INTERNATIONAL DEBT - CARTAGENA CONFERENCE

At a meeting called by Argentina, Brazil, Colombia, and Mexico, which were joined by Bolivia, Chile, the Dominican Republic, Ecuador, Peru, and Venezuela, the economic and foreign ministers of 11 Latin American countries, in Cartagena, Colombia, on June 21-22, rejected the notion of a debtors' cartel and agreed to continue to address their individual debt problems on a case-by-case basis, in cooperation with the Fund: IMF Survey, 2 July 1981. The communiqué issued by the conference entitled "Consensus of Cartagena", states that the economic crisis confronting Latin America - characterized by a severe decline in gross domestic product and in employment - has arisen largely out of external forces. It states that the responsibility for resolving the debt crisis should be shared by both creditor and debtor nations, as well as by the commercial banks and by multilateral lending agencies such as the Fund. The communique attributes much of the blame for the developing countries' debt problemts to rising interest rates caused by the monetary policies of the industrial countries. According to the IMF Survey the Cartagena communiqué reiterates previous requests by Latin American countries for reductions of interest rates, greater access by Latin American exporters to the markets of the industrial countries, extended loan repayment periods, and increased direct investment in the region. It does, however, depart from previous statements of debtor country groups by calling for commercial banks to reduce interest rates with a formula that would lower bank profits. Nonetheless, the Cartagena meeting did not put forward a strategy for achieving its aims.

Among the specific proposals outlined in the communique are the following:

- Banks should base interest rates on their actual cost of raising funds, rather than on administered rates. Banks should also reduce net interest margins to a minimum, eliminate commissions, and abolish penalty interest payments during debt renegotiations.

- Industrial countries should adopt measures that would lead to an immediate and drastic reduction in interest rates. In the interim, temporary mechanisms, such as official concessional loans and the extension of repayment periods, should be provided to compensate debtors for any increase in interest rates.

- Renegotiated debt payments should be limited to a reasonable percentage of export earnings, compatible with maintaining adequate growth, and creditors should eliminate demands that government guarantee private sector debts indiscriminately and involuntarily.

- Fund-sponsored adjustment programs should be relaxed by giving priority to countries' needs for the growth of production and employment. In addition, adjustment programs should allow for unanticipated rises in interest rates on the fiscal and balance of payments targets previously set to avoid unreasonable compression of public investment or imports.

- Funding of the Fund, the World Bank, and the Inter-American Development Bank should be increased. At the same time, the Fund should proceed with a new allocation of SDR's compatible with the liquidity needs of the developing countries and should extend the deadlines on its adjustment programs.

- Recognition should be given to the special status of sovereign nations as debtors to the international financial community and regulations that acknowledge this status should be adopted.

The Cartagena session sought to reiterate the substance of the June 5 letter sent to the heads of state or government at the recent London economic summit, which called for the international community to address world economic problems in a global and coherent fashion and urged action on the problem of external indebtedness through a dialogue between debtor and creditor countries. The results of that Summit are noted in this issue of the News.

The 11 nations agreed at the conclusion of the Cartagena gathering to meet again in Buenos Aires prior to the Annual Meetings of the Fund and the World Bank in September.

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