined by the OECD/DAC, using a discount rate of 10 percent.

adversely affected the country's capacity to service its external debt. Côte d'Ivoire's vulnerability to exogenous shocks, stemming from excessive dependence on a few primary export commodities and the high burden of external debt, emerged as a recurring theme in the 1980s and 1990s.

During 1975–77, Côte d'Ivoire benefited from the threefold increase in the world prices of coffee and cocoa; the profits of the agricultural price stabilization fund increased tenfold. The rise in the world prices of cocoa and coffee improved the country's terms of trade by about 80 percent. With the windfall in revenue from these price increases the government undertook large investment projects, unfortunately often with low returns, supported by external financing. However, these price increases were short-lived. In addition, the oil crisis in 1979 resulted in upward pressure on the prices of imports of petroleum products. Consequently, the terms of trade registered a 30 percent deterioration from 1977 to 1980, and Côte d'Ivoire's current account deficit widened to some 16 percent of GDP in 1979–83 in comparison to 7 percent in 1975–77.

In 1981, to address the external imbalance, the authorities designed a three-year economic recovery program, which was supported by an EFF arrangement with the IMF. The program aimed mainly at reducing domestic absorption to bring about the needed adjustment in the external current account. A severe drought occurred in 1983 seriously hampering production for export. As a result, the Ivoirien economy registered a severe recession during the same year. With the adjustment process stalled, the large fiscal and external current account deficits persisted, further impairing debt-service capacity and triggering a build-up of both domestic and external payments arrears.

Faced with the escalating economic crisis, the Government designed a macroeconomic stabilization program supported by a stand-by arrangement with the IMF in 1984 aimed at restoring Côte d'Ivoire's relations with its foreign creditors and at intensifying the adjustment process. Agreements on external debt reschedulings were reached with Paris Club and commercial bank creditors in 1984, 1985, and 1986. The intensification of Côte d'Ivoire's adjustment efforts in 1984–85, together with important improvement in the terms of trade and more favorable weather conditions, enabled the country to redress temporarily its economic and financial situation.

The external position again began to deteriorate rapidly in 1986. The international prices for cocoa and other export commodities fell, the CFA franc appreciated (by 23 percent). Assessing the changes in the external environment to be temporary, the authorities delayed considerably in adopting the appropriate offsetting measures and the financial situation deteriorated markedly. By 1987, cocoa and coffee export prices had fallen to their lowest levels since 1983 and the terms of trade plummeted. As a result, Côte d'Ivoire faced once again widening current account and fiscal deficits—the latter reflecting the burden of agricultural price stabilization efforts. Against this background, Ivoirien policy makers agreed on a new adjustment program with the World Bank and the IMF in May 1986. Given the magnitude of the imbalances and the amount of payments arrears accumulated, the authorities also moved to mobilize exceptional financing from official and private creditors.

Between 1988 and 1993, the Ivoirien economy continued to face a series of external shocks, including worsening of the terms of trade and an overvalued exchange rate (Chart 7). As a consequence, real GDP growth became negative from 1990 to 1993, export receipts declined, and the capacity to service debt deteriorated. The large debt-service payments falling due proved to be a heavy burden and sizeable new arrears accumulated. Efforts in 1988, 1989, and 1991, to implement macroeconomic stabilization programs were supported by SBA arrangements with the IMF. Performance under these programs was disappointing. Fiscal slippages triggered considerable arrears accumulation.

With the devaluation of the CFA franc in early 1994, the Ivoirien economy began its recovery in the context of a renewed macroeconomic adjustment and structural reform program supported by a three-year ESAF arrangement with the IMF. The adjustment program adopted was broadly successful, resting on a robust recovery in the export sector, rapid GDP growth and a decline in inflation to single digits. The reforms, combined with sound financial policies helped to improve Côte d'Ivoire's capacity to service debt. The authorities moved to regularize their relations with external creditors. Paris Club creditors provided concessional debt relief in 1994 (on London terms with a 50 percent NPV reduction), and Côte d'Ivoire reached agreement in principle at end-1996 with commercial bank creditors on a debt reduction and restructuring operation involving debt reduction of some 80 percent. Nevertheless, Côte d'Ivoire's debt remains a high burden on the economy.

Table 1. Côte d'Ivoire: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
			(In millions of U.S. dollars)			(In percent)
Net change in debt stock	5,998	2,197	7,600	1,693	17,487	100
Net flows on debt (short- and long-term)	3,588	3,305	2,784	1,846	11,523	66
Net flows on long-term debt	3,588	3,210	731	1,733	9,263	53
Net flows on public sector debt	3,331	2,881	637	1,631	8,479	48
Multilateral (incl. IMF), net	403	1,335	222	458	2,417	14
Gross disbursements	529	1,680	1,833	2,250	6,292	36
Non-concessional	399	1,586	1,773	958	4,717	27
Concessional	130	94	60	1,292	1,575	9
Principal repayments	-126	-345	-1,611	-1,792	-3,875	-22
Bilateral, net	461	427	726	1,366	2,979	17
Gross disbursements	572	551	771	1,675	3,570	20
Non-concessional	367	268	96	127	858	5
Concessional	205	283	675	1,549	2,712	16
Principal repayments	-112	-124	-45	-310	-591	-3
Private sector with govt. guarantee, net	2,467	1,119	-310	-193	3,083	18
Gross disbursements	3,671	2,558	118	18	6,365	36
Principal repayments	-1,204	-1,439	-428	-211	-3,282	-19
Net flows on private sector debt (unguaranteed by debtor government)	258	329	94	102	783	4
Gross disbursements	572	997	1,052	1,002	3,623	21
Principal repayments	-314	-668	-958	-899	-2,839	-16
Net flows of short-term debt 1/		95	2,052	113	2,260	13
Net change in interest arrears 2/	...	...	371	249	620	4
Interest capitalized 2/	...	...	344	650	994	6
Debt forgiveness or reduction 2/	...	...	-79	-1,644	-1,723	-10
Valuation changes 3/	38	-1,289	2,653	587	1,988	11
Residual	2,372	181	1,527	6	4,086	23
Memorandum items:						
Grants	451	364	1,254	2,401	4,470	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	392	1,825	286	2,503	...

Sources: Global Development Finance (GDF), World Bank, 1997.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Côte d'Ivoire: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995 1/
Arrears to official creditors	0.5	12.3	89.6	124.1
Principal	0.2	5.9	16.3	34.3
Interest	0.3	6.4	73.3	89.8
Arrears to private creditors	0.0	57.5	2,463.7	3,638.8
Principal	0.0	49.8	1,710.3	2,652.9
Interest	0.0	7.7	753.4	985.9

Source: World Bank DRS.

1/ Data for 1995 are preliminary. More recent IMF estimates show total arrears to London Club creditors at $6.3 million.

Table 3. Côte d'Ivoire: Chronology of IMF Support

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
EFF	2/27/81	2/26/83	484.5	446.5
Stand-by 1/	5/2/84	5/1/85	82.8	62.1
Stand-by	6/3/85	6/2/86	66.2	66.2
Stand-by	6/23/86	6/22/88	100.0	24.0
Stand-by 2/	12/15/87	4/30/89	94.0	7.0
Stand-by	11/20/89	4/19/91	146.5	117.2
CCFF 3/	9/10/90	n.a.	24.3	24.3
Stand-by	9/20/91	9/19/92	82.8	33.1
ESAF	3/11/94	6/13/97	333.5	285.8

Source: IMF.

1/ Effective on 8/3/84.
2/ Effective on 2/29/88.
3/ Contingent and Compensatory Financing Facility.

Table 4. Côte d'Ivoire: Rescheduling of Official Bilateral Debt, 1984-96

Number of Reschedulings	Date of Agreement	Amount Consolidated (In millions of U.S. dollars)	Consolidation Period (In months)	Terms	
				Grace (In years)	Maturity (In years)
I	5/4/84	230	13	4.0	8.5
II	6/25/85	213	12	4.0	8.5
III	5/27/86	370	36	4.1	8.6
IV	12/17/87	567	16	5.8	9.3
V	12/18/89	934	16	7.8	13.3
VI	11/20/91	806	12	8.0	14.5
VII	3/22/94	1,849	37	London terms	

Sources: Paris Club; and IMF staff estimates.

Chart 1. Côte d'Ivoire: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

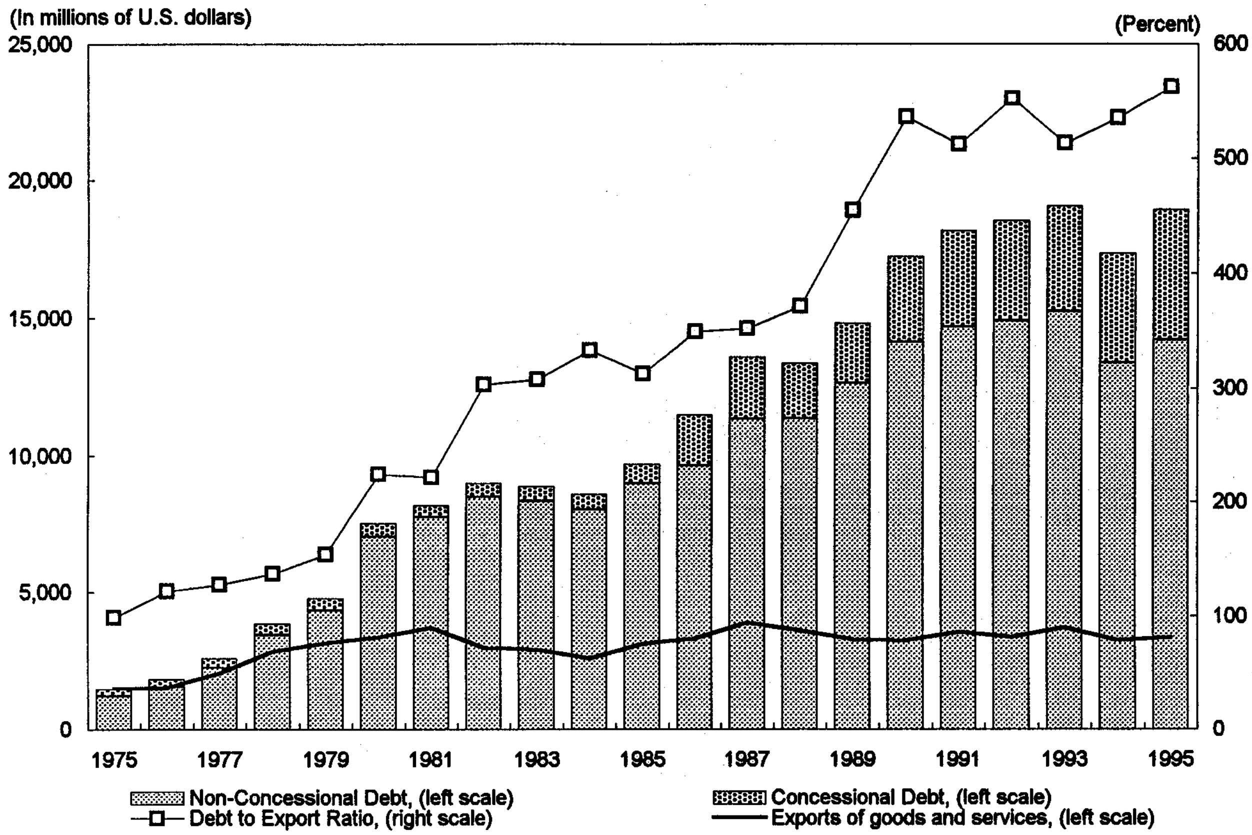
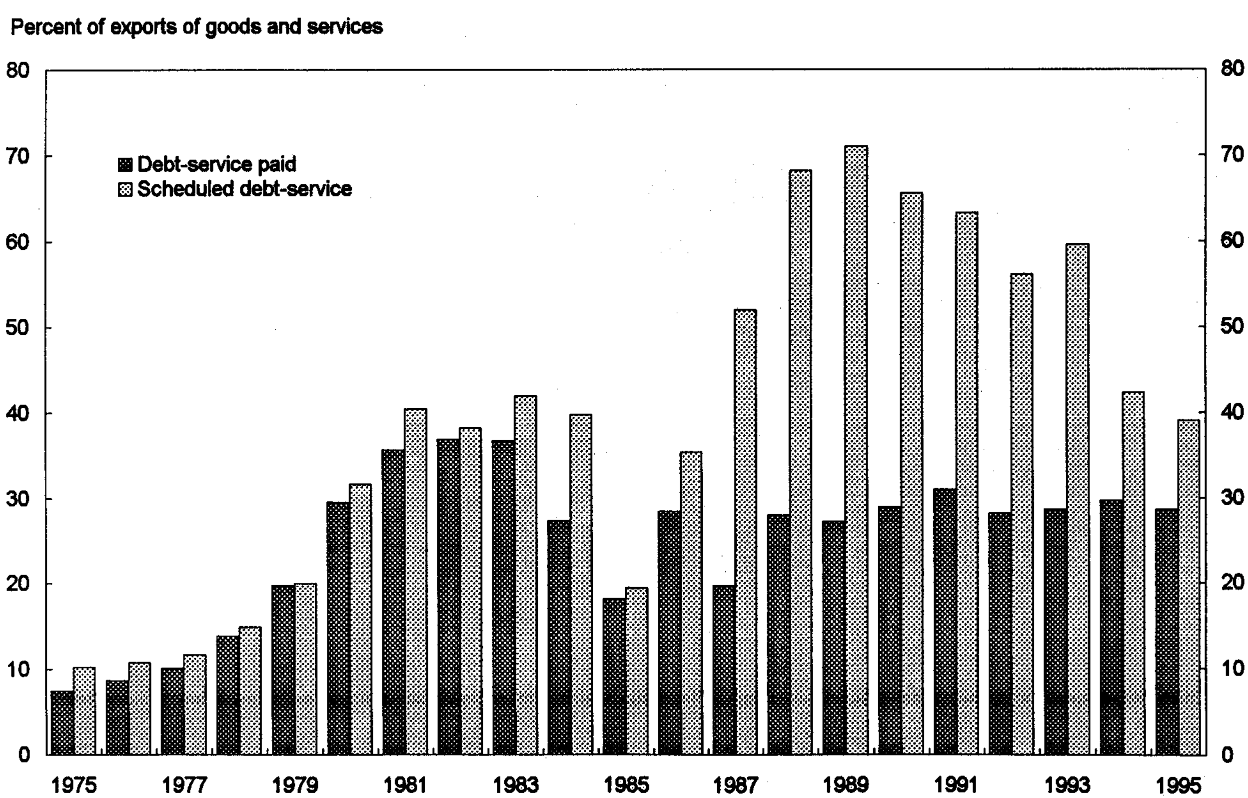


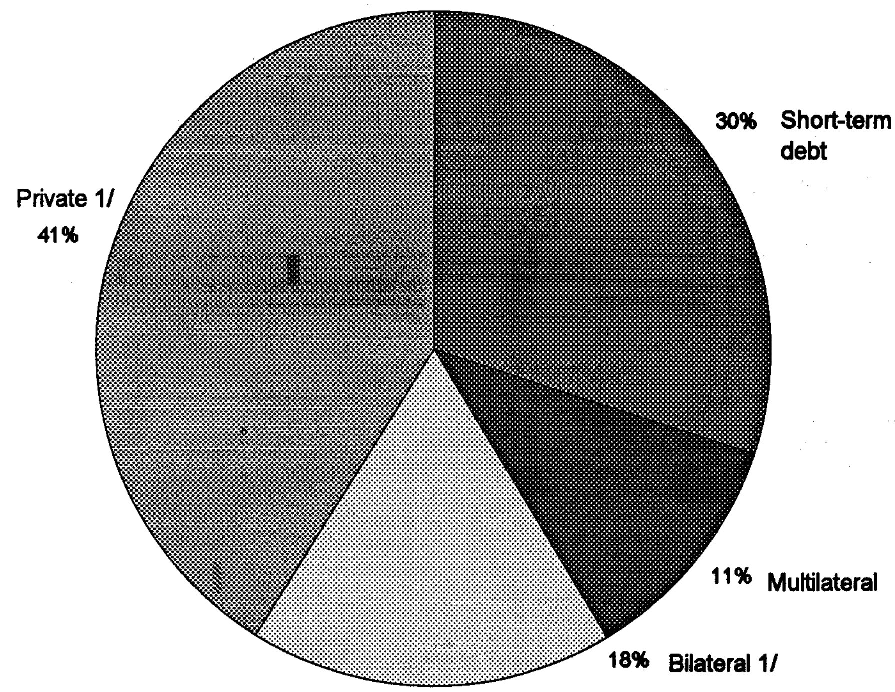
Chart 2. Côte d'Ivoire: Debt-Service Ratios, 1975-95



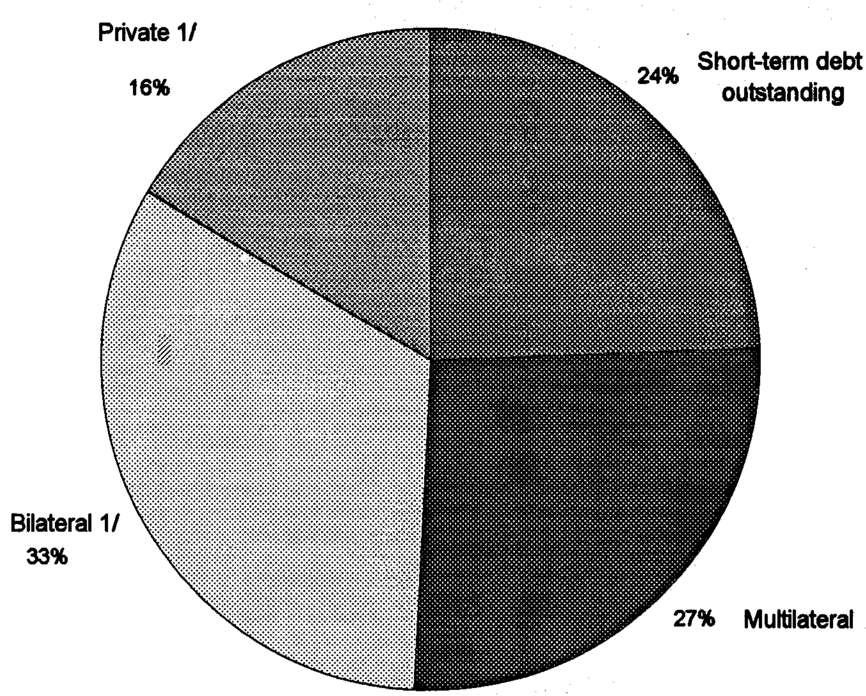
Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Côte d'Ivoire: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95

1975



1995



Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Côte d'Ivoire: Average Grant Element of New Commitments, 1975-95 1/

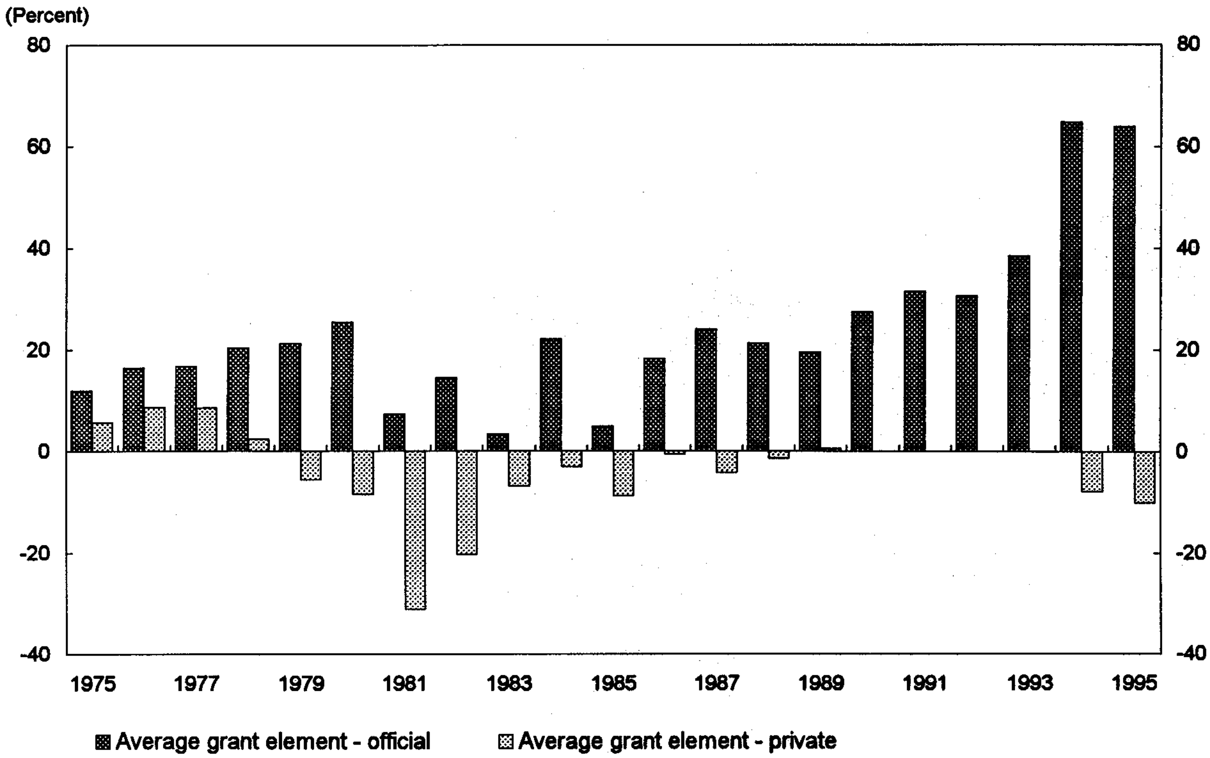
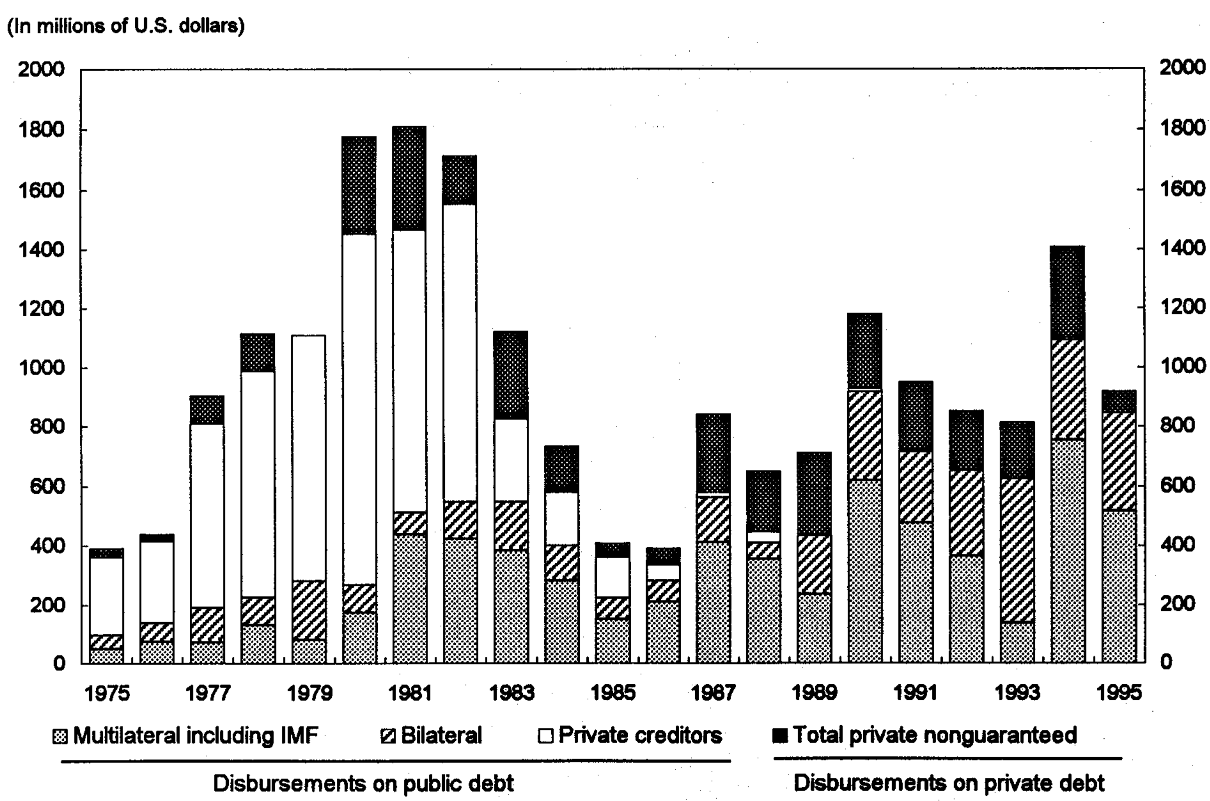


Chart 5. Côte d'Ivoire: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Côte d'Ivoire: Breakdown of Debt Stock Increase, 1975-95

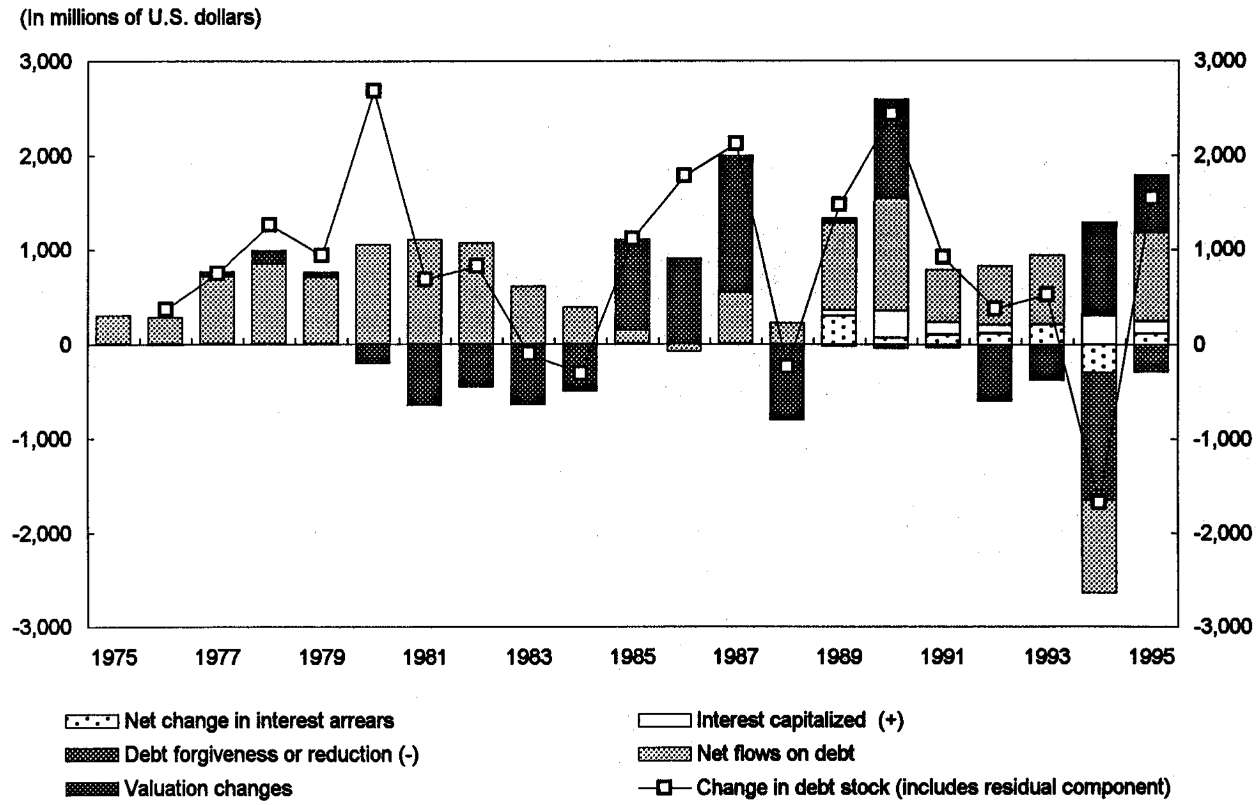
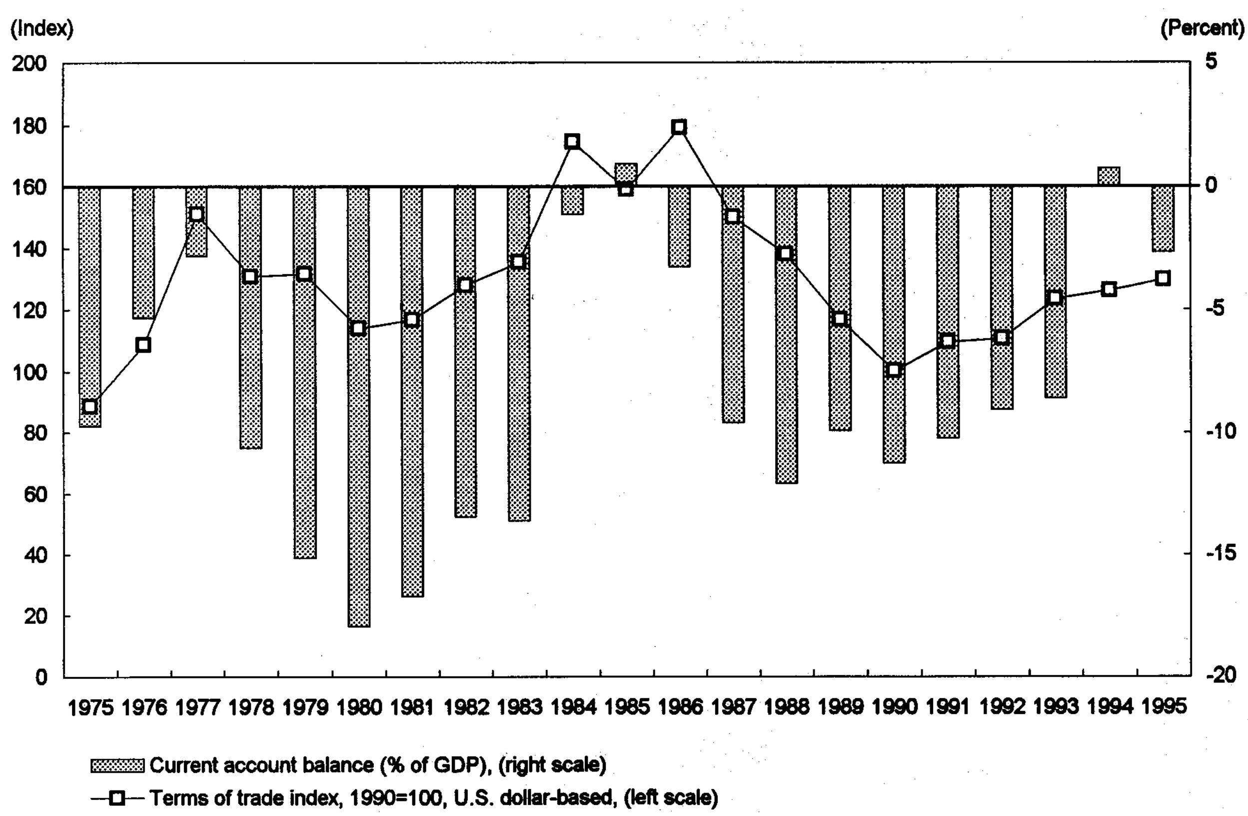


Chart 7. Côte d'Ivoire: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Ghana

Summary

Ghana's debt-to-export ratio was relatively low throughout the 1970s, but rose rapidly during 1980–83 mainly as a result of a sharp decline in export earnings. By 1983, the debt-to-exports ratio had reached almost 350 percent, up from 100 percent in the late 1970s, and the scheduled debt-service ratio reached over 30 percent, compared with less than 10 percent in the late 1970s. After 1983, Ghana's nominal debt stock rose significantly, increasing from $1.7 billion in 1983 to $5.9 billion in 1995, due to large disbursements from multilaterals. Despite the more than three-fold increase in the debt stock during 1983-95, Ghana's debt-to-exports ratio increased relatively slowly, and averaged about 390 percent in 1991–95.[23] The relatively slow growth in the debt-to-exports ratio reflected Ghana's success in achieving solid export growth after 1983, with average annual export volume growth of almost 10 percent in the period 1983–95, reflecting some diversification away from cocoa exports.

The success in achieving solid export growth performance stemmed from the introduction of an Economic Recovery Program in 1983, supported by Stand-by Arrangements (SBAs) with the IMF. The program included a restoration of financial discipline, exchange and price de-control, and discrete devaluations of the exchange rate. Later programs, supported by the IMF under the ESAF, introduced wider structural and institutional reforms over the period 1988–91. However, in the run-up to the first multi-party elections in 1992, fiscal discipline lapsed and balance of payments pressures arose which led to significant borrowing in excess of the ceilings in IMF-supported programs.[24]

Ghana was generally able to meet its debt-service obligations and avoided recourse to reschedulings with the Paris Club, except for a rescheduling of longstanding arrears to a limited group of creditors on nonconcessional terms in 1996. As a result, Ghana enjoyed access to loan financing from private creditors and from some bilaterals, particularly Japan, whose criteria for loan financing emphasize the ability of a country to avoid rescheduling on concessional terms, as well as continued cover from export credit agencies.

Debt burden indicators

Throughout the late 1970s, Ghana's debt burden was relatively low, with a debt-to-exports ratio averaging about 100 percent and a debt-service ratio below 10 percent (Charts 1 and 2). However, the debt burden rose rapidly in 1980–83 as a result of a sharp decline in

[23]The NPV debt-exports ratio was lower, reflecting the average grant element of debt of about 35–40 percent.

[24]The bulk of the debt build-up, however, occurred during periods in which the debt ceilings were respected, as most of the new financing was either on maturities longer than specified under the ceilings or the concessionality criteria were met.

export earnings due to a combination of lower world cocoa prices (Ghana's main export commodity then) and a slump in cocoa export production. By 1983, the debt-to-exports ratio had reached almost 350 percent and the debt-service ratio had risen to over 30 percent. However, after 1983 the debt burden increased relatively slowly as a sizeable increase in total debt was mitigated offset by reasonably strong export growth. By 1990–95, the debt-to-exports ratio stabilized at about 390 percent, while the NPV debt-to-exports ratio was somewhat lower (at about 240 percent over the same period, reflecting the average grant element of debt of about 35–40 percent, see Chart 4).

Composition of external debt

The composition of debt by creditor changed markedly between 1975 and 1995, with a switch from bilateral to multilateral debt (Chart 3). In 1975, debt to bilaterals comprised 66 percent of the total public and publicly-guaranteed external debt, with private creditors and multilaterals (including the IMF) comprising about 15 percent and 18 percent respectively. By 1995, the share of bilateral debt had fallen to 20 percent (of which half was to Japan) while debt to multilaterals (including the IMF) increased to 62 percent—debt to IDA accounted for almost 80 percent of the multilateral debt (excluding the IMF). The share of debt to private creditors fell to about 7 percent of total debt by 1995, about half its share in 1975, while short-term debt increased in importance and comprised about 11 percent of external debt by 1995.

The share of debt on concessional terms fell from about 75 percent in 1975–76 to about 40 percent in 1985, as 60 percent of new financing was on nonconcessional terms in the period 1975–85 (Table 1, Chart 1). Financing from the IMF on nonconcessional terms made up about 40 percent of total disbursements of loan financing during 1975–85. The share of debt on concessional terms increased gradually from 1985 onwards, and reached almost 60 percent by 1995, mainly due to an increased share of concessional financing from multilaterals (including the IMF) and bilaterals.

Elements of the increase in external debt

Ghana's total external debt increased from US$0.7 billion in 1975 to $5.9 billion in 1995, an increase of about 840 percent. The bulk of this increase took place after 1983 as a result of significantly higher levels of new disbursements, particularly from multilaterals (Table 1, Chart 5). Financing from the IMF under a number of programs made up the bulk of the new financing from multilaterals in the mid-1980s, comprising about 45 percent of disbursements in the period 1983–86 (Table 2). However, in the late 1980s, financing from multilaterals other than the IMF increased sharply and exceeded $2.4 billion in 1986–95. Multilateral financing comprised about 45–50 percent of new loan financing in this latter period, the bulk of which was from the IDA.

New loan financing from bilaterals also increased after 1983, but not as dramatically as from multilaterals. New financing from bilaterals increased from about $260 million in 1981–85 to almost $660 million in 1991–95. Japan provided the bulk of the new loan financing, and was the only bilateral creditor to increase significantly its claims on Ghana after 1983. Other bilaterals switched their support to grant financing, which increased markedly from $0.5 billion in 1981–85 to $1.8 billion in 1991–95.

Ghana also received an increased level of new financing from private creditors over the period 1986–95 (about $0.7 billion compared with about $0.2 billion in 1976–85), and received sizeable net short-term flows in 1991–95 (over $0.3 billion). Ghana's increased access to financing from commercial creditors was a direct result of its good track record in meeting its debt-service obligations.[25]

Other significant influences on the debt stock included debt reduction and currency fluctuations (Chart 6). Debt reduction from bilateral creditors (outside of the context of a Paris Club agreement) was important after 1985, and amounted to almost US$0.6 billion. This was offset in large part by currency losses from the revaluation of debt in U.S. dollar terms.

Factors influencing financing needs and capacity to service debt

In the period 1975–80, Ghana's external financing need was relatively small, because the balance of payments benefited from a cocoa price boom (Chart 7). However, following the sharp fall in the terms of trade in 1979–81, the current account balance deteriorated from near balance in 1979–80 to a deficit of about 1 percent of GDP in the early 1980s, before deteriorating to a deficit of about 2–3 percent of GDP in the mid-1980s. Export earnings fell by 60 percent between 1980 and 1983, as a result of a 20 percent fall in the price of cocoa (Ghana's main export, representing 65 percent of exports between 1980–83) and a subsequent decline in cocoa production, which in turn severely eroded Ghana's capacity to service debt.

Sweeping reform efforts were initiated with the introduction of the Economic Recovery Program (ERP) in April 1983. The initial phase of adjustment (1983–87), supported by SBAs with the IMF, featured a restoration of financial discipline, exchange and price decontrol, and discrete devaluations of the exchange rate followed by the introduction of a foreign exchange auction system. During the second phase of adjustment, 1988–91 (with the support of a three-year ESAF approved in 1988), the thrust of policies was broadened to encompass comprehensive structural and institutional reforms in a wide range of areas including: a flexible producer pricing policy for cocoa and major progress in the liberalization of the legislative, regulatory, and institutional framework to promote private sector development.

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[25]Ghana's arrears to official and private creditors were low throughout the 1980s and 1990's (Table 3) and Ghana avoided recourse to rescheduling with the Paris Club, except for a 1996 terms of reference rescheduling of arrears of previously disputed debt, on nonconcessional terms.

However, owing to expenditure increase related to the first multi-party elections in 1992, the overall deficit did not improve from the very high level of some 10 percent of GDP in 1992 until 1995, when it declined to 6.7 percent. Thus, inflationary and balance of payments pressures intensified as both the current account deficit and financing gaps widened, which led to a further build-up in debt. More recently, Ghana renewed its adjustment efforts in 1995 with the adoption of a three-year ESAF arrangement.

Exports responded well to the policies introduced after 1983, despite the slippages in 1992–94. Total export volume growth averaged almost 10 percent between 1983 and 1994, with non-traditional exports growing at an even faster pace. By 1994, cocoa's share in total exports of goods had fallen to 26 percent from 61 percent in 1983, and was no longer the main export product, being displaced by gold exports which contributed 44 percent of exports in 1994. Import volumes also grew rapidly during this period, suggesting that imports were neither being unduly compressed by a squeeze on domestic bank credit nor acted as a restraint on the recovery of the economic activity. Rather, the additional external financing (particularly balance of payments support) that accompanied the adoption of strong policies helped to ease the balance of payments constraint and allowed Ghana to meet its debt-servicing obligations.

Table 1. Ghana: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
			(In millions of U.S. dollars)			(In percent)
Net change in debt stock	678	858	1,616	2,002	5,154	100
Net flows on debt (short- and long-term)	485	925	1,346	1,902	4,658	90
Net flows on long-term debt	485	981	1,215	1,573	4,254	83
Net flows on public sector debt	485	973	1,214	1,579	4,251	82
Multilateral (incl. IMF), net	268	821	928	897	2,915	57
Gross disbursements	315	925	1,874	1,545	4,659	90
Non-concessional	140	697	404	171	1,411	27
Concessional	175	229	1,470	1,375	3,248	63
Principal repayments	-46	-104	-945	-648	-1,744	-34
Bilateral, net	234	83	303	492	1,112	22
Gross disbursements	370	261	472	660	1,764	34
Non-concessional	140	53	55	39	287	6
Concessional	230	208	417	622	1,477	29
Principal repayments	-136	-178	-170	-168	-652	-13
Private sector with govt. guarantee, net	-17	69	-17	190	225	4
Gross disbursements	53	104	293	447	896	17
Principal repayments	-70	-35	-310	-257	-671	-13
Net flows on private sector debt (unguaranteed by debtor government)	0	8	1	-6	3	0
Gross disbursements	0	8	38	23	69	1
Principal repayments	0	0	37	29	66	1
Net flows of short-term debt 1/	...	-56	131	329	404	8
Net change in interest arrears 2/	...	...	33	-18	15	0
Interest capitalized 2/	...	...	0	27	27	1
Debt forgiveness or reduction 2/	...	...	-146	-128	-275	-5
Valuation changes 3/	69	-154	280	126	322	6
Residual	124	86	103	93	406	8
Memorandum items:						
Grants	301	452	1,328	1,846	3,926	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	4	227	201	432	...

Source: Global Development Finance, World Bank, 1997.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Ghana: Principal and Interest Arrears
(In millions of U.S. dollars)

	1980	1985	1990	1995 1/
Arrears to official creditor	2.9	5.7	37.9	51.8
Principal	1.7	4.2	27.4	45.7
Interest	1.2	1.5	10.5	6.1
Arrears to private creditors	4.5	28.8	77.2	100.1
Principal	0.0	0.0	0.0	0.0
Interest	4.5	28.8	77.2	100.1

Source: GDF, World Bank.

1/ Data for 1995 are preliminary; particularly the figure for arrears to private creditors appears to be on the high side.

Table 3. Ghana: Chronology of IMF Support, 1979–95

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	6/30/95	6/29/98	164	27.4
ESAF	11/9/88	3/5/92	389	389
SAF	11/11/87	11/8/88	130	41
EFF	11/6/87	11/8/90	245	98
Stand-by	10/15/86	10/14/87	82	82
CFF 1/	12/4/84	...	58	58
Stand-by	8/27/84	12/27/85	180	180
Stand-by	8/3/83	8/2/84	239	239
CFF 1/	8/3/83	...	120	120
Stand-by	1/10/79	1/9/80	53	32

Source: IMF.

1/ Compensatory Financing Facility.

Chart 1. Ghana: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

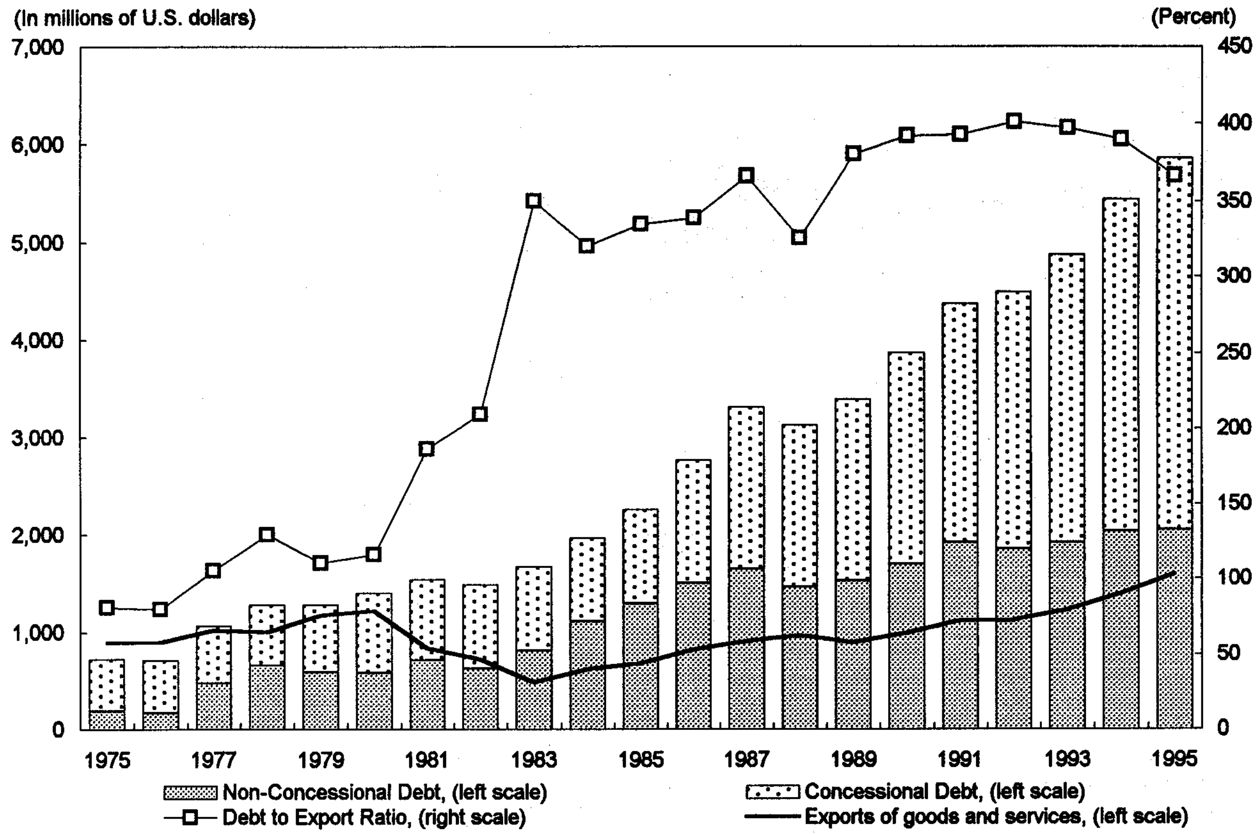
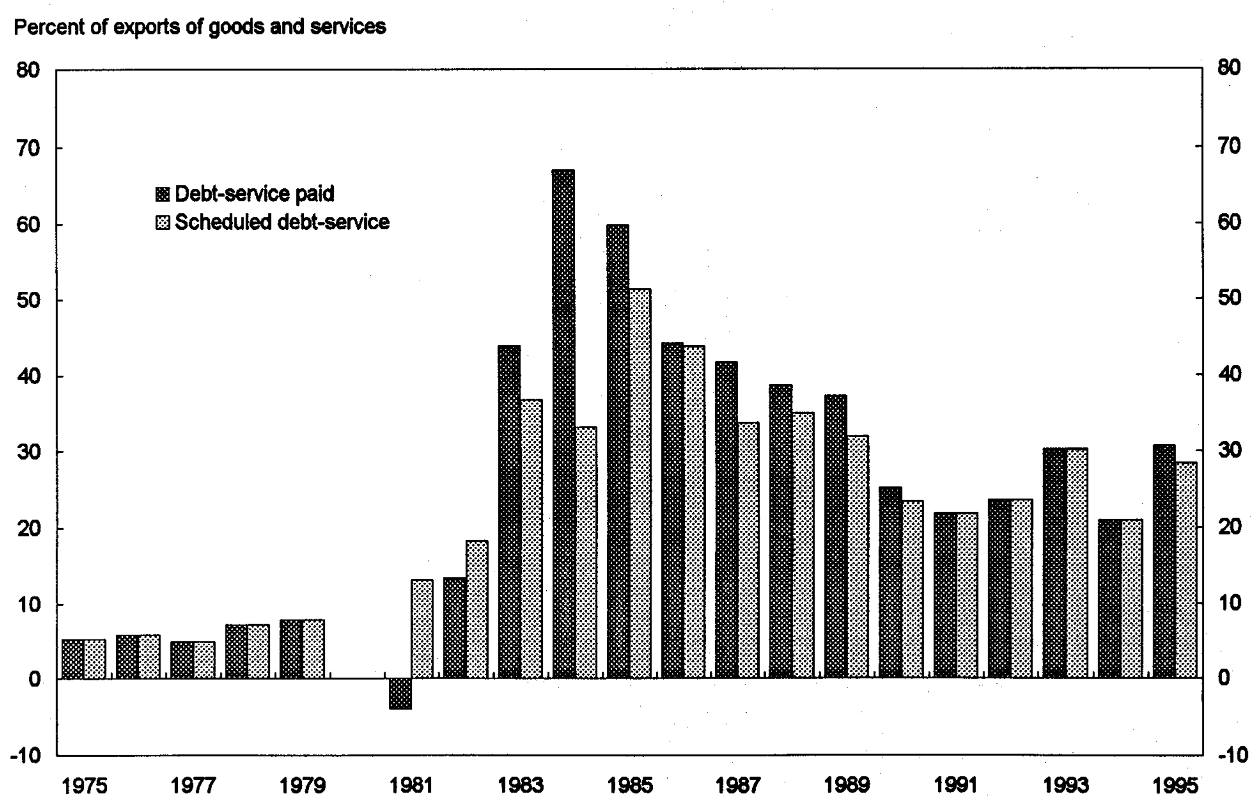
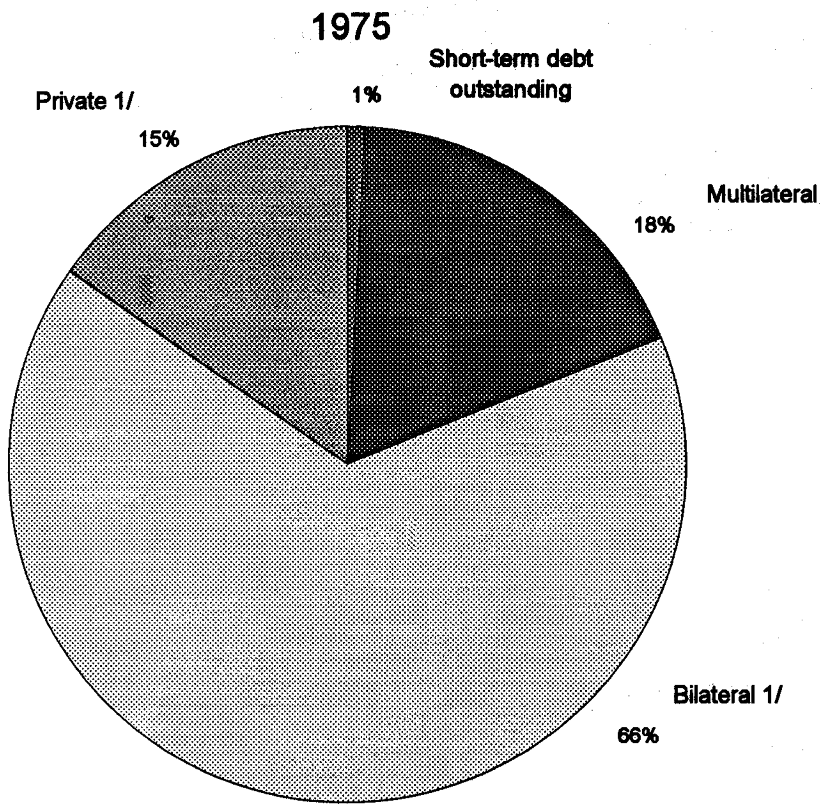


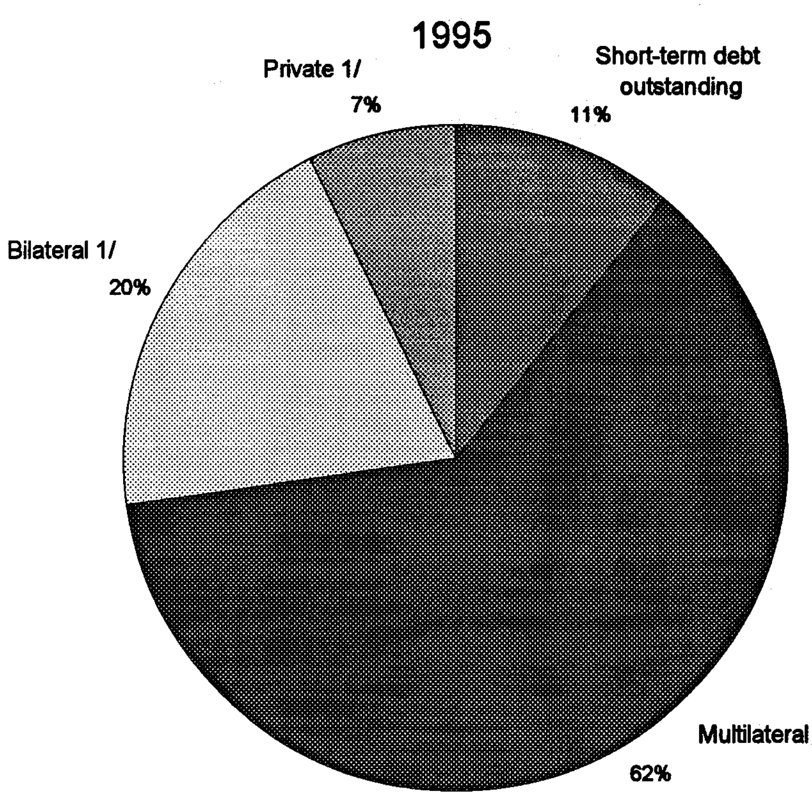
Chart 2. Ghana: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Ghana: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Ghana: Average Grant Element of New Commitments, 1975-95 1/

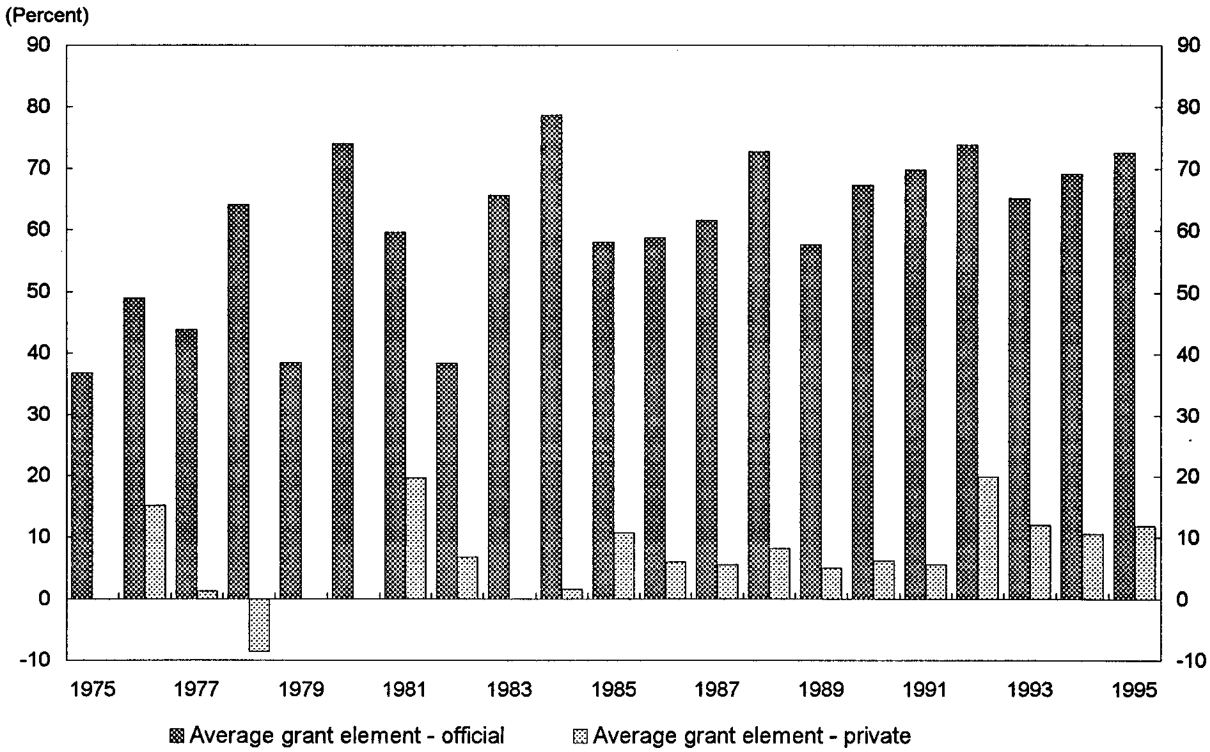
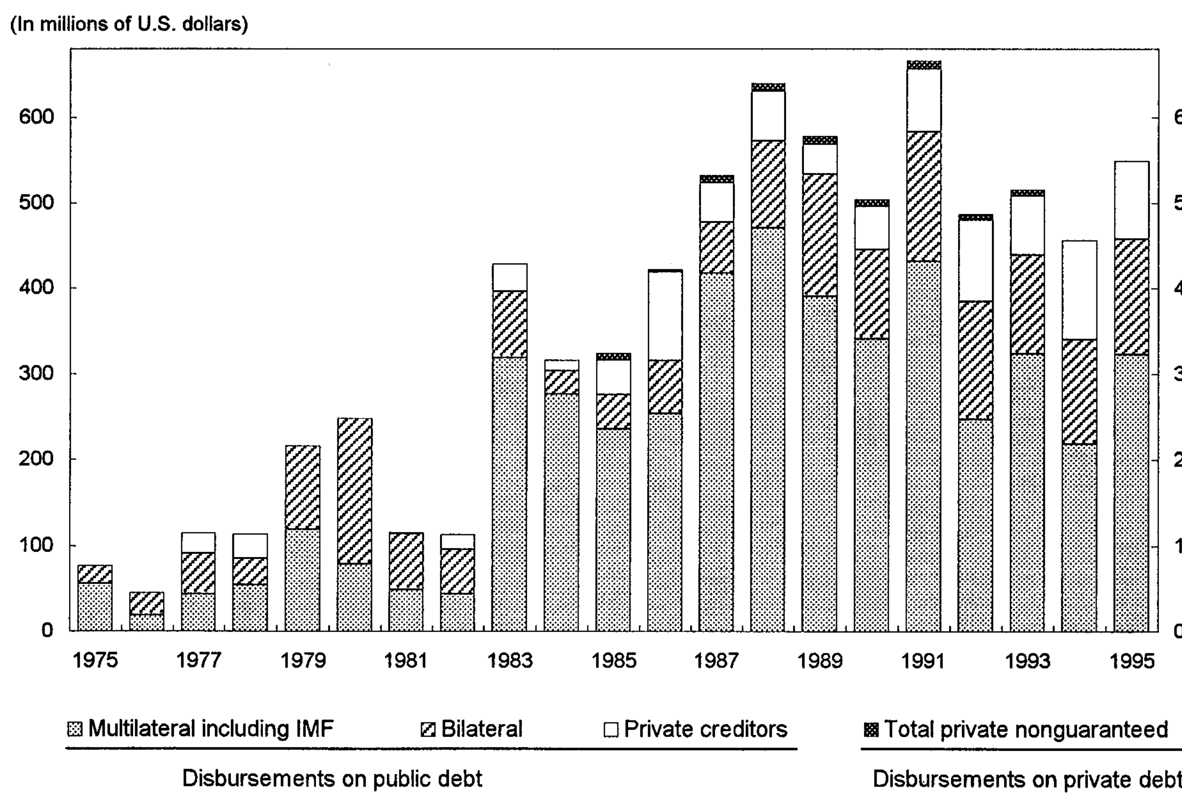


Chart 5. Ghana: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Ghana: Breakdown of Debt Stock Increase, 1975-95

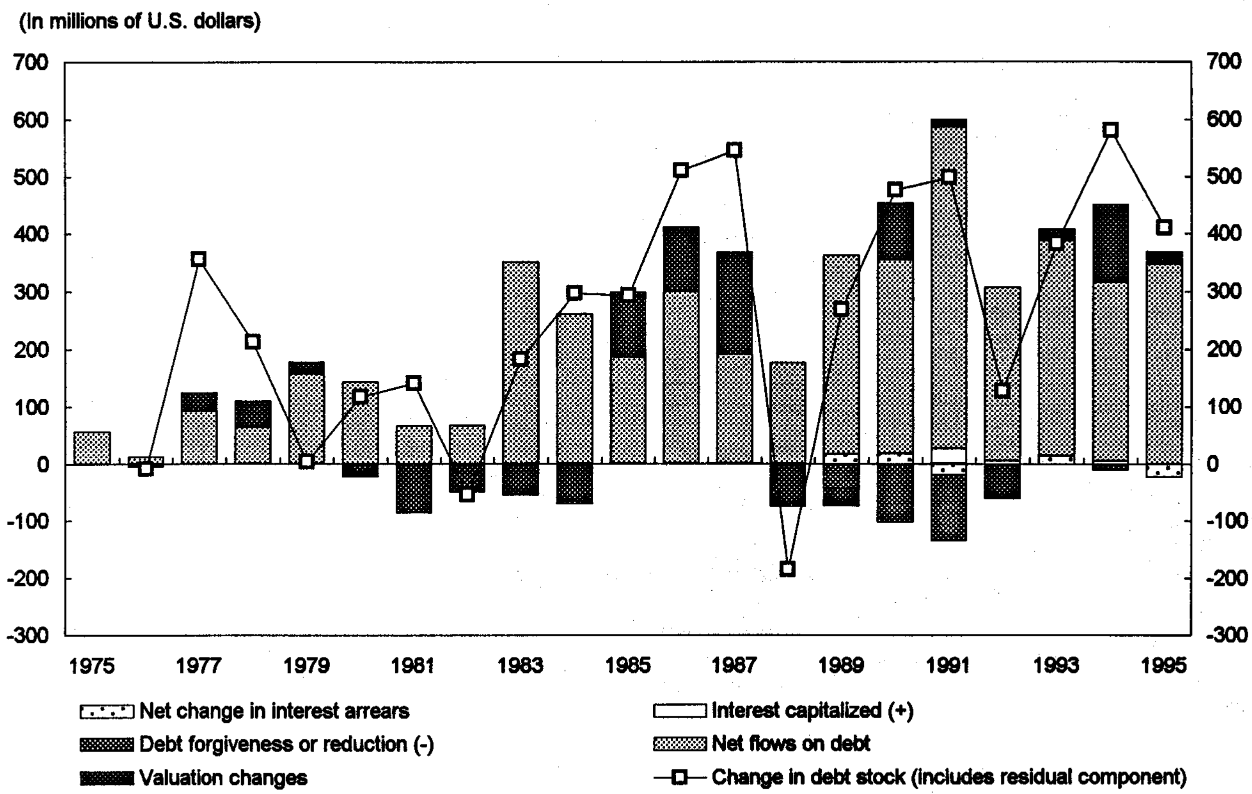
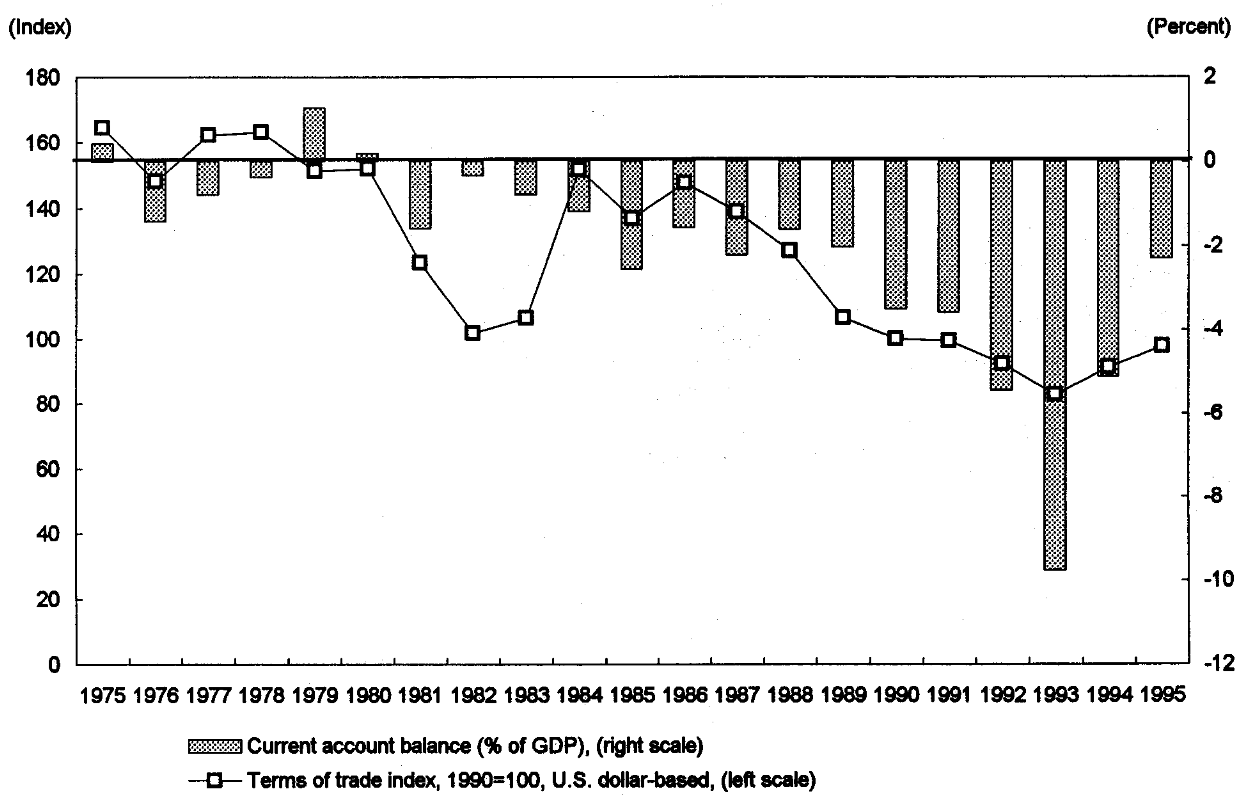


Chart 7. Ghana: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Kenya

Summary

Kenya's external debt rose six-fold from 1975 to 1995 while the debt-exports ratio increased from 130 to 300–340 percent in 1987–93, before falling to 250 percent in 1995. Scheduled debt-service ratios have largely been in the range of 30–40 percent since the mid-1980s. Private and multilateral creditors were the main sources of new financing throughout most of the period, although financing from private creditors fell sharply after 1991 as arrears were accumulated. Multilateral creditors grew in importance in the 1990s and by 1995, multilateral debt (including the IMF) comprised almost half of the total debt. Bilateral loan financing comprised an important share of new financing throughout the period 1975–95, but bilateral support shifted progressively toward grants.

Kenya maintained a reasonably good record of servicing its external debt throughout the 1970s and 1980s and thereby benefited from access to financing from commercial creditors. Although Kenya suffered from various exogenous shocks in the past twenty years, including poor rains and a 30 percent decline in the terms of trade between the periods 1976–80 and 1991–95, it was generally able to service its debt because its diversified export base made it relatively resilient to shocks. Also, the regional economic recovery (namely, in Tanzania and Uganda) in the 1990s has been an important factor in stimulating export growth.[26] Kenya avoided recourse to Paris Club reschedulings, except for a nonconcessional rescheduling of arrears only in 1994, and in consequence maintained access to cover from export credit agencies for it imports.

Kenya's mixed record of policy performance, with periods of reasonably good performance (in 1982–90 and 1993–94) interspersed with weak performance (in 1977–81 and 1991–92) did not lay the foundation for strong export performance. While some progress was made in encouraging exports in the 1980s, through liberalization of the exchange and trade system and maintenance of a competitive exchange rate throughout the 1980s, export growth did not improve significantly until more fundamental reform took place in 1993–94 following a real devaluation. Furthermore, the periods of weak performance led to a build-up in debt or intermittent debt-service arrears that worsened the debt situation.

[26]Between 1991 and 1995, merchandise exports to Tanzania and Uganda rose from 10 percent to 29 percent of total merchandise exports. During this period, these two countries accounted for 60 percent of Kenya's export growth.

Debt burden indicators

Kenya's debt-to-exports ratio rose steadily from about 130 percent in 1975 to reach 336 percent by 1987. It remained at or above 300 percent until 1993 before falling in 1994 and 1995 due to stronger exports (Chart 1). The main reason for the increase was the sixfold rise in the total stock of external debt, from $1.3 billion in 1975 to about $7 billion in 1991–95. Debt-service obligations, in turn, rose by about three times (from about $0.2 billion annually in 1976–80 to about $0.7 billion annually in 1991–95). The rate of increase in the debt-service ratio, on the other hand, was more modest (increasing from less than 15 percent in 1975–84 to a peak of about 40 percent in 1992, before easing to less than 30 percent in 1995, reflecting strong export growth over the period (Chart 2). Total exports increased by over 65 percent in U.S. dollar terms between 1975 and 1994 despite a 30 percent decline in the terms of trade. The export growth was an important factor in allowing Kenya to meet its debt-service obligations.[27]

Composition of external debt

Over the period 1976–95, the composition of debt changed in two ways—(1) the share of debt on concessional terms increased and (2) multilateral creditors became the largest creditors (Chart 3). The share of debt on concessional terms more than doubled, increasing from about 25 percent in 1975 to 54 percent in 1995. Furthermore, most of the increase in the share of concessional debt took place in the early 1990s, reflecting an increasing emphasis on concessional financing from bilaterals and multilaterals (including the IMF). In addition, sizeable repayments of nonconcessional debt, particularly to multilaterals (including the IMF) took place in 1991–95 leaving a larger share of concessional debt. In turn, the increased share of concessional debt, particularly in the period 1991–95, was an important factor in stabilizing the external debt burden in recent years.

In 1975, bilateral creditors comprised the largest share of Kenya's stock of public and publicly-guaranteed external debt (37 percent of the total), and multilateral creditors (including the IMF) comprised 30 percent with private creditors and short-term debt comprising the remaining 33 percent. However, by 1995, debt to multilateral creditors comprised the largest share (48 percent of the total), while debt to private creditors and short-term debt had fallen to 19 percent of the total.[28]

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[27]Kenya accumulated small amounts of arrears between 1989 and 1994, and sought a Paris Club rescheduling of these arrears on nonconcessional terms in 1994.

[28] Note that debt to private creditors that is guaranteed by export credit agencies and is subsequently rescheduled by Paris Club creditors changes category in the World Bank DRS

(continued...)

Elements of the increase in external debt

The stock of external debt grew from $1.3 billion in 1975 to a peak of $7.5 billion in 1991, before settling at about $7 billion in 1991–95. The growth in Kenya's debt stock in U.S. dollars terms over the period, however, took place mainly over three periods: 1978–80, 1985–87, and 1989–91. The volatility in the growth rate of the debt stock expressed in U.S. dollar terms, however, largely reflected the impact of changes in the U.S. dollar vis-à-vis other major currencies over the period. In particular, the relatively slow growth in the debt stock in 1981–84 and the rapid growth in 1985–86 (both in U.S. dollar terms) was due in large part to the appreciation and subsequent depreciation of the U.S. dollar against other major currencies and because only about 35–40 percent of Kenya's debt was denominated in U.S. dollars in 1980. The growth in the debt stock in SDR terms was somewhat smoother.

New financing from multilateral creditors contributed significantly to the increase in the debt stock, as multilaterals increased in importance as a source of new financing throughout the period 1976–95 (Table 1). In 1976–80 new financing from multilaterals (including the IMF) comprised only 23 percent of total new financing, yet by 1991–95 the share had risen to 38 percent.

Financing from private creditors also made a significant contribution to the debt stock increase, as almost 40 percent of total long-term disbursements were from private creditors in 1976–95, about one-third of which was without a guarantee from the Kenyan government (Chart 5). Kenya's reputation for meeting its debt-service obligations in a relatively timely manner throughout the 1970s and 1980s was an important factor behind its continued access to commercial financing. However, during 1989–94 Kenya accumulated some arrears on debt-service payments, including to private creditors (Table 2), which adversely affected its creditworthiness. This led to a curtailment of new financing from private creditors, which fell to historically low levels in 1993–94.

Kenya's reasonably good track record at servicing debt until the late 1980s also facilitated sizeable disbursements from bilaterals in 1976–95. Annual disbursements from bilaterals were in the range of $100–200 million per annum over most of this period. Although there was a fall in disbursements after 1991, following the accumulation of arrears, the fall was not as marked as that for private creditors.

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[28](...continued)
from private to bilateral. The impact of the Paris Club rescheduling in 1994 on the relative shares of private and bilateral creditors was only marginal, as only $535 million was rescheduled.

Kenya also benefited from debt forgiveness from bilateral creditors equivalent to about $0.6 billion in 1989–95, which was provided on a bilateral basis outside of the auspices of the Paris Club. A further factor that stabilized the external debt stock was the switch of financing from bilaterals away from loans toward grants. In 1986–95, grants amounted to about $5.9 billion, almost three times the level during the earlier decade and almost two and a half times the level of net flows on debt in the same period.

Influences on the financing needs and the capacity to service debt

Following a decade of strong performance and a sound external position, Kenya's current account deficit worsened in 1978–81, reflecting a combination of highly expansionary fiscal policies, the loss of markets of the East African Community (following the closure of the Tanzanian border in 1977 and the deterioration of the political situation in Uganda), and a worsening in the terms of trade. The government borrowed heavily in this period to finance the current account deficit, including two sizeable Euro-currency loans (totaling $311 million).

In the early 1980s, the authorities tightened their financial policies and implemented three SBAs, one annual SAF, and two annual ESAF programs over the period 1982–90 (see Table 4 for a chronology of Fund support). Although policy performance under these programs was reasonably good, export performance fell short of expectations. For instance, in the SBA approved in 1985, exports of goods were projected to grow by 45 percent over the period 1985–89, but actually fell by about 23 percent. In part, this was due to an unexpected fall in the terms of trade (by about 25 percent) over this period, but was also due to inadequate progress in export promotion.

Some progress was made in the 1980s toward encouraging exports by liberalizing the exchange and trade system and maintaining a competitive exchange rate. However, non-traditional exports did not respond strongly. More fundamental structural reforms were needed to encourage exports, including far-reaching liberalization of agricultural marketing and the exchange and trade system, reform of public enterprises, and increased efficiency of the public investment program so as to build a better infrastructure for exporters.

As a result, Kenya did not strengthen its capacity to service debt in the 1980s, and the large debt-service payments falling due proved to be a heavy burden. Furthermore, Kenya's balance of payments position deteriorated as a result of the poor export performance. The large current account deficits experienced by Kenya in 1987–90, in turn, required substantial new financing (Chart 7), and loan financing reached record levels in this period.

Despite the worse-than-expected export performance, Kenya's export base was reasonably diversified, with coffee and tea accounting for about 40–45 percent of earnings in the mid-1980s and earnings from horticulture and tourism were becoming more important. As such, Kenya was reasonably resilient to commodity price shocks, and its capacity to service debt was not dramatically affected by the exogenous shocks it experienced in the 1980s.

Starting in late 1991 Kenya experienced a sharp worsening of economic conditions leading to the crisis of 1993, when domestic and external imbalances intensified. Among the causes that led to the 1993 crisis were: lax monetary and fiscal policies, the suspension of balance of payment assistance from bilateral donors in 1991 (reflecting donors' concern about economic policy, governance issues, and political reform), poor rains and lower export prices. Some arrears to bilateral and commercial creditors accumulated and these were rescheduled by Paris Club creditors (on nonconcessional terms) in 1994.

Faced with the escalating economic crisis in April 1993, the Government adopted a macroeconomic framework to restore stability. Under this program and a subsequent one-year ESAF arrangement in 1994, a degree of monetary and fiscal discipline was restored, reform of agricultural marketing and public enterprises was launched and the external sector was liberalized (virtually all trade and exchange restrictions were removed, the exchange rate was floated, import tariffs were reduced, and the overall tariff structure was simplified). The export sector responded positively to these policies, and export volume growth averaged about 16 percent per annum in 1993–95.

Table 1. Kenya: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	2,093	795	2,878	325	6,091	100
Net flows on debt (short- and long-term)1/	1,714	1,378	2,056	387	5,534	91
Net flows on long-term debt 2/	1,714	1,288	1,675	624	5,301	87
Net flows on public sector debt	1,669	1,213	1,556	659	5,097	84
Multilateral (incl. IMF), net	609	926	500	155	2,190	36
Gross disbursements	750	1,278	1,559	1,091	4,679	77
Non-concessional	479	1,017	414	74	1,984	33
Concessional	271	261	1,144	1,017	2,695	44
Principal repayments	-141	-353	-1,059	-936	-2,489	-41
Bilateral, net	364	498	622	558	2,042	34
Gross disbursements	434	625	862	914	2,835	47
Non-concessional	135	125	257	155	671	11
Concessional	300	500	605	759	2,164	36
Principal repayments	-70	-127	-240	-356	-793	-13
Private sector with govt. guarantee, net	696	-210	433	-54	865	14
Gross disbursements	898	420	989	652	2,959	49
Principal repayments	202	629	556	706	2,093	34
Net flows on private sector debt (unguaranteed by debtor government)	45	74	120	-35	204	3
Gross disbursements	546	497	411	185	1,639	27
Principal repayments	501	423	291	220	1,435	24
Net flows of short-term debt 1/	0	90	380	-237	233	4
Net change in interest arrears 2/	...	...	54	-61	-7	0
Interest capitalized 2/	...	...	0	163	163	3
Debt forgiveness or reduction 2/	...	...	-517	-95	-612	-10
Valuation changes 3/	158	-271	928	289	1,103	18
Residual	221	-312	357	-357	-91	-1
Memorandum items:						
Grants	865	1,428	3,055	2,820	8,169	...
Change in export credits (guaranteed/insured by creditor government)	...	147	691	-83	755	...

Source: Global Development Finance, World Bank, 1997; and IMF staff estimates.
1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.
2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.
3/ Staff estimates.
4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Kenya: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995
Arrears to official creditors	2.9	4.2	96.1	17.0
Principal	2.9	4.1	50.1	7.7
Interest	0.0	0.1	46.0	9.3
Arrears to private creditors	3.3	4.1	71.8	27.9
Principal	0.0	0.0	0.0	0.0
Interest	3.3	4.1	71.8	27.9

Source: World Bank DRS.

Table 3. Kenya: Rescheduling of Official Bilateral Debt, 1976–95

				Terms	
Number of Reschedulings	Dates of Agreements	Amount Consolidated (In millions of $)	Consolidation Period (In months)	Grace (In years)	Maturity (In years)
I	1/19/94	535	-- 1/	1.3	7.8 2/

Source: "Official Financing for Developing Countries", IMF, Dec. 1995.

1/ Only arrears were rescheduled.
2/ Graduated payments schedule.

Table 4. Kenya: Chronology of IMF Support, 1975–96

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	4/26/96	4/25/99	149.6	24.9
ESAF	12/22/93	12/21/94	45.23	45.23
ESAF	5/15/89	3/31/93	261.4	216.2
CFF 1/	10/11/88	...	40	40
Stand-by	2/1/88	5/15/89	85	62.6
SAF	2/1/88	5/15/89	99.4	28.4
CFF 1/	11/5/85	...	37.9	37.9
Stand-by	2/8/ 85	2/7/85	85.2	85.2
Stand-by	3/21/83	9/20/84	175.95	175.95
CFF 1/	6/8/82	...	60.4	60.4
Stand-by	1/8/ 82	1/7/83	151.5	90
Stand-by	10/15/80	1/7/82	241.5	90
Stand-by	8/20/79	Canceled 10/8/80	122.45	--
Stand-by	11/13/78	8/19/79	17.25	17.25
Extended arrangement	7/7/75	7/6/78	67.2	7.7

Source: IMF.

1/ Compensatory Financing Facility.

Chart 1. Kenya: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

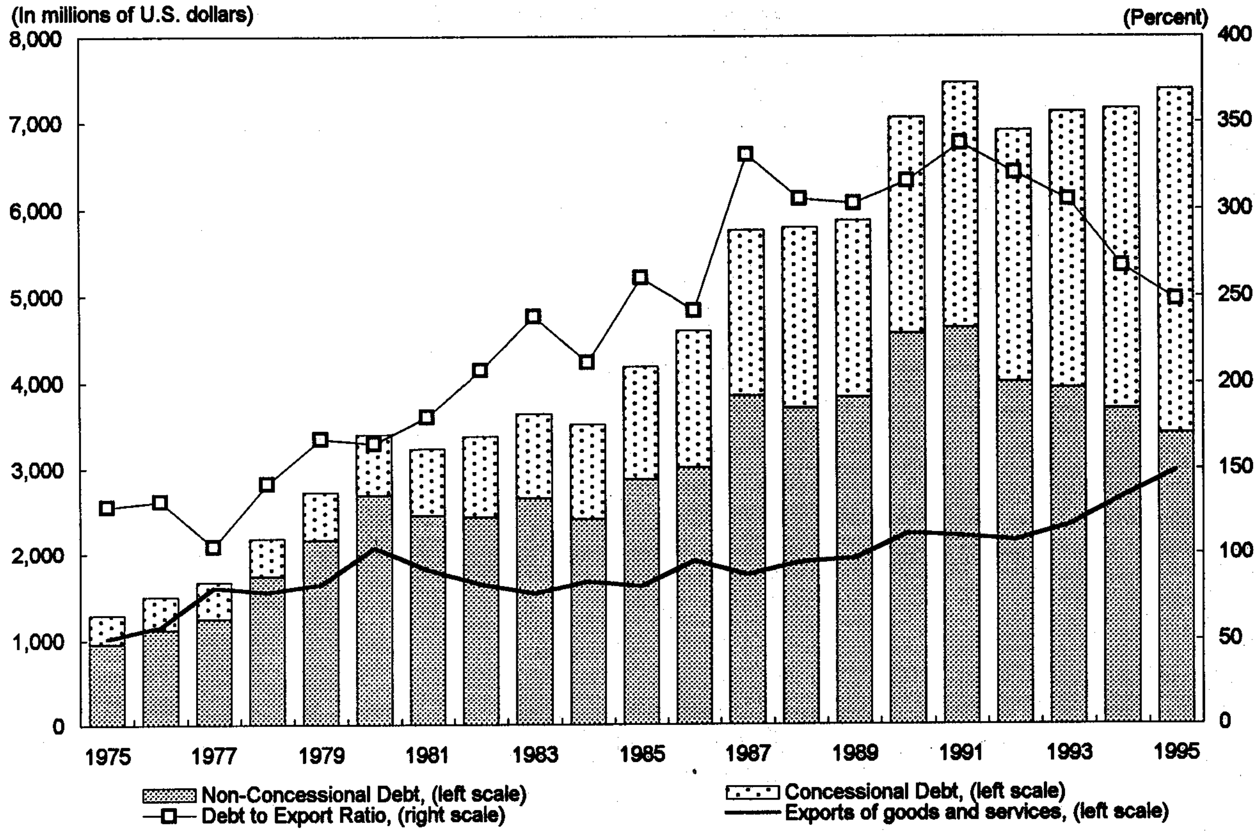
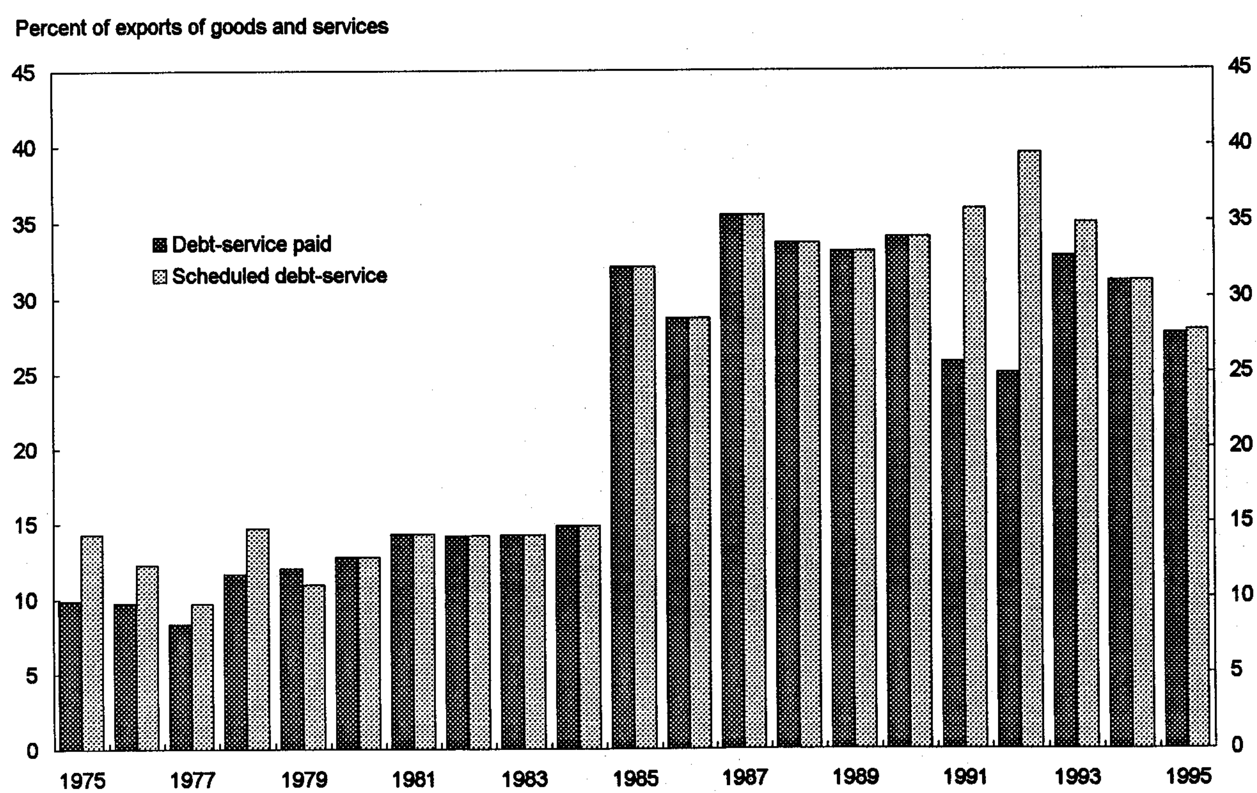
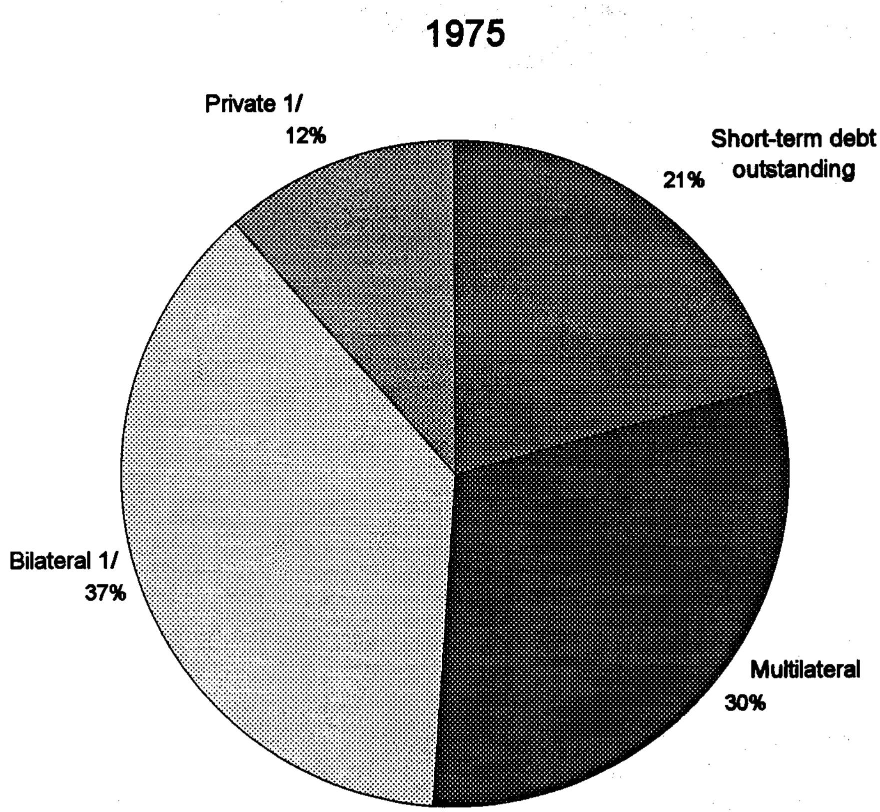


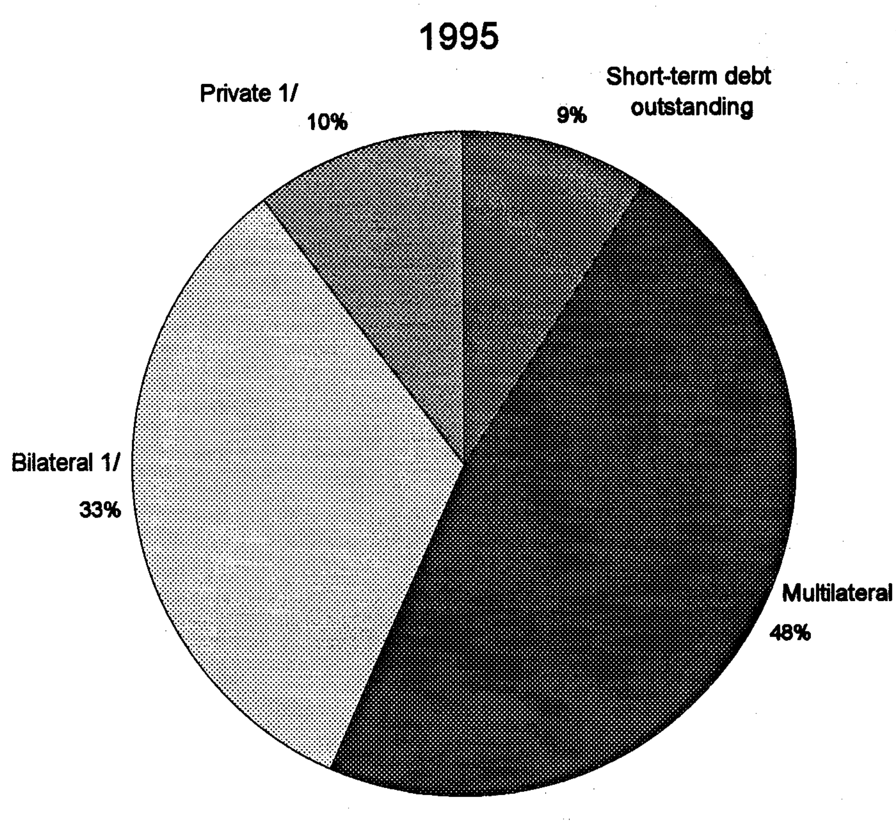
Chart 2. Kenya: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Kenya: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Kenya: Average Grant Element of New Commitments, 1975-95 1/

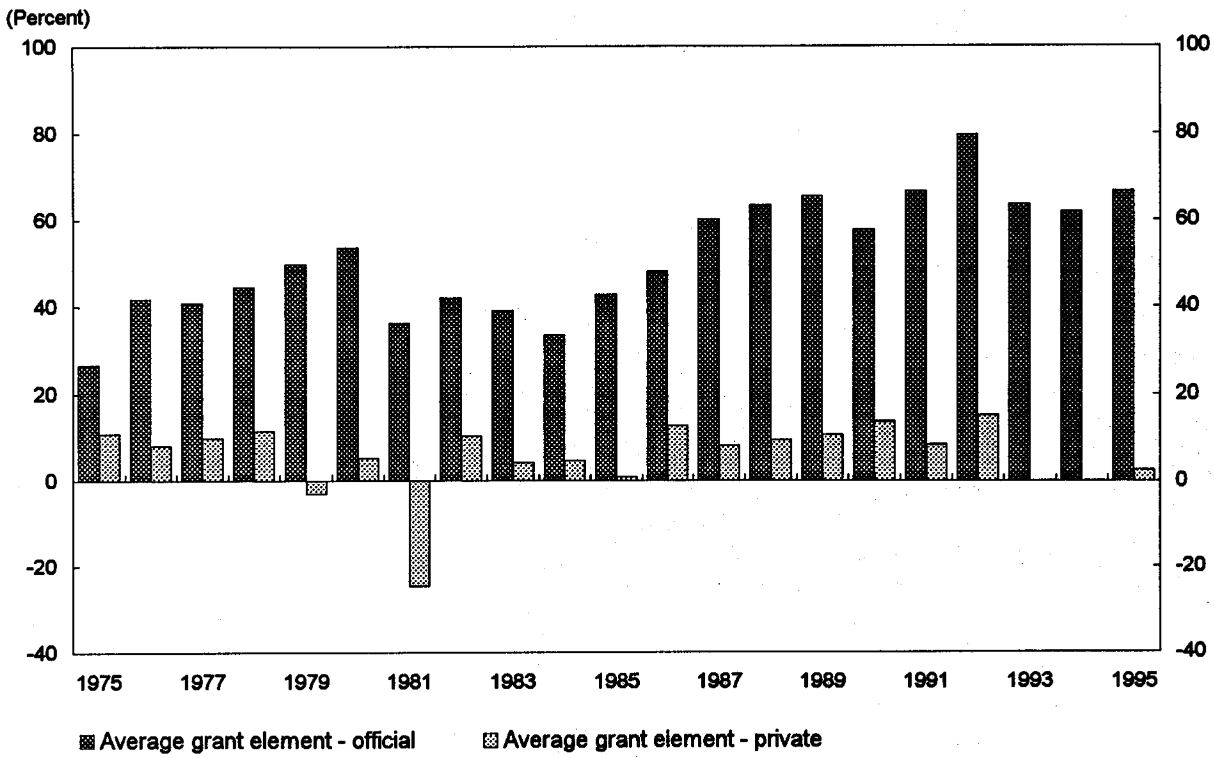
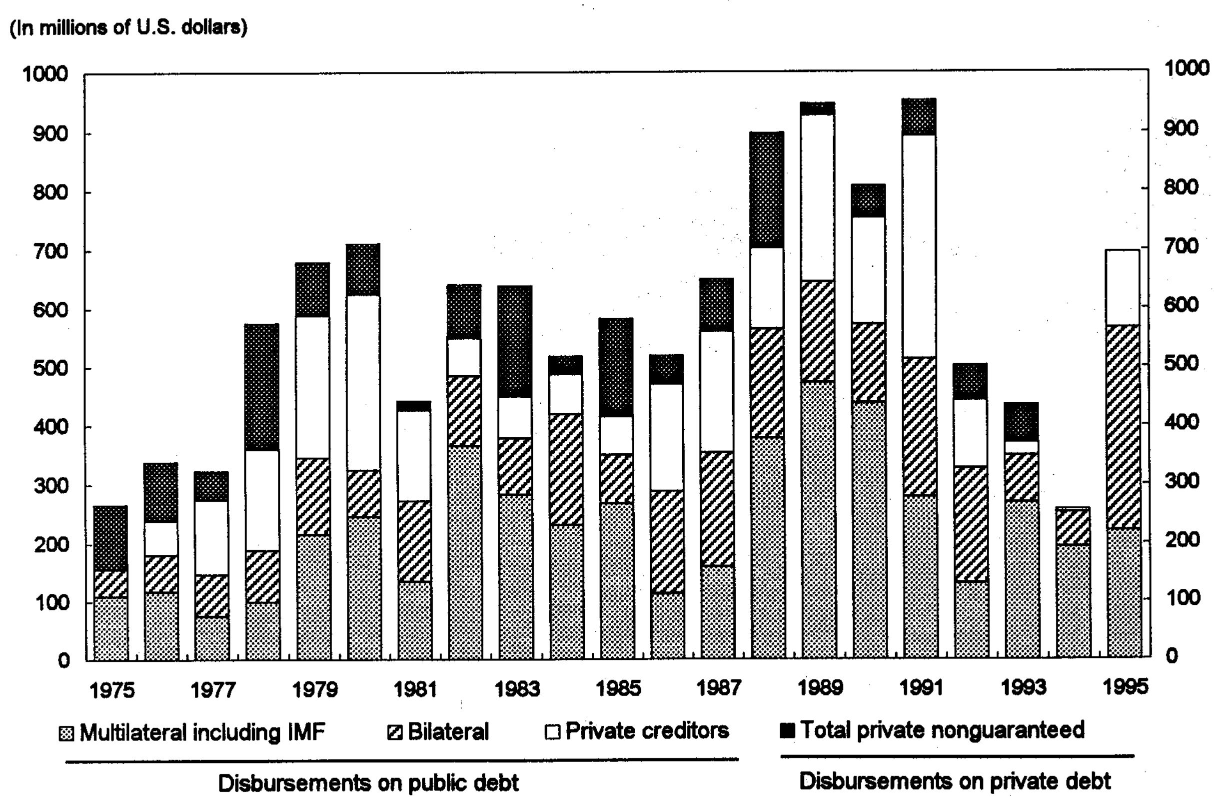


Chart 5. Kenya: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Kenya: Breakdown of Debt Stock Increase, 1975-95

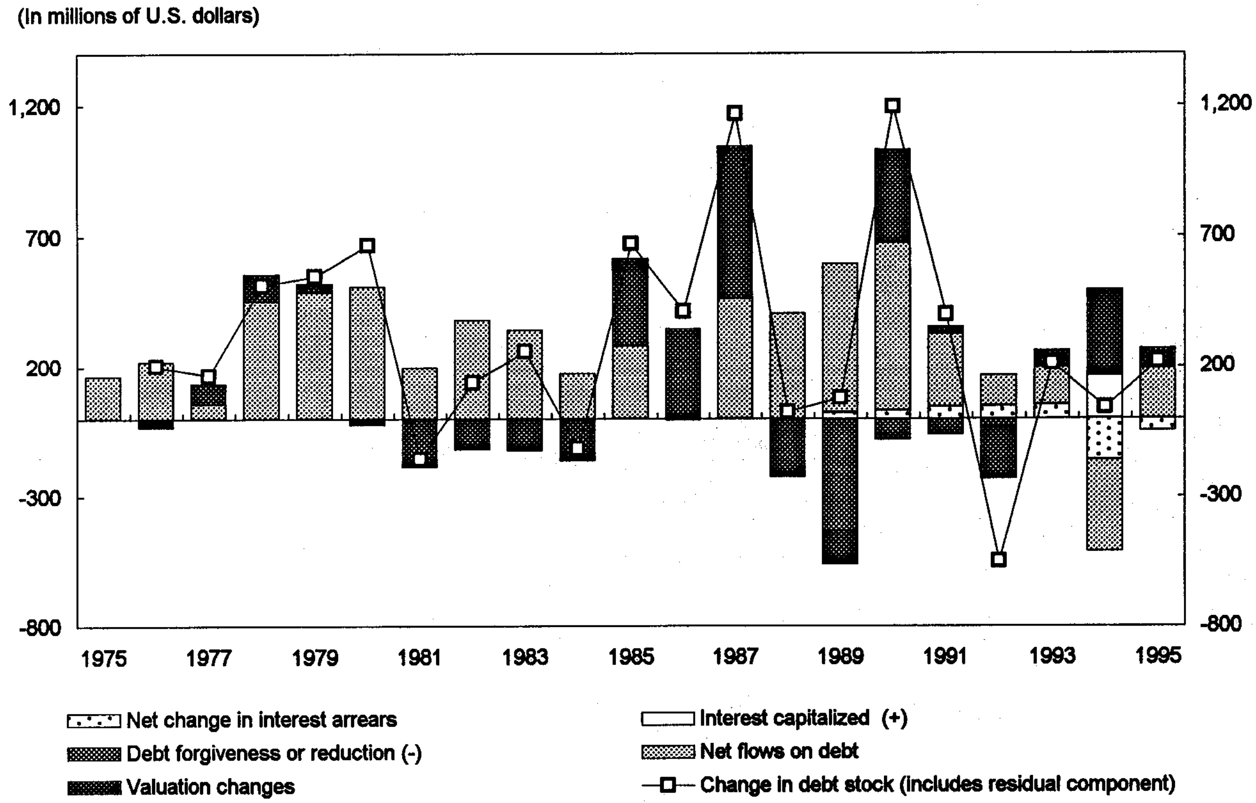
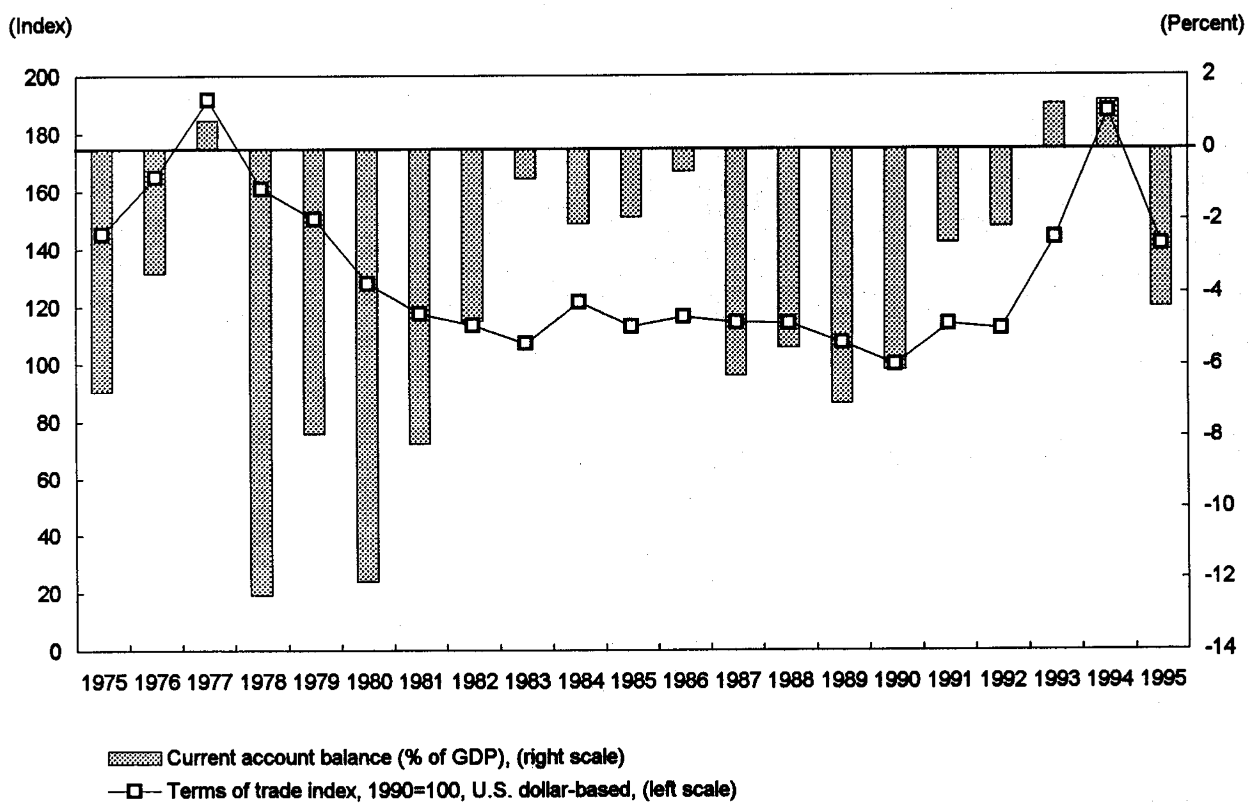


Chart 7. Kenya: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Nicaragua

Summary

Nicaragua's debt burden was moderate in the late 1970s—the debt-to-exports averaged about 180 percent and the scheduled debt-service ratio was 15–20 percent. However, the debt burden increased dramatically in the 1980s. Total external debt rose by some $9 billion between 1980 and 1990,[29] which increased the debt-to-exports ratio to about 3,000 percent and the scheduled debt-service to export ratio to over 500 percent by 1992.

Nicaragua's debt problems stemmed from a sharp deterioration in its external position in the early 1980s, which remained under severe pressure throughout the 1980s as a result of a protracted armed conflict, the U.S. trade embargo, a weaker terms of trade, and the continuation of expansionary monetary and fiscal policies, as well as the maintenance of an overvalued exchange rate.

The financing needs stemming from large current account deficits in the 1980s were met by heavy borrowing, which was made readily available by the former Soviet Union and friendly neighboring countries (to finance both military and nonmilitary imports). The borrowing was well in excess of Nicaragua's limited capacity to service debt.

Nicaragua's capacity to service debt was further undermined throughout the 1980s by poor export performance—exports fell by about 50 percent from the late 1970s to 1989 (in U.S. dollar terms). The overvalued real effective exchange rate, the result of expansionary fiscal and monetary policies that led to hyperinflation, severely eroded Nicaragua's external competitiveness, while trade and exchange rate restrictions limited the supply of imported inputs, especially spare parts needed in the cotton industry. Furthermore, agricultural production was severely affected by the continued armed conflict, with coffee and cotton production (which constituted about half of exports in the early 1980s) falling substantially throughout the 1980s.

The situation improved somewhat in the 1990s, although the debt burden remained high. The authorities embarked on an adjustment effort in 1991 and adopted a more prudent external debt management strategy. Good progress was made in normalizing relations with external creditors through two Paris Club reschedulings and a commercial bank debt buy-back, while exports recovered modestly in response to the authorities' economic reforms, a more competitive exchange rate and higher world prices for coffee.

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[29]The debt denominated in rubles is valued in this analysis at the official Gosbank ruble exchange rate of Rub 0.6/$1.

Debt burden indicators

Nicaragua's debt burden was moderate in the late 1970s—the debt-to-exports ratio averaged about 180 percent and the debt-service ratio was 10–20 percent (Charts 1 and 2). However, the debt burden increased dramatically in the 1980s. Total external debt rose by almost $9 billion between 1980 and 1990 (Table 1), which increased the debt-to-exports ratio to about 3,000 percent and the ratio of scheduled debt-service to exports to more than 500 percent by 1992. The impact of the large increase in debt was worsened by a substantial fall in exports, which by 1989 were only about half the level of the late 1970s (in U.S. dollar terms).

As a result of the rapid increase in the debt burden, Nicaragua began to accumulate substantial debt-service payment arrears from 1983 onwards. By 1990, arrears on debt-service amounted to almost $4 billion, and were primarily to bilateral creditors (Table 2).

Although Nicaragua's debt burden remained at a high level in the early 1990s, the situation improved somewhat. The stock of external debt stabilized at about $11 billion, but the debt-to-exports ratio fell to about 3,784 percent by 1994, due to a modest recovery in exports, and fell further to 2,814 percent in 1995 following the buy back of private debt at a substantial discount.

The composition of external debt

In 1975, Nicaragua's stock of public and publicly guaranteed debt was primarily to private creditors (43 percent) and short term (24 percent), while multilateral (including the IMF) and bilateral creditors each accounted for less than a fifth of the debt (Chart 3). By 1995, this composition had changed dramatically: the share of bilateral debt had increased to 60 percent (reflecting the sizeable disbursements from bilateral creditors, particularly the former Soviet Union), while the shares of short-term and private debt fell to 14 and 10 percent, respectively. The share of multilateral creditors fell slightly to 16 percent.

The share of concessional debt increased modestly from 21 to 35 percent over the period 1975–95, which reflected the relatively low grant element of new financing, at about 20–30 percent, throughout the 1980s (Chart 4).

Elements of the increase in external debt

Incomplete data for the 1980s makes it more difficult to break down the elements of the increase in debt[30]. Nonetheless, the available information suggests that new financing from bilateral creditors, particularly from the former Soviet Union, and to a lesser degree from Costa Rica and Mexico, comprised the bulk of the increase in the debt stock in the 1980s (Table 1, Charts 5 and 6).

Multilaterals were not a significant source of new financing in the 1980s, as they provided only very limited financing after 1985. Private creditors were also an insignificant source of new financing in the 1980s.

The accumulation of interest arrears made a significant contribution to the increase in the debt stock in the 1980s. Interest payment arrears contributed about $1.3 billion to the debt stock in the period 1980–89, with the bulk of this increase occurring after 1985. Exchange rate fluctuations played a relatively small role in the increase in the stock of debt, with the cross-currency valuation effect that resulted from the depreciation of the U.S. dollar adding about $300 million to the debt stock in the second half of the 1980s.

After 1990, the stock of debt stabilized at about $11 billion, a substantially higher level than in the late 1970s. This stabilization resulted from lower levels of new financing than in earlier years, combined with increased repayments of principal falling due and some debt reduction. New financing flows from bilateral creditors fell substantially in the early 1990s, with financing averaging about $80 million per annum in 1991–95 compared with an average of about $530 million per annum in 1986–90. Multilateral creditors were the main source of new loan financing after 1990, comprising two-thirds of the $1.3 billion in new long-term financing in 1991–95 (most of which was from the Inter-American Development Bank and the IDA). However, financing in the form of grants became more important in the 1990s and at $2.6 billion during 1991–95 was about double the level of new loan financing (Table 1).

In the early 1990s, Nicaragua made good progress in normalizing its relations with its external creditors and made sizeable principal repayments (which amounted to almost $700 million in 1991–95, about 10 times the level of payments in 1986–90). As part of this process, the concessional rescheduling agreements reached with Paris Club creditors in 1991

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[30]As shown by the large residual item in Table 1 for the period 1981–85, which in part is likely to reflect accumulation of arrears on interest payments not reported in the GDF.

and 1995 (on London and Naples terms, respectively) and a major debt reduction deal with private creditors financed through the IDA debt reduction facility in December 1995 contributed to the debt reduction of $1.8 billion recorded in the World Bank DRS in 1991–95.

Factors affecting financing needs and debt-servicing capacity

Nicaragua's external situation deteriorated sharply in 1980 and remained under severe pressure throughout the 1980s as a result of a protracted armed conflict, the U.S. trade embargo, weaker terms of trade, and expansionary monetary and fiscal policies, as well as the maintenance of an overvalued exchange rate. The current account balance switched from a surplus in 1979 to a deficit of about 25 percent of GDP in 1980, and remained mostly about 20–30 percent of GDP for the remainder of the 1980s (Chart 7). The large financing needs stemming from the current account deficits were met by heavy borrowing, which was made readily available by the former Soviet Union in particular and by friendly neighboring countries (to finance both military and nonmilitary imports). The borrowing was well in excess of Nicaragua's limited capacity to service debt.

Nicaragua's capacity to service debt was further undermined throughout the 1980s by poor export performance—exports fell by about 50 percent from the late 1970s to 1989 (in U.S. dollar terms). The overvalued real effective exchange rate, the result of expansionary fiscal and monetary policies leading to hyperinflation, severely eroded Nicaragua's external competitiveness, while trade and exchange rate restrictions limited the supply of imported inputs, especially spare parts needed in the cotton industry. Furthermore, agricultural production was severely affected by the continued armed conflict, with coffee and cotton production (which constituted about half of exports in the early 1980s) falling substantially throughout the 1980s.

In 1988–89, the authorities began an adjustment effort but made little progress, due to lack of financial discipline and the devastating impact of a hurricane in 1988. The authorities' adjustment efforts were strengthened in 1991, with the support of an SBA with the IMF. As a result, substantial progress was made in reducing macroeconomic imbalances and in transforming the economy to a market-based system. Fiscal and monetary policies were strengthened, most price controls were eliminated, the foreign exchange and trade regime was liberalized, and a market-oriented exchange rate policy was implemented with a crawling peg system.

Following an initial period of weakening in the early 1990s, the external position improved in 1993–95 in response to the authorities' policy approach. Exports expanded rapidly during 1993–95, increasing by about 18 percent annually in U.S. dollar terms. The export recovery was mainly associated with coffee, seafood and nontraditional manufactured exports, and was spurred by the economic reforms and improved external competitiveness (as well as a rise in coffee prices). However, despite the recovery in exports, the overall balance of payments situation in 1995 remained fragile because of large debt-service obligations and the relatively small export base.

Table 1. Nicaragua: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	1,392	3,629	4,871	-1,404	8,487	100
Net flows on debt (short- and long-term)	681	1,878	3,022	99	5,680	67
Net flows on long-term debt	681	1,825	2,728	576	5,810	68
Net flows on public sector debt	681	1,825	2,728	576	5,810	68
Multilateral (incl. IMF), net	286	188	72	494	1,040	12
Gross disbursements	350	312	80	850	1,592	19
Non-concessional	197	148	57	305	708	8
Concessional	153	164	22	545	885	10
Principal repayments	-64	-125	-8	-356	-552	-7
Bilateral, net	347	1,636	2,617	173	4,774	56
Gross disbursements	365	1,732	2,657	415	5,169	61
Non-concessional	197	813	1,348	176	2,534	30
Concessional	168	919	1,309	239	2,635	31
Principal repayments	-18	-96	-40	-242	-396	-5
Private sector with govt. guarantee, net	48	1	39	-91	-4	0
Gross disbursements	180	49	56	23	308	4
Principal repayments	-132	-48	-18	-114	-312	-4
Net flows on private sector debt (unguaranteed by debtor government)	0	0	0	0	0	0
Gross disbursements	0	0	0	0	0	0
Principal repayments	0	0	0	0	0	0
Net flows of short-term debt 1/	...	53	294	-477	-130	-2
Net change in interest arrears 2/	11	294	1,248	-52	1,214	14
Interest capitalized 2/	...	...	84	622	705	8
Debt forgiveness or reduction 2/	...	...	0	-1,791	-1,791	-21
Valuation changes 3/	33	-44	337	138	464	5
Residual	668	1,501	179	-420	1,929	23
Memorandum items:						
Grants	154	345	941	2,634	4,073	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	-116	321	55	260	...

Source: Global Development Finance, World Bank, 1997; and IMF staff estimates.
1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.
2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.
3/ Staff estimates.
4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Nicaragua: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995 1/
Arrears to official creditors	38.7	582.5	2,739.1	3,972.5
Principal	28.2	284.0	1,615.1	2,764.2
Interest	10.5	298.5	1,124.0	1,208.3
Arrears to private creditors	5.8	14.8	1,477.9	28.7
Principal	4.0	10.3	889.2	21.9
Interest	1.8	4.5	588.7	6.8

Source: World Bank GDF 1997.

1/ GDF figures for 1995 are preliminary, and appears to underestimate arrears. IMF data put arrears at $4.7 billion at end-1995.

Table 3. Overview of Nicaragua's Rescheduling of Official Bilateral Debt, 1976–95

Number of Rescheduling	Date of Agreement	Amount Consolidated (In millions of U.S. dollars)	Consolidation Period (In months)	Terms: Grace (In years)	Terms: Maturity (In years)
I	12/17/91	722	15	London Terms	
II	3/22/95	848	27	Naples terms	

Source: Official Financing for Developing Countries, IMF, February 1998.

Table 4. Nicaragua: Chronology of IMF Support, 1976–95

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ESAF	6/24/94	6/23/97	120.1	20.0
Stand-by	9/18/91	3/17/93	40.8	17.0
Stand-by	5/14/79	8/20/79	34.0	8.5
CFF 1/	8/24/79	...	17.0	17.0
CFF 1/	5/14/79	...	17.0	17.0

Source: IMF.

1/ Compensatory Financing Facility.

Chart 1. Nicaragua: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

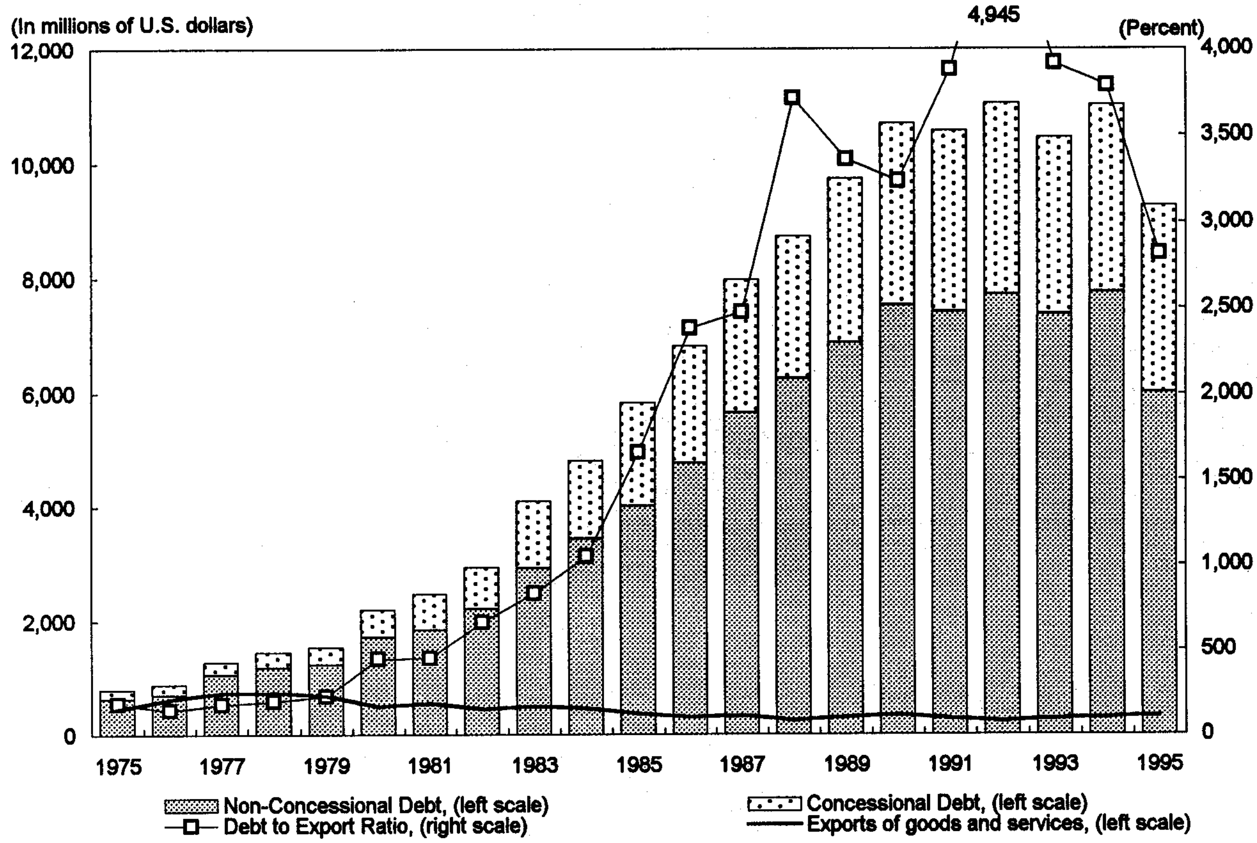
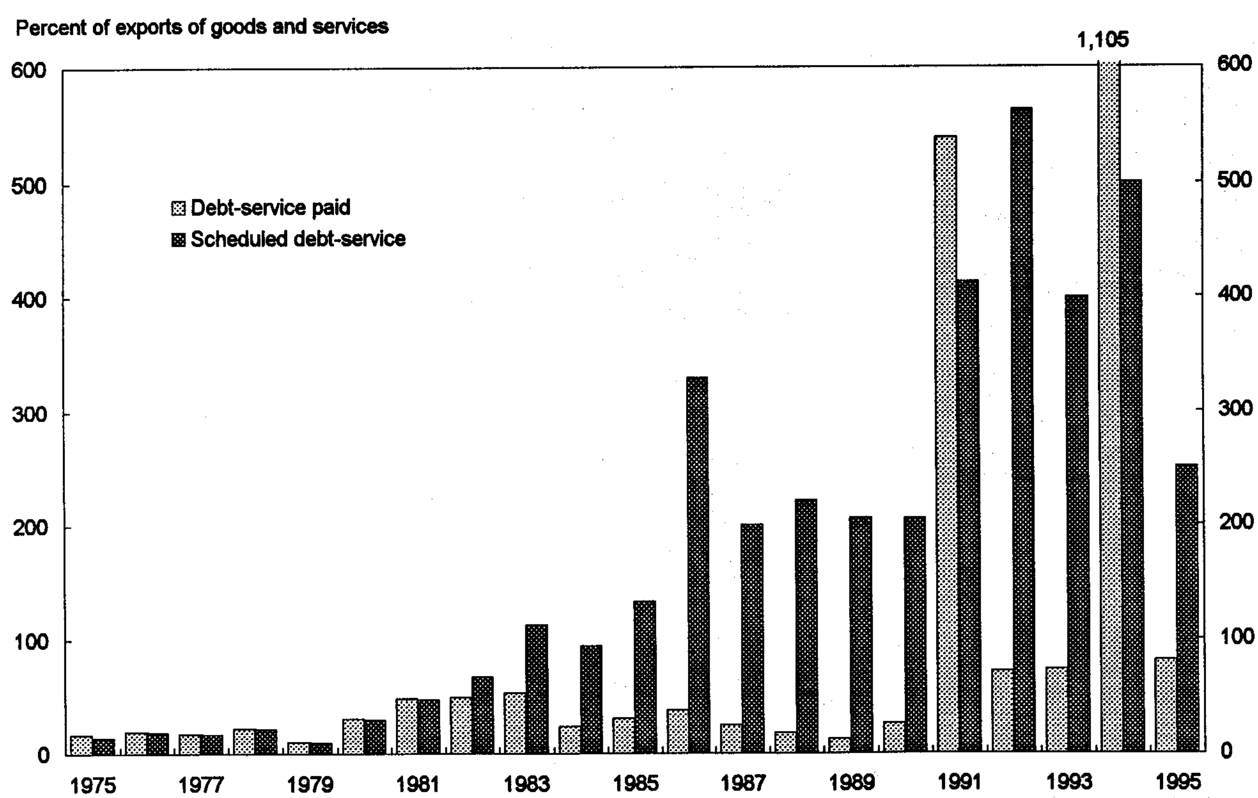
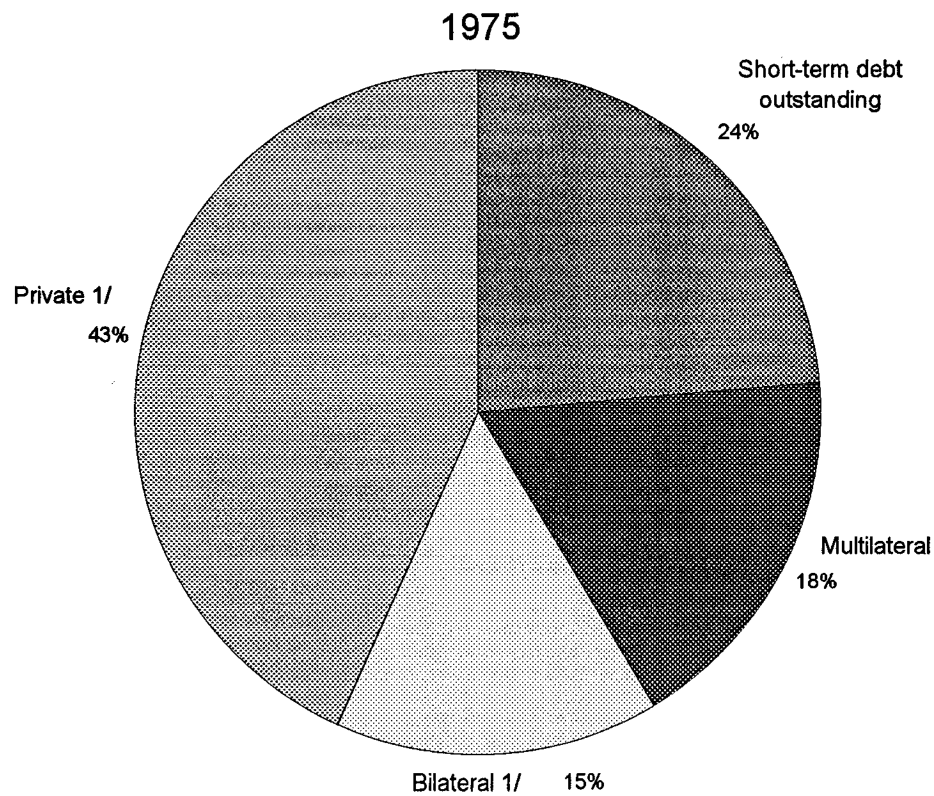


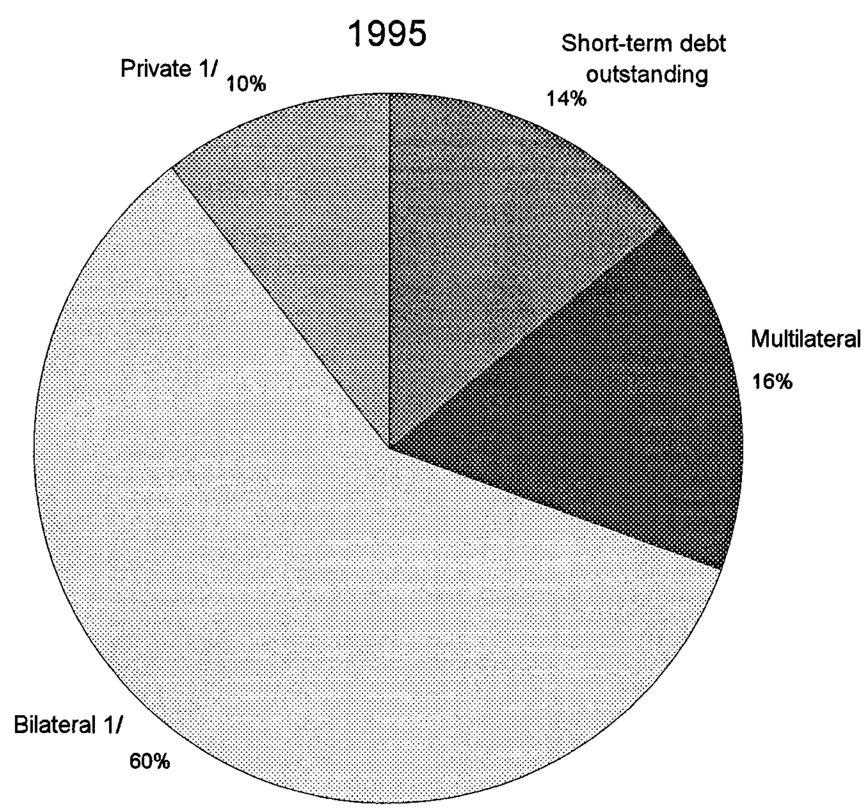
Chart 2. Nicaragua: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Nicaragua: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Nicaragua: Average Grant Element of New Commitments, 1975-95 1/

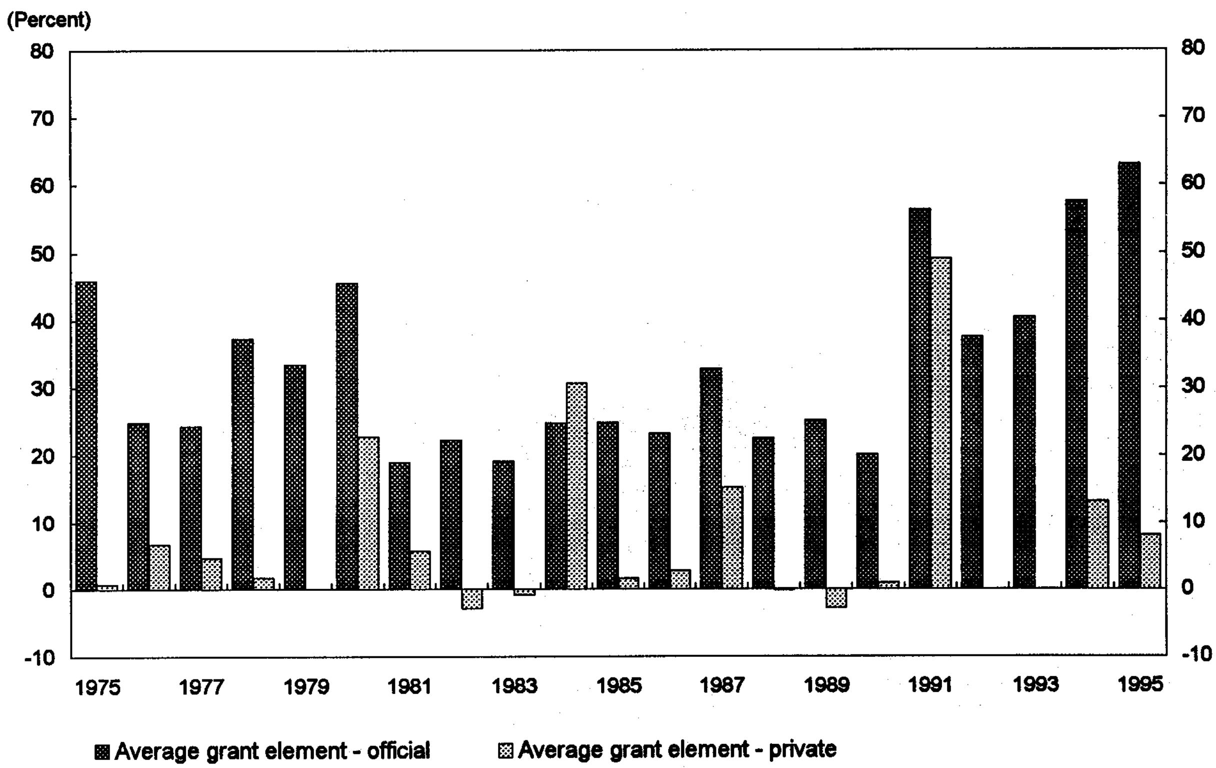
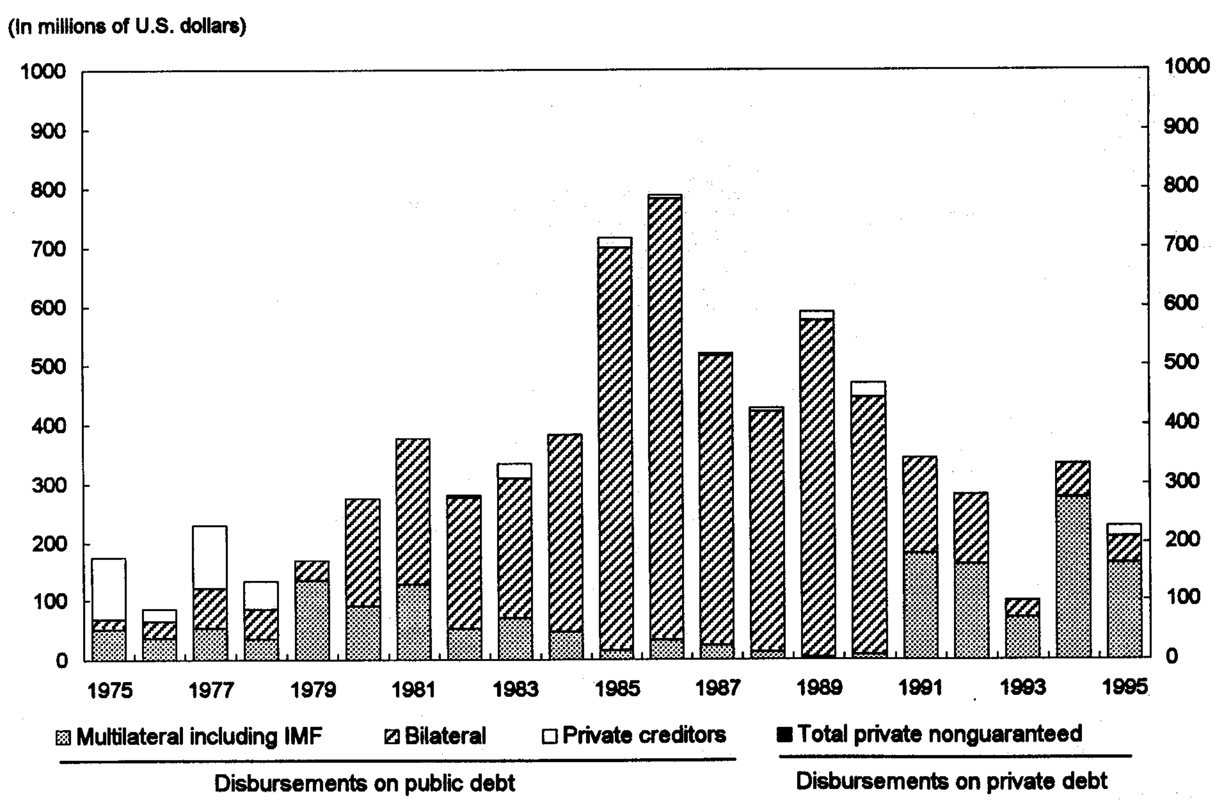


Chart 5. Nicaragua: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Nicaragua: Breakdown of Debt Stock Increase, 1975-95

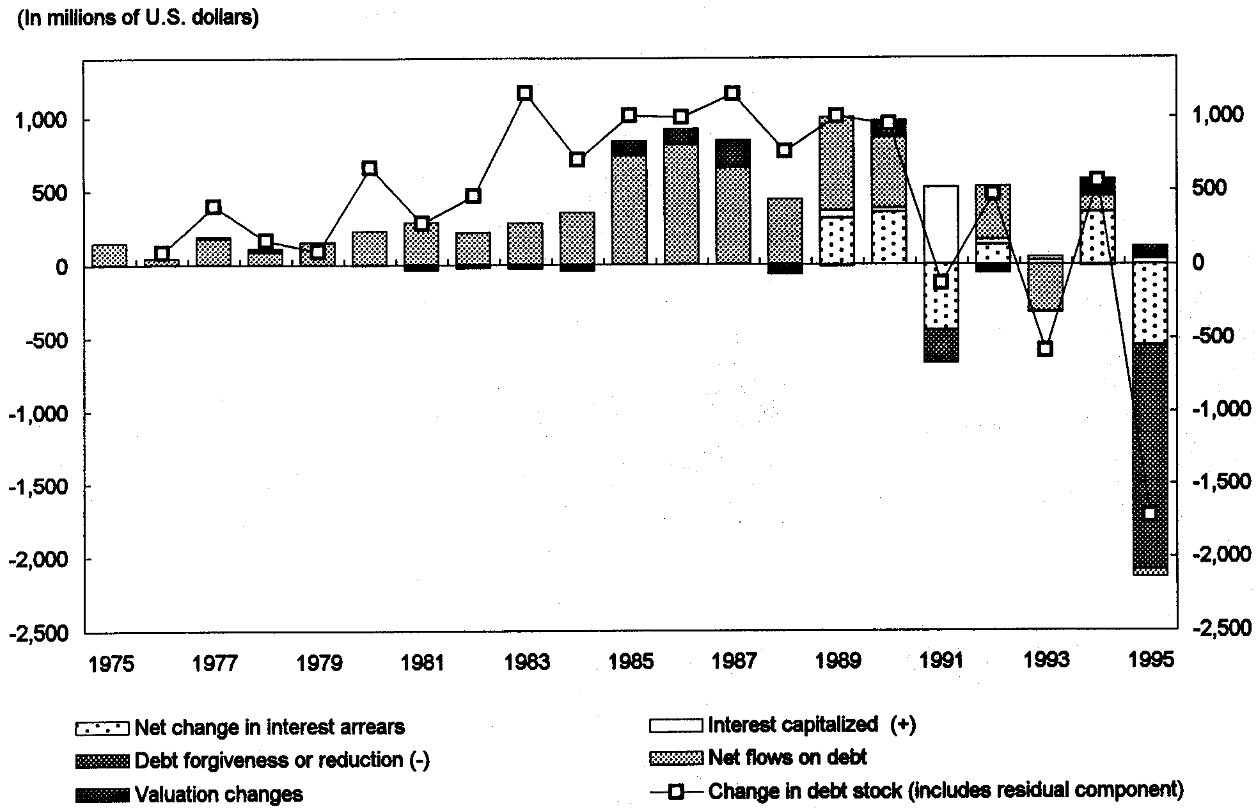
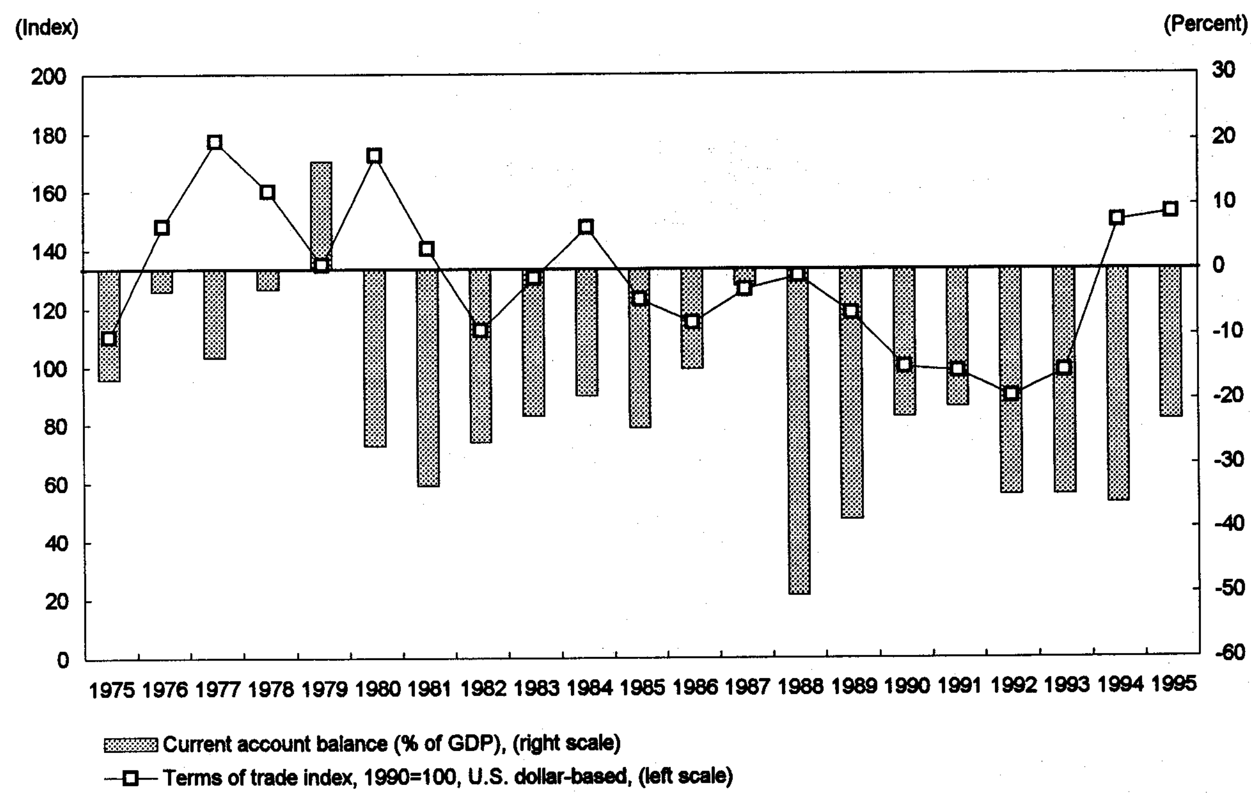


Chart 7. Nicaragua: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Niger

Summary

Over the past two decades, Niger's debt-to-exports ratio rose from about 60 percent in 1975 to over 570 percent by 1995. A rapid increase in the stock of debt was the main reason for the increase in the ratio between 1975 and 1981, but thereafter the increase in the ratio reflected primarily a protracted fall in exports of goods and services.

A key factor in Niger's debt problems was the heavy borrowing on commercial terms by the government and private sector during the uranium boom years of 1978–81 that were perceived as a permanent capacity to generate export income. The borrowing was undertaken on the strength of its uranium export prospects in order to finance uranium mining and build infrastructure for the mining industry. However, the fall in uranium prices in the early 1980s led to a sharp fall in uranium production and exports. As a result, the sizeable investments in the mining sector bore low returns and Niger experienced difficulties in servicing the large amortization payments falling due in the 1980s on the ex-post inappropriate borrowing during the uranium boom years.

Despite adopting a series of adjustment programs with the IMF since 1983 that were supported by successive reschedulings at the Paris Club, Niger's economic performance was poor. The poor economic performance reflected, in part, a mixed record of policy implementation over the period. However, Niger also faced exogenous setbacks in the late 1980s and early 1990s. After a temporary recovery in uranium prices in 1985–87, prices fell steadily from 1987 onwards, resulting in further decline in uranium production as domestic production costs tended to exceed contract prices. Exports were also adversely affected by the growing loss of competitiveness of the economy as a result of the overvalued exchange rate at that time, in particular vis-à-vis Nigeria.

Political turmoil and social disturbances also disrupted the adjustment effort. In 1990, disturbances interrupted the ESAF arrangement approved in 1988, which was eventually abandoned. Furthermore, the opportunity to reverse the economic decline presented by the January 1994 devaluation of the CFA franc and a new 12-month SBA with the IMF was not seized because of widespread civil disturbances. By 1995, the level of exports had fallen to about 45 percent of the average level for the uranium boom years of 1979–81.

The tight debt limits in IMF-supported programs from 1983 onwards were effective in limiting the borrowing on commercial terms, and helped avoid a repeat of the heavy borrowing on commercial terms which took place in 1978–83, when no IMF-supported programs were in place. Nevertheless, there was some build-up in debt, partly due to debt

rescheduling, and as new financing on concessional terms (from the IDA, AfDB, IMF, and bilaterals) met the concessionality criteria or exceeded the maturity limit.

Debt burden indicators

Over the past two decades, Niger's debt-to-exports ratio rose steadily from about 60 percent in 1975 to reach 571 percent by 1995 (Chart 1).[31] A rapid increase in the debt stock was the main reason for the increase in the ratio between 1975 and 1981, but thereafter the ratio rose primarily because of a protracted fall in exports of goods and services.

Niger's scheduled debt-service-to-exports ratio rose from about 16 percent in 1975 to 40 percent in the mid-1980s as sizeable amortization payments on commercial borrowing fell due. By 1988, following a new plunge in uranium prices, the debt-service ratio reached 44 percent of exports. Despite the heavy debt-service payments, Niger did not begin to accumulate substantial debt-service payments arrears until 1989. A commercial debt buyback operation concluded in late 1990 resulted in a decline in the scheduled debt-service-to-exports ratio in 1991. In 1994, following the approval of a stand-by arrangement and a debt rescheduling by Paris Club creditors, an effort was made to substantially reduce these arrears. However, new external payments arrears were accumulated in 1995, as the implementation of the program was interrupted.

Composition of external debt

In 1975, more than 80 percent of Niger's debt was on concessional terms, primarily from bilateral creditors (Chart 1). However, the share of debt on concessional terms fell dramatically in 1977–78, as disbursements of nonconcessional financing tripled the nominal debt stock. Concessional debt as a share of total debt only began to increase again after 1981, as the grant element of new financing increased in line with the growing share of concessional financing, mainly from multilaterals (Chart 4). By 1995, the share of concessional debt had increased to about 64 percent, and was owed mainly to multilateral creditors. The IDA was the largest multilateral creditor in 1995, with about 70 percent of multilateral debt; the next largest multilateral creditor was the ADF (with about 12 percent of the multilateral debt). France was the largest single bilateral creditor, comprising about half the bilateral debt.

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[31]The NPV debt-exports ratio at end-1995 (based on the DRS estimate of the NPV of debt) is estimated at about 355 percent.

Elements of the increase in external debt

The external debt stock rose rapidly between 1978 and 1981, primarily because of sizeable new financing from private creditors, although new financing from bilaterals and multilaterals also played an important role (Charts 5 and 6, Table 1). Non-publicly-guaranteed financing from private creditors was sizeable in this period, and comprised the largest single source of financing. The large financing reflected the boom in uranium prices which boosted Niger's creditworthiness, allowing the government and private sector to borrow on the strength of its uranium prospects that were perceived as an increase in the country's permanent capacity to generate income. As uranium prices fell in 1982–85, however, new financing also fell to lower levels. Later, when uranium prices recovered temporarily in 1986–87, new financing also recovered, but not to the sizeable levels of the period 1978–81.

By the mid-1980s, multilaterals (particularly the IDA and ADF) and bilaterals (particularly France) had become the dominant sources of new loan financing. Financing from private creditors was essentially limited to non-publicly guaranteed financing, as the private sector in Niger had better access than the government to private financing. This was apparent from 1983 onwards, and likely resulted from the need for successive rescheduling agreements with Paris Club creditors after 1983 which damaged the governments' creditworthiness (Table 3). Niger's debt stock was also influenced by exchange rate fluctuations in the mid-1980s (Table 1).

After 1987, the debt stock stabilized at about $1,500 million, as the impact of new financing was offset by sizeable debt reductions in 1989, 1991, and 1994 associated with Paris Club reschedulings on concessional terms and a private debt buyback operation in late 1990 financed through the IDA debt reduction facility. Furthermore, new loan financing was at a much lower level in the period after 1987, and by 1991–95 had fallen to only about $50 million annually (one-eight of the level disbursed in the peak year of 1981).

Factors influencing the financing need and capacity to service debt

During the boom in uranium exports in 1978–82, the government and private sector borrowed heavily on commercial terms, on the strength of its uranium prospects, to finance mining operations and infrastructure for the mining industry. A fall in uranium prices in the early 1980s, however, led to a protracted fall in uranium production and exports. As a result, the sizeable investments in mining sector bore low returns and Niger experienced difficulties servicing the large amortization payments falling due on its—ex post excessive—commercial borrowing.

By 1983, Niger faced growing macroeconomic imbalances, resulting from the deterioration in its terms of trade and a loss of competitiveness due to currency overvaluation, recurrent droughts, and inefficient economic management. In response to this situation, the authorities began to implement a series of adjustment programs supported by the Fund and the Bank over the period 1983–90 (Tables 4 and 5). By 1988–89, these programs had some success in reducing the domestic and external imbalances (Chart 7), liberalizing the economy, and restoring some growth. The programs also formed the basis for successive Paris Club reschedulings in an attempt to address Niger's debt-servicing difficulties. However, the fiscal adjustment under the programs mainly took the form of cuts in capital expenditure on mining operations and infrastructure, which adversely affected production in the mining and non-mining export sectors.

Niger's export performance suffered further setbacks in the late 1980s and early 1990s. After a temporary recovery in uranium prices in the 1985–87, which helped to reduce the current account deficit and alleviate somewhat the heavy debt-service burden, uranium prices fell steadily from 1987 onwards, leading to further cuts in uranium production. Exports were also affected by the growing loss of competitiveness of the economy as a result of the overvalued exchange rate, in particular vis-à-vis Nigeria.

Political turmoil and social disturbances disrupted the adjustment effort. In 1990, disturbances interrupted the ESAF program approved in 1988 (which was eventually abandoned) and the opportunity presented by the January 1994 devaluations of the CFA franc and a new 12-month SBA with the Fund to reverse the economic decline was not seized because of widespread civil disturbances. By 1994, exports had fallen to about $250 million, or about 45 percent of the average for the uranium boom years of 1979–81.

Table 1. Niger: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	751	345	585	-160	1,522	100
Net flows on debt (short- and long-term)	566	617	411	354	1,948	128
Net flows on long-term debt	566	580	387	458	1,991	131
Net flows on public sector debt	330	564	319	585	1,798	118
Multilateral (incl. IMF), net	137	202	331	565	1,236	81
Gross disbursements	153	266	482	679	1,580	104
Non-concessional	29	133	41	19	222	15
Concessional	124	133	440	661	1,358	89
Principal repayments	16	64	150	114	345	23
Bilateral, net	37	64	-58	1	44	3
Gross disbursements	52	85	-18	7	126	8
Non-concessional	67	107	22	14	209	14
Concessional	54	142	177	111	485	32
Principal repayments	-15	-22	-40	-6	-83	-5
Private sector with govt. guarantee, net	155	298	46	19	519	34
Gross disbursements	138	215	16	0	369	24
Principal repayments	17	83	31	19	150	10
Net flows on private sector debt (unguaranteed by debtor government)	236	16	68	-127	192	13
Gross disbursements	311	275	226	0	812	53
Principal repayments	75	259	159	127	620	41
Net flows of short-term debt 1/	...	37	24	-104	-42	-3
Net change in interest arrears 2/	...	...	28	22	50	3
Interest capitalized 2/	...	...	23	60	83	5
Debt forgiveness or reduction 2/	...	...	-254	-246	-500	-33
Valuation changes 3/	-6	-191	345	49	198	13
Residual	191	-80	33	-400	-257	-17
Memorandum items:						
Grants (including technical co-operation)	113	860	1,311	1,662	3,946	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	99	78	61	238	...

Sources: Global Development Finance, World Bank, 1997; and IMF Staff estimates.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Niger: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995 1/
Arrears to official creditors	0.0	5.5	56.5	0.0
Principal	0.0	5.4	41.0	0.0
Interest	0.0	0.1	15.5	0.0
Arrears to private creditors	1.3	7.6	79.5	76.4
Principal	0.0	0.0	0.0	0.0
Interest	1.3	7.6	79.5	76.4

Source: World Bank DRS.

1/ Preliminary data for 1995. IMF data show arrears largely to official creditors.

Table 3. Overview of Niger's Rescheduling of Official Bilateral Debt, 1983–July 1995

Number of Rescheduling	Date of Agreement	Amount Consolidated (In millions of U.S. dollars)	Consolidation Period (In months)	Terms Grace (In years)	Terms Maturity (In years)
I	11/14/83	36	12	4.5	8.5
II	11/30/84	26	14	4.9	9.4
III	11/21/85	38	12	5.1	9.5
IV	11/20/86	34	13	5.0	9.5
V	2/21/88	37	13	10.0	19.5
VI	12/16/88	48	12	Toronto Terms	
VII	29/18/90	116	28	Toronto Terms	
VIII	13/4/94	160	15	London Terms	

Source: "Official Financing for Developing Countries", IMF, December 1995.

Table 4. Niger: Chronology of IMF Support, 1983–96

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
Stand-by	3/4/94	3/3/95	18.6	11.11
ESAF	12/12/88	12/11/91	47.18	23.59
Stand-by	12/5/86	12/4/87	10.11	10.11
SAF	9/17/86	Canceled 12/88	21.4	16.85
Stand-by	12/5/85	12/4/86	13.48	13.48
Stand-by	11/24/84	12/5/85	16.0	16.0
CFF 1/	10/5/83	...	12.0	...
Stand-by	9/7/83	12/4/84	18.0	18.0
CFF 1/	7/1/83	...	12.0	...

Source: IMF.

1/ Compensatory Financing Facility.

Chart 1. Niger: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

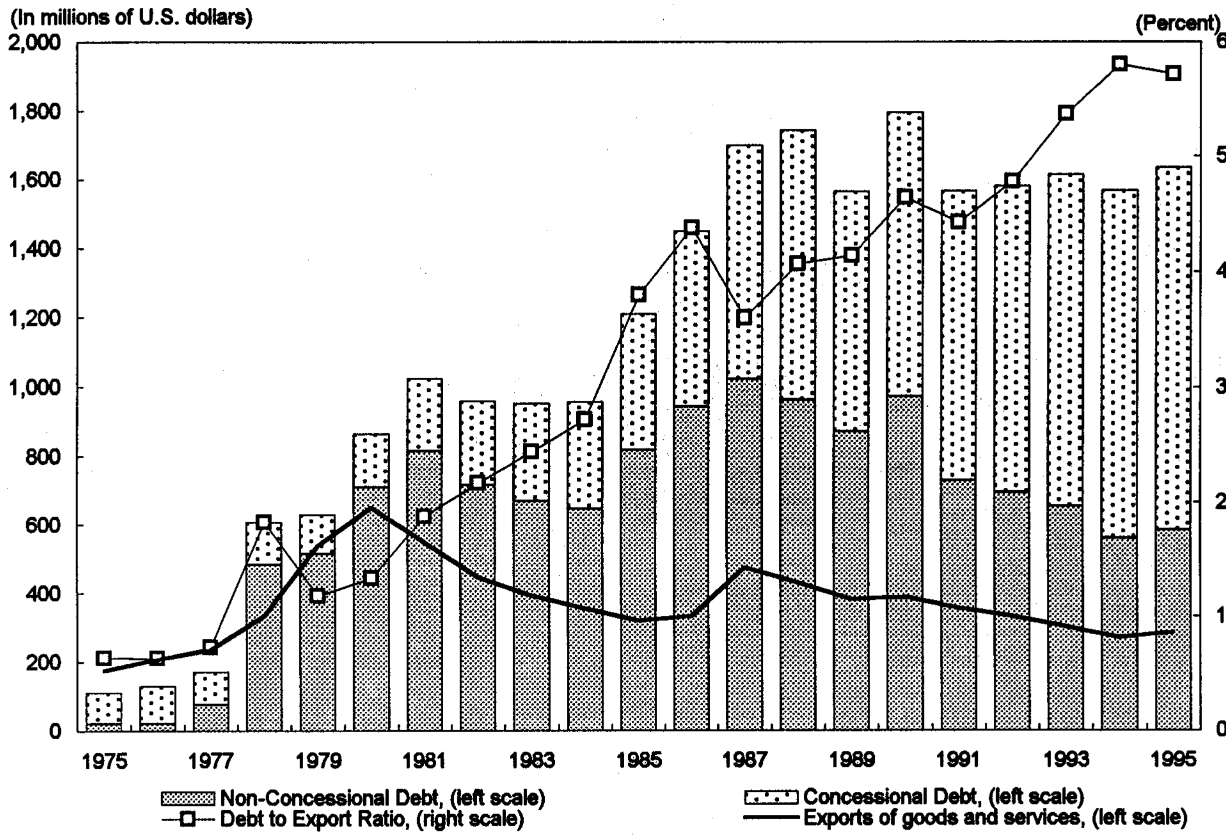
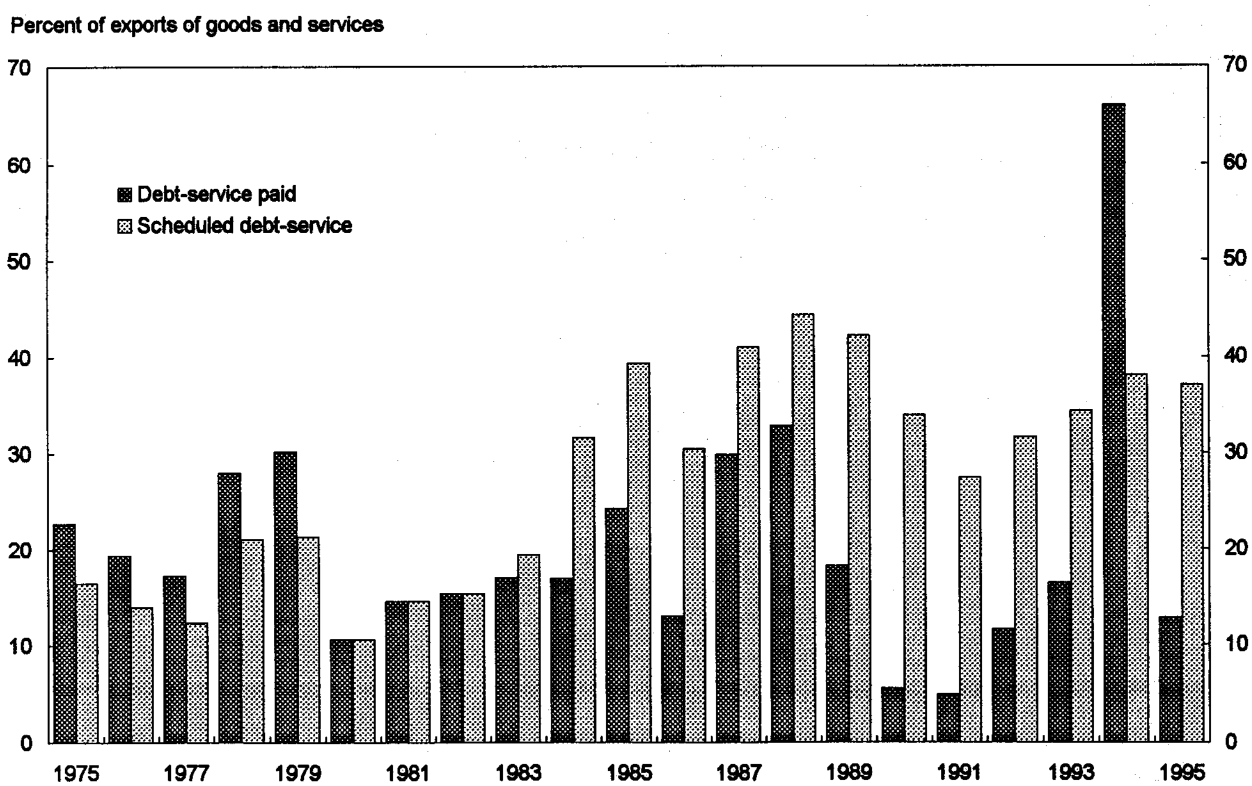
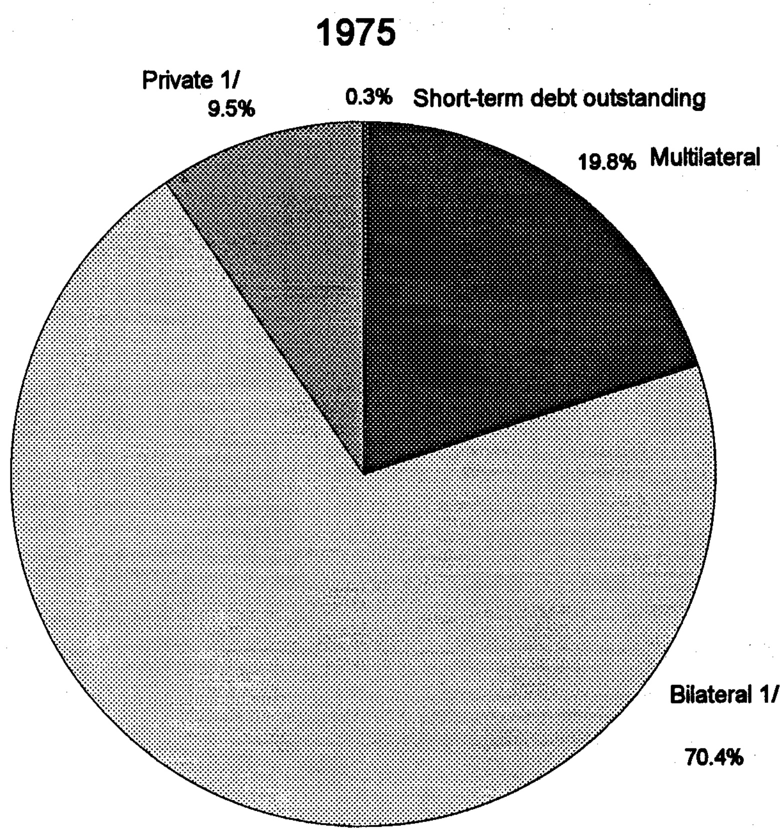


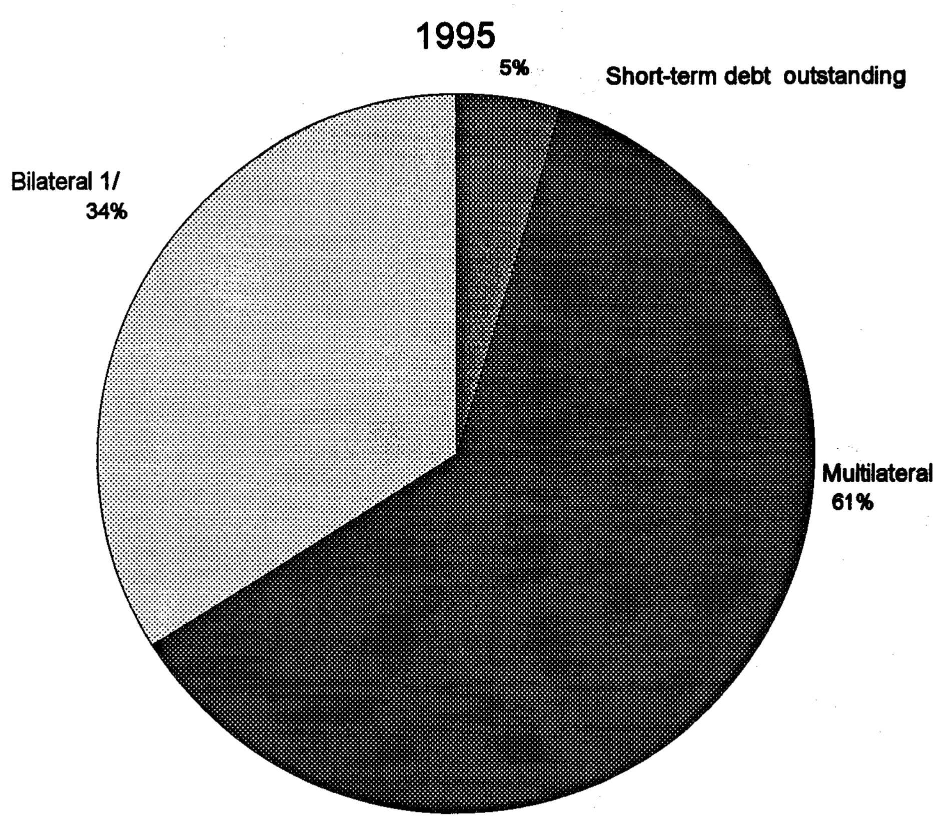
Chart 2. Niger: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Niger: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Niger: Average Grant Element of New Commitments, 1975-95 1/

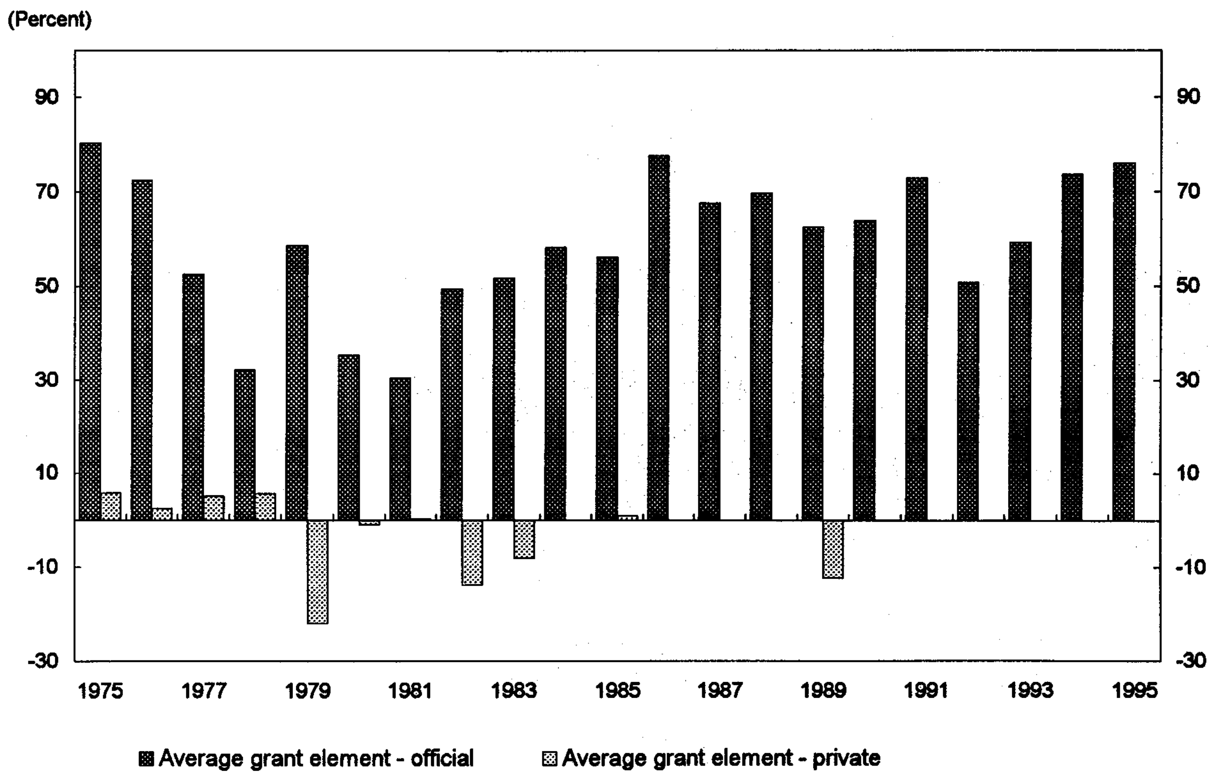
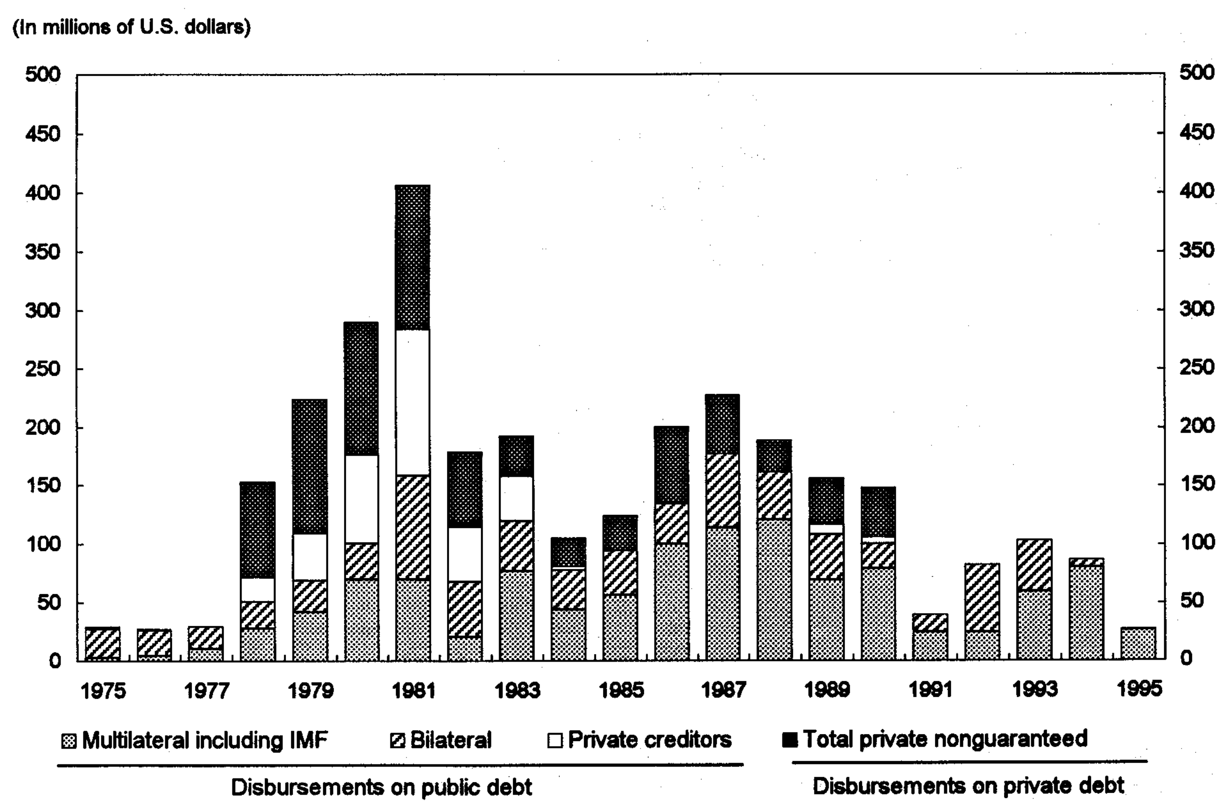


Chart 5. Niger: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Niger: Breakdown of Debt Stock Increase, 1975-95

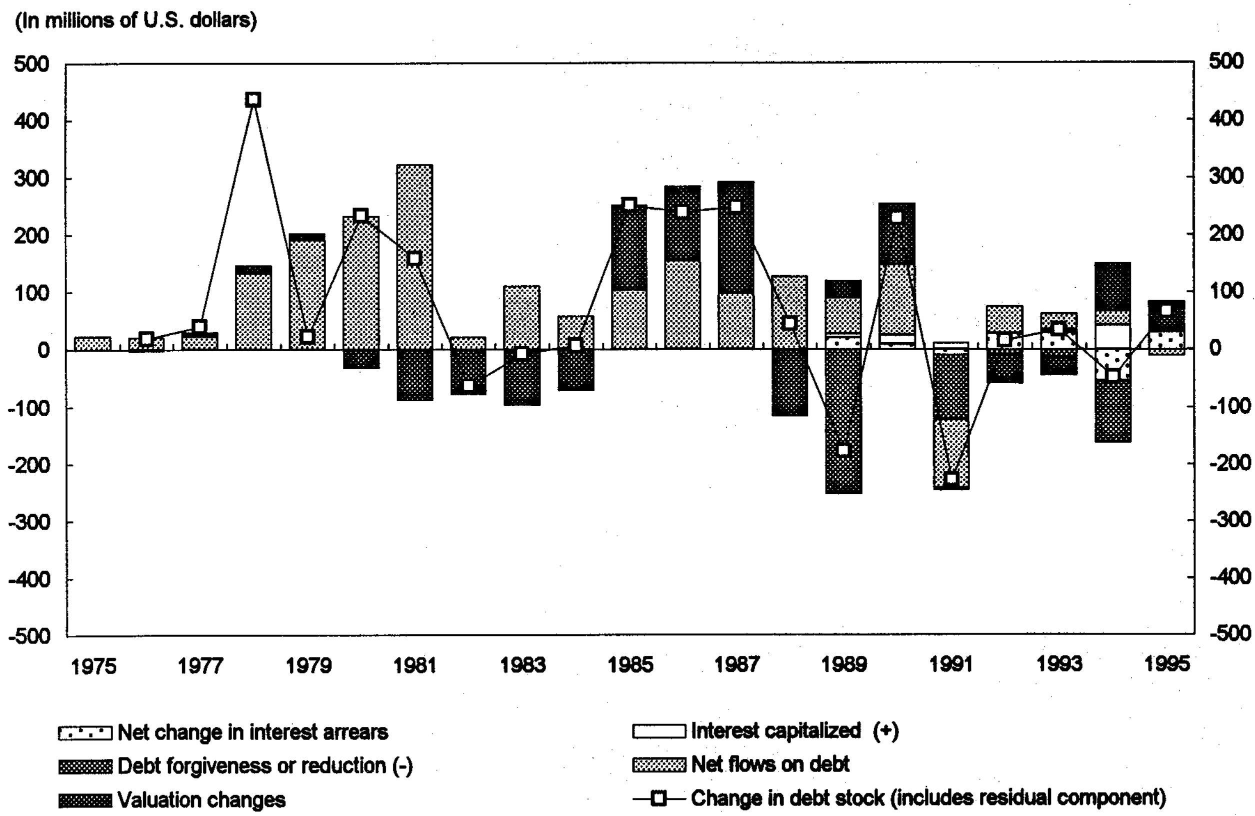
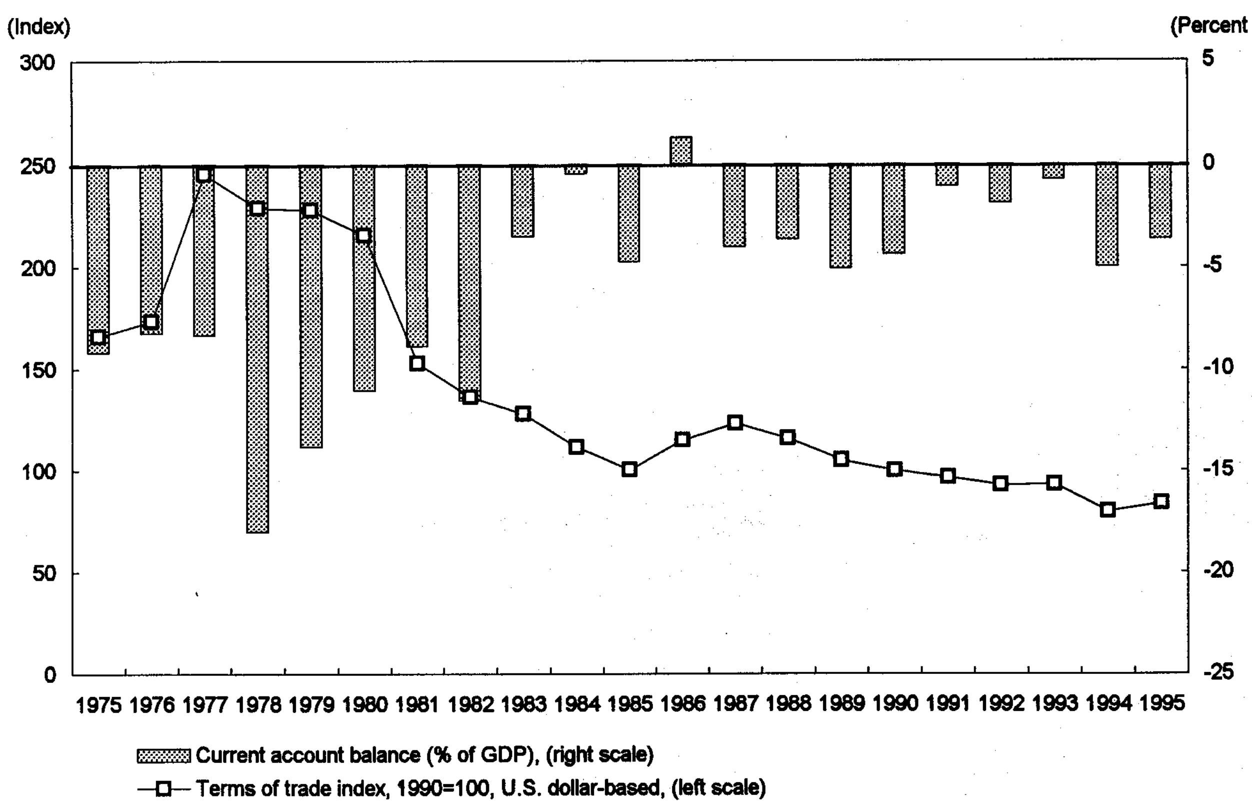


Chart 7. Niger: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Uganda

Summary

Uganda's external debt burden increased markedly over the past 20 years, particularly since the mid-1980s. The debt-to-exports ratio rose from about 100–200 percent in 1975–79 to a peak of nearly 1,500 percent in 1992, before falling to about 555 percent by 1995.[31] The scheduled debt-service ratio increased from less than 10 percent of exports in the late 1970s to a peak of about 128 percent in 1991, before falling to about 23 percent in 1994/95. The increase in the debt burden was due to a combination of an increase in the debt stock and poor export performance. At the same time, strong growth in exports in recent years was a key factor in reducing the debt indicators from the very high levels reached in the early 1990s.

The nominal debt stock grew steadily over the past 20 years, but the pace of growth was more rapid after 1985. In the period 1976–85, the increase in the debt stock reflected sizeable nonconcessional financing from the IMF and private creditors (with relatively short maturities), which added significantly to the debt-service burden in the late 1980s. After 1985, the increase in the nominal debt stock resulted primarily from large disbursements from multilaterals, particularly from the IDA. Even though the bulk of the new financing from multilaterals was on concessional terms (with grant elements of about 70–80 percent), it was less concessional than bilateral support, most of which was in the form of grants. The lending from multilaterals fell outside the scope of the debt limits in IMF arrangements, which were narrowly defined to cover shorter maturities and less concessional borrowing.

Much of the new financing after 1985 was in support of adjustment programs with the IMF and World Bank, supported by a series of Paris Club reschedulings, that were based on projections of relatively strong export growth and an improved capacity to service debt. However, from 1985 to 1993 the export projections proved to be too optimistic and, therefore, debt-servicing capacity was weaker than expected. Despite the financing in support of the adjustment programs, little progress was made in improving export performance until recent years.

Exports in U.S. dollar terms fell from a level of over $500 million in 1977 to less than $200 million in 1992, before recovering. Export performance during this period was adversely affected by a combination of factors, including:

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[31]The NPV debt-export ratios is estimated by the World Bank's GDF to have averaged 495 percent during the years 1993–95, while the nominal debt-export ratio averaged 929 percent in the same period.

- Extensive periods of social and political unrest, which culminated in civil war in 1983–85. As a result, much of the economic infrastructure was destroyed and large portions of fertile land left uncultivated.

- The heavy concentration of exports on coffee (which comprised 99 percent of total exports in the early 1980s). Hence, the slump in coffee prices from 1987–93 had a major impact on export earnings.

- The maintenance of tight exchange and trade controls and a fixed nominal exchange rate over the late 1970s and early 1980s, in the face of high inflation.

The exchange and trade liberalization measures introduced in the late 1980s and early 1990s combined with firm financial policies and domestic structural reforms began to have a positive impact on exports in the early 1990s. By 1995, exports had increased to over three times the level of 1992 in U.S. dollar terms due to a recovery in world coffee prices, reforms to the domestic coffee industry, and rapid growth in non-traditional exports, thereby significantly improving Uganda's debt-servicing capacity.

Debt burden indicators

Uganda's debt burden increased at a moderate rate over the period 1975–85 before rising sharply in the late 1980s. The external debt-to-exports ratio rose from about 100–200 percent in the late 1970s to about 300 percent by 1985, before increasing rapidly to reach a peak of 1,470 percent in 1992 (Chart 1). The scheduled debt-service ratio also increased sharply over the same period, rising from less than 10 percent in the late 1970's to 128 percent in the 1991 (Chart 2). In the early 1990s, the both debt-to-exports ratio and the debt-service ratio fell to lower levels—the debt-to-exports ratio fell to 555 percent in 1995,[32] while the scheduled debt-service ratio fell to about 23 percent in 1995.

The sharp rise in the debt burden since the late 1970s was due to a rise in the nominal debt stock and debt-service due, as well as poor export performance. The nominal debt stock increased at a moderate rate over the period 1975–84 but then rose sharply from 1985 onward due to substantial new financing, mainly from multilateral institutions on concessional terms (Table 1). At the same time exports fell from an average of $369 million between 1976–80 to

[32]The NPV debt-export ratio was lower (estimated at about 291 percent at end-1995, down from a peak of over 900 percent in 1992, as a large share of the new financing was on concessional terms, with a relatively high grant element. Furthermore, the NPV debt-export ratio would not have risen as sharply as the nominal debt-export ratio as the grant element of new financing increased over time (no data for the NPV of debt are available prior to 1991).

an average of $173 million between 1990–94 reflecting mainly weak world prices of coffee, Uganda's dominant export. Stronger export performance in recent years has been a key factor in the improvement in Uganda's debt burden.

Reflecting the heavy debt-service burden in the late 1980s, Uganda began to accumulate arrears to bilateral and private creditors after 1988 (Table 2). However, Uganda normalized its relations with external creditors in the early 1990s following debt rescheduling agreements with the Paris Club that culminated in February 1995 in the first stock-of-debt operation granted by Paris Club creditors under Naples terms (Table 3).

Composition of external debt

Concessional debt comprised about 70 percent of Uganda's total debt in 1975, but fell to less than 30 percent by 1981–83, due to sizeable new financing on nonconcessional terms over the period 1975–83 (Charts 4 and 5). However, as a result of a progressive shift toward concessional financing since 1983, the share of debt on concessional terms recovered to reach nearly 80 percent by 1995.

The composition of debt by creditor also changed markedly over the past 20 years, away from bilateral creditors toward multilateral creditors (Chart 3). In 1975, about 50 percent of the public and publicly-guaranteed external debt was to bilateral creditors, with 38 percent owed to multilaterals (including the IMF). By 1995, multilateral creditors comprised the largest share of debt (73 percent) and the bilateral share had fallen to 22 percent.

Elements of the increase in external debt

Between 1975 and 1984, the total external debt stock increased steadily from just over US$0.2 billion to about US$1.1 billion. The main sources of new financing in this period were loans from bilateral and private creditors (42 percent of total long-term disbursements, the bulk of which was on nonconcessional terms) and IMF purchases under SBAs (about 37 percent of long-term disbursements). The sizeable share of financing on nonconcessional terms in this period (with average repayment periods of about 3–7 years for financing from the IMF and private creditors), added significantly to the debt-service burden that Uganda faced in the late 1980s.

In the period 1985–95, Uganda's external debt stock rose more rapid than in the earlier period (from $1.2 billion in 1985 to nearly $3.6 billion in 1995). The main element of the rise in external debt in this period was new financing from multilaterals, including the IMF, in support of Uganda's adjustment programs. This financing amounted to $2.3 billion in 1986–95 with the bulk on concessional terms (almost half of which was from the IDA).

Lending from bilateral and private creditors in this period comprised about 30 percent of total long-term borrowing in the period 1986–95, about half the share of the earlier decade, but was on more concessional terms than in the earlier period mainly because lending from private creditors fell to relatively insignificant levels by the early 1990s.

In addition to net debt flows, Uganda's external debt stock was also affected by currency fluctuations and debt rescheduling, particularly in the period 1986–95 (Chart 7). The cross-currency valuation effect contributed about $0.3 billion to the debt stock increase in U.S. dollar terms in the period 1986–95 as a result of the depreciation of the U.S. dollar against other major currencies. Interest arrears and capitalized interest contributed a total of $0.1 billion to the debt stock during 1989–95, but were more than offset by debt forgiveness and reduction resulting from Paris Club reschedulings (US$0.3 billion in the same period).

The most dramatic change in the composition of external financing for Uganda was in the share of grant financing. Official grants from bilateral donors amounted to about $0.7 billion in the period 1976–85, compared with loan financing from bilateral creditors of about $0.2 billion. However, since the mid-1980s the vast bulk of financing from bilaterals was in the form of grants, which reached $2.3 billion in 1991–95, about eight times the level of loan financing from bilaterals over the same period. Hence, while bilateral support switched from loans to grants in recognition of Uganda's severely limited debt-servicing capacity, multilaterals were constrained to providing support in the form of loan financing on concessional terms.

Factors affecting financing needs and debt-servicing capacity

Political instability and civil unrest throughout the 1970s and early 1980s adversely affected Uganda's economic performance, particularly its export sector. A civil war during 1983–85 destroyed infrastructure and left fertile land abandoned. Furthermore, the expansionary macroeconomic policies associated with the civil war led to high inflation, which, combined with a fixed exchange rate policy, eroded the country's competitiveness and resulted in an acute shortage of foreign exchange. Export performance was also adversely affected by the restrictive practices of the state-controlled marketing boards (particularly the Coffee Marketing Board), and a restrictive foreign exchange and external trade regime. By 1987, exports other than coffee had virtually ceased, and total annual exports had increased by only about 3 percent in U.S. dollar terms relative to the average annual level in 1975–79.

In 1987, the new Government adopted a major adjustment and development program, which included the following measures designed to improve export performance: (1) liberalization of consumer and producer prices, with the objective of stimulating export-oriented production and import substitution; (2) progressive movement toward a more realistic and market-determined exchange rate; and (3) removal of trade restrictions. Since

1987, the Government's commitment to reform led to the successful implementation of two annual SAF arrangements and seven annual ESAF arrangements (see Table 4 for a chronology of Fund programs). These programs provided the basis for much of the new financing in the period 1985–94, particularly from multilaterals, and were based on projections of reasonably strong growth in exports that implied that Uganda would have the capacity to service the new financing.

However, despite the authorities' efforts to encourage exports in the period 1987–92, exports fell as a result of the slump in world coffee prices (Charts 7). Given Uganda's heavy concentration of exports on coffee (about 99 percent of total merchandise exports in 1981/82), total exports earnings were badly affected and by 1992 had fallen to about half the level of the early 1980s. The unexpected decline in export receipts highlighted the optimistic nature of the export projections built into the IMF-supported programs in the 1980s. Therefore, Uganda's capacity to service the loan financing obtained was much weaker than projected. Furthermore, the associated sharp deterioration in the current account balance from a surplus in 1986/85 to a deficit of almost 20 percent of GDP in 1990/91 increased the balance of payments financing need. Even though the authorities' firm monetary and fiscal policies were successful in containing the current account deficit to about 4 percent of GDP in the period 1991/92–1992/93 when exports were at their lowest level, sizeable external borrowing was required during this period.

It was not until 1993/94 that exports began to recover. This growth resulted from a combination of a recovery in coffee prices and strong performance by non-traditional exports in response to Uganda's adjustment efforts (including liberalization of the exchange and trade regime and moving to a floating exchange rate). By 1994/95, non-coffee exports comprised about one-quarter of merchandise exports, compared with virtually zero in 1985. Coffee export volumes also increased as a result of the abolition of the International Coffee Organization quotas and reform of domestic marketing arrangements, including the abolition of the state-owned monopoly on marketing of coffee. Total exports in 1994/95 were almost three times their level in 1991/92, and this growth was the main reason behind the improvement in the debt-to-exports ratio, debt-service ratio and current account deficit in recent years.

Table 1. Uganda: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	480	543	1,351	981	3,354	100
Net flows on debt (short- and long-term)	401	654	942	1,106	3,102	92
Net flows on long-term debt	401	650	977	1,082	3,110	93
Net flows on public sector debt	401	650	977	1,082	3,110	93
Multilateral (incl. IMF), net	91	593	523	979	2,187	65
Gross disbursements	139	746	983	1,288	3,156	94
Non-concessional	92	455	101	43	691	21
Concessional	47	291	882	1,245	2,465	73
Principal repayments	-47	-153	-460	-309	-969	-29
Bilateral, net	101	38	280	176	595	18
Gross disbursements	123	89	355	278	844	25
Non-concessional	22	70	144	46	283	8
Concessional	101	18	211	231	561	17
Principal repayments	-22	-51	-75	-102	-250	-7
Private sector with govt. guarantee, net	208	18	175	-73	329	10
Gross disbursements	254	139	307	29	729	22
Principal repayments	-45	-121	-132	-101	-400	-12
Net flows on private sector debt (unguaranteed by debtor government)	0	0	0	0	0	0
Gross disbursements	0	0	0	0	0	0
Principal repayments	0	0	0	0	0	0
Net flows of short-term debt 1/	...	4	-35	23	-8	0
Net change in interest arrears 2/	...	...	45	-24	21	1
Interest capitalized 2/	...	...	12	80	91	3
Debt forgiveness or reduction 2/	...	...	-51	-200	-252	-8
Valuation changes 3/	54	-25	261	26	316	9
Residual	25	-86	142	-6	75	2
Memorandum items:						
Grants	179	512	1,136	2,254	4,081	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	30	145	0	175	...

Sources: Global Development Finance, World Bank, 1997; and IMF Staff estimates.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Uganda: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995
Arrears to official creditors	60.3	42.4	172.9	73.5
Principal	51.7	33.7	121.7	61.2
Interest	8.6	8.7	51.2	12.3
Arrears to private creditors	81.7	41.4	215.2	211.2
Principal	0.0	0.0	0.0	0.0
Interest	81.7	41.4	215.2	211.2

Source: World Bank DRS.

Table 3. Uganda: Overview of Rescheduling of Official Bilateral Debt, 1976–95

Number of Rescheduling	Date of Agreement	Amount Consolidated (In millions of U.S.dollars)	Consolidation Period (In months)	Terms	
				Grace (In years)	Maturity (In years)
I	11/18/81	30	12	4.5	9.0
II	12/01/82	19	12	6.5	8.0
III	06/19/87	170	12	6.0	14.5
IV	01/26/89	89	18	London Terms	
V	06/17/92	39	24	London Terms	
VI	02/20/95	110	Stock	London Terms	

Source: "Official Financing for Developing Countries", IMF, Feb. 1998.

Table 4. Uganda: Chronology of IMF Support, 1980–95

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ESAF	9/6/94	9/5/97	120.5	53.6 1/
ESAF 2/	4/17/89	6/30/94	219.1	219.1
SAF	6/15/87	4/17/89	69.7	49.8
CFF 3/	2/5/87	n.a.	24.8	24.8
CFF 3/	6/15/86	n.a.	25.0	25.0
Stand-by	9/16/83	Canceled 9/84	95.0	65.0
Stand-by	8/11/82	8/10/83	112.5	112.5
Stand-by	6/5/81	6/5/82	112.5	112.5
CFF 3/	6/5/81	6/4/82	45.0	45.0

Source: IMF.

1/ At end-February 1996.
2/ The original 3-year arrangement under the ESAF scheduled a total disbursement of SDR 179.3 million; an additional annual arrangement was approved in December of 1992 totaling an extra SDR 39.9 million.
3/ Compensatory Financing Facility.

Chart 1. Uganda: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

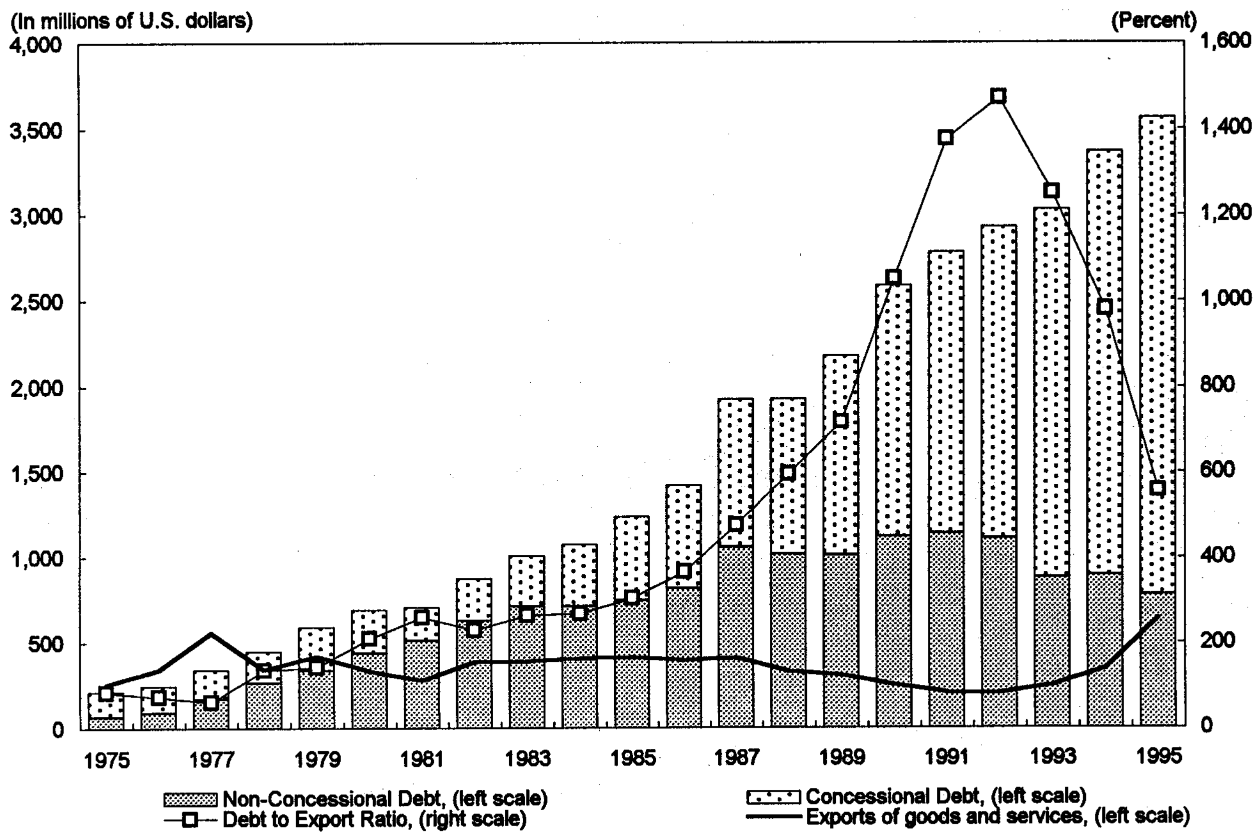
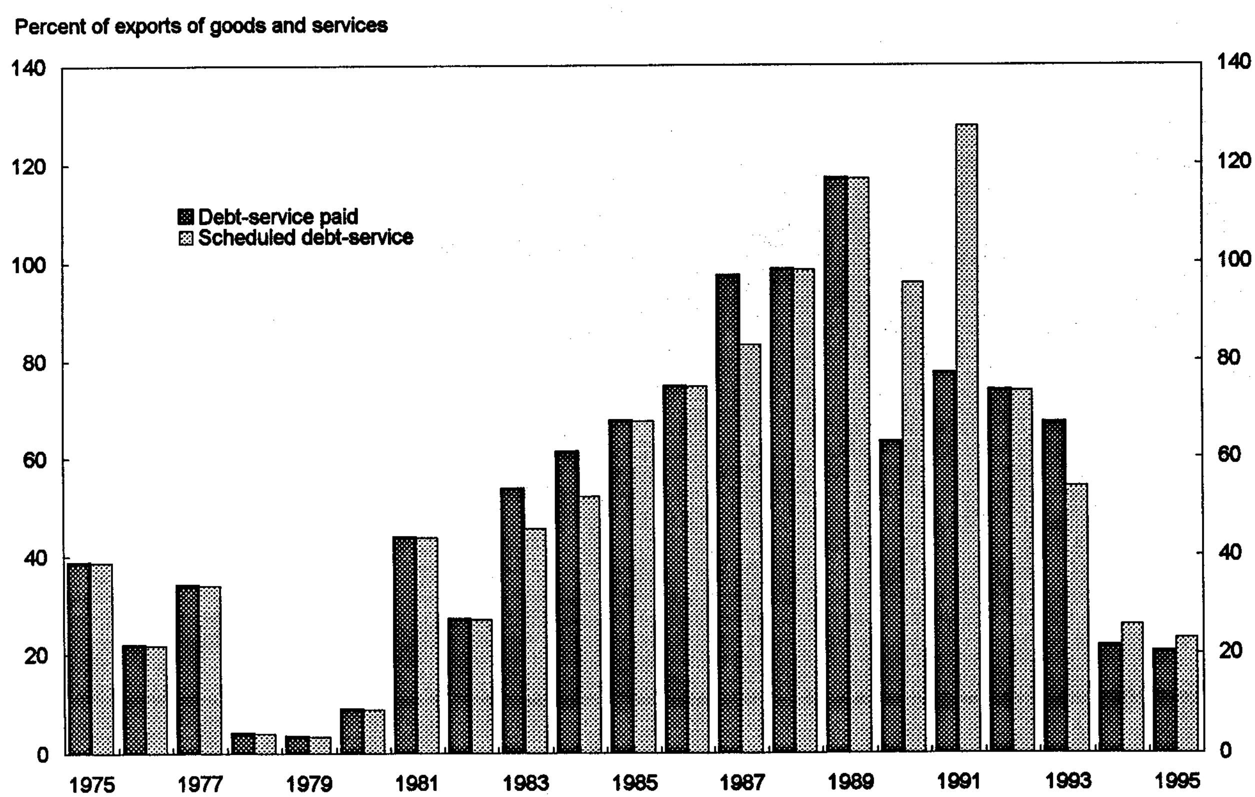
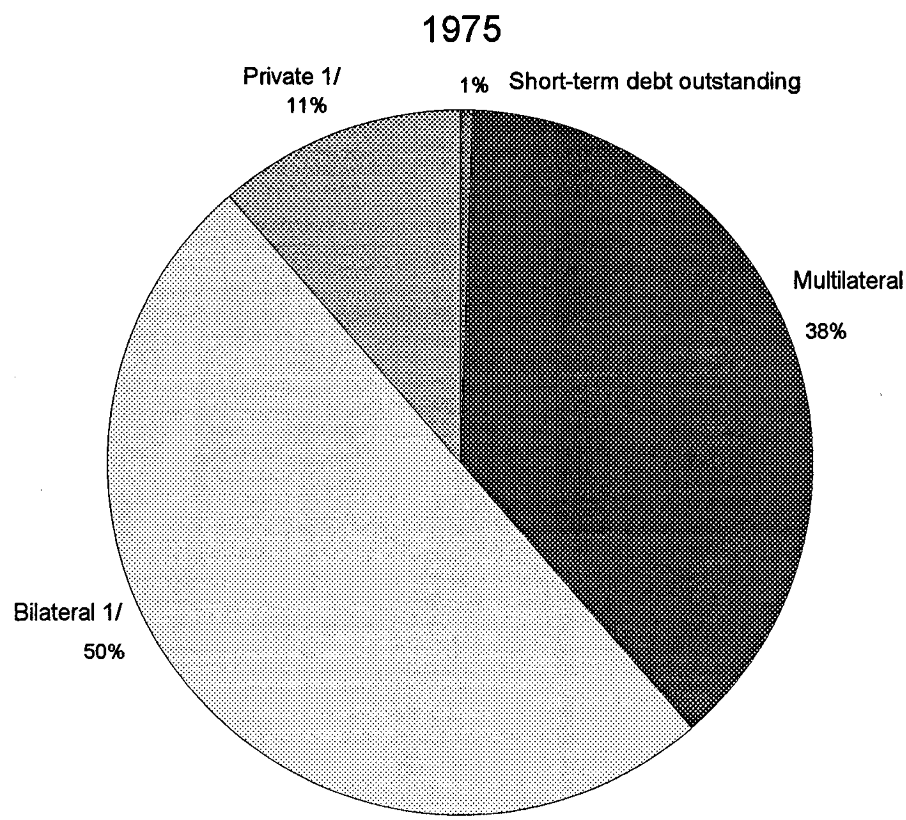


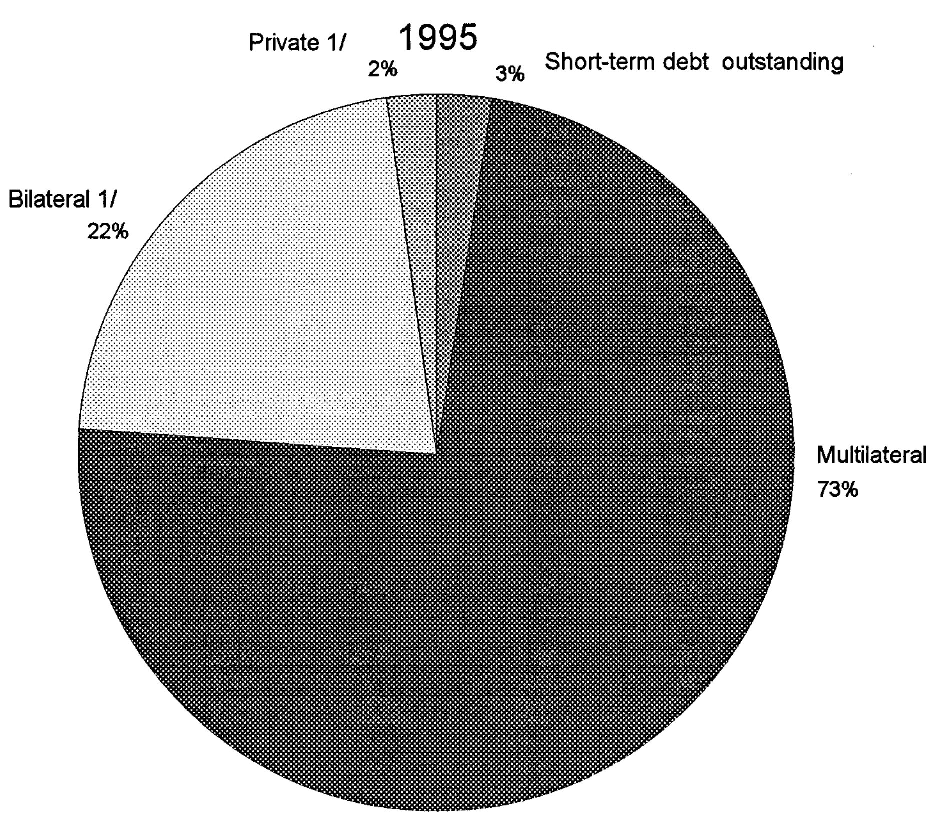
Chart 2. Uganda: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt service ratios and IMF staff estimates.

Chart 3. Uganda: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Uganda: Average Grant Element of New Commitments, 1975-95 1/

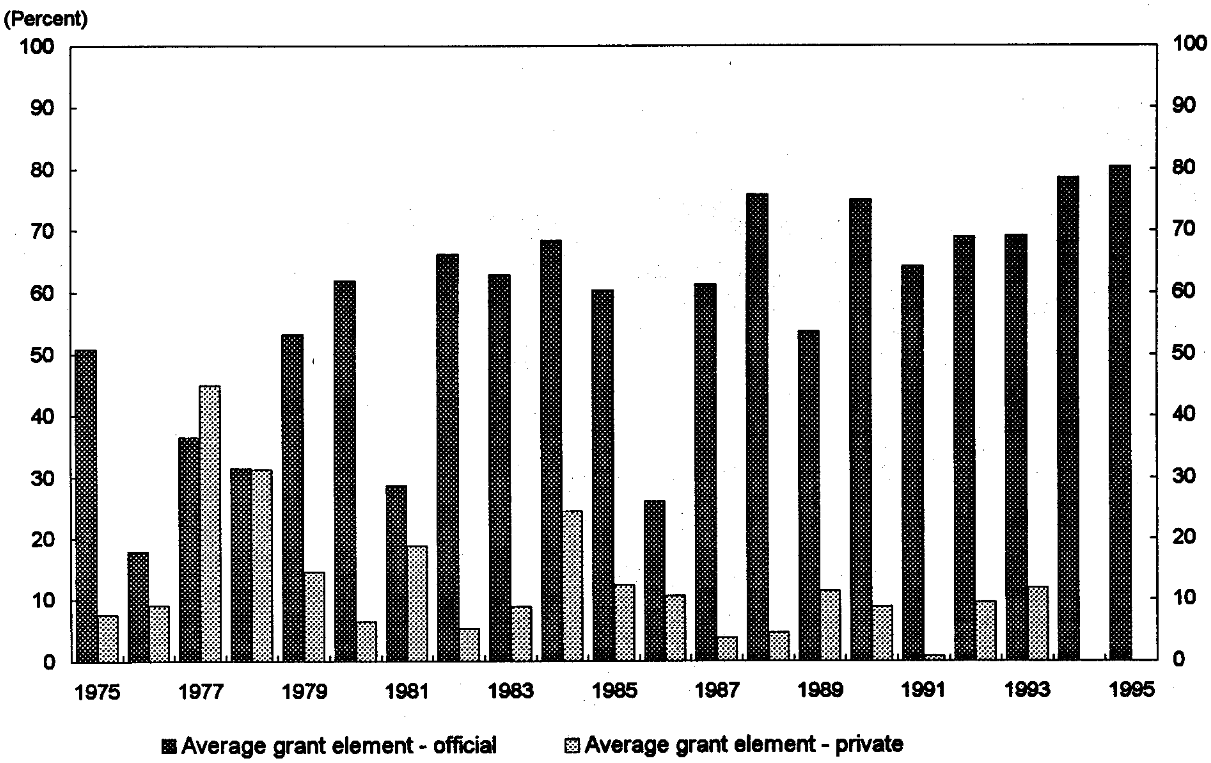
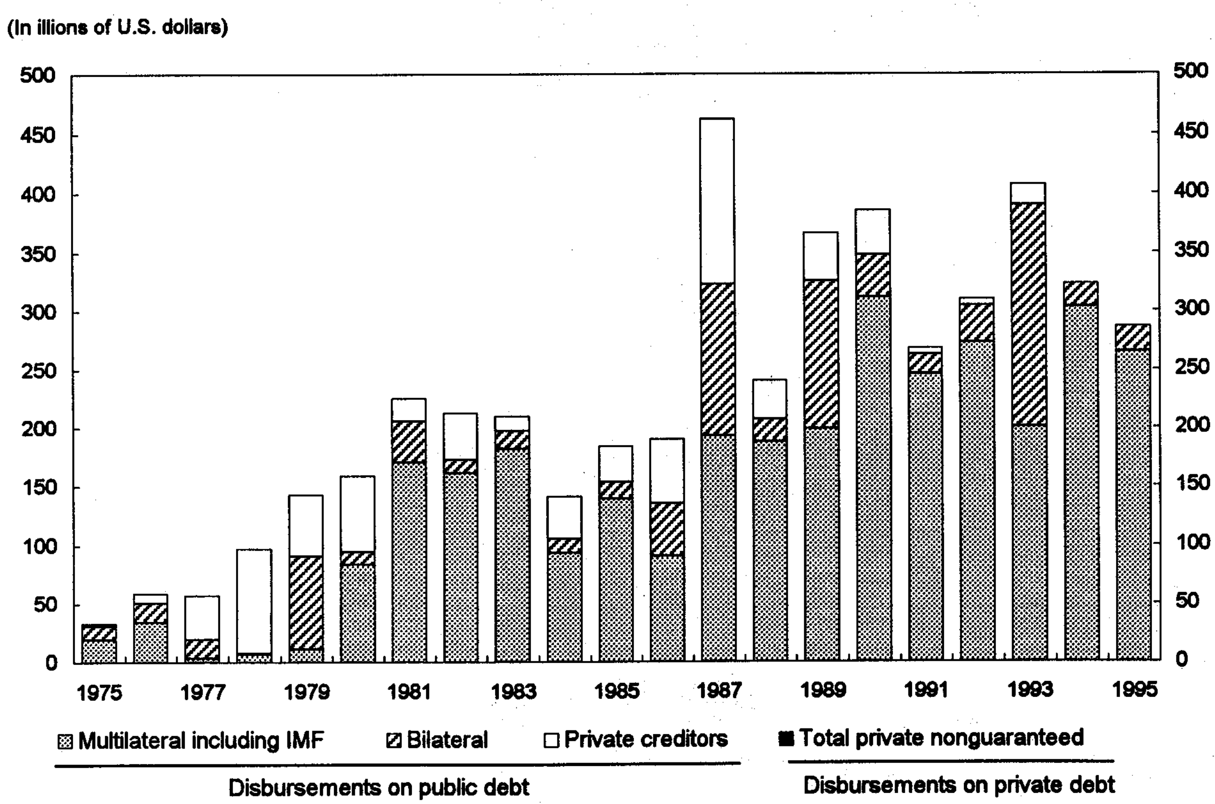


Chart 5. Uganda: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Uganda: Breakdown of Debt Stock Increase, 1975-95

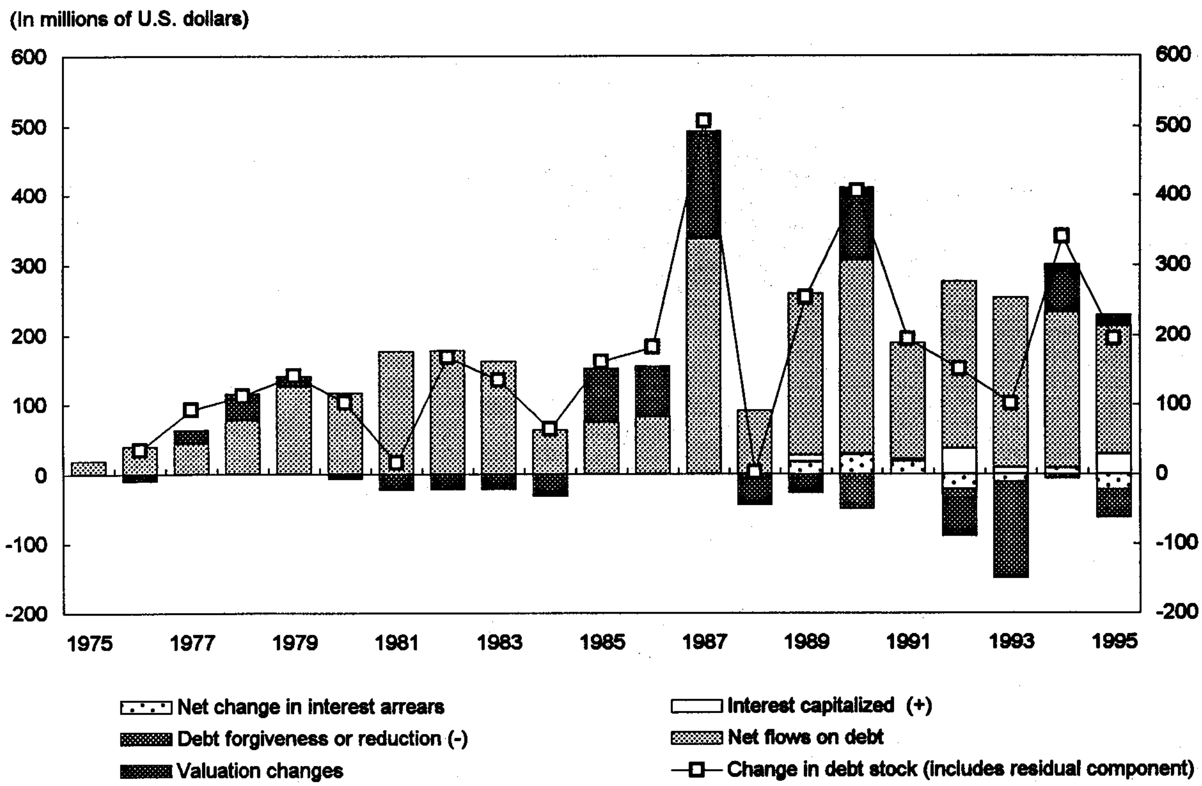
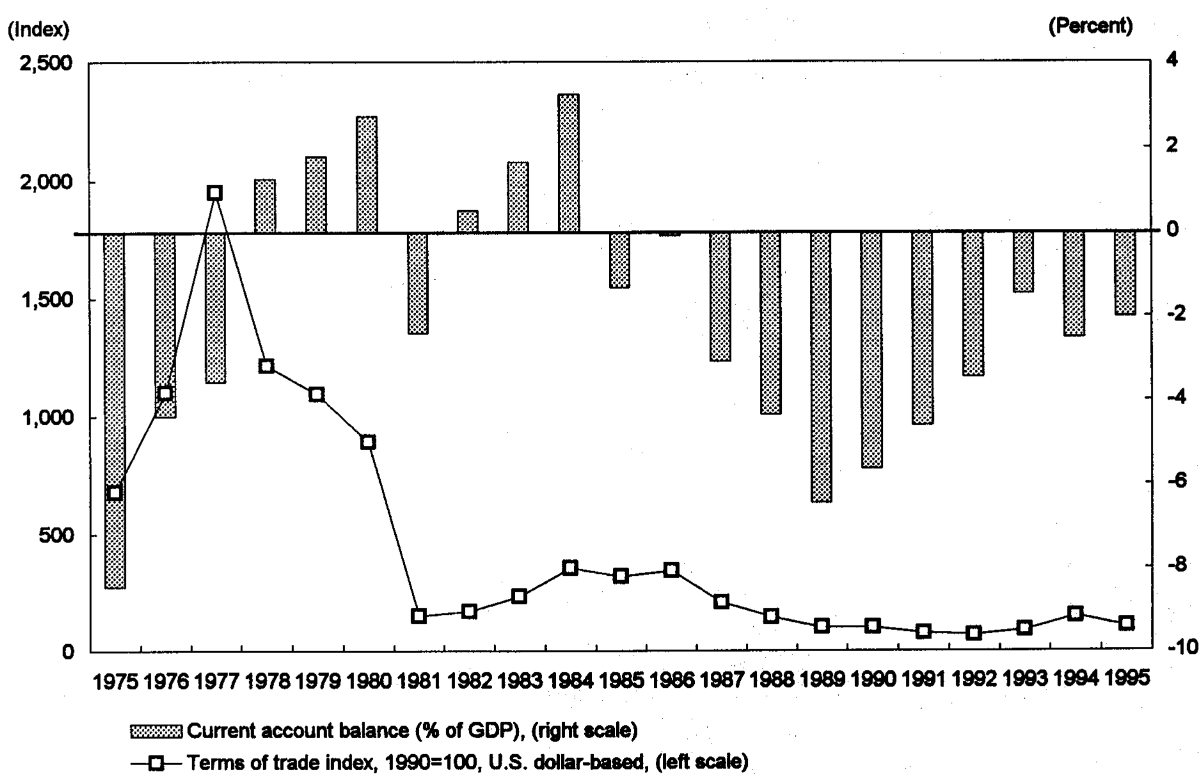


Chart 7. Uganda: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

Zambia

Summary

Zambia's external debt stock rose from $1.6 billion in 1975 to $6.9 billion in 1995, an increase of 430 percent.[33] Export earnings, however, did not keep pace with the increase in the debt stock, rising by only 8 percent between 1976–80 and 1991–95. As a result, the debt-to-exports ratio increased from an average of less than 220 percent in 1976–80 to a peak of 775 percent in 1986, before easing to an average of over 580 percent in 1991–95. The scheduled debt-service ratio reached a peak of about 78 percent in 1986, before easing steadily to below 50 percent by 1994.

Virtually all of the increase in the external debt stock took place between 1975 and 1987, with little change in the nominal stock of external debt after 1987. The increase in debt reflected large disbursements of nonconcessional financing in the late 1970s and early 1980s, mainly from the IMF and private and bilateral creditors. The financing supported IMF arrangements under which Zambia was projected to have the capacity to service such debt based on the assumption of a strong recovery in copper prices. However, the projections proved to be overly optimistic—copper exports (which accounted for more than 90 percent of exports in 1980) fell in the early 1980s due to a sharp fall in world prices, a decline in the quality of the ore, and problems related to management of the state-owned copper company. World copper prices did not recover until the late 1980s, by which time Zambia had accumulated sizeable external debt-service payment arrears, including to the IMF.

The authorities' policy response to the fall in copper prices in the early 1980s was inadequate. Although a series of adjustment programs supported by the IMF and successive Paris Club reschedulings were adopted in the early 1980s, the authorities had a mixed record of implementation. As a result, non-metal exports did not grow significantly during the 1980s, particularly because the authorities maintained an overvalued fixed exchange rate and relatively tight exchange and trade controls. It was not until the early 1990s that non-metal exports began to respond to the authorities' increased financial discipline and reforms to the exchange and trade system that were supported by the IMF's Rights Accumulation Program adopted in 1992. By 1995, non-metal exports amounted to over $200 million, triple the level of 1989, but still accounted for only about 20 percent of total merchandise exports.

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[33] In NPV terms, the increase would have been less as the proportion of debt on concessional terms increased from about 20 percent in the 1970s to almost 50 percent by 1995. The NPV debt-export ratio at end-1995 was estimated at about 383 percent.

The more prudent approach to external debt management adopted by the authorities in the late 1980s and early 1990s, along with significant debt reduction granted by private and bilateral creditors, enabled the authorities to stabilize the debt stock and increase the concessionality of the debt, thereby easing the debt burden somewhat from the earlier, extremely high levels.

Debt burden indicators

Zambia's debt burden was at manageable levels in the late 1970s, with the debt-to-export ratio averaging about 200 percent (Chart 1). However, the debt burden rose sharply in the 1980s, as the debt-to-exports ratio increased to a peak of almost 800 percent by 1986, before falling to about 500–600 percent in early 1990s, while the debt-service ratio rose to a peak of 78 percent in 1987. The increase in the debt burden arose from a combination of growth in the nominal stock of debt (particularly in the early 1980s) and stagnant export growth.

Zambia began to accumulate substantial debt-service arrears in the early 1980s, and these reached a peak during 1986–90 (Table 2). The arrears were primarily owed to bilateral and multilateral creditors, especially the IMF. It was not until 1991 that Zambia stopped accumulating arrears and began servicing debt-service obligations as they fell due, although arrears to the IMF were not cleared until December 1995.

Composition of external debt

The composition of Zambia's debt stock has changed markedly since 1975 (Chart 3). In 1975, Zambia's debt was owed primarily to private and bilateral creditors (38 and 23 percent, respectively); by 1995, the concentration had shifted to multilateral (including the IMF) and bilateral creditors with 50 and 40 percent of total debt, respectively. The sharp decline in the share of debt owed to private creditors by 1995 also reflected debt reduction from those creditors. In particular, Zambia retired about $400 million in debt to private creditors in 1994 in a buyback at 11 cents on the dollar (with support from the IDA Debt Reduction Facility). In addition to the debt buyback, private creditors' claims on Zambia were reduced as a result of reschedulings by Paris Club creditors based on IMF arrangements

(Tables 3 and 4). In the case of debt owed to private creditors and guaranteed by export credit agencies, the loans were subsequently rescheduled by Paris Club creditors, and the liability shifted from private to bilateral debt.[34] [35]

Reflecting the shift in the concentration of debt to multilaterals, which provided financing largely on concessional terms after 1985, the concessionality of total debt increased. Whereas about 20–30 percent of Zambia's debt stock was on concessional terms in 1975, this share rose to about 51 percent by 1995, reflecting the rise in the average grant element of new commitments since the early 1990s (Chart 4).

Elements of the increase in external debt

In the period 1975–85, bilateral and private creditors were the main source of new financing with about 60 percent of disbursements (Chart 5). Most of the disbursements in this period were on nonconcessional terms, with disbursements on concessional terms comprising only 20 percent of total disbursements. Currency fluctuations also had a significant impact on the U.S. dollar value of the debt stock in this period, as due to the sizeable share of debt in currencies other than the U.S. dollar, the appreciation of the U.S. dollar against other major currencies masked some of the impact of the large new disbursements in the period.

During 1986–90, the debt stock rose by $2.7 billion. Net flows from creditors accounted for about $0.6 billion of this increase, while the remainder was due to an estimated valuation loss of $0.8 billion,[36] as well as the accumulation of interest arrears and capitalization of interest. About 60 percent of the new financing in this period was from multilateral institutions, particularly the World Bank, African Development Bank, and the IMF. About two-thirds of the financing from multilaterals in this period was on non-concessional terms.

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[34]In the case of the concessional reschedulings (London and Naples terms rescheduling in 1990, 1992, and 1995), however, the increase in claims on Paris Club creditors in NPV terms was smaller than the reduction in private creditor claims, because of the NPV reduction afforded under London and Naples terms.

[35]The largest debt rescheduling took place in 1990 when Zambia rescheduled $963 million on London terms, with a NPV reduction of 50 percent (Table 4). According to the World Bank DRS, bilateral creditors' long-term claims rose in 1990 by $568 million (of which only $6 million was due to net flows on debt) while private creditors' claims fell by $125 million; and the short-term debt stock (which included interest arrears) fell by $142 million.

[36]This was due to the depreciation of the U.S. dollar against the other major currencies. In SDR terms, debt rose by about 32 percent over the same period (or SDR 1.2 billion).

From 1989 onwards, the total stock of debt in both U.S. dollar and SDR terms stabilized, and even declined slightly in 1991–95. A key factor in this decline was debt forgiveness of $1.2 billion from both bilateral and private creditors as well as a shift from loan to grant financing. Net inflows of external financing amounted to $3.3 billion in 1991–95, with a large share in the form of grants from bilateral donors (total grants increased from $0.8 billion during 1976–85 to $3.0 billion in 1991–95). During the latter period, three-quarters of the new financing was from multilaterals, mostly on concessional terms.

Factors affecting financing needs and debt-servicing capacity

The financing of Zambia's substantial current account deficits in the early 1980s, largely due to a fall in copper prices, sowed the seeds for its future debt problems. Apart from the short-lived surplus in the external current account in 1979, the deficits in the period 1978–86 ranged from 10–20 percent of GDP. A large part of the flows to finance these deficits were in support of IMF arrangements (Table 3), which were based on optimistic projections of copper prices that ex-post turned out to be forecasting errors.[37] For instance, the 1981 program projected an increase of about 50 percent in copper prices in U.S. dollar terms over two years, but prices actually fell by about 13 percent over this period. The projections underlying the 1983 SBA also proved to be overly optimistic, as copper earnings fell by more than one-half over the period 1980–86, severely reducing Zambia's debt-servicing capacity.

The decline in copper earnings in the early 1980s resulted from a combination of the fall in world prices of copper, a decline in ore grade, and problems related to management of the state-owned copper company (such as weak procurement procedures, manpower problems, and insufficient investment). Copper prices did not recover until the late 1980s, by which time Zambia had accumulated substantial arrears on debt-service payments, including to the IMF. As a result, Zambia was declared ineligible for the use of IMF resources in 1987.

The concentration of its exports on copper, which comprised 83 percent of export proceeds in 1984, and the authorities' lack of adjustment away from dependence on copper were key factors behind Zambia's continuing debt problems. The authorities did not respond appropriately to the fall in copper prices. Non-metal exports were not encouraged, and they stagnated throughout the 1980s, as adjustment programs supported by the IMF in the early 1980s had a mixed record of macroeconomic policy implementation and the authorities maintained an overvalued exchange rate and exchange and trade controls. By 1986, a severe

[37]The commodity price projections used in IMF programs were generally consistent with projections used widely in the World Bank and the IMF (particularly for the CCFF) at that time.

lack of foreign exchange led to widespread shortages of industrial inputs that adversely affected domestic and export production and the current account deficit increased to more than 20 percent of GDP.

Considerable progress was made in closing internal and external imbalances as a result of the implementation of the Economic and Financial Program (EFP) adopted in 1989 and the Rights Accumulation Program (RAP) agreed with the IMF in 1992. After a slow start, Zambia's current account deficit (excluding official transfers) narrowed, and payment arrears with most multilateral and bilateral creditors were cleared. Furthermore, non-metal exports began to increase in response to firmer financial policies and liberalization of the exchange and trade regime. By 1995, non-metal exports amounted to more than $200 million, triple the level of 1989, but still accounted for only 18 percent of total merchandise exports.

Table 1. Zambia: Breakdown of the Changes in the Total Debt Stock, 1976-95

	1976-80	1981-85	1986-90	1991-95	Total 1976-95	Contribution to Total Change
	(In millions of U.S. dollars)					(In percent)
Net change in debt stock	1,578	1,529	2,690	-413	5,384	100
Net flows on debt (short- and long-term)	1,312	1,521	837	721	4,391	82
Net flows on long-term debt	1,312	1,402	622	787	4,124	77
Net flows on public sector debt	1,332	1,448	621	776	4,176	78
Multilateral (incl. IMF), net	577	738	291	955	2,560	48
Gross disbursements	762	1,215	644	3,517	6,138	114
Non-concessional	692	1,027	365	1,084	3,167	59
Concessional	70	188	279	2,433	2,970	55
Principal repayments	-185	-477	-353	-2,562	-3,578	-66
Bilateral, net	673	516	276	-5	1,460	27
Gross disbursements	727	619	336	86	1,767	33
Non-concessional	310	140	108	51	610	11
Concessional	416	479	228	34	1,157	21
Principal repayments	-53	-103	-60	-90	-307	-6
Private sector with govt. guarantee, net	82	194	54	-174	156	3
Gross disbursements	693	415	355	102	1,565	29
Principal repayments	-611	-221	-302	-276	-1,409	-26
Net flows on private sector debt (unguaranteed by debtor government)	-20	-46	2	12	-53	-1
Gross disbursements	151	4	2	16	173	3
Principal repayments	-171	-50	0	-5	-226	-4
Net flows of short-term debt 1/	...	119	215	-67	267	5
Net change in interest arrears 2/	...	...	252	-474	-223	-4
Interest capitalized 2/	...	...	333	335	667	12
Debt forgiveness or reduction 2/	...	...	-328	-1,184	-1,512	-28
Valuation changes 3/	153	-279	845	100	819	15
Residual	113	288	751	90	1,242	23
Memorandum items:						
Grants	505	798	2,085	3,001	6,389	...
Change in export credits 4/ (guaranteed/insured by creditor government)	...	378	247	-57	568	...

Source: Global Development Finance, World Bank, 1997.

1/ Not available prior to 1985 in GDF; figures for 1981-85 represent 1985 only.

2/ Not available prior to 1989 in GDF; 1986-90 figures represent 1989-90 only.

3/ Staff estimates.

4/ Not available prior to 1982 in GDF; 1981-85 figure reflects changes from end-1982 to end-1985 only.

Table 2. Zambia: Principal and Interest Arrears

(In millions of U.S. dollars)

	1980	1985	1990	1995 1/
Arrears to official creditors	15.6	238.0	172.0	101.9
Principal	12.5	177.1	104.3	75.7
Interest	3.1	60.9	67.7	26.2
Arrears to private creditors	33.0	437.1	1,515.7	726.8
Principal	0.0	0.0	0.0	0.0
Interest	33.0	437.1	1,515.7	726.8

Source: World Bank DRS.
1/ Data for 1995 are preliminary. More recent IMF estimates show arrears of $1.1 billion at end-1995 exclusively to official creditors.

Table 3. Zambia: Chronology of IMF Support, 1981–96

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	12/6/95	12/5/98	702	652 1/
SAF	12/6/95	12/5/96	182	182 1/
RAP 2/	7/17/92	...	...	...
Stand-by	2/21/86	Canceled 5/87	230	35
Stand-by	7/26/84	Canceled 1/85	225	80
CFF 3/	6/18/83	...	97	97
Stand-by	4/18/83	4/17/84	212	144
CFF 3/	12/82	...	34	34
Extended Arrangement	5/81	Canceled 7/82	800	300

Source: IMF.

1/ At the end of May 1996.
2/ Rights Accumulation Program.
3/ Compensatory Financing Facility.

Table 4. Zambia: Overview of Rescheduling of Official Bilateral Debt, 1976–95

Number of Rescheduling	Date of Agreement	Amount Consolidated (In millions of U.S. dollars)	Consolidation Period (In months)	Terms	
				Grace (In years)	Maturity (In years)
I	05/16/83	375	12	5.0	9.5
II	07/20/84	253	12	5.0	9.5
III	03/04/86	371	12	5.0	9.5
IV	07/12/90	963	18	London Terms	
V	07/23/92	917	33	London Terms	
VI	2/28/96	566	36	Naples Terms	

Source: "Official Financing for Developing Countries," IMF, December 1995.

Chart 1. Zambia: Debt Stock in U.S. Dollars and Debt-Export Ratio, 1975-95

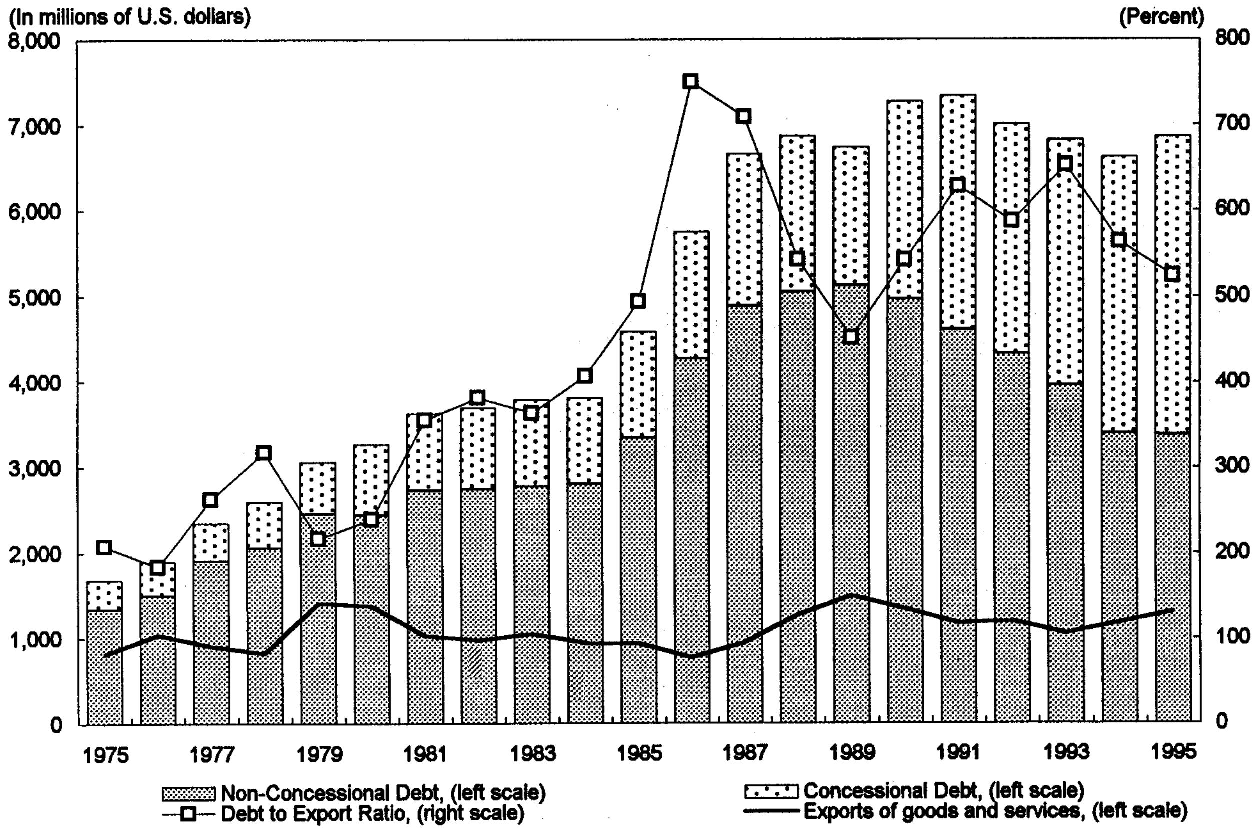
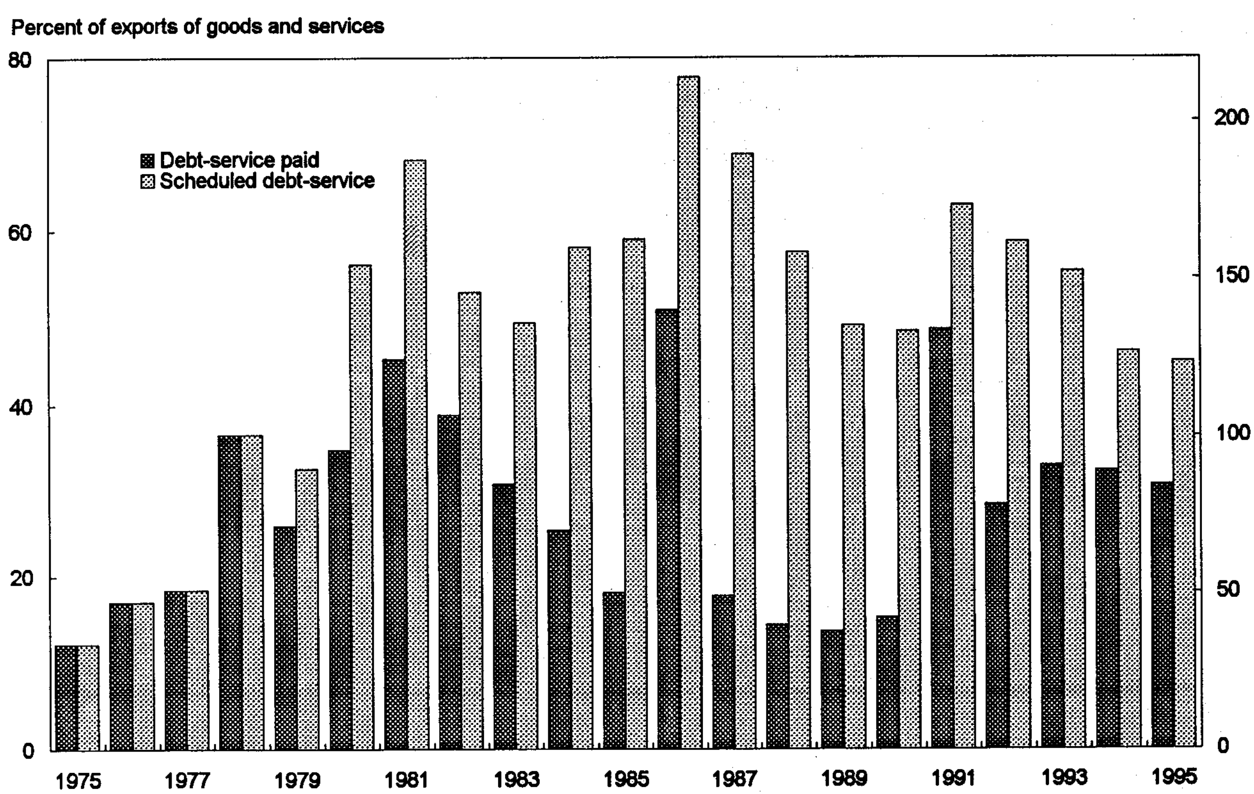
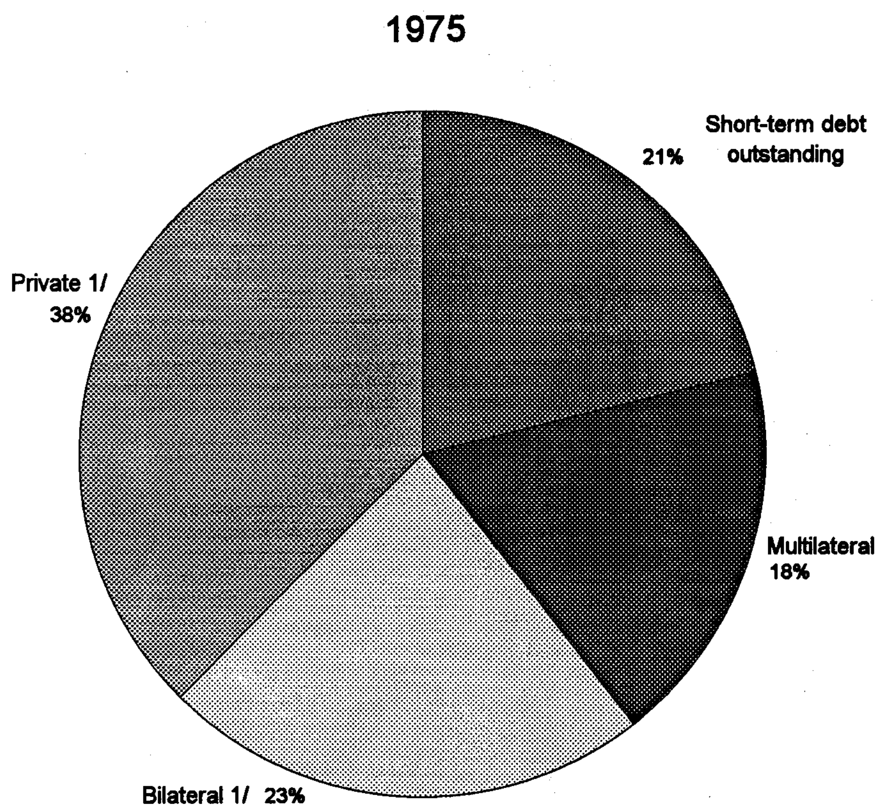


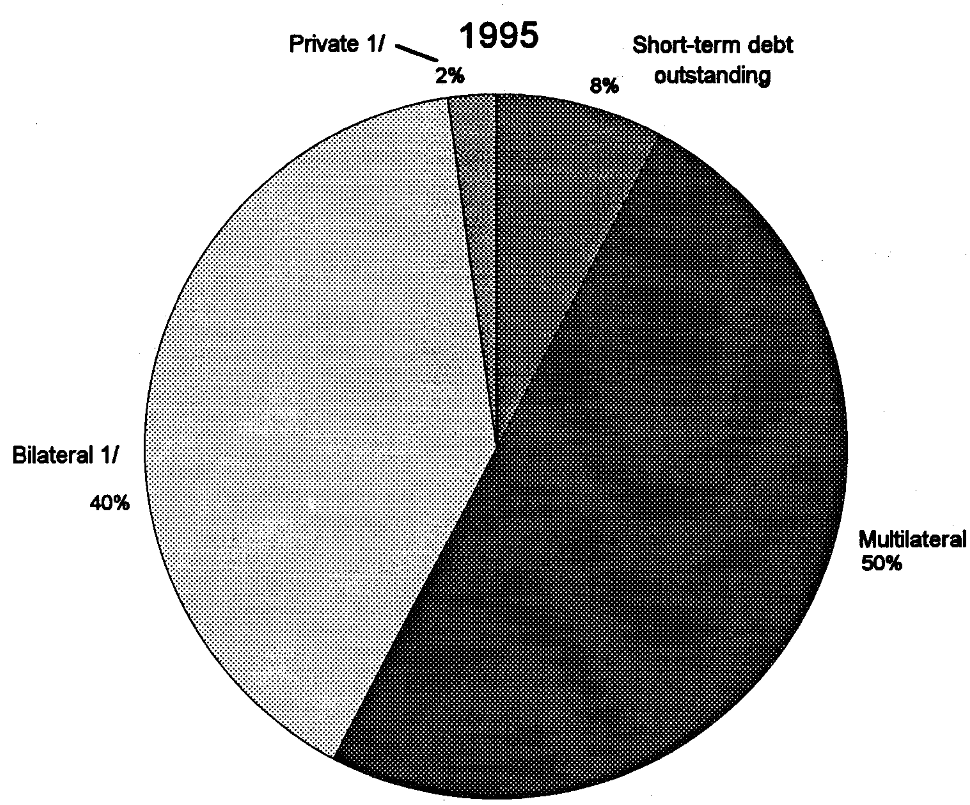
Chart 2. Zambia: Debt-Service Ratios, 1975-95



Sources: World Bank GDF and DRS; IMF WEO data for debt-service ratios and IMF staff estimates.

Chart 3. Zambia: Total Public and Publicly-Guaranteed Debt Stock Composition, 1975-95





Source: World Bank GDF.

1/ Long-term debt.

Chart 4. Zambia: Average Grant Element of New Commitments, 1975-95 1/

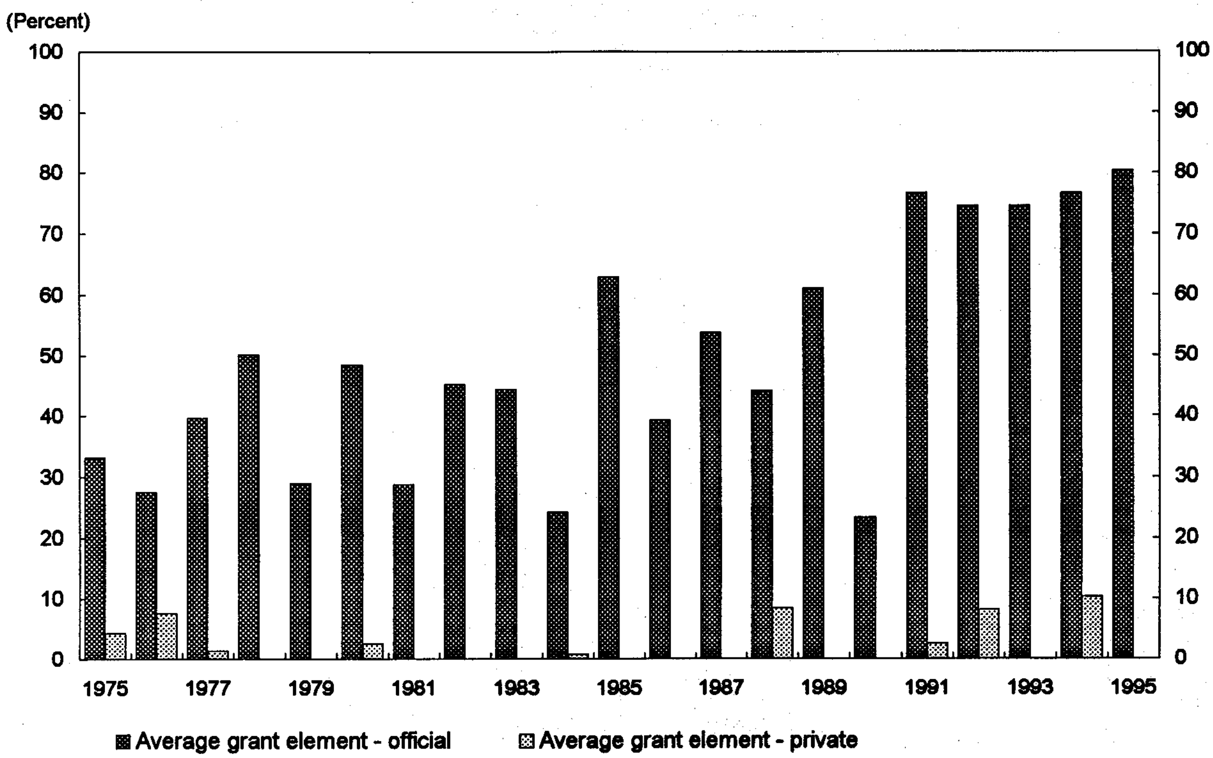
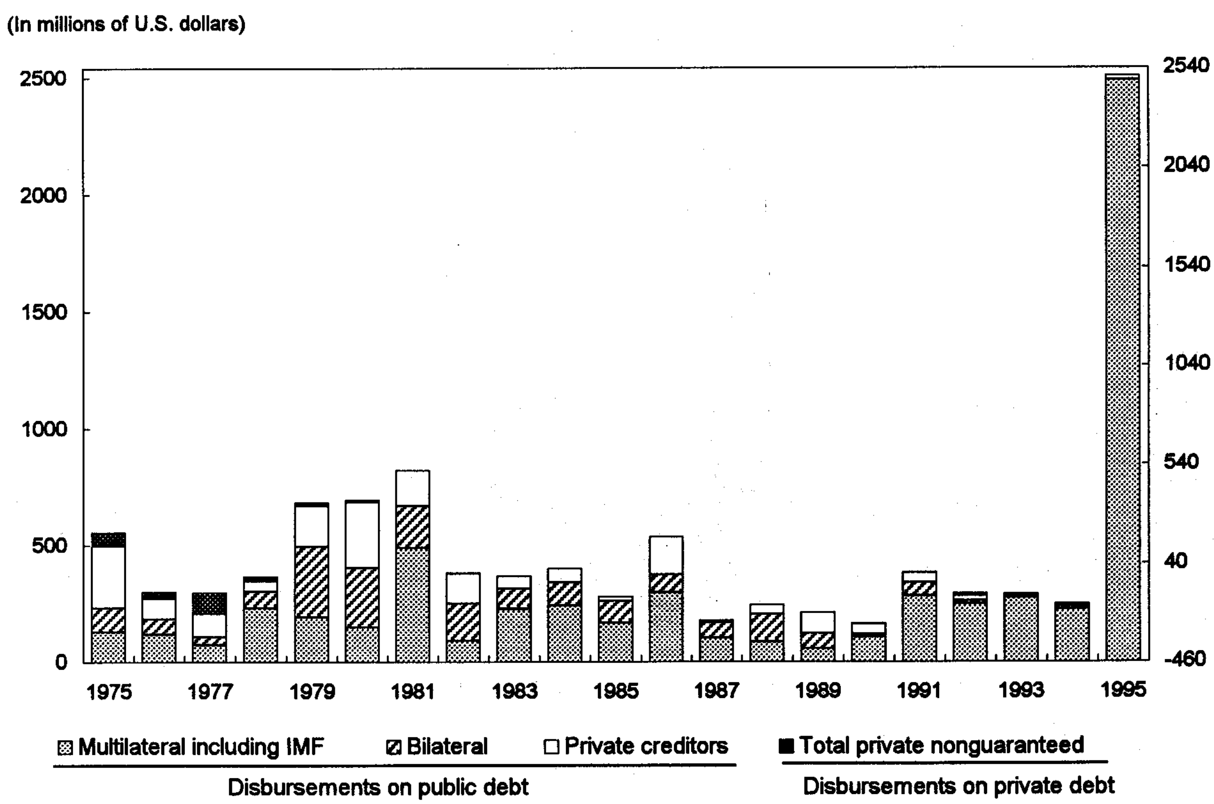


Chart 5. Zambia: Long-Term Disbursements, 1975-95



Sources: World Bank GDF, and IMF IFS.

1/ Grant element as defined by the Development Assistance Committee of the OECD, using a discount rate of 10 percent.

Chart 6. Zambia: Breakdown of Debt Stock Increase, 1975-95

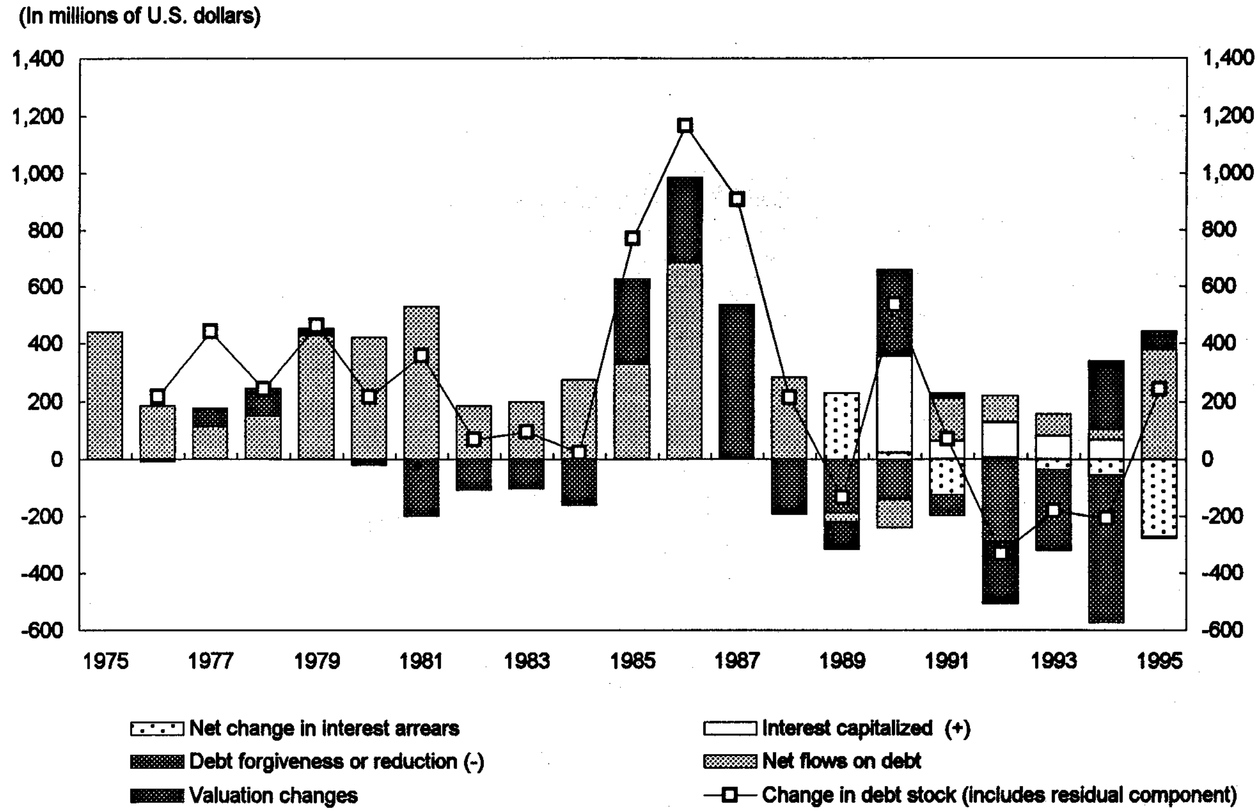
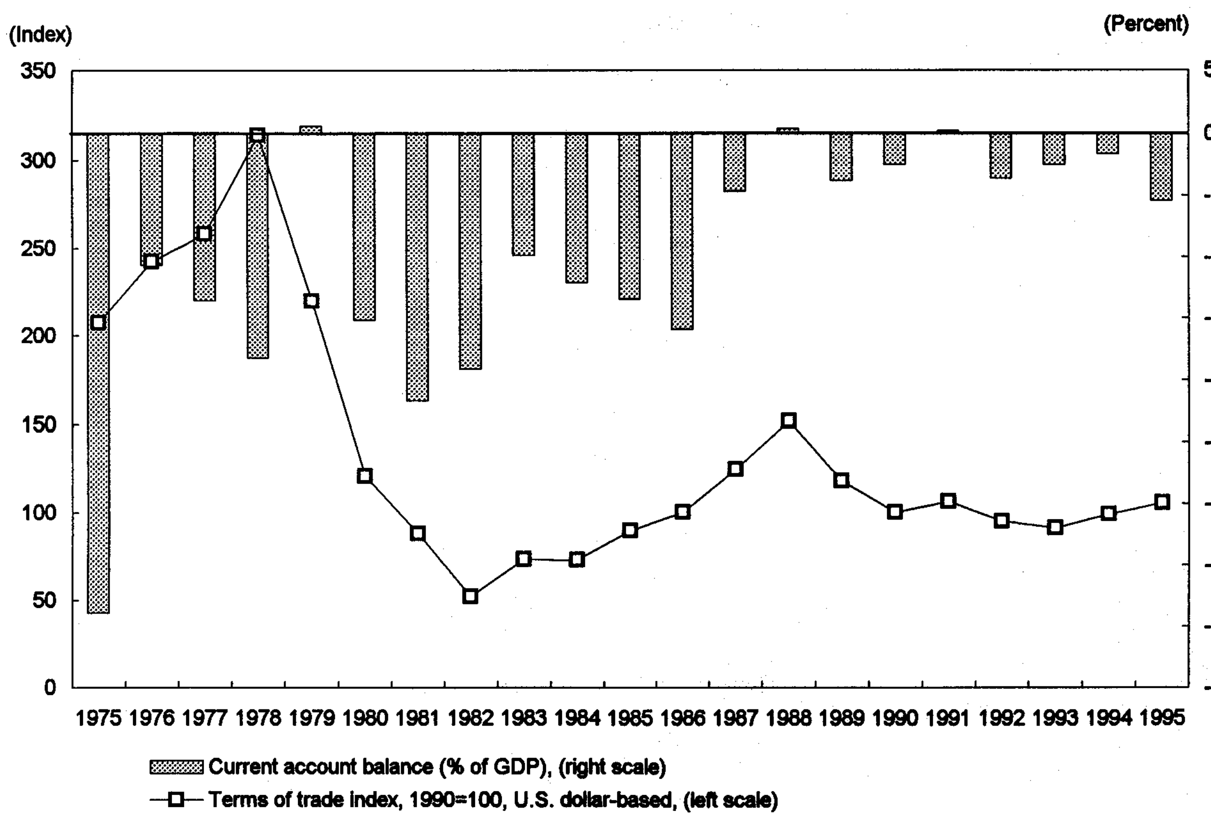


Chart 7. Zambia: Terms of Trade and Current Account Balance, 1975-95



Sources: World Bank GDF; IMF WEO and IMF staff estimates.

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Policy Development and Review Department

External Debt Histories of Ten Low-Income Developing Countries: Lessons from Their Experience

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Abstract

The external debt burden of many low-income developing countries has increased significantly since the 1970s. Developments in a sample of ten countries show that the main factors behind the buildup of debt were (1) exogenous (adverse terms of trade shocks or weather), (2) a lack of sustained macroeconomic adjustment and structural reforms, (3) nonconcessional lending and refinancing policies of creditors, (4) inadequate debt management, and (5) political factors (civil war and social strife). Future policies should limit the need for external financing and create an environment conducive to diversifying export growth, managing debt more prudently, and basing economic projections on more cautious assumptions.

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