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From Baker to Brady: Can the new plan work?

De Baker a Brady: o novo plano pode funcionar?

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RESUMO: O Plano Brady propõe estimular reformas e desenvolvimento em países que enfrentam problemas com sua dívida externa por meio do alívio da dívida e do serviço da dívida. No entanto, a redução da dívida não é novidade, pois já era um componente importante do Plano Brady e de sua estratégia de "menu de mercado". A maior contribuição deste Plano é a disposição de apoiar a redução voluntária da dívida externa com recursos públicos e a reforma institucional pública. Como o Plano está conceitualmente correto, a dificuldade ainda está na falta de verba e coordenação pública. Sem um maior comprometimento de recursos públicos e uma base institucional mais forte para recompensas e multas que possam induzir os bancos a perdas "voluntárias", o Plano Brady produzirá apenas uma modesta redução do excesso de dívida externa
PALAVRAS-CHAVE: Dívida externa; estabilização; Plano Brady.

ABSTRACT: The Brady Plan proposes to stimulate reforms and development in countries facing problems with their external debt through debt relief and debt servicing. However, debt reduction is nothing new, as this was already an important component of the Brady Plan and its "market menu" strategy. The greatest contribution of this Plan is the willingness to support the voluntary reduction of the external debt with public resources and public institutional reform. As the Plan is conceptually correct, the difficulty is still in the lack of funds and public coordination. Without a greater commitment of public resources and a stronger institutional basis for rewards and fines that can induce banks to "voluntary" losses, the Brady Plan will only produce a modest reduction in excess external debt. Furthermore, a partial reduction in excess debt produces mixed benefits for both debtors and creditors.
KEYWORDS: External debt; stabilization; Brady Plan.
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1. INTRODUCTION

On March 10 U.S. Secretary of the Treasury Nicholas Brady announced a new initiative to deal with Latin America's debt problem.[1] The announcement was clearly a response to the sudden emergence of a broad consensus at home and abroad that the Baker Plan – while successfully promoting a "growth-oriented adjustment" of the banks' loan portfolio and greatly reduced vulnerability to default in Latin America[2] – had failed in its stated objective of restoring growth and development in the debtor countries. Indeed, the transfer of US$ 184 billion from Latin America to the creditor countries since 1982 has contributed to the region's inability to even materially reproduce itself; in 1989 GDP per capita was actually 8% lower than it was in 1980. If there were any doubts in Washington about the seriousness of the region's crisis, this ended when a few days before Secretary Brady's scheduled speech more than three hundred people died in Venezuela during violent protests over IMF-supported austerity measures in that country.

The main feature of the new initiative-quickly dubbed the "Brady Plan", is its proposal to stimulate policy reform and growth in developing countries excessively burdened with commercial bank debt by offering them an unprecedented official commitment to support debt reduction. The new initiative envisions the debt reduction taking place on a case-by-case basis in voluntary agreements negotiated between the debtor country and its creditor banks. Secretary Brady's Plan proposes to support this process through 4 key innovations.

First, the Plan suggests that the private banks waive, for a period of three years, the negative pledge and sharing clauses, which have a pervasive presence in the international banks' loan agreements with developing countries. These clauses essentially provide for equal treatment among the creditor banks regarding the debtor's pledging of its assets and payment of the debt, respectively. These and other clauses have tended to slow debt reduction because a prior waiver of them by a majority of banks has been needed to initiate buybacks and securitization of debt.[3] An across-the-board waiver would be expected to not only accelerate the negotiation of debt reduction but also enhance the terms for the debtors since in principle there would be a more competitive environment on account of the developing country's ability to negotiate bilaterally with its different creditors.

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[1] "Remarks by the Secretary of the Treasury Nicholas F. Brady to the Brookings Institution and the Bretton Woods Committee Conference on Third World Debt," *Treasury News,* Washington, D.C., U.S. Department of the Treasury, 10., March 1989.

[2] For U.S. banks the coefficient- of Latin American loans to primary capital fell from a precarious 124% in June 1982 to a safer 58% in March 1988. See Robert Devlin, "Disyuntivas Frente a la Deuda Externa" *Revista de la CEPAL,* No. 37, Abril 1989, pp. 30-33.

[3] A waiver of the negative pledge usually requires the consent of between 50 & 66% of a country's creditor banks, while the sharing provisions generally call for consent of between 95 and 100% of the banks. See Michel Bouchet and Jonathan Hay, "The Rise of the Market-Based Menu Approach and its Limitations", Washington, D.C., World Bank, 1989.

Second, the Brady Plan also calls for the creditor governments to explore ways to reduce regulatory, accounting and tax impediments to the banks' participation in debt reduction schemes.

Third, the Plan would permit, for the first time in the management of the international debt problem, an explicit commitment of public resources to support a debt reduction process. More precisely, the IMF and World Bank would be encouraged to channel part of their policy-based lending to collateralize principal and interest on debt for bond exchanges involving significant discounts for the debtor countries or to replenish reserves after a buyback operation. Resources would come out of the World Bank's recent US$75 billion capital increase; meanwhile, the Fund would use existing resources, although the Plan promised to study an increase in that institution's quotas. Balance of payments surplus countries also will be asked to contribute to the Plan's financing.

The fourth key innovation of the Brady Plan involves a *de facto* delinking of the disbursements of IMF programs from the management of the private banks' balance sheets. In effect, the Fund and a developing country would be able to move ahead with their adjustment program even if there were not a prior commitment from the private banks to contribute to its financing through rescheduling, debt reduction and new money packages. This would reverse an extremely inefficient policy in place since 1982 in which IMF programs have been generally contingent on a country attaining a prior agreement with its banks to close the financing gap through a combination of commercial debt rescheduling and new money. That traditional arrangement in effect greatly weakened the debtor's bargaining power with the banks because a failure to reach an agreement with them could paralyse an entire macroeconomic program.[4]

II. IS THE BRADY PLAN AN ADEQUATE RESPONSE?

The Brady Plan is clearly a welcome, constructive response to the plight of the excessively indebted countries which must undergo deep-rooted structural change in order to grow and restore their creditworthiness. The Plan has raised expectations that the international public sector will finally give much needed balance to the market's portfolio adjustment through institutional and financial support of the debt reduction process. To wit, promotion of an across-the-board waiver of restrictive clauses, modification of regulatory and tax impediments to debt reduction, and the allocation of public resources to enhance financing packages, all could, in principle, improve the volume of conversion schemes and their terms for the

[4] For analysis of the traditional relationship between the banks and the IMF during the management of the crisis see United Nations Economic Commission for Latin America and the Caribbean (CEPAL), *Políticas de Ajuste y Renegociación de la Deuda Externa en América Latina,* Cuadernos de la CEPAL No. 48, Santiago, Chile 1984, pp.70-71 and 78-79. Published in English as (ECLAC), *External Debt in Latin America,* Boulder Colorado, Lynne Rienner Publishers, Inc., 1985, pp.76-78 and 85-86.

debtors. The success of the initiative will depend on three key variables: (i) an allocation of enough "additional" public resources to induce a quick elimination of the debt overhang; (ii) firm public coordination of the banks to ensure that an adequate number of "volunteers" emerges from the market for debt reduction and that benefits are spread equitably among countries willing to undertake structural reforms and (iii) creditor conditionality which will effectively promote with minimum delay the renewed investment and economic growth that the debtor countries so badly need after nearly a decade of stagnation.

The Brady Plan received the general endorsement of the IMF's Interim Committee in April 1988. Even though 2 Brady-style debt reduction schemes have already been organized in Latin America (See appendix), the Plan is still mostly a concept that will gain concrete form only in the months ahead as specific financing schemes emerge from the market. ln this regard it is important to point out that expectations about debt reduction must confront initial signals which suggest that the Plan risks being both underfunded and under-coordinated. There also may be problems related to the effectiveness of conditionality, but this is a large and very controversial topic that cannot be seriously treated in this paper.

A. Financing

Reported information on the Plan points to IMF-World Bank funding of debt reduction of the order of US$12 billion per institution over the next 3 years. Another US$6 billion in parallel lending has apparently been committed by Japan. Of the total of US$30 billion, roughly US$ l6 billion would be additional resources, with the remaining US$ 14 billion involving money which will be detoured from already programed policy lending of the Fund and Bank.[5] A limited amount of other funds may eventually become available from the Inter-American Development Bank.

By just taking into account the Baker 17 countries, where there are some US$375 billion of obligations with commercial creditors, it is clear that the US$30 billion already committed to the Brady Plan could support no more than a very partial reduction of the debt overhang. For example, if used in straight buyback of the Baker 17 debt at April's weighted average secondary market price of 36 cents, the above-mentioned public funding could reduce commercial debt by some US$83 billion, Even this magnitude of debt reduction – which incidentally is highly improbable in a voluntary scheme because it assumes no rise in secondary market prices – would bring a fall in the interest payments on the commercial debt of these countries of only 22% ; meanwhile, the reduction in total interest payments would be just 17%.[6]

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[5] Peter Norman and Stephen Fidler, "The West Takes a· Leap in the Dark on Debt" *Financial Times, 5* April 1989. The US$6 billion of Japanese funding represents a figure given to me by Barbara Stallings, who is doing extensive research on Japan.

[6] This assumes a 10% interest rate on commercial debt and an 8% rate on other obligations totaling US$154 billion. The debt figures for the Baker 17 are found in World Bank, *World Debt Tables,* Volume 1,

It also is important to point out that if the debt reduction is financed through new loans, cash flow relief will be less than the reduction in interest payments to the banks. Indeed, IMF and World Bank support of debt reduction which is financed with loans that otherwise would have gene to balance of payments support will create a cumulative net cash flow which is negative for the first few years after the operation.[7] Alternatively, a Fund-Bank loan for debt reduction that is financed from resources which the country otherwise would not have had access to would not initially generate a negative cash flow; however, the country would find the cash flow benefits of the debt reduction seriously eroded by interest and amortization payments coming due on the new loan.[8]

Washing1on, D.C., December 1988, xviií. I t should be noted that all things being equal the exchange of old debt for new bonds backed by collateral of US$30 billion would give approximately the same amount of debt reduction as a direct buyback. The use of exchange instruments could provide additional leverage to the public funding of debt reduction only if there were benefits for the banks that further distinguished the new debt from the old debt. Such possibilities might include a perception by creditors that even a very partial World Bank guarantee of the discounted present value of the income stream of the new bond would mean in practice a much fuller official entanglement in the instrument, which would award it a quasi-preferred status. Alternatively, carrot and stick incentives derived from changes in bank accounting and tax regulations could make the creditors perceive benefits from the new bond that go beyond the collateral behind it. For an excellent treatment of the equivalence of buybacks and securitization, see Michael Dooley, "Self-Financed Buy-Backs and Asset Exchanges", *Staff Papers,* Vol. 35, No. 4, December 1988, pp.714-722.

[7] At a price of 36 cents, a $100 Fund-Bank loan can repurchase US$278 of debt. At a 10% interest rate, the reduction of old debt eliminates US$ 28 dollars per annum of interest payments to the banks. Interest and amortization on the new loan do not adversely affect cash flow since the country would have been lent the funds anyway. But the US$100 is now not available for general support of the balance of payments due to the rechanneling of the available cash to the buyback. Thus, the cumulative nominal cash balance on the transaction is negative until year four (100/28). The initial cash balance of course would be slightly more negative if calculated in present value terms.

[8] Again a US$100 Fund-Bank loan can repurchase up to US$278 of bank debt and generate annual interest savings of US$28. Yet with an 8% interest rate and a 20-year amortization period (5 years of grace) on the loan, net cash flow relief is only US$20 for the first 5 years and then falls to US$14 in year 6 as amortization of the loan kicks in. The repayment of the loan and nominal net cash flow relief for the first 6 years is:

(U .S. dollars)

1	2	3	4	5	6-2-4-5
Year	Interest Savings from buyback	New Loan Balance	Amortization	Interest	Net Cash Flow
1	28	100	—	8	20
2	28	100	—	8	20
3	28	100	—	8	20
4	28	100	—	8	20
5	28	100	—	8	20
6	28	93.3	6.67	7.46	13.87

In any event, the resources committed to the Brady Plan suggest a debt reduction that will be piecemeal and which will fall far short of achieving the 50% or greater cut in interest burdens that many heavily indebted countries seem to·fell they need now to begin to grow and develop.[9] Indeed, even the Plan's illustrative example of achieving a 20% reduction in the interest burden of 39 developing countries over the next 3 years would seem to require more resources than are currently available.[10] Moreover, such a modest reduction would not even compensate the debtor countries for the more than 30% rise in the LIBOR over the last 18 months.

The piecemeal and partial reduction of the debt overhang that would evolve out of an underfunded Brady Plan could, generally speaking, have very limited benefits for developing countries. One of the few types of debtors that would find attraction in a modest initiative would be those countries that have no real debt overhang (e.g. Colombia) or those that intend to remain current on their contractual debt service at whatever social cost that might entail. These countries would effectively perceive the real value of their debt as equal to its face value; hence, any opportunity to retire debt at a discount could represent real savings.

On the other hand, for a country with a decisive debt overhang or an unwillingness to service debt at par, a piecemeal direct buyback of debt, or its securitization, could represent an inefficient use of scarce resources. This is because the partial buyback or securitization of the debt overhang over a 3-year period will bolster the secondary market price of old debt but not eliminate a large discount. The continued large discount on remaining debt in the secondary market, and related uncertainty on financial claims, will perpetuate adverse incentives regarding the repatriation of capital flight, new lending, and new private sector investment. Moreover, future piecemeal debt reduction could cost more on account of the higher secondary market price for the remaining debt.

Clearly, for these latter countries securitization and repurchase of the debt overhang unambiguously makes sense only to the degree that it forms part of a definitive medium term settlement of the debt problem and the excessive outward transfer of resources. Without this type of minimum debt settlement, the debtor country could be better advised to channel scarce foreign exchange (including World Bank and IMF money) into domestic programs supporting reforms, investment, and economic growth. After all, in a piecemeal and partial approach a one dollar loan for domestic investment should have a much higher social rate of return

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For an analysis of how cash flows are eroded when debt relief is financed by new loans see Alfred Watkins, "Rejoinder to Feinberg," Washington, D.C., May 1989.

[9] For instance, see Christopher Huhne, "It'll Take A Miracle," *International Economy,* May/June 1989, p. 51.

[10] Walter Mossberg, "U.S. Plan May Cut Debt 20% for 39 Nations," *Wall Street Journal,* 16 March 1989

than a one dollar loan for 10 cents of cash flow relief[11] on a marginal unit of debt that has a very low expected value. Thus, the creditor governments' plan to rechannel existing World Bank and IMF policy loans to piecemeal debt reduction, and earmark other capital for this purpose, may not be a very efficient use of resources from the standpoint of the development of the affected countries.

It also is important to point out that the financing of a piecemeal debt reduction process may not be in the interests of the World Bank and Fund either. Extending loans with a quasi-commercial interest rate to finance a marginal buyback, or securitization, that generates little or no tangible return for the debtor country could clearly weaken these institutions' loan portfolio. In these circumstances their loans from existing, or even additional resources, would certainly have a better prospect of repayment if they were channeled directly into reforms, investment and growth.

B. Coordination

The negative aspects of the underfunding of debt reduction would moreover be aggravated by undercoordination. A truly voluntary scheme will draw in only a limited amount of bank debt; as Andrew Bartels of the American Express Co. recently pointed out:

> Individual banks are unlikely to volunteer to provide debt relief, for they suffer losses by doing so and their actions improve the odds for non-participating banks of being paid in full. Simply expanding the menu of options to make debt reduction more attractive is thus insufficient. Concerted debt relief is essential. The industrial countries must play a catalytic role in bringing this about, because banks cannot and will not do so on their own. That's why bankruptcy preceedings exist for troubled private domestic debtors. A comparable procedure for orderly reorganization is required for troubled sovereign debtors.12

Another disincentive to reduce debt is the option value of an outstanding claim; a debt may appear bad today, but there is always some outside chance that an unexpected positive development will enhance its value tomorrow. Nor can one depend on appeals to patriotism to promote debt reduction; efficient bankers are entrepreneurs, not statesmen.

The banks therefore must be politely "pushed" into sizeable debt reduction.

Only the international public sector can do this. One already positive outcome

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[11] This assumes a 10% rate of interest.

[12] Andrew Bartels, "Making Sure the Brady Initiative Works." Paper presented to the Second Harvard Conference on New Initiatives in Latin American Debt, John F. Kennedy School of Government, Harvard University, Cambridge, Massachusetts, 15-16 May 1989, p.3.

of the Brady Plan is that the U.S. government and the IMF have clearly tilted towards resolving the debtors' problem of the negative transfer of resources; the jawboning (moral suasion) of the banks for debt reduction in the pilot Mexican case has been very impressive.[13] Yet jawboning for 39 developing countries would undoubtedly be an exhausting and uncertain process that in the end would generate very uneven results. Therefore, there is no substitute for a coherent institutional framework of incentives to make sure that each country's "offer" of debt reduction (within the context of a structural adjustment program) is one that most banks "cannot refuse". The framework must include carrots, e.g., reasonably attractive terms for writing down loans and assuming losses as well as comprehensive public guarantees on the income stream of the assets accepted by the banks in heavily discounted exchange offers. There also must be sticks to punish free riders and complacent banks, e.g., severe accounting treatment of their untraded loans and the restricting of their refinancing of the debt overhang to arrears.

So far movement on the institutional front has been uncertain. The Brady Plan may be backing away from its original commitment of promoting general waivers of those restrictive clauses in loan agreements which promote cartel like behavior among the banks.[14] Movement also is sluggish on substantial modification of tax regulatory codes; indeed, a recent decision by U.S. tax authorities ironically has shifted that country's tax codes in a more restrictive direction.[15] Finally, it appears that only a select few, of the developing countries are being seriously considered for debt reduction this year.[16]

In sum, without an adequate ex-ante commitment of additional public resources to support a critical mass of debt reduction, and without strong and systematic public mechanisms designed to recruit an adequate number of "volunteers" from the banking community to assume losses in a broad spectrum of countries, the Brady Plan could have very one-sided effects. On the one hand, the banking community would clearly benefit across-the-broad because those banks wishing to voluntarily withdraw from the debt problem could do so with the enhancement of new public collateral, while those that do not wish to participate will get a "free ride" in the form of a higher real value of their outstanding claims in the developing countries. On the other hand, an underfunded and undercoordinated Plan would tend to concentrate benefits in a few developing countries, which because of

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[13] See M. Camdessus, "Strengthening the Debt Strategy: The Role of the IMF and the Banks, Washington, D.C., International Monetary Fund, 31 May 1989.

[14] *Journal of Commerce,* 8 May 1989, p.10A. Without some type of official umbrella to protect the debtors, this development could be for the best, however, since the restrictive clauses also make it unattractive for a bank to retaliate for arrears.

[15] David Wessel and Robert Guenther, "IRS Ruling Limits the Tax Advantages Banks Get On Foreign-Loan Write-Offs," *Wall Street Journal,* 4 May 1987.

[16] "What Must Happen: A 'Simple' Four-Step Approach to the Brady Plan," *International Economy,* May/June 1989, p.41.

their geopolitical importance could attract a disproportionate amount of public assistance in negotiations for debt reduction.

Notwithstanding these potential weaknesses of the Brady Plan, the scheme does contain an interesting "escape valve" that could conceivably delink the debt overhang from the question of economic growth. When the Plan proposed that the IMF consider disbursing its adjustment loans even in the absence of a prior agreement with the banks for debt relief, it was in fact opening up the possibility of financing growth with payment arrears on the interest and principal of bank loans. The arrears would in effect gain the informal approval of the IMF; moreover, there apparently is the potential of formal approval if arrears can be interpreted as an appropriate exchange restriction under Article VIII(2) (b) of the Articles of the International Monetary Fund.[17] Financing adjustment with arrears protected by the umbrella of the official sector could enable the IMF to make its conditionality more flexible and create conditions for new investment and growth in the debtor countries even in the face of an unresolved debt overhang.[18] It also would rectify past behaviour where the IMF acted as a bill collector for the banks; with this new policy official pressure is redirected to the banks to encourage them to be more forthcoming with proposals to lower the outward transfer of resources in the developing countries. Moreover, in this context partial buybacks and securitization of the debt overhang could be positively interpreted as a symbolic way to maintain constructive links between the debtor and its creditors during a period when relations are uncertain.

The Brady Plan's "escape valve" could give it some effectiveness even in the face of underfunding and undercoordination. Yet that would be a relatively messy solution which would generate its own uncertainties; after all, arrears would not subordinate the banks' claims and hence their existence would probably distort the pattern of private sector investment, both national and foreign. One also cannot be sure of the degree of commitment of the Fund to support in a broad range of countries what effectively is a partial moratorium. Also, officially sanctioned arrears adjustment programs in some countries could set off moratoria in other countries which are unjustified, or which are not necessarily linked to coherent economic programs. Even with these potential drawbacks, however, a Brady Plan funded by arrears would, from the debtors' standpoint, mark a major improvement in the international management of their debt problem.

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[17] See Whitney Debevoise, "Exchange Controls and External Indebtedness: A Modest Proposal for a Deferral Mechanism Employing Bretton Woods Concepts," *Houston Journal of International Law,* Volume 7, No. 1, Autumn 1984, pp.157-168

[18] See Jeffrey Sachs, "Making the Brady Plan Work," Harvard University, Department of Economics, May 1989. Before -the announcement of the Brady Plan the Fund in fact had been cautiously experimenting with this type of strategy in Bolivia and Costa Rica.

III. CONCLUSIONS

The Brady Plan is an encouraging initiative that was long overdue. For the Plan to work efficiently however, it must attend to the problems of underfunding and undercoordination. Underfunding can be resolved only by adequate international public financial commitments which are additional to existing resources[19]. Moreover, to maximize the cash flow benefits for the debtor, it is advisable to extend full and direct official guarantees on new discounted debt instruments rather than secure them with very skimpy collateral financed by new loans that will generate their own debt servicing burden. Moreover, if the debt reduction operations can liquidate the entire debt overhang quickly and be linked to pragmatically formulated growth-oriented conditionality, most of those public guarantees will never be more than a contingent liability.

To ensure an adequate response from the banks, strong public pressure must be placed on them to participate in debt reduction. Moral suasion on the banks will not be enough because it risks uneven application and could easily peter out during the course of exhausting negotiations with many countries. Pressure must therefore be institutionalized through changes in loan contracts, banking codes, accounting rules and tax codes so that banks receive carrots for cooperation and stick-free riding. Commercial banks also might be more willing to cooperate if their governments would apply similar debt reduction techniques to the Paris Club obligations. This strategy would moreover promote greater symmetry for the smaller debtor countries, most of which are proportionately more dependent on government-to-government loans.

An effective Brady Plan would clearly require the international public sector to assume a much broader share of the risk of resolving the debt overhang of developing countries. As long as banks are required to accept a large discount on debt conversions, the public sector's assumption of more risk would not be a "bailout of the banks." Rather, it would be a "bail-in" of the international public sector which has been exceedingly redeveloping countries.[20] Socialization of a systemic problem is quite an acceptable practice in the domestic markets of the creditor countries. Indeed, as witnessed in the S & L crisis in the US., the public sector's tardiness in comprehensively intervening into a systemic problem and socializing its costs only deepens the problem and raises the eventual cost for taxpayers. Why should there be a reluctance to do the same at the international level, especially when we live in such an interdependent world? Moreover, it must not be forgotten that OECD governments are partly to blame for the debt overhang in LDCs due

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[19] In a worst case scenario Sachs estimates public liabilities would be of the order of US$80-100 billion spread out among the G-7 industrialized countries. See Sachs *op.cit.,* table 3.

[20] As CEPAL pointed out in early 1984 the systemic debt problem in Latin America is a public problem that demands a public solution. See CEPAL, *Políticas de Ajuste* y *Renegociacián de la Deuda Externa en América Latina,* op.cit., p.82.

to the very lax regulation of the banks during the 1970s, their exhortations that private lenders recycle petrodollars, and their macroeconomic policies which caused interest rates to skyrocket in the 1980s. To seek a solution to the debt problem without serious public costs would be an unwarranted "free lunch" for the OECD governments.[21]

It also is interesting to note that if the Brady Plan were to seriously set its sights on all the above-mentioned objectives, they probably could be achieved more efficiently and at less cost in the context of a new specially created multilateral debt reduction facility, perhaps organized as a self-liquidating joint affiliate of the World Bank and IMF. Because an independent facility would not have to contend with institutional precedents and the difficult interpretation of existing statutes in the international organizations, it could be more agile in the task of financing and implementing debt reduction. A separate facility also would be more easily accountable for its successes and failures regarding the task of debt reduction. A separate facility additionally would conveniently avoid contamination of the World Bank & IMF loan portfolios, and also be less distracting to Fund-Bank Staff which have a broader and more important mandate to promote adjustment, growth and development in the problem debtor countries. The proposal for a multilateral debt conversion facility has repeatedly appeared in the 7-year old debate over the debt problem and therefore needs no further elaboration here.[22]

Be that as it may, such a multilateral facility is an idea whose time has not yet come. Right now, in the realm of possible concerted solutions there is only the Brady Plan. It certainly deserves a chance to work. But the situation in Latin America – where most of the heavily indebted countries are located – is now critical and deteriorating rapidly, while patience has worn thin. Therefore, time is clearly not on the side of the new Plan.

Indeed, Latin American countries might be advised not sit and wait for a solution to the problem to come out of the U.S., which is short of public resources and apparently short of interest in Latin America, except for Mexico and perhaps Costa Rica. It also is unlikely that Japan and Germany will quickly fill the financial vacuum with their resources since the problem in Latin America is viewed as a U.S. problem. In the end the solution to the debt problem will probably have to come from Latin America itself. A point of departure is the organization of coherent political and economic programs which attack fundamental disequilibria in the Latin American economies. Such comprehensive macroeconomic programs will likely require the countries to temporarily restrict payments on the debt. If the

[21] For more on private market crisis and public sector bailouts, see Devlin, *Debt and Crisis in Latin America: The Supply Side of the Story,* Princeton, Princeton University Press, forthcoming October 1989, Chapter 6

[22] One of the proposals of this type which is quite creative and detailed is James Robinson, "A Comprehensive Agenda for LDC Debt and World Trade Growth", The Amex Bank Review Special Papers No. 13, London, March 1988.

Brady Plan's "escape valve" can help them in pursuing structural adjustment and its financing so much the better.

APENDICE

EL PLAN BRADY EN ACCION EN AMERICA LATINA

I. MEXICO

En julio 1989 México logró un acuerdo con su Comité Asesor acerca del tratamiento de 48 000 millones de dólares de obligaciones de mediano plazo, de su total de deuda bancaria de 70 000 millones de dólares. El acuerdo permite a los bancos elegir entre tres opciones. Primero, la deuda puede ser canjeada por un bono con un solo vencimiento a 30 años por un valor nominal equivalente a 65 % de la deuda antigua y una tasa de interés flotante de 0,81% sobre la LIBOR. Alternativamente, los bancos pueden optar por un bono a 30 años con el mismo valor nominal que la deuda antigua, pero llevando una tasa fija de interés por debajo del mercado de 6,25%. La tercera opción, más convencional, es una reprogramación de los vencimientos de la deuda entre· 1989-1994, junto con préstamos involuntarios iguales a 25% de su exposición crediticia. Estos préstamos, que serán extendidos en los próximos cuatro años, vencerán en el período 1997-2004 y tendrán una tasa de interés de 0,81 % sobre la LIBOR.

Los bonos canjeados por deuda antigua gozan de una cláusula de recaptura que permite que sus tenedores reciban pagos adicionales a comienzos de 1996, en caso de que el precio internacional del petróleo suba de 14 dólares por barril (ajustado por la inflación desde junio de 1990). Sin embargo, los pagos adicionales tienen un límite máximo de 3% anual sobre el valor nominal del bono.

Los bonos también reciben 7 000 millones de dólares de colateral en la forma de un bono de cupón zero del Tesoro de los Estados Unidos que garantiza el principal, y una garantia renovable de por lo menos 18 meses sobre el pago de intereses. Los 5 700 millones de dólares de garantías se financiarán por medio de préstamos del Banco Mundial, el FMI y el gobierno de Japón, en tanto que México aportará 1 300 millones de dólares de sus reservas internacionales de México.

Además, como parte del acuerdo, las autoridades mexicanas han accedido a permitir operaciones de conversiones de deuda a capital por um monto de mil millones de dólares por año durante los próximos tres años y media.

II. COSTA RICA

Una segunda operación del Plan Brady surgió en Costa Rica en noviembre 1989. El acuerdo con el Comité Asesor abarca 1 500 millones de dólares de atrasos acumulados desde 1986. Se ofrecen sólo dos alternativas, reducción de la deuda o de su servido; no hay opción de dinero fresco sin castigo. En efecto, los bancos

tendrán la oportunidad de vender su deuda a Costa Rica a un precio de alrededor de 16 centavos de dólar. Aquellos bancos que vendan el 60% o más de su cartera recibirán una oferta de canjear la deuda remanente por un bono a 20 años (incluyendo 10 años de gracia) con una tasa fija de interés por debajo del mercado de 6,25%. Por otro lado, como aliciente para comprometerse a una gran recompra, estos bonos disfrutarán de una garantía renovable de por lo menos 12 meses del pago de intereses. En contraposición, los bancos que vendan menos de 60% de sus préstamos recibirán bonos con un vencimiento mayor (25 años con 15 de gracia) à una tasa de interés fija de 6.25% y sin garantía.

Atrasos relacionados con la deuda remanente tras la recompra serán eliminados a través de un pago de 20% al contado, y la reprogramación del balance sobre 15 años (sin período de gracia), en 0,81% sobre la LIBOR. Nuevamente, para alentar una gran partícipación en la operación de recompra, los bancos que comprometan 60% o más de su cartera recibirán una garantía renovable sobre tre años del pago de intereses.

Los bonos costarricenses también gozarán de una cláusula de recaptura. En efecto, los bancos tendrán derecho a pagos adicionales cuando el PIB de Costa Rica exceder 120% de nivel de 1989 en términos reales. Sin embargo, en ningún caso los pagos adicionales podrán exceder en un año 4% del valor agregado de los bonos y los préstamos relacionados con la reprogramación de los intereses atrasados. Una vez que estos últimos préstamos hayan sido cancelados, el tope para pagos adicionales se vuelve a 2%.

Como parte del "paquete", Costa Rica también pondrá en funcionamiento un programa de conversión de deuda de capital, por un monto mínimo de 20 millones de dólares por año sobre los próximos cinco años.

Finalmente, en cuanto a Costa Rica, se necesitarán cerca de 253 millones de dólares para financiar el acuerdo. Más de 100 millones de dólares saldrán del Banco Mundial y del FMI en forma de préstamos. Los recursos restantes se recibirán de fuentes bilaterales aun por determinarse.

Fuente: CEPAL, Balance Preliminar de América Latina y el Caribe 1989, Santiago, Chile, Diciembre de 1989.