

Statement by Mr. George Talbot, Representative of Guyana, on behalf of the Group of 77 and China, on agenda item 97(e): External Debt Crisis and Development

New York, 8 October 1999

Mr. Chairman,

I have the honour to speak on behalf of the Group of 77 and China in respect of agenda item 97 (e), external debt crisis and development. I should like first of all to express our appreciation for the report of the Secretary-General, contained in document A/54/370 which provides a useful overview of recent developments in the debt situation of developing countries.

For the Group of 77 and China, the external debt problem is a serious impediment to development. Not only does it invariably impose a heavy burden on our countries by depriving them of significant resources for development, but it also often brings with it many negative conditionalities that constrain our autonomy of action. Obligated as they are to direct precious resources to service external indebtedness, debtor countries must curtail expenditures for basic health, education and infrastructure. A heavy foreign debt also undermines macroeconomic stability by increasing budget deficits and thus effectively impeding economic growth. We are therefore anxious to see an early and durable solution to the problem and hope that our deliberations in this Committee could take us closer to that goal.

True enough, there have been several initiatives over the years aimed at reducing the enormous debt overhang, which have brought some relief. Following the outbreak of the debt crisis in the 80's, we witnessed the efforts of the Paris Club, the Brady Plan of 1989, followed by a series of so called terms including Toronto, Naples and Lyon. Despite these initiatives, the problem persists. The Secretary-General reports that the total external debt of developing countries and countries in transition reached an estimated 2.5 trillion dollars at the end of 1998, a six percent increase over the 2.3 trillion in 1997.

The HIPC initiative launched in 1996 represented a first step toward a more comprehensive approach as called for by the General Assembly. As was soon discovered, however, it was too limited in its coverage, was loaded with conditionalities and slow to yield significant benefits. Following on the Cologne Initiative, the successor Enhanced HIPC Framework adopted at the recent annual meetings of the Bank and Fund is a welcome step forward. It holds out the promise of faster, deeper and broader relief. However, what impact will be made remains to be seen, and will depend on urgent implementation of its provisions.

Indeed, a critical factor to its success will be the provision of adequate financing. So far, this is yet to be assured. The Group of 77 and China remains concerned about the difficulties being encountered in securing the necessary funding for the enhanced HIPC Framework. We urge speedy action to mobilise the requisite financing for its implementation. In this regard, we note that many developing countries have already made pledges and contributions. We urge industrialized countries, particularly G-7 countries, to go beyond pledges made so far in order to assure the full and effective implementation of the Initiative.

At the same time, we must reiterate a fundamental principle, in keeping with previous resolutions of the General Assembly, that funding for the Initiative should not affect the support required for other development activities of developing countries. In this context, the Group of 77 and China welcomes the agreement reflected in the communiqué of the Development Committee that financing of debt relief should not compromise the financing made available through concessional windows such as the IDA.

It is also important to highlight in this context the need for special attention to the crippling debt burden borne by African countries, among which are most of the HIPCs. The Secretary-General has put forward a number of proposals in this regard, which warrant consideration by the international community. Among these is his call to convert into grants the remaining official bilateral debts of the poorest African countries.

Mr. Chairman,

A key lesson to be drawn from the incremental approach that has so far characterised debt reduction strategies is that the terms of debt relief have been inadequate at each point in the past years. It is now imperative that we find a more comprehensive solution to the problem.

Recent developments support the need for a more comprehensive approach. In the case of HIPCs, for example, the Interim and Development Committees have acknowledged that debt relief alone is insufficient to achieve the goal of poverty reduction. They have thus recognised the need for a broader strategy that encompasses a more explicit link within countries between debt relief and poverty reduction strategies and programmes.

A comprehensive approach must entail measures to address the debt problem of developing countries, such as the Least Developed Countries, non-HIPC low-income countries and middle income countries. We call attention to the urgent need to implement appropriate actions in favour of LDCs, in particular concerning their official bilateral, commercial and multilateral debt as agreed to in the Mid-term Global Review of Progress in the Implementation of the Programme of Action for the Least Developed Countries for the 1990s.

The Secretary-General's report has drawn attention to worrisome developments in the debt problems of middle income countries, particularly those in the lower middle income category, a number of which have been obliged, on account of the East Asian financial crisis, to seek new arrangements for debt rescheduling. The need for new arrangements for these countries as well as for the non-HIPC low income countries will have to be addressed. Special attention must continue to be given to countries in special situations, such as those ravaged by humanitarian disasters.

Mr. Chairman,

In our search for a more durable solution, we have given thought as a Group to some of the things that can be done. Perhaps one of these is to set new standards for determining the sustainability of external debt that are based on the fiscal consequences of the debt burden.

In that regard, the Group of 77 and China believes that the ideas advanced in the Secretary-General's report regarding sustainability criteria deserve careful consideration, in particular its conclusion in the case of HIPC that the new fiscal targets may yet be too high. To provide a clear and lasting exit from an unsustainable debt burden, debt sustainability targets should, as a matter of principle, realistically reflect the capacity to pay of the concerned debtor countries. We note with appreciation the decision by the Interim and Development Committees to reduce sustainability thresholds and believe that this question should be kept under review.

We would go even further to suggest that the debtor government and the international institutions could agree on a multi-year fiscal scenario that addresses a number of principle among them: (a) macroeconomic stability consistent with non-inflationary financing (b) domestic rates of taxation consistent with rapid growth (c) adequate financing for core public goods, including education, public health and basic infrastructure; and (d) debt reduction as necessary to achieve these goals, taking into account the need for a realistic time path for budgetary and tax adjustments, as well as the magnitude of budgetary assistance that the debtor governments can expect from donor countries. This kind of debt reduction programme could then be presented to the Paris

Club for consideration.

Beyond this, we will continue to advocate a global approach that contemplates not only the linkages within countries, but also the critical importance of an enabling international economic environment supportive of long term growth and development in developing countries. Without such holistic approach there is little hope of finding a practical and lasting solution to this persistent and pervasive problem.

Let me say in conclusion that the General Assembly has recognised the substantial contribution that an effective, equitable, development-oriented and durable solution to the external debt problem of developing countries can make to the strengthening of the global economy.

The international community must therefore urgently coordinate an effective debt reduction policy as we approach the new millennium.

I thank you.

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