

**THE PROBLEM OF EXTERNAL DEBT
OF DEVELOPING COUNTRIES
(THE CASE OF NORTH AFRICA)**

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ABSTRACT

In the present work, one of the most essential problems of modern international finances, that is external debt of developing countries, has been presented. The major aim of the work was to demonstrate the causes of occurrence of external debt and the methods that have been used to diminish it so far. Especially, the case of North Africa countries is considered

KEY WORDS

External Debt, North Africa

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INTRODUCTION

On the turn of twentieth century, the global scale of external debt of developing countries has been the greatest so far. The debt crisis proved to be an unprecedented phenomenon to the world economy. The official stand taken by the Catholic Church testifies to the gravity of the problem.

The direct cause of occurrence of the global debt was the increase in commodity exchange between well developed countries and the countries still considered as developing ones. To a great extent, that phenomenon occurred due to the loans given by the richer countries to the countries that were worse developed- though- it should be noted that also well-developed countries ran into debt.

Among the debtors, there were- apart from Latin-American, Asian, European post-socialism countries- also African countries. The external debt of North African countries (Algeria, Egypt, Libya, Sudan and Tunisia) is a great burden to

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their economies and as such- it become a subject of interest of the author of the present work. Within the delineated context, especially the prospects of solving the problem are of utmost importance.

All references are written in polish or English language respectively.

1 - THE CAUSES OF THE OCCURRENCE OF THE PROBLEM OF EXTERNAL DEBT OF DEVELOPING COUNTRIES

The situation of any debtor countries has a specific character. Due to that, it is impossible to enumerate all the factors contributing to the occurrence of external debt¹. The original reasons for taking external loans are undoubtedly deficiencies in one's own capital and the aspirations related to development, consumption and expansion. The reasons for running into debt depend mainly on the level of the development of a country; thus, they differ for economically well-developed countries and for developing countries. Because of the main theme of the present work, only the latter shall be analyzed in the remaining parts of the current paper.

In spite of multifarious differences, some common causes, which are typical of developing countries, may be distinguished. Embarking on the most general classification, the internal (dependent on the debtor country) and external (independent of the debtor country) sources of external debt should be separated².

The internal sources (dependant on the policies followed by debtor countries) of the occurrence of external debt include:

- 1) Investment policies and liberal import norms,
- 2) Budget and finance policy and currency policy,
- 3) National capital flight.

¹ The main cause of the occurrence of external debt was the increase of values of contracted credits having its roots in oil crisis.

² B.Jasiński, J.Kulig, K. Stańczak, Międzynarodowe zadłużenie a skuteczność polityki dostosowawczej. Raport, Centrum Badań na Zadłużeniem i Rozwojem, Uniwersytet Jagielloński, Kraków 1988, s.11.

Ad.1 It is trivial to say that developing countries are unable to accumulate much enough of their own means to realize necessary developmental investments and; thus, they take advantage of external means. It is assumed that external means are only complementary to internal ones. In the actual fact, it was relatively often evident that the phenomena of excessive financing using external means took place, which contributed to the increase in external debt. For instance, some oil countries considered the decrease in profits gained from oil export as a temporary trend and kept investing intensively. A series of investment programmes was related to economic infrastructure that is: transport, energetic and means of communication, which -by their own nature- are characterized by a long pay-back period and are often imprecisely programmed and that is why they demand much more money expenditure than assumed before³.

It proved that -because the low level of social economic development- many countries were unable to absorb, in a relatively short period of time, a big influx of pecuniary means and material good from abroad. They had at their disposal neither properly qualified workforce nor appropriate technical infrastructure. Due to that, the period of erecting industrial building extended itself and the quality of many of them left a lot to be desired. Furthermore, some part of investments proved to be not very profitable, or even unprofitable at all, and in some cases, external loans were used up for non-production purposes (e.g. public buildings)⁴.

In the process of running into debt, some role (though it should not be overestimated) was played by the policy of liberal norms of import in debtor countries. The deterioration of terms of trade for debtor countries on the international commodity market did not evoke any effective reaction on their part by means of more severe import restrictions, which would not have

³ G.Górniewicz, *Zadłużenie zagraniczne. Polska a kraje rozwijające się*, Wydawnictwo Akademii Bydgoskiej im. Kazimierza Wielkiego, Bydgoszcz 2002, s. 18.

⁴ S. Rączkowski, *Kryzys zadłużeniowy i jego przyczyny*, In: *Świat w obliczu kryzysu zadłużeniowego* edited by S. Rączkowski. Raport dla Klubu Rzymskiego, Wydawnictwo Interpress, Warszawa 1990, s. 34-35.

been without any bearing on soothing tensions in current balance of assets and profits (which includes both balance of payment and balance of trade). It is noteworthy that the policy of liberal import norms is partly forced by well-developed countries, in which, in the whole post-war period, one aims at the liberalization of international trade⁵. From that perspective, that cause of the occurrence of external debt may also be regarded as external.

Ad.2 The experience of debtor countries indicates that budget-deficit policy, when applied, has a direct and indirect bearing on deepening the external imbalance. We can talk about the direct influence when a country takes an external loan to cover some part of the deficit caused by current expenses. Indirect influence can be expressed by a country -through the assumed policy of budget deficit- influencing the increase in demand in extent to the whole national economy, which, in turn, fosters additional pressure for import and boosts external imbalance. Such a policy generates the increase in inflation resulting from the increase in demand without the equivalent increase in supplies. If the afore-mentioned factors are also accompanied by the excessive subsidizing of prices of some commodities (also from the national budget), which obviously deforms their structure, the improper allocation of factors of production with all the consequences for internal and external equilibrium occurs. Then the tendency of directing the existing production to the internal market appears at the cost of export, which also directly influences the non-equilibrium of balance of payments. The definite majority of developing countries have a weak and inefficient monetary market. It mainly concerns its insufficient ability to store savings on the one side and the weakness of credit system on the other. Their influence on the increase in external debt is indirect. It is based on the mechanism that the ineffective policy of stimulating storing savings gives rise to the occurrence of the excessive gap between internal accumulation and the demands resulting from

⁵ E.Kawecka-Wyrzykowska, *Polityka handlowa*, In: *Międzynarodowe stosunki gospodarcze*, edited by E. Kawecka-Wyrzykowska, PWE, Warszawa 1997, s. 265-267.

developmental programmes. The gap was usually filled with external loans. The situation with credit system seems to be similar. The skillful manipulation with interest rate should not only cause the increase in economic efficacy of business enterprises but also direct credits to the export-oriented zones. Practice has shown that internal credit system is a relatively weak device of influence and is often pushed back by the system of crediting by foreign countries. In other words, foreign credits play the greater and greater role on the internal market⁶.

Ad.3 National capital flight is connected to the phenomena discussed in the previous sub-section. It occurs exceptionally often when economy is internally and externally imbalanced and the very imbalance is additionally deepened through inappropriate investment policies and finance-budget policies.

There are a series of causes of national capital flight mentioned in literature. The causes often include fear of devaluation of national currency or the loss of value of financial resources due to high inflation. The other reason is an opportunity to receive a better interest rate abroad than in one's native country or to make investments under more favourable circumstances (e.g. in some countries, there is national security of bank deposits, which is not operative in debtor countries). For national entrepreneurs, the reason might be also lesser risk while investing the capital abroad. It is worth noting that it is not only where it is legally valid but also where foreign restrictions operate that there is a possibility of transferring capital abroad. The enumerated limitations can be avoided (e.g. by applying- with agreement with a foreign contractor- underinvoicing or resorting to black market). Capital may take really serious proportions in countries in which there is no forbiddance of its exportation.

External causes (independent of debtor countries) of the occurrence of external debt include:

- 1) Unfavourable terms of trade and the requirements of liberalizing trade predicted in international agreements,
- 2) Protectionist policy on the market of developed countries,
- 3) Wavering interest rates,

⁶ B. Jasiński, J. Kulig, K. Stańczak, *op.cit.*, s. 13-14.

4) Changes pertaining to terms of crediting and the decreasing foreign capital influx.

Ad. 1 Among external factors, much meaning is attributed to price tendencies which took shape in the seventies and in the early eighties in the area of international trade. The process is mainly related to alterations of goods-prices-exported-to goods-prices-imported (by debtor countries) ratio⁷.

It is to be stated that in the whole post war period, the prices of industrial goods increased much faster than prices of raw materials and agricultural commodities. In practice, that phenomenon (called widening of "price scissors") meant losses for developing countries who were both producers and exporters of agricultural commodities and natural resources, while it also connoted profits for developed countries who are producers and exporters of processed goods.

In export area of most debtor countries, the major part is constituted by raw-agricultural commodities. Due to that, the prices of these articles determine to a great extent the overall number of exchange earnings. The seventies and the early eighties initiated the increase of the amplitude of the wavering of raw materials prices, which gave rise to the occurrence of payments difficulties. The changes in prices on the world market affected debts of Third World countries.

Ad. 2 Protectionist policy of developed countries plays quite an important role in restricting the paying capacity of debtor countries. The role is reducible to applying limitations in the access to goods market from abroad. It does not pertain to customs policy as much as to various forms of restrictions other than customs restrictions applied by developed countries. In fact, those restrictions applied to export from developed countries but their extension is much smaller than in case of restrictions applied to biggest debtors⁸.

Ad. 3 A relatively small interest rate on the international credit market proved to be one of the main reasons for taking out loans in the seventies. The situation changed in the early

⁷ A. Budnikowski, *Zadłużenie jako problem globalny*, PWE, Warszawa 1991, s. 50-51.

⁸ B. Jasiński, J. Kulig, K. Stańczak, *op.cit.*, s.17.

eighties, when it was the increase in oil prices (in 1980) that caused inflationary pressure in many countries. To be protected from it, many countries made use of restrictive monetary policy, which, in turn, triggered off the noticeable increase in real interest rates for credits. Another reason appeared in United States of America, which is federal budget deficit (caused by the increasing expenses for purchasing armaments). It could not be financed with too little national savings. The gap was filled by dint of attracting some external capital. Then the interest rate was increased to the unprecedented level (maximally it equaled 18% on a national scale), which allowed for receiving huge financial means from the rest of the world. To avoid their outflow, other developed countries also increased their interest rates⁹. It immediately hit debtor countries, which were usually burdened with changing interest rates.¹⁰ Being confronted with the worse paying capacity of debtor countries, creditor banks started charging them with one percent more above the interest rate, that is the so-called *spread*. The initiation of spread is motivated by creditor banks with an uncertain paying capacity on the part of debtors and its amount reaches 2% within a year¹¹.

In 1985, interest rates started gradually decreasing. The main influence on that phenomenon- favourable from creditors' perspective- had the law passed by U.S. Congress that is Gramm-Rudman law systematically diminishing the budget deficit of U.S.; and thus, the demand on financial means decreased. Another advantage of it was that the pressure on capital markets dropped and the tendency for interest rates decreases was stabilized¹².

⁹ S. Rączkowski, op.cit., s. 32.

¹⁰ The share of a debt of changing interest rates in the global interest rates of debtor countries permanently increased in the seventies and eighties. Within 1973-1974 it reached 21,1% and within 1983-1985 it hit 53,6%.. %. *Studia z zagadnień zewnętrznego finansowania rozwoju gospodarczego*, In.: Szkoła Główna Planowania i Statystyki, edited by D. Rosati, Warszawa 1986, s. 18.

¹¹ G. Górniewicz, *Zadłużenie zagraniczne...*, op.cit., s. 26-27.

¹² *Studia z zagadnień...*, op.cit., s. 18.

Ad.4 In the early seventies, the loans from *public credits* (national ones, guaranteed by state and international financial institutions) dominated- about two thirds of all credits; one third of credits originated from private capital markets. At the end of that decade, the situation actually reversed, that is two thirds of credits came from private capital markets and the remaining one third from public financial resources. Bearing in mind the essential differences circumstances which credits from these sources are given under (private credit is always more expensive), it exerted the negative influence on the paying capacity of debtor countries. It is noteworthy that, at the beginning, the influx of external financial means to developing countries constantly rose (e.g in 1975–1981 the amount of annual money influx rose from 57,1 million dollars to 138,6 million dollars- the fact that the amount of credits given by private banks rose from 12,1 million dollars to 53,1 million dollars inclusive)¹³.

The situation changed utterly after 1981, that is when the debt crisis was revealed. The influx of external financial means to the Third World countries dropped heavily. In 1982, it amounted to 117,5 million dollars and three years later 80,1 million dollars. The share of credits from private banks also decreased (42,6 million dollars in 1982, 17 mld million dollars in 1985)¹⁴.

2 - THE SCALE OF DEBT

Just in 1971 the external debt took relatively moderate proportions (look at table 1). Within the span of less than 10 years, as a result of *oil shock* the debt unprecedentedly and dramatically increased. In the eighties, the external debt of North African countries systematically increased. However, in the next decade, there was some evidence of the certain stability or even the decrease of debt (the exemplifying countries are Algeria, Egypt and Morocco). At the beginning of XXI century, the external debt of Algeria considerably decreased. Due to a

¹³ B. Jasiński, J. Kulig, K. Stańczak, *Międzynarodowe*, op.cit., s. 19.

¹⁴ OECD, *Financing and External Debt in Developing Countries*, 1985 Survey, Paris 1986, s. 36.

noticeable increase in oil and natural gas export, Algeria managed to repay its debt to Paris Club and London Club. On the other hand, the external debt of Egypt and Morocco slightly increased. The greatest increase of external debt happened to Sudan, which is nowadays the greatest debtor of the presented group of countries. The debt of Tunisia increased on a similar scale.

Table 1: Total external debt USD (expressed in million USD)

2.2.2.1	Couny	1971	1980	1990	2000	2007
	Algeria	-	16,2	28,1	23,0	3,9
	Egypt	1,9	13,8	33,0	28,9	29,2
	Libya	-	-	-	-	4,8
	Morocco	-	16,5	24,4	17,9	19,9
	Sudan	0,4	4,5	14,7	15,7	29,4
	Tunisia	0,9	3,5	7,7	10,6	19,3

Source : my own lay-out on the basis of Global Development Finance 1998, Country Tables. The World Bank, Washington 1998, pp.1-12; http://devdata.worldbank.org/wdi2005/Table4_16htm; Statistical Yearbook United Nations, New York 1985, s. 332-333 and www.cia.gov.

The indicator showing how a country is burdened with external debt is its (external debt) relation to gross national product (GNP) (look at table 2). In this respect, the afore-mentioned Sudan and Tunisia lag behind the other countries presented in the present work. However, in both cases, the considerable improvement of the situation is to be noted, which results from the increase of GNP. The most favourable is the result achieved by Arabia.

Table 2: External debt (% of GNP)

Country	2003	2007
Algeria	40	2
Egypt	31	7
Libya	-	6
Morocco	40	16
Sudan	120	36
Tunesia	75	25,3

Source: my own lay-out on the basis of

http://devdata.worldbank.org/wdi2005/Table4_16htm and www.cia.gov.

Another indicator testifying to the burden of debt is external debt per capita (look at table 3). Also in this case, the situation of Sudan looks the worst (over 3800 USD per capita).

Table 3: External debt per capita 2007 (USD)

Country	External debt per capita
Algeria	0,661
Egypt	1, 042
Libya	0,234
Morocco	0,545
Sudan	3,834
Tunesia	1,316

Source: www.cia.gov

To summarize the part of the work so far, it is to be stated that it is Sudan that is in the worst predicament among the North African countries with respect to external debt. On the other hand, it is Algeria that is distinguished by the most favourable economic situation among the above-mentioned countries, which is due to the considerable repayment of debt in 2006.

3 - METHODS AND CONCEPTIONS CONCERNING THE REDUCTION OF DEBT

When faced with the occurrence of grave difficulties pertaining to the repayment of debt, a country can act in a three-fold manner:

- 1) Not discharging the defaults being valid within,
 - a) Repudiation- terminating (invalidating) the obligations conferred upon the debtor Party at some time and the total cessation of paying debts, which entails the repressions on the part of creditors,
 - b) Moratorium-demanding the renegotiation of the original contract of credit,
- 2) Continue the payment at any cost,
- 3) Restructuring the debt¹⁵.

¹⁵G.Górniewicz, Metody redukcji zadłużenia zagranicznego, Acta Universitatis Nicolai Copernici, Ekonomia XXIX, Wydawnictwo UMK, Toruń 1999, s. 55.

Because of the title of this subchapter, the most essential aspect is the restructuring of debt. In accordance with the terminology applied by International Monetary Fund, the term connotes the changes of debt repayment conditions. Restructuring assumes a form of rescheduling or refinancing. Rescheduling involves the formal postponement of payment in virtue of debt-operating and agreeing upon a new period of repayment of the determined amounts. Refinancing of debt means the prolongation of crediting period with reference to payments taking place or substituting the current or future payments in virtue of debt operating by dint of a new medium-term credit. Restructuring may be also a merge of both forms with reference to overdue and future payments in virtue of debt-operating¹⁶.

Because of a large number of government and commercial creditors, it is unfeasible to conduct separate negotiations concerning the resolution of the problem of external debt with all the creditors. That is why the affairs of governments of creditor countries are represented by Paris Club and the affairs of commercial banks at which unguaranteed credits were contracted are represented by London Club.

As from 1978, many debt -restructuring procedures were conducted¹⁷. Restructuring techniques became the basic tool for solving the issues of external debt of underdeveloped countries. The techniques themselves have their advantages and disadvantages. Their advantage is the fact that they enable debtor countries to "take breath" at least for a period of postponing payments. On the other hand, the disadvantage of restructuring is deferring the problems of debt payment until later years and not creating the proper conditions to operate a debt in the future.

¹⁶ Recent Multilateral Debt Restructurings with Official and Bank Creditors, Occasional Paper No 25, International Monetary Fund, Washington 1983, s. 23.

¹⁷ Annual Report, IMF, Washington 1992, s.11, Annual Report, IMF, Washington 1993, s.11 Annual Report, IMF, Washington 1994, s.11; Annual Report, IMF, Washington 1995, s.11; M. Watson, International Capital Markets. Developments and Prospects, IMF, Washington 1988, s. 79 and M. Watson, International Capital Markets. Developments and Prospects, IMF, Washington 1991, s.75.

By contracting restructuring agreements, financial issues of debtor countries are just shifted to a later time. If within the period of postponed payments, the debtors do not manage to invigorate their economy and to gain proper surplus in current account balance, then- in a period when the date of operating postponed payments comes, a situation arises in which once restructured debt needs restructuring once again. It entails certain cost in the form of additional margins of profit and bank commission. However, despite all this, the characteristic feature of restructuring debt is that there is a tendency for constant improvement of debtors' conditions. In spite of that tendency, restructuring debt proved to be insufficient for solving the problem of global debt.

Debt on a global scale is the result of uncurbed expansion of international finance system. As time went by, creditor countries realized that it is not only world-wide economy but also global political situation that is threatened. Bearing it in mind, at the conference of the so-called Group of Five (including France, Japan, Germany, United Kingdom and United States of America¹⁸), they ratified the plan concerning 15 debtor countries whose total debt amounted to 437 million dollars altogether. The plan was submitted by the American Secretary of State, James Baker, on 8 October 1985 during the annual meeting of International Monetary Fund and World Bank in Seoul. Among African countries, only Morocco was embraced by Baker's plan. Baker's suggestions assumed the moderate economic growth and the stabilization of prices and creating capital in developed countries, while at the same time keeping the high economic growth in developing countries and rendering external capital accessible to them¹⁹.

The realization of Baker's plan failed. Although World Bank considerably increased the amounts of credits to the group of countries embraced by the plan, commercial banks did not meet

¹⁸ E. Chrabonszczewska, Międzynarodowe organizacje finansowe, Studia Finansowo - Bankowe, Szkoła Główna Handlowa, Poltext, Warszawa 1991, s. 85.

¹⁹ In 1988, the group was joined by Costa Rica and Jamaica J. Kulig, Strukturalne i systemowe dostosowanie krajów silnie zadłużonych, Studia Ekonomiczne 32, Poltex, Warszawa 1994, s. 20.

the expectations. It mainly resulted from the negative evaluation of credit capacity of debtor countries²⁰.

The end of eighties proved to be a breakthrough in a so-far creditors' attitude to the issue of external debt. It seemed obvious that debt crisis does not involve the temporary lack of liquidity and that the considerable part of credits will not be repaid. On the other hand, in case of some countries, performing the duty of interest payments is not to be reconciled with the stabilization of economy and introducing reforms. The creditors' approval of the reduction of debt each time depended whether or not a debtor country would make efforts to invigorate its economy. Therefore, it follows that the reduction of debt should be considered for each country case by case- though within the determined mechanisms designed for particular categories of countries.²¹

Initially, attention was focused on the poorest countries burdened with the greatest external debt owed to public creditors. In 1988, it was agreed upon- within the so-called Toronto Terms- that the weakest countries (mainly African ones) can apply for the reduction of their debt by 30%²² at Paris Club. With reference to so-called Mitterand's programme, Paris Club took advantage of three options from October 1988:

- 1) Remission of 1/3 of a debt and dividing the remaining part into 14 years with market interest rates being operative, Dividing the whole debt into 14 years with an interest rate 3,5 & lower than the market interest rate,
- 2) Dividing the whole debt into 25 years with the market interest rate²³.

In 1991, Paris Club prepared the rules of restructuring debt for the poorest countries in the world, which rules predicted

²⁰ W. R. Cline, *The Baker Plan. Progress, Shortcomings and Future*, The World Bank, Washington August 1989, s. 10 – 28.

²¹ A. Antowska-Bartosiewicz, W. Małeck, *Zadłużenie zagraniczne Polski, Polityka Ekonomiczna i społeczna, zeszyt 1, Fundacja im. F. Eberta w Polsce, Warszawa 1991, s. 40 - 41.*

²² *Ibidem*, s. 41.

²³ As a result of Mitterand's plan, about 20 countries received the reduction amounting to 20 million dollars. K. Zabielski, *Wielobiegunowy świat finansów międzynarodowych*, PWN, Warszawa 1991, s. 181.

50%-reduction of debt together with interests. 23 countries made use of it until September 1994. At the end of 1994, Paris Club agreed on so-called *Napoli Terms*, which concerned that the countries whose state revenue is below 500 dollars per person and/or the countries whose debt-to-export ratio is greater than 350%. Such countries could apply for 65%-reduction of debt. 50%-reduction of debt was attributed to the remaining poor countries²⁴.

The important suggestion concerning the issue of solving the issue of external debt of developing countries having moderate state revenue was introduced 10 March 1989 by then Secretary of State, Nicholas Brady²⁵. Because of the structure of debt owed by this group of countries, the concept is only operative with reference to private banks. Brady's plan assumed rendering financial means (coming from both the institutions mentioned thereafter and from some industrialized countries-mainly Japan) accessible to the debtor countries that puts into practice the programmes of economic reforms in accordance with International Monetary Fund and World Bank. The financial means would be used to finance the operations of debt reduction and debt-operating.

The relevant novelty of Brady's plan was accepting the necessity of the remission of some debts by applying the so-called marked - based menu approach. These comprise:

- 1) Debt for equity swaps-D/ES,
- 2) Debt for bond swaps,
- 3) Debt buy-back,
- 4) Debt for exports swaps),
- 5) Debt for nature swaps),
- 6) Debt for local currency swaps²⁶.

The problem of external debt was raised by Roman Catholic Church²⁷. Jubilee 2000 was regarded by Church as an

²⁴ Annual Report, IMF, Washington 1995, s. 15.

²⁵ "IMF Survey" 1989 March 20, s. 90.

²⁶ W. Berger, *Financial Innovations in International Debt Management*, Gabler, Wiesbaden 1990, s. 48.

opportunity to redress unfairness and cancelling the debt. Making references to the scripture found in Leviticus book, the Church claimed the reduction of debts of the least developed countries or even the total remission of their external debt if possible. Although, in jubilee 2000, no specific results were noted, in 2005, the issue of external debt of the poorest countries was solved. In Washington, the remission of 40 million USD (which sum was owed by the poorest countries to International Monetary Fund, World Bank and African Development Bank) was decided. The creditors expect the liberalization of trade and especially the agricultural market in return²⁸.

To summarize, it is to be stated that the so-far used methods aimed at the reduction of external debt of developing countries did not solve this problem. Despite some success, debt reduction programmes only helped to survive crisis periods or to postpone their advents in time. Yet, already in previous decades, many banks would have announced their insolvency but for the mentioned programmes. It is to be expected that in the forthcoming years, to reassure purely theoretical solvency of some developing countries, creditors may prove willing for further concessions.

SUMMARY

The basic cause of the occurrence of external debt of developing countries proved to be the openness of industrialized countries and their expansion. The lesser developed countries were unable to join the market and conform to the rules as determined by the best developed countries. External credits, aimed at accelerating the economic growth of developing countries and to make the considerable differences in economic level void, became the future restraint of development (bore negative influence on financial condition of states). Underdeveloped countries remained passive receivers who cannot afford

²⁷ G.Górniewicz, *Konsekwencje międzynarodowych przepływów kapitału dla gospodarki światowej ze szczególnym uwzględnieniem Polski*, Wydawnictwo Uniwersytetu Kazimierza Wielkiego, Bydgoszcz 2007, s. 50-53.

²⁸ D. Walewska, *Teraz pora na handel*, "Rzeczpospolita" 2005, nr 226, s. B.2.

capital expansion nor even the repayment of credits on time. The sources of failure can also be traced both inside debtor countries and outside of them.

Making use of external credits for investments (in the area of economy) whose role in the structure of industry of developed countries gets constantly diminished is a disadvantageous phenomenon; yet, it is inevitable, which is proven by the whole civilization development. We are here mainly concerned with branches of traditional industry based on a relatively weak level of technology and the major use of unqualified labour force (e.g. mining industry). One of the essential causes of the increase of external debt in developing countries is a process called *dependant development* in literature.

External debt of developing countries is not only the problem of debtors but also creditors. We can note here a sort of *debt dialogue* between both Parties, which results from the arisen interdependence. It stems from the fact that when debt is small it become the sole problem of a debtor country; yet, if the debt takes greater proportions, also a creditor is interested to solve the problem. Banks of developed countries are so involved in giving credits to developing countries that they -in their own interest- stimulate the solvency of developing countries so as not to allow their bankruptcy.

It should be believed that, for fear of the imbalance in international financial system, creditors will probably be prepared for further concessions in the forthcoming years (restructuring, debt "rolling") just to sustain the purely theoretical solvency of some developing countries. The programmes aiming at solving the issue of external debt, despite some success, seem only to help to survive the most critical moments or just postpone them in time. Many international banks and financial organizations together with the biggest debtors would have become insolvent already in the eighties but for the programmes mentioned above. It seems that independent countries announcing their bankruptcy have much less to lose than their creditors. That is why the delusion of the current debt-operating process is artificially sustained and adaptation programmes in reality help not only debtors but also creditors. The major dilemma of debtor countries is finding an answer to

the question how to negotiate the possibly lowest interest rates with creditors.

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