



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238

Facsimile: 270 5244

Telex: 9413704

10 June 1988

CHANCELLOR SAYS AGREEMENT ON DEBT INITIATIVE CLOSE

"A major UK objective at the Toronto Summit will be to secure agreement on the initiative I launched in Washington in the Spring of last year, to relieve the debt burden on the poorest, most heavily indebted countries, mainly in sub-Saharan Africa", the Chancellor of the Exchequer, the Rt Hon Nigel Lawson MP, said yesterday.

"The recent statements by US Secretary James Baker, and by President Mitterrand, make it clear that a consensus is now emerging."

The full text of the Chancellor's statement is attached, together with Notes for Editors.

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG

50/88

CHANCELLOR SAYS AGREEMENT ON DEBT INITIATIVE CLOSE

"A major UK objective at the Toronto Summit will be to secure agreement on the initiative I launched in Washington in the Spring of last year, to relieve the debt burden on the poorest, most heavily indebted countries, mainly in sub-Saharan Africa. The recent statements by US Treasury Secretary James Baker, and by President Mitterrand, make it clear that a consensus is now emerging.

The starting point of my initiative was to recognise that the problems of the poorest countries are of a different order from those of the middle income debtors of Latin America and elsewhere.

- The middle income debtors have the resources to get themselves on the road to recovery. And most of their debt is owed to the commercial banks. So it is primarily for the debtor countries and the banks to work out how to manage the debts.
- On the other hand, the poorest countries are not in a position to solve their debt problems themselves. And since most of the debt is owed

to governments, it is for governments to help these countries to work out a solution.

At last year's Economic Summit in Venice, we succeeded in getting this vital distinction accepted for the first time, although we were unable to secure final agreement on the nuts and bolts.

My initiative has three parts.

- First, writing off aid loans: the UK has written off nearly £1,000 million worth now, with nearly £300 million for sub-Saharan Africa.
- Second, longer repayment periods for other Government loans, such as loans made by export credit agencies.
- And third a reduction in interest rates on those loans.

These special concessions would apply only to those countries which are not only poor and heavily indebted, but - crucially - are pursuing proper economic recovery policies.

It is essential not merely to give the debtor countries more time to pay, but also actually to reduce the burden. The plain fact is that the poorest countries cannot even meet their interest payments at present. The unpaid interest is therefore added to the total debt burden, so that the payments due the following year are higher still. Until we can break this vicious circle, the problem can only get worse.

The other Summit countries have gradually come round to accepting this logic. The Italians joined in at the Venice Summit, and the Canadians at last Autumn's Commonwealth Heads of Government Meeting in Vancouver. Last week, the Americans indicated their willingness to make a move in this direction. And yesterday, the French accepted the proposals, with a partial write-off of debts as an alternative to the interest rate reduction.

The task at the Summit is finally to agree on a firm plan of action. Over the past 14 months, we have taken every opportunity to argue the case for this scheme. It is encouraging that these efforts are now bearing fruit. And it is vital that they should, to offer a clear way forward to some of the poorest countries in the world."

NOTES FOR EDITORS

Background to the Chancellor's proposals

The Chancellor first put forward his proposals for helping to reduce the debt burdens of the poorest countries in his speech to the Interim Committee at the IMF Spring Meeting in Washington in April 1987. It received a wide measure of - but not universal - support. At UK insistence, the argument that special action was needed to help these countries was subsequently agreed at the Venice Summit in June 1987; the Communique said "We recognise that the problems of some of the poorest countries, primarily in sub-Saharan Africa, are uniquely difficult and needs special treatment". It went on that "agreement should be reached, especially in the Paris Club, on longer repayments and grace periods". But, reflecting the reluctance on the part of some countries, to agree to interest subsidies, the Communique did not go further than saying that "consideration should be given to the possibility of applying lower interest rates".

The Chancellor's proposals were welcomed at the meeting of Commonwealth Finance Ministers in Barbados in September 1987, and fully endorsed at the Commonwealth Heads of Government Meeting in Vancouver in October 1987, when the Canadians threw their support behind the proposals. The Chancellor maintained the pressure in his speech to the Development Committee of the IMF and World Bank in Washington in April of this year.

Considerable progress has already been made on the first two of the Chancellor's proposals: many countries have now written off aid loans; and the Paris Club has agreed to extended reschedulings for 10 countries. But agreement on an interest rate subsidy has proved harder to secure. The Chancellor has continued to press hard for agreement on this, most recently at the IMF Spring Meeting in Washington in April, and at the OECD Ministerial Meeting in Paris in May.

Action by IMF and World Bank

In Spring 1987, the Managing Director of the IMF, Michel Camdessus, launched a parallel proposal for an enlargement of the IMF's Structural Adjustment Facility, to provide additional concessionary lending to the poorest countries, providing they followed IMF-approved programmes. The UK was among the first to support this proposal, and has made the largest single contribution to the interest rate subsidy, enough to subsidise SDR 1 billion of ESAP lending, a sixth of the total.

The World Bank, too, has recognised the special problems of the poorest countries, with its Special Programme of Assistance for Africa.

Recent developments

Last week, US Treasury Secretary James Baker moved towards accepting the Chancellor's proposals, saying that there were legal and policy difficulties for the US in giving interest rate subsidies, but they could agree to a scheme so that countries which were able to do so could provide concessional interest rate reschedulings for the poorest countries; other countries would consider a broader range of maturities for rescheduled debt.

This week, the Germans announced that they would write off further aid loans; while they too had difficulties over giving an interest rate subsidy, they would be prepared to consider the variant put forward by the US.

In a letter to his Summit colleagues this week, President Mitterrand proposed a further variant, under which creditor countries would have a choice of writing off a third of their rescheduled export credit claims, with a 10 year repayment period for the rest; or providing lower interest rates with a repayment period of about 15 years; or providing no interest rate subsidy, but accepting a repayment period of up to 25 years.

Eligibility

The countries which would be eligible for relief under the Chancellor's initiative would be those who are

- very poor, with income of less than \$425 a year;
- very heavily indebted, with high debt service ratios;
- implementing proper adjustment policies, in line with a programme agreed with the International Monetary Fund.