
DEBT RESCHEDULING IN COMPARATIVE PERSPECTIVE

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The Asian crisis, while affecting many countries in the region, is clearly a misnomer. The reasons behind the current crises in several of the affected countries differ greatly, and the policy approaches followed by these countries have similarly varied. This paper examines two Asian countries, Indonesia and South Korea, as well as the case of Russia, to analyze how efforts to cope with debt problems have evolved. The range of outcomes to this point is very large: Russia is currently in default and in the midst of negotiations, Indonesia has completed several agreements on its debt, while South Korea appears to be the furthest along in recovering following an agreement with commercial banks in January 1998. By focusing on the conduct of debt-related discussions in these countries, and comparing the developments we have seen to previous debt rescheduling attempts, I hope to shed light on the factors influencing the variety we have seen in negotiations. While no easy lessons emerge, the importance of creditor governments (and particularly the United States), in helping to foster beneficial debt rescheduling outcomes clearly stands out.

Section I begins with an overview of some common assessments of the management of debt crises, focusing on intervention by creditor governments. I suggest that the common wisdom on intervention is misleading, and does not adequately reflect the more intricate and complex history of creditor government intervention and international institutional roles. This section then presents a brief schematic of debt bargaining that focuses on the key actors in negotiations. Sections II-IV examine debt bargaining in the cases of South Korea, Indonesia, and Russia and compares these efforts to previous ones. Section V considers some implications of comparative analysis for debates about the resolution of international financial crises.
I. VIEWS OF DEBT CRISIS MANAGEMENT

The conventional wisdom about the historical record of debt rescheduling has been summarized succinctly by Barry Eichengreen and Albert Fishlow. They argue that the resolution of debt crises during the era of bond finance in the 1930s was characterized by minimal government intervention. By contrast, in the 1980s, they suggest that “Lending and coordination of debt restructuring by the IMF arguably prevented the crisis from spreading further.” In examining the 1995 Mexican crisis, they do find that intervention took place less through “multilaterals like the IMF as through the leadership of the United States.” The underlying logic of these assessments is that in the 1930s, bond financing did not pose a systemic risk, as compared to the 1980s. As to why the United States should play the lead role in the Mexican crisis of 1995, Eichengreen and Fishlow discuss American interests in Mexico in preventing economic collapse with consequent problems in immigration and a “perceived failure of the U.S.-promoted model of liberalization and privatization.”

Is this assessment of the history of intervention in debt rescheduling accurate? As I have argued elsewhere, the United States was much more involved in earlier debt resolution efforts than Eichengreen and Fishlow have indicated. For example, in the 1930s defaults, the United States generally did not intervene directly to help bondholders. Yet most Latin American rescheduling negotiations also did not conclude in the 1930s -- instead lasting well into the 1940s and 1950s. And in the case of two major debtors, Mexico and Peru, the U.S. attitude proved critical, with differing U.S. considerations and

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1 This section draws on Aggarwal (1998).
2 Eichengreen and Fishlow (1996).
actions leading to a highly favorable accord for Mexico, but an equally unfavorable agreement for Peru. In the 1980s, the evidence also does not support the view that the IMF played the highly positive role that they indicate. Indeed, it was only when the United States responded to the 1987 Brazilian moratorium and the 1988 Mexican political crisis with the Brady Plan (which called for significant debt writedowns) that the crisis that affected nearly all Latin American countries in the 1980s (and many others as well) moved toward resolution.

The importance of understanding U.S. motivations and actions, as well as the relationship of its policies to international institutions and the debtor-lender relationship goes beyond quibbles about historical detail. How the United States has chosen to intervene, and on whose side it has done so, reveals U.S. strategic, political, and economic motivations, as well as shedding light on the path to bargaining outcomes. Moreover, understanding the motivation of the U.S. and creditor countries more generally helps us to consider questions of institutional designs and reform in international institutions that might facilitate the management of international debt crises.

To better understand how debt reschedulings have taken place, and the role of creditor governments, it is useful to consider the nature of the bargaining game. As I have argued, strategic interaction between lenders and debtors involves a multiplicity of actors. Figure 1 illustrates ten possible bargaining relationships: Among similar actors, we have interaction (1) among debtors; (2) among lenders; (3) among creditor governments; and (4) among international organizations. In addition, we have six remaining interaction possibilities among pairs of different types of actors. Although one could analyze each of

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these relationships, we need not examine each in detail in order to understand the basics of debt rescheduling negotiations.

In practice, the debt rescheduling issue-area initially encompasses the terms of rescheduling (which include spreads, fees, and repayment arrangements), the amount of new loans made available to debtors, and the type of adjustment debtors must follow (if any) as part of their arrangements with lenders. This characterization of issues involved in negotiations relies on the empirical pattern observed among bargainers: in general, they restrict their discussion to these financial matters and to concern about future relationships with their counterparts. As long as actors involved in negotiations accept the bounds of the

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6 Aggarwal (1996). The following discussion draws heavily on parts of Chapter 2 of this work.
7 “Spreads" refer to the difference between the bank's cost of funds and the interest rate charged to the borrower. “Fees" are charges for managing and initiating loans.
issue-area, negotiations will revolve around the resolution of such issues while the types and
numbers of actors involved in negotiations should remain the same.8

Empirically, most private debt rescheduling discussions have initially involved
individual debtor countries on one side, and bondholders or bankers on the other. Banks and
bondholders have generally succeeded in forming coalitions (of varying cohesion) to bolster
their position. By contrast, debtors have historically failed to unite in a common negotiating
front, although they made several efforts to do so in the 1980s.9

By linking debt to security or trade issues, debtors and lenders have often attempted
to involve creditor governments (CG) in negotiations. When debtors have succeeded in
linking debt to a CG’s national interest, these governments have at times provided financial
aid and also pressured private lenders to make concessions to debtors. Yet CGs have also
faced appeals from their bankers (or bondholders) to become involved as their allies in debt
negotiations.10 Private lenders have often called on their governments to enforce contractual
provisions of their loans, cloaking their pleas for creditor state intervention by invoking the
"national interest." At times, of course, creditor governments have become involved in debt
negotiations of their own volition to meet their own strategic, political, or economic
objectives.11

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8 In more technical language, the bounds of the issue-area can be determined by "cognitive consensus" among
actors on which issues are interlinked. For a theoretical discussion of this point, see in particular Haas (1980).
9 Lipson (1985) examines bank efforts to unite in the 1980s; Aggarwal (1987) analyzes the differential success
of banks and debtors in uniting.
10 Bulow and Rogoff (1989) formalize a three-way bargaining game in which sufficiently large gains from
trade allow the banks and debtors to secure "side payments" from creditor governments.
11 Naturally, creditor governments may not always see eye-to-eye on debt rescheduling issues and are likely to
bargain among themselves over the sharing of costs in rescheduling. Fishlow (1985) examines differences
among governments in earlier debt rescheduling episodes.
How do CGs make their intervention decisions? I argue that three considerations are important: strategic security concerns, financial concerns, and political concerns. With respect to security interests, these depend on factors such as the types of political alliances CGs have with other major powers, the number of competing major powers in the system, the importance of international financial institutions, and the nature of economic competition with other CGs. The outcome of debt rescheduling on lenders can affect CG security interests in several ways. For example, decisions by a debtor and its lenders to engage in equity swaps, whereby lenders receive assets in debtor countries, will influence the terms of competition among creditor governments. Also, active intervention by one creditor government to aid its banks can put the banks in non-intervening countries at a considerable financial disadvantage. The decision by Japanese banks in the late 1980s to pool their developing country loans under the guidance of the Japanese government for rescheduling purposes has had strategic implications for U.S. interests in its own banks.

With respect to financial concerns in their lenders, the primary factors are (1) the amount of money loaned by banks domiciled in the CG to the particular debtor as compared to the total amount of loans made by the CG's lenders to all debtors; and (2) the amount of the CG's lenders' loans to the debtor in proportion to the total amount of loans made by all lenders. The first factor is an indicator of the vulnerability of the lenders located in the CG; the second influences the CG's level of interest in taking the lead in rescheduling matters as the primary government actor.

Finally, with respect to political issues and their relationship with debtors, CGs are concerned with the impact of debt rescheduling on their trade relations, political alliances,

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12 A more precise analysis of creditor government intervention calculations can be found in Aggarwal
ideological concerns, and possible spillovers to areas such as immigration. Severe economic
adjustment programs generally lead to sharp cuts in imports and to increased efforts by
debtors to promote their exports, both of which are likely to strain trade and other relations
between the CG and the debtor. For example, increased immigration pressure from Mexico,
resulting in part from its economic problems, has led some analysts to call for a more active
role by the U.S. government to aid Mexico. A similar argument has been made with respect
to the fragility of democracies in Latin America and the deleterious effects of continued
adjustment programs on governmental stability.

Lastly, in times of perceived threat to the international financial system, international
institutions such as the IMF, the World Bank, or the League of Nations have become
actively involved in the debt rescheduling process. In particular, these institutions have often
responded to pressures from creditor countries that wished to encourage specific policies in
debtor countries without being directly associated with their promotion.

To simplify, we can consider the debt bargaining game as one between a group of
lenders (with varying degrees of unity), facing a single debtor, with the possibility of
intervention by creditor governments and/or international organizations. In the next three
sections, we examine Korean, Indonesia, and Russian negotiations in comparative
perspective to better understanding the debt rescheduling process and examine the
involvement of the United States and other creditor governments.

(1996), chapter 3.

Ever since its take-off in the 1960s, the Korean economy has been displaying remarkable macroeconomic performance. Despite the slowdown in annual GDP growth, the economy recorded 5.9% growth in 1997 while keeping unemployment and inflation down to 2.6% and 4.4% respectively. Historically, Korea had been quick to adjust to currency overvaluation, but this time—despite added pressure from the 1994 depreciation of the Chinese yuan and the 1995 depreciation of the Japanese yen—Korea failed to act.13

In contrast to the bulk of debt incurred by Latin American countries in the late 1970s and early 1980s before the 1982 crisis, the main characteristic of the Korean financial crisis has been that nearly all of Korea’s foreign debt is owed by private Korean institutions -- not the public sector (only $18.1 billion of the total). Korea’s 1997 year-end debt totaled $154.4 billion under IMF calculations excluding financial institution debt, of which $68.4 billion was short term (of less than a one year maturity).14 If all debt is included, the total short term debt was $112.2 billion and long term debt was $136.3 billion for a total of $248.5 billion.15 By contrast, of Mexico’s total debt of $81 billion at the end of 1981 before the onset of the debt crisis, about $59 billion was public debt.16 As of mid-1997, Japanese banks had about $23 billion in loans and other credits to South Korea, European banks had $36 billion, and U.S. banks had extended $10 billion of short term credit to South Korea.

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**Toward Korean Debt Rescheduling**

In October 1997, the South Korean won began to slump rapidly in value and the Bank of Korea repeatedly attempted to defend its value. On November 17, 1997, however, South Korea abandoned its defense of the battered won. In making this decision, “officials hinted broadly that economic factors had less to do with abandoning the line than political ones. A Bank of Korea official told Reuters the central bank was simply following a decision by the Ministry of Finance and Economy.”\(^{17}\) The Ministry had been unsuccessful in passing 13 financial reform bills, because the opposition in parliament objected to two of the bills that consolidated supervision of all the financial sectors into one agency under the Finance Ministry.\(^{18}\)

Once the crisis began, Korea’s then-steadfast determination to avoid asking for help from the IMF both shaped the country’s position and deepened the crisis. The new incoming Finance Minister Lim Chang-Yuel tried to stay away from IMF by pushing financial support measures, which were too little, too late. On November 21, the Korean government announced that it was seeking help from the IMF, but troubles persisted over the terms with the fund.\(^{19}\) Delays in signing an agreement worsened the crisis during the two weeks following the announcement, but on December 4, Korean officials and Michael Camdessus signed a letter of intent covering an international accord to provide Korea a $57-billion bail-out package,\(^{20}\) of which the IMF committed $21 billion. Two days later, the Central Bank of Korea announced that it had received $5.22 billion.

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\(^{17}\) *International Herald Tribune*, November 18, 1997, p. 17.

\(^{18}\) *International Herald Tribune*, November 18, 1997, p. 17.


This bail-out effort failed to stem the tide. Korea’s continuing resistance to the IMF agreement manifested itself in the presidential election that took place on December 18: people voted for the candidate who was most critical of the IMF reform bailout—Kim Dae Jung.21 By late December 1997, Korea’s reserves were almost gone, shrinking at a rate of $1 billion a day. On December 24, the U.S. and other G-7 governments, as well as the IMF recognized that the original strategy had failed; they agreed to accelerate $10 billion of the committed loans as a bridge to prevent default. Of greater significance, however, was the decision by the U.S. Federal Reserve, the Bank of England, Bundesbank, and other major central banks to urge leading commercial banks to create a coordinated program of short-term loan rollovers and longer-term debt restructuring.22 At this point, Korea had approximately $100 billion outstanding in short term debt of which about $15 billion was due at the end of December and another $15 billion at the end of January.

As in previous debt crises in other countries,23 the different level of exposure to the country influenced the cooperation among banks in managing the crisis in Korea. Major banks—who with large exposures could gain by transforming their debt into loans with higher interest—spearheaded the effort to coordinate their actions by meeting early on in the crisis. Smaller banks, by contrast, continued to resist. To some extent, even the large banks felt heavily pressured by the IMF and governments. For example, “leading Dutch banks ABN AMRO and ING said they have agreed to roll over South Korean debt following a request from the International Monetary Fund, but on the condition that other

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23 See the discussion following the end of this section.
G-10 nations as well as Australia and New Zealand do the same.”\textsuperscript{24} Some debt specialists have been critical of the way the problem was managed because banks were grouped by region, rather than coming together in a single bank advisory committee, resulting in banks in each country to receive different messages from different Korean officials.\textsuperscript{25}

On December 24, six major U.S. banks—J.P. Morgan, Bankers Trust, BankAmerica, Bank of New York, Chase Manhattan, and Citicorp—met and released a joint statement on their intention of providing supplemental funding to Korea.\textsuperscript{26} On December 29, U.S., Europe, and Japan’s major banks reached an 11\textsuperscript{th}-hour informal agreement to roll over the short-term debts coming due on December 31, although for varying lengths.\textsuperscript{27} Although these efforts by the major U.S. and European banks initially met resistance from smaller banks that preferred to exit from Korea completely, rather than incurring more costs,\textsuperscript{28} they reached agreement on January 5, 1998 to roll over all of Korea’s maturing obligations until March 31, easing worries about default on some $40 billion in debt.\textsuperscript{29} This agreement was officially signed on January 16, 1998. Despite the rollover, Korea still had to pay off about 10 percent of the due loans on December 31, leaving only $9 billion in foreign currency reserves.\textsuperscript{30}

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{25} Financial Times, January 13, 1998, p. 5.
\item \textsuperscript{27} Financial Times, December 31, 1997, p. 4; Euromoney, March 15, 1998.
\item \textsuperscript{29} Rhodes helped to persuade banks around the world to roll over short-term loans to Korean banks. His message to international commercial bankers: “Let's stop the hemorrhaging and buy time to get the country back to the international financial markets.” Wall Street Journal, January 9, 1998, p. 10 and The Sacramento Bee, January 2, 1998, p. A1.
\item \textsuperscript{30} New York Times, January 5, 1998, p. 10.
\end{enumerate}
\end{footnotesize}
At the inception of the debt crisis, much of the discussion revolved around managing the short-term debts coming due in 30, 60, and 90 days. While private international creditor banks were discussing the issue of rolling over short-term debts, the Korean government needed to decide on a long-term financing strategy. Unfortunately, although the government was working hard with foreign banks to avoid a formal moratorium, Korea had to work against its declining credit rating, because Moody’s claimed forced rollover of interbank credits was equivalent to a default.\textsuperscript{31}

Various plans to ensure a longer term rescheduling were vetted. One plan, which was masterminded by J.P. Morgan & Co. in cooperation with Citicorp and Chase Manhattan Corp., called for South Korea to offer $25 billion in bonds: $10 billion of the bonds would be sold for cash to bolster Korea’s waning foreign-exchange reserves and the remainder would be issued through a Dutch auction to foreign lenders who wished to take them in place of their short-term loans to Korea.\textsuperscript{32} The plan initially called for a swap portion of $15 billion, but some non-U.S. banks complained that “the liberal use of South Korean government-backed bonds would dilute their hard-earned and close relationships with Korean clients.”\textsuperscript{33} A second idea came from a meeting between the Bank of Korea governor Mr. Lee Kyung-Shick and Societe Generale, the French bank designated to represent all French commercial banks, on January 9 to discuss the future of Korea’s short-term debt.\textsuperscript{34} Societe Generale proposed converting some outstanding South Korean debt into floating rate notes after that debt is rolled over, thus addressing

Korea’s concern about the high price they may be forced to pay to obtain funds.\textsuperscript{35} Another proposal—which the Korean government also ended up not choosing—supported by bankers at Goldman, Sachs & Co. and Salomon Smith Barney was to have $5 billion in syndicated loans to bolster foreign-exchange reserves, followed by a bond offering of $9 billion or $10 billion. The bond offering under this proposal would not have turned the debts into bonds but would have left it up to the banks to renegotiate.\textsuperscript{36}

In the end, the price of new funds seemed to have mattered to the Korean government: they chose the Societe Generale model of long-term financing. Negotiations continued during January. According to You Jong Keun, a top economic adviser to South Korean President-elect Kim Dae Jung, “international banks ‘are trying to get as much as they can in this deal, but they are also under pressure to take some kind of haircut.’”\textsuperscript{37} Lenders asked that the new loans carry an interest rate of 7 percentage points to 8 percentage points over LIBOR.\textsuperscript{38} Meanwhile, Societe Generale had proposed that the interest be pegged at four percentage points above LIBOR.\textsuperscript{39} But given the pressure for international banks to take a hit on their loans to Korea, as well as the worldwide losses already incurred by stock investors in Korean companies, the Korean government tried to negotiate an interest rate below the market rate.\textsuperscript{40}

At the end of January, South Korea’s government and global creditors agreed on the debt-exchange method of financing. Under the plan about $24 billion of Korea’s

\begin{itemize}
\item \textsuperscript{34} The Scotsman, January 9, 1998, p. 28.
\item \textsuperscript{35} Dow Jones International News, January 21 and 23, 1998.
\item \textsuperscript{38} The Daily Yomiuri, January 25, 1998, p. 1.
\item \textsuperscript{39} The Daily Yomiuri, January 25, 1998, p. 1.
\item \textsuperscript{40} Wall Street Journal, January 26, 1998, p. A12.
\end{itemize}
short-term bank debt was to be exchanged for government-guaranteed loans with maturities of one, two, or three years, bearing a floating exchange rate of 2.25, 2.5, and 2.75 percent over the six-month LIBOR, respectively. Of the $24 billion, the Korean government had pledged to guarantee $20 billion. Of the more than 200 international banks involved, negotiations with the Korean government were led by and unanimously by Bank of America, Bank of Nova Scotia, Bank of Tokyo-Mitsubishi, Chase Manhattan Bank, Citibank, Commerzbank, Deutsche Bank, HSBC Holdings, J.P. Morgan, Sanwa bank, SBC Warburg Dillon Read, Societe Generale, and WestDeutsche Landesbank.

In April, after a day of delay on the 7th, South Korea successfully launched its first-ever sovereign bonds worth $4 billion: $3 billion of 10-year paper were placed at 355 basis points over comparable U.S. Treasuries and $1 billion of five-year notes at 345 basis points over. While these bonds have since fallen somewhat in price, they are still seen to be an attractive investment, particularly at current interest rates.

**Mexico: The Cooperative Debtor of the 1980s**

To compare the Korean experience with a previous one, we can consider the case of Mexican debt rescheduling in the 1980s. As we shall see, the U.S. was an active participant from the start, and enlisted the IMF to help in debt rescheduling. The initial effect of U.S. policy was to prolong the debt crisis. Only in the late 1980s, when faced with growing political and strategic concerns, did the United States take decisive action to end the debt problem.

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43 *USA Today*, April 8, 1998, p. 1B.
On August 13, 1982, Mexican Finance Minister Silva Herzog met with U.S. Deputy Treasury Secretary R.T. McNamara, a Managing Director of the IMF Jacques de Larosière, Chairman of the Federal Reserve Paul Volcker, and then Secretary of the Treasury Donald Regan in quick succession. His message was that Mexico could no longer meet its obligations and needed immediate help.\(^{44}\)

Although sympathetic, de Larosière insisted that Mexico would have to acknowledge any help provided by the IMF, and insisted that Silva immediately begin work toward developing an economic adjustment program.\(^{45}\) For his part, Volcker telephoned the major central banks about an impending $1.5 billion loan, of which the Fed had agreed to provide half. Meanwhile, the Mexicans called the heads of Chase, Citibank, Morgan, and Bank of America to arrange a meeting for the following week.\(^{46}\)

Silva then turned to Regan directly to solve the cash flow problem. After tough negotiations, the U.S. Treasury agreed to provide $2 billion in cash: $1 billion as prepayment for Mexican oil and $1 billion in credit toward U.S. food exports to Mexico.\(^{47}\) Taking advantage of Mexico's vulnerability, the U.S. government secured a $50 million negotiation fee and a 20 percent discount on the oil.\(^{48}\)

On August 18, the Federal Reserve called a group of central bank deputies to an emergency meeting at the Bank for International Settlements (BIS) in Basel. The central bankers decided to give Mexico a $1.85 billion credit, of which the United States agreed to contribute $925 million. The bridge loan was to be released in three tranches with

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\(^{46}\) Delamaide (1984), p. 3.  
\(^{48}\) Kraft (1984), pp. 15-16.
disbursement of the first third hinging on the negotiation results between Mexico and the IMF over austerity measures.\textsuperscript{49}

The United States Government and the IMF also pressured commercial banks to participate in a loan to Mexico. On August 20, Silva Herzog met with an advisory committee of Mexico's bankers and then with over 800 bankers in New York, requesting a 90-day moratorium on principal repayments; Anthony Solomon, head of the New York Fed, pressured the banks to cooperate with the Mexican financing program.\textsuperscript{50}

Following an intense period of complicated negotiations during which the money center banks and creditor governments pressured reluctant smaller banks to participate in the loan, the advisory committee and Mexico agreed to a new package on December 8. It called for a new $5 billion jumbo loan, to be repaid in six years, with a three-year grace period, at an interest rate of 2.125 percent over the U.S. prime rate or 2.25 percent over LIBOR, topped by a 1.25 percent fee.\textsuperscript{51} Twenty billion dollars of debt owed by Mexico from August 1982 to the end of 1984 would be rescheduled and repaid eight years with a grace period of four years at an interest rate of 1.875 percent over LIBOR and a fee of one percent.\textsuperscript{52} Despite problems with recalcitrant banks, prospects for an agreement improved following a bridge loan of $433 million by the large banks in February 1983. The final agreement, signed on March 3, 1983, involved 530 banks.

Over the next couple of years, the main effort on the part of the IMF and bankers was to roll over loans and ensure that Mexico continued to fully service its debt. The Baker Plan, promoted by the United States in 1985, failed to alter the basic course of debt

\textsuperscript{49} Kraft (1984), p. 18.
\textsuperscript{50} See Kraft (1984), pp. 21-22 for details.
\textsuperscript{51} \textit{Wall Street Journal}, February 25, 1983.
\textsuperscript{52} \textit{International Herald Tribune}, December 15, 1982.
negotiations. Thus, despite U.S. government concern for Mexico's stability and its implications for trade, immigration, and drug trafficking, little changed in the pattern of debt negotiations. Domestic pressure to do more came from outside the Bush administration. For example, the Governor of Arizona, Bruce Babbitt, was an advocate of giving Mexico greater support, warning that Mexico was "the ultimate domino." He went on to complain that the Administration was placing too much pressure on Mexico and that Republican assistance to the PAN could endanger the PRI's willingness to promote a more open Mexican political system.\textsuperscript{53} Others argued for more active American government intervention to ensure that the banks made additional concessions to Mexico to tackle the problems created by the earthquake. On the whole, the United States appeared willing to nudge the banks and Mexico toward continued cooperation, but remained unwilling to actively promote major reduction in debt. Despite growing political problems in Mexico, the IMF continued to insist on Mexican adherence to an adjustment program. It still saw itself as the stabilizer of the international financial system and the arbiter of debt negotiations between banks and debtor countries.

Signs of a new U.S. attitude came in October 1988, following the Brazilian debt moratorium of 1987 and serious political instability in Mexico following the 1988 elections. As oil prices fell, and concern grew about Mexico's political and financial problems, the United States cobbled together a $3.5 billion bridge loan to Mexico in the hope that this offer would give President-elect Carlos Salinas some breathing room.\textsuperscript{54} Still, Mexico's problems continued to worsen.

\begin{footnotesize}
\textsuperscript{53} Los Angeles Times, May 28, 1985, Part II, p. 5 op-ed article.
\textsuperscript{54} The Economist, October 22, 1988, p. 70.
\end{footnotesize}
Following discussions of debt reduction schemes in the latter part of 1988, U.S. Treasury Secretary Nicholas Brady proposed a new approach in March 1989 to handle the debt crisis, based in part on a plan proposed by Japan and France in 1988.\textsuperscript{55} This action placed the United States firmly behind the process of debt reduction. Brady proposed that debt reduction and/or debt service reduction be combined with increased lending and continuation of growth-oriented economic adjustment. The United States endorsed debt reduction as necessary to help reforming countries break out of the debt cycle, viewing excess debt and net transfer of resources as stifling economic recovery in countries that could otherwise serve as important export markets. IMF Managing Director Michel Camdessus also endorsed Brady's proposal. Camdessus stressed that countries willing to enact domestic reforms "need to be able, from the outset, to count on a more adequate alleviation of the present drag of debt-service payments on their adjustment efforts."\textsuperscript{56}

Following Brady’s speech, Mexico's Finance Minister Pedro Aspe met with US officials.\textsuperscript{57} Mexico submitted a letter of intent to the IMF, requesting $3.6 billion through the Extended Fund Facility. The request also included specific proposals for debt and debt-service reduction on its $57 billion commercial debt. The Fund concurred with the Mexican proposal, and in May 1989 the two parties agreed to a three-year extended arrangement including an immediate disbursement of funds from the Compensatory and Contingency Financing Facility (CCFF).\textsuperscript{58} Most importantly, this unprecedented

\begin{itemize}
  \item \textsuperscript{55} Economist, March 18, 1989, p. 110.
  \item \textsuperscript{56} IMF Survey, March 20, 1989, p. 91.
  \item \textsuperscript{57} Financial Times, March 14, 1989, pp. 1-2.
  \item \textsuperscript{58} Of the SDR3250.7 million package, SDR2797.2 million was from the EFF and SDR453.3 million was from the CCFF. The CCFF was created in August 1988 to expand the utility of the Contingency Financing Facility. The CCFF portion in this case was more compensatory than contingent. In 1988, the decrease in prices for petroleum, coffee, and tomatoes, combined with both damaged crops necessitating more imports of Mexico's main cereal imports and increased prices of these same imports, causing serious damage to the trade balance. See IMF Survey, May 29, 1989, p. 175.
\end{itemize}
arrangement included debt reduction. Thirty percent of each purchase under the EFF was to be set aside for debt and debt service reduction, and pending agreement with its creditor banks, Mexico would be allocated up to forty percent of its quota to support reduction. The Fund displayed its support of debt reduction by disbursing the cash to Mexico before the debtor had reached an agreement with its creditors.\footnote{The Economist, April 29, 1989, pp. 15-16.}

Despite U.S. endorsement of debt reduction, the banks were reluctant to make concessions to Mexico. By late July 1989, however, the stalemate was finally broken. That month Secretary Brady was scheduled to accompany President Bush to the G-7's annual economic summit. French President Mitterand, who had proposed alternative strategies for resolving the debt crisis and consistently clashed with the U.S. over the proper handling of the situation, was to be the host of the summit. Bush administration officials worried that Mitterand would attempt to embarrass the U.S. over the debt issue.\footnote{Wall Street Journal, July 7, 1989, p. A8.} Earlier, with an eye toward the summit, Secretary Brady personally telephoned the chairmen of the largest New York banks urging them towards settlement. The U.S. government thus accelerated its efforts to produce an agreement prior to the Paris summit to deflect criticism of its new approach.\footnote{Wall Street Journal, July 7, 1989, p. A8.}

Strong intervention by the U.S. Treasury Department finally brought results. After four months of talks between Mexico and the 15-bank steering committee, Brady convened a meeting with both sides in Washington, and produced an agreement.\footnote{Wall Street Journal, July 7, 1989, p. A8.} The July package presented Mexico's creditors with three options. The first option was to reduce the principal of the debt by thirty-five percent. This entailed exchanging loans for thirty-year
bonds at sixty-five percent of the face value of the loans. These bonds would pay interest at 13/16 percent over Libor (the same rate as before the discount). The second option was interest-rate reduction. Here banks would exchange their loans for thirty-year government bonds with the same face value, but with a fixed interest rate of 6.25 percent. The final option on the menu was the extension of new loans in proportion to outstanding exposure. Except for the amount reduced, banks were to offer new loans worth 25 percent of their outstanding exposure, with a fifteen-year payback period (beginning after a seven year grace period), at an interest rate of 7/8ths over Libor.

Of the $48.5 billion of medium and long-term debt covered by participating banks, 41 percent chose the principal reduction option. This cut the face value of $20 billion worth of loans by 35 percent, yielding a savings of $625 million annually, assuming then-current interest rates of 9 percent. Forty-nine percent of the banks chose interest reduction, meaning that nearly $24 billion of the debt would pay 6.25 percent interest, yielding an annual savings of approximately $700 million for Mexico. However, to purchase the U.S. zero-coupon bonds used to guarantee the exit bonds, Mexico borrowed $5.8 billion from the World Bank, the Japanese Export-Import Bank, and the IMF.

The negotiations in the 1980s indicate that the U.S. and other creditor countries, rather than the IMF, proved to be the decisive actor. Creditor governments initially supported the rollover and jumbo loan approach to debt rescheduling (which ultimately proved futile) as well as promoted a new approach to debt rescheduling. The original effort to simply roll over debt and insist on full payment with drastic Mexican adjustment clearly favored the banks. Only as dissent increased in Latin America, posing strategic

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62 The Economist, July 29, 1989, pp. 65-66. For a discussion of the Mexican agreement, see Aggarwal
concerns as well as domestic criticisms in the U.S., did the U.S. government pursue debt reduction. While this action was ultimately endorsed by the IMF, it did not take any initiative during the 1980s to fundamentally alter the course of debt negotiations that strongly favored the banks.

**Summary and Lessons**

While the Korean debt rescheduling seems to have resolved Korea’s problems for now, similar optimism existed in the case of Mexico after its initial 1982-3 rescheduling. While the type of debt is different, the overall debt burden on the Korean economy and the state of Korean firms suggests that recovery will be a long process. At this point, it is unclear if Korea will be able to emerge from its crisis without a Brady-type debt reduction program.

One lesson, however, clearly emerges in both cases. In these two cases, creditor governments took a highly active role in ensuring that banks would coordinate their efforts, and in both cases, applied strong pressure to make concessions to debtors. As in the Korean case, lenders to Mexico proved unwilling to make concessions, and smaller banks were even more reluctant their larger banks to be involved in debt rescheduling. Without pressure from governments and the IMF on the lending side, it would appear that Mexico would have defaulted.

**III. INDONESIAN RESCHEDULING: THE IMF, INDRA AND MEXICO’S FICORCA PLAN, AND A PARIS CLUB AGREEMENT**

Indonesia has gone through several rounds of negotiations with the IMF. In June 1998, it concluded agreements on corporate debt owed to foreign bank and also engaged in a first
rescheduling effort on its public debt in September 1998. At the end of March 1998 before its major June corporate debt rescheduling, Indonesia owed a total of $134 billion to foreign creditors. Of this amount, $80 billion was owed by the private sector and $54 billion was owed by the government (of which $52 billion was owed to foreign governments and $2 billion to the banks). After briefly looking at the IMF efforts, we will focus on the INDRA corporate debt program and the September Paris Club arrangement. In view of the close similarity between INDRA and Mexico’s FICORCA program, I will also discuss the elements of the FICORCA program.

IMF Rescheduling

The respective roles of the IMF and the U.S. in Indonesia’s macroeconomic and debt crisis can be examined in several parts. As the economic crisis in Indonesia deepened, the United States increased its involvement, particularly in defending IMF’s policies against critics and exerting political pressure on Suharto. President Habibie and the IMF entered a fourth agreement on June 25, following a suspension of IMF aid in April 1998.

The first IMF letter of intent addressed to the IMF by the government of Indonesia on October 31, 1997 was not publicly disclosed. It is known that the agreement was sketchy, hastily put together, and included demands for bank closures and government budget reduction. Harvard economist Jeffrey Sachs criticized the IMF’s approach, arguing that East Asian countries are quite unlike Latin American, Africa, and other historical cases of countries needing IMF intervention to impose spending and

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credit discipline.\(^{64}\) The IMF later partially responded to his and others’ criticism, and permitted the Indonesian government to run a budget deficit. In January, Suharto announced a budget without any of IMF’s austerity measures. The stockmarket in Jakarta crashed, and on January 27 the government declared what amounted to a moratorium on all Indonesian corporate debt. Suharto’s attitude of denying the exigencies of the crisis effectively destroyed the first agreement.

With the specter of regional market contagion becoming a real threat after October 1997, the U.S. reversed its early position of non-commitment regarding Thailand, and presented a “second line of defense” of $3 billion in support of the IMF plan.\(^{65}\) U.S. Treasury officials were careful to portray the U.S. and IMF as playing reversed roles from the Mexican case, where the U.S. led the rescue effort. Although at this point Indonesia was seen as fundamentally strong, the U.S. had gotten out in front of the IMF in defense of its geopolitical stake in containing the effects of the “contagion.”

It had also become increasingly evident that the IMF program would not work in troubled Asian economies without American participation. Economically, a large sum of money was needed. Early on in the crisis, the U.S. had spurned Japan’s plan for an independent Asian monetary fund of $100 billion, and consequently the U.S. had to assume the burden in the Indonesian rescue. Aside from this financial commitment, the U.S. policy remained largely inchoate and indistinct from the IMF position. A summit meeting of President Clinton and President Suharto in Vancouver in November hardly

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dealt with the crisis, with Clinton’s attention mainly lingering over issues of human rights.  

Under pressure from abroad, Suharto signed a new letter of intent on January 15. The “50-Point Program” was surprisingly detailed and extensive in its demands, and highly incendiary for the structural reforms that would cut down on the wealth and power of the Suharto family. However, Suharto soon proved the skeptics right by indicating his desire to remain in power, picking Habibie as the Vice-President, a man with no power base and predilection for big government and expensive projects. The IMF agreement was economically sabotaged in February when Suharto began toying with the notion of a currency board, which would fix the value to the rupiah to the dollar at a rate of 5,000-5,500. The IMF and U.S. reacted strongly. On March 6, IMF suspended a scheduled $3 billion infusion. Five days later, Suharto was reelected to a seventh five-year term, and formed a cabinet of close supporters with little competence and experience in economic reform, including his daughter Tutut as the minister of social affairs in charge of overseeing relief.

The U.S. continued to support the IMF position. In response to Suharto’s so-called “IMF-Plus” plan with the currency board, Clinton sent former vice-president Walter Mondale to Indonesia in an effort to “get through” to Suharto the importance of abiding by the IMF plan. Domestic critics and officials quickly became restless, perceiving Suharto to be playing a game of brinkmanship with the IMF in order to obtain better terms than those accepted by South Korea and Thailand -- under the assumption

that Indonesia was too important for the international community and the U.S. to abandon.\textsuperscript{69}

Secretary of Treasury, Robert Rubin, emerged as a staunch defender of the IMF. He supported the IMF’s decision to withhold additional funds, arguing that money could not solve the deep problems of excessive credit extension, monopolies, protective tariffs, and wasteful infrastructure projects.\textsuperscript{70}

The 3\textsuperscript{rd} round of talks between the IMF and Indonesia focused on two issues: restructuring of the domestic banking industry; and resolving the problem of the foreign debt of Indonesia’s private corporations. This plan, discussed below in the next subsection, was to be modeled after Mexico’s Ficorica Plan 1983, in which foreign banks offered companies extended periods to repay their loans.\textsuperscript{71} The Indonesian economy had reached such crisis proportions that Suharto had few choices but to accept extensive terms similar to those stipulated in the second agreement, in addition to compliance measures on the monitoring and disbursement of money. In light of the desperate economic conditions, some spending allowances were made for the provision of basic necessities and humanitarian aid.

An agreement was reached on the second week of April 1998. However, riots on the eve of implementation of price increase put an abrupt end to IMF’s effort to recreate an atmosphere of credibility. As law and order fell apart, the State Department began to assert the paramount interest of the U.S. in preventing a return of praetorian politics. However, debates on the floor of the House of Representative on whether the IMF was exceeding its reach and unwisely extending its obsolescent role in the Indonesian case

\textsuperscript{69} The Economist, April 11, 1998, p. 29.
brought doubts about whether the U.S. could or should supply the financial backing for IMF programs in Asia. Criticisms came from right and left: Republicans demanded the withdrawal of IMF intervention to permit the market to punish investors, while Democrats urged the addition of political conditions to the IMF agenda.

Interest groups seem less influential than geopolitical considerations, perhaps because the principal American economic interest in Indonesia was in the production of oil and natural gas, which continued uninterrupted. American banks were not major creditors in Indonesia, holding only 7.8% of Indonesian corporate debt (vs. 39% by Japanese banks).

Toward the end of May 1998, newly appointed President Habibie agreed to hold an election in 1999, and tried to persuade Hubert Neiss, Asia Pacific Director of the IMF to resume the bailout program. Neiss met opposition leaders, and solicited their approval for the IMF program. The 4th IMF plan called for new budgetary targets, an exchange rate target of 10,000 rupiah to the dollar, tightened grip on credit, restructuring of corporate debt, banking reforms and restructuring, provisions for basic necessities. Furthermore the Fund agreed to an additional $3-4 billion to support the $43 billion set aside for stabilization in the April 10th agreement. Additional loans were promised by the World Bank ($1 billion), the Asian Developmental Bank, and Japan. Since then, the IMF has resumed disbursal of its loans, and in August 1998 shifted lending through its Extended Fund Facility that provide a longer repayment period.

70 www.pbs.org/newshour/bb/asia/jan-june98/indonesia_3-10.html
71 The Economist, 4/11/98, p. 29.
Changing political perceptions of the Clinton administration provided the impetus for reaching the 4th Agreement. Specifically the agreement reflects a tentative judgement in Washington that Indonesia appears to be stabilizing politically, now that Habibie has proposed holding election next year and started releasing prisoners. Furthermore it conforms to the administration’s view that ties the rescue plan to political improvements such as human rights, broad political inclusion, and selection of pro-reform cabinet members.\textsuperscript{77} It remains to be seen how much weight compliance with IMF economic targets carry relative to these political gains.

Why is the U.S. carrying so large (and increasing) a share of the political burden in pressuring Jakarta? Three main reasons are readily identifiable. First, a stable and cooperative Indonesia represents a paramount strategic interest for the United States in view of its strategic position and large population. Second, there was a clear risk of “contagion” in the region and a less certain risk of adverse effects on the U.S. economy. Third, despite criticisms from prominent economists, there is considerable support from the mainstream for IMF policies.

**INDRA and FICORCA**

On June 5, 1998, after 3 months of negotiations, Indonesia and 13 major international banks reached an agreement on rescheduling the country’s $80 billion in offshore corporate debt.\textsuperscript{78} The agreement included three elements.\textsuperscript{79} First, non-trade liabilities of Indonesia’s commercial banks falling due by March 31, 1999, estimated to

\textsuperscript{78} Business Times, June 5, 1998.
be about $9.2 billion, were extended for four years. Indonesian banks were to issue new
loans with maturities of 1 to 4 years, with interest rates over LIBOR of 2 ¼, 3, 3 ¼, and
3½ percent.

Second, trade creditors were asked to maintain their trade finance lines at the
level that existed on April 1998. In addition, trade credits after June 1998 would be
guarantee by the Bank of Indonesia.

**Negotiating INDRA.** The third and most important element of the agreement was
loosely based on Mexico’s 1983 Ficorica scheme (discussed below). In summary, the
Indonesian government agreed to establish the Indonesian Debt Restructuring Agency
(INDRA), which would provide a measure of exchange rate stability to domestic debtors
and lenders who decide to reschedule debt. Under the INDRA scheme, participating
debtors will make payments in rupiah to INDRA, which will then repay the debts in
foreign currencies. Debtors are entitled to the best “real 20-day average market exchange
rate” until June 30, 1999, when the program ends.80 Banks agreed to provide Indonesian
companies a three-year grace period on principal repayments starting December 1998.
At the end of the grace period all obligations must be settled in full within five years.81
In June, the Indonesian government estimated that INDRA would handle $60 billion of
the $80 billion of corporate offshore debt. As of October, months after INDRA became
operational, no company had signed up with the agency.82

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79 Joint Statement of the Indonesian Bank Steering Committee and Representatives from the Republic of
Indonesia, June 4, 1998.
When news of the Frankfurt debt agreement first broke, local newspapers reported widespread surprise that an agreement had been reached so quickly. In a mere three months, the Indonesian government had negotiated a framework for rescheduling international debt, albeit non-binding. The speed with which the deal was reached, however, is not indicative of easy negotiations. Problems of coordination and cohesion that occurred early in the process continued and have yet to be resolved.

The Indonesian government began circulating three specific ideas for debt restructuring as early as March of 1998. Under one, the central bank would have guaranteed corporate interest payments for 6 months during which domestic corporations would have been exempt from principal payments. Under another, the government would have guaranteed a fixed exchange rate to creditors and debtors. Ultimately, both plans were rejected for the Ficorcia style scheme described above.

From the beginning, Japanese banks were reluctant to cooperate with Indonesia’s debt rescheduling plans. On March 18th, B.J. Habibie, then Vice President of Indonesia, traveled to Japan to discuss an Indonesian proposal for a one year moratorium on corporate debt payments to Japanese banks. After three days, he returned to Jakarta lacking any meaningful concessions from the Japanese, who understandably feared that they would be “left holding the baby” if they offered unilateral debt concessions. While Habibie’s discussions with the Japanese had been “energetic,” according to a Japanese Foreign Ministry Official, they failed to achieve any meaningful results. In

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addition to being the largest lenders with 40% of total exposure in Indonesia,\textsuperscript{87} Japanese banks faced their own economic troubles at home, caused by a weakened real estate market and unusually high rates of default. They were also upset at the Indonesian government, IMF, and British and Swiss bankers for announcing a “voluntary temporary freeze” on corporate debt payments in late January,\textsuperscript{88} and were also irritated by the government’s attempt in January to form lenders and borrowers committees to negotiate a debt rescheduling agreement without consulting them. Like the Japanese banks, Korean banks, facing a disappointing balance sheet at home, were reluctant to write off their debt.\textsuperscript{89} Facing a declining GDP, increasing inflation, and a battered won, they were seeking to reschedule their own short term debt.

Further adding to the difficulties faced by negotiators were the austerity conditions linked to previous IMF bailout plans. The IMF had worked hard to convince President Suharto to agree to fiscal austerity measures in prior negotiations and it was therefore reluctant to endorse either of the first two plans circulated by the Indonesian government. The first plan, which would have required the Bank of Indonesia to guarantee corporate interest payments, posed far too great a fiscal risk for the IMF to accept.\textsuperscript{90} The second, which would have fixed exchange rates, suffered from the same deficiency. In what seems to be a compromise move, it agreed to support the INDRA proposal, which not only lessened risk but also amalgamated a proposal by Bank of

\textsuperscript{87} Financial Times, January 30, 1998.
\textsuperscript{88} Financial Times, January 30, 1998.
\textsuperscript{89} Financial Times, August 20, 1998.
\textsuperscript{90} Financial Times, August 4, 1998.
Tokyo Mitsubishi for a $10 billion to $15 billion dollar fund and a proposal for a credit collection agency by ABN-Amro.91

The coordination and cohesion problems that plagued negotiations in the three months leading up to the agreement in Frankfurt have not disappeared. Because the June 4th agreement merely established a non-binding framework within which individual debtors and creditors could reschedule debt, it left the door open for further stalemate, brinkmanship, and disagreement. In the months after the Frankfurt agreement, as the Indonesian government was preparing to implement the agreement, it publicly said that it expected approximately $60 billion of the $80 billion in total foreign corporate debt to be restructured under INDRA.

There are several features of the new debt negotiating environment which have significantly contributed to the lack of rescheduling under INDRA. First, the requirement that companies entering INDRA resume interest payments regardless of whether they had been paying previously has served as a deterrent to debtor cooperation in rescheduling negotiations. It is estimated that few of the 2,000 companies affected by the rupiah’s crash have the financial wherewithal to resume either interest or principal payments. As Keith Clark, who worked on the debt accord as senior partner of the Clifford Chance law firm, observed, “One of the difficulties with the Indonesian private sector is that there is an area which is completely bust which can't do this; then there is an area with sufficient foreign currency to not need to do this, such as the textiles, oil and wood sectors; and then there is an area in the middle ground which may find this useful.

On the current exchange rate the majority is completely bust.92 Contributing to companies’ woes is an INGRA interest rate of inflation plus 550 basis point, a percentage that could run into triple digits by year’s end.93

A second problem has arisen as some foreign lenders, notably Japanese and Korean banks, have stalled rescheduling negotiations. With weak balance sheets at home, they have often preferred to extend payments over a longer period or to simply let debt negotiations drag on, rather than agree to any write-offs, which may be required for many debtors to enter INGRA.94 Other banks, not plagued by domestic problems, have likewise been reluctant to discuss write-offs, for fear of sending the wrong signal to Indonesian debtors.95 A new bankruptcy law, meant to end the bilateral stalemate between creditor and debtors has produced minimal results. Indonesia's government decided to change its bankruptcy laws to introduce deadlines of 30 days for court decisions, set up a new commercial court with 45 newly trained judges, and allow a 270-day suspension of payment as an alternative to outright liquidation.96 Creditors have expressed concern that the 270-day waiting period is too long (three times as long as in Australia, for example) and may be abused by debtors seeking to strip assets rather than restructure.97 There is also a fear that the new bankruptcy judges are paid substantially less than would be required to prevent widespread corruption, which creditors feel benefits local debtors who are more familiar with such a system.98

**Mexico’s FICORCA program.** In May 1983, after the crisis of August 1982 and subsequent public debt rescheduling, Mexico initiated a program for the private sector under the auspices of the Bank of Mexico, Fideicomisa para la Cobertura de Riesgos Cambiarios (FICORCA) or The Trust Fund for the Coverage of Exchange Rate Risk. This program essentially ensured that the government would make foreign exchange available to the Mexican private sector at guaranteed exchange rates to offset currency risk. In doing so, the Mexican government did not provide any official guarantees for repayment, but only an exchange rate mechanism to cope with the lack of dollars. Lenders and debtors were to work out payment schedules on their own. Debtors wishing to participate in the program had to enroll in the program by October 25, 1993. Some 300 foreign lenders took part in the program. The peso-dollar exchange rate was set at different rates depending on the years of repayment, with a rate of 84 pesos to the dollar for six year loans, 81 pesos for seven year loans, and 75 pesos for eight year loans, all with three years of grace.

In the initial stages, the FICORCA program indirectly led to a subsidy to firms, estimated to be about 3.8 billion pesos from 1983-1985. As a result of exchange stabilization and higher interest rates, however, the subsidy element disappeared over time.

Firms were also encouraged to negotiate with their creditors and in many cases, were able to achieve write offs of about 30% of their debt and/or some type of debt/equity swap. By 1989, some $11 billion of $12 billion in private sector debt has been paid out through the FICORCA program.
Paris Club Rescheduling

What is remarkable about Indonesia’s sovereign debt renegotiations with public creditors is the remarkable speed and ease with which an agreement seemed to be reached. In August, as analysts estimated Indonesia’s budget deficit for the year at 8.5% of GDP, it became increasingly clear that the government would face significant problems in repaying its sovereign debt. According to the Business Times (Singapore), “Rough estimates put the government's debt servicing at between US$ 1.5 billion and US$ 2 billion a quarter while servicing just the interest alone requires between US$ 700 million and US$ 800 million a quarter.” In July, the Indonesian government had gained preliminary approval from donor countries to reschedule about $1.25 billion in sovereign debt principal, while the World Bank, Asian Development Bank, and Japan offered the country $1 billion each in new loans, rather than rollovers. In addition, Australia and China offered $300 million each, and the IMF added $1.35 billion to its credit line (its total contribution now $11 billion). On September 23, Indonesia concluded negotiations with the Paris club, which agreed to reschedule an additional $4.2 billion in principal payments of Indonesia’s sovereign debt and provide the government with a 20-month consolidation period. During the negotiations, the Japanese government was reluctant to reschedule its portion of the debt, but this was not a major sticking point in negotiations. The Japanese agreed instead to provide $1.3 billion in new loans to

Indonesia for refinancing purposes.\textsuperscript{103} The negotiations in Paris lasted only two days. Indonesia plans to meet with the London Club of commercial creditors soon to reschedule the remaining $2 billion of its $54 billion of sovereign debt.\textsuperscript{104} International Donors (including the World Bank) have pledged an additional $14 billion to help decrease the budget deficit as part of a $43 billion balance of payments loan organized by the IMF for three years (starting late last year).\textsuperscript{105} Talks with the London Club will cover $263 million in payments and a deal comparable to the Paris Club deal is expected to be reached.\textsuperscript{106}

\textbf{IV. The Russian Debt Moratorium in Historical Perspective}

The debt crisis facing Russia is the combined result of developments over the past two years in Asia, the oil market, currency reforms, the debt inherited from the former Soviet Union, and problems in the domestic banking system. As a result of problems in Asia, and the significantly greater weakness of the Russian economy and lack of well founded capitalist institutions, the Russians face widespread investor skepticism that is further aggravated by any emerging market downturn. In terms of debt, the Russian situation is strikingly similar in cause to that of Asia’s. Like South Korea and Indonesia, Russia borrowed large amounts of money, faced currency devaluation, and sought financial aid from the IMF.\textsuperscript{107}

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\textsuperscript{103} \textit{Jakarta Post}, September 24, 1998.
\textsuperscript{104} \textit{Jakarta Post}, September 24, 1998.
\textsuperscript{105} \textit{Jakarta Post}, September 24, 1998.
\textsuperscript{106} \textit{Jakarta Post}, September 24, 1998.
\end{flushright}
Following an aborted to defend the ruble with the central bank spending almost 1 billion dollars a week to support it, the government announced a 30 percent devaluation of the ruble and a 90-day freeze on the payment of foreign debt. This type of moratorium is hardly unprecedented, with debt moratoria going back to Mexico in the 1820s, a host of countries in the 1930s, and Brazil in 1987. After a discussion of the Russian events and the role of lenders and international institutions, we will briefly examine some of these other instances of debt moratoria in an effort to glean some lessons and better understand likely future prospects.

The Russian Moratorium and its Aftermath

Russia inherited a legacy of $150 billion in international debt from the Soviet Union. Between 1993 and 1997 the average debt/export ratio for the former republics of the Soviet Union soared from 36 percent to 70 percent. In Russia alone between 1993 and 1996 the same ratio fell, albeit from 181.6 percent to 126.4 percent. The vast majority of this debt was underwritten by the public sector or publicly guaranteed debtors, and most of the money was spent on current spending, as opposed to capital investment. The Russian government utilized most of the money to pay back wages and pensions.

Following a host of political changes and uncertainty in Russia in March, the spillover from the Asian crisis that had impacted Russia in the fall of 1997 led to a significantly worsening situation. By May 1998, the central bank was doing its best to boost the ruble by raising interest rates. Ruble bond rates were over 100% but bank

108 Ibid.
reserved by the end of May had fallen to $14 billion. By this time, Russian stocks had fallen by more than 50% since the beginning of the year.

With new reform proposals announced at the end of May, the stock market rallied. Ruble bond yields also declined to 50% from around 130%. On the 4th of June, Goldman, Sachs underwrote a $1.25 billion Eurobond issue, the first post-Asian crisis Russian bond issue in dollars. J.P. Morgan and Deutsche Bank quickly followed with a $2.5 billion dollar bond issue. The Goldman, Sachs issue allowed the investment bank to pay itself back for a $500 million bridge loan that it had extended to the Russians. In July, the firm followed up with a $6.4 billion swap to deal to exchange short term ruble denominated debt for a longer term dollar denominated bond. Soon thereafter, it began to pull out of the Russian bond market by selling off its holding.  

At about the same time as Goldman, Sachs was working on the bond swap, the Russians secured an IMF led package of $22.6 billion for an 18 month period. The agreement, announced on July 20, included, of which the IMF would contribute a new amount of $11.2 billion. The July agreement focused on three primary goals: 1) A major fiscal adjustment in 1999, which called for reducing the federal budget deficit from 5.6% of GDP to 2.8%; 2) strengthening the structural agenda for the rest of 1998 and 3) taking all necessary steps to “ensure the position of the government debt position.”

particular, the IMF called for reforms in tax codes and in the actual administration in order to increase revenue shortfalls.\textsuperscript{112}

By early August, financial markets in Russia were in turmoil. The stockmarket plunged, money flowed out of the country, and on the 17\textsuperscript{th} of August, the ruble was freed and declined 34\%. The government also announced a 90 day moratorium on about $40 billion of government ruble denominated debt, of which foreigners held about $17 billion at the predevalued exchange rate.\textsuperscript{113} The first major announcements regarding debt rescheduling came two days after the moratorium. On 20 August, under IMF pressure, the government opted to put off unilateral debt rescheduling, a move primarily intended to deflate foreign fear that Russia was planning yet more discriminatory policies that would leave foreign investors worse off than their domestic counterparts. With that announcement, the Russian government’s plan was to force all investors to exchange their Russian ruble denominated government treasury bills (GKO’s) and federal loan bonds (OFZs) with maturities until December 31, 1999 for “longer dated debt.”\textsuperscript{114} Foreign banks feared that this proposition would penalize them for holding GKO’s that would in turn jeopardize Russia’s ability to attract external investment in the future. The overall intent of Russia’s plan was to “restructure its GKO market in order to escape debt and interest payments and win back investor confidence after declaring a moratorium on some foreign debts.”\textsuperscript{115}

In early September, the Russian government announced its intention of setting up a currency board and of a short term printing of additional money to pay off pending

\textsuperscript{112} Smee-Odling, John and Zavoico, Basil. “External Borrowing in the Baltics, Russia, and Other States of the Former Soviet Union.” \textit{International Monetary Fund Survey}. IMF. June 8, 1998. 178.

\textsuperscript{113} \textit{The Economist}, August 22, 1998, p. 56.

domestic debts. Such a plan had three major obstacles. First, it appeared to violate the
terms of Russia’s July agreement with the IMF. Second, because Russia had spent
almost $3 billion of IMF aid trying to support the Ruble prior to its devaluation, it lacked
the foreign reserves to institute such a plan. Finally, many Russian politicians objected to
the idea of the currency board because it would take control over monetary policy out of
domestic hands.116

Russia’s behavior towards foreign investors throughout September has radically
alternated between conciliation with Western investors and a hard line demand for
additional aid. On September 15 European, US and Japanese banks met in London to
begin talks about how to solve Russia’s problems. They issued a strong condemnatory
warning to Russia that its current terms for exchanging debt were unacceptable. The
banks wanted the new prime minister Yevgeny Primakov to “reaffirm the principle of
equal treatment of all GKO/OFZ holders.”117 The concern on the part of the international
banks focused primarily on Russia’s decision to unilaterally restructure over $40 billion
in GKO’s and OFZ’s. Leading creditors believed that the central bank had been
demonstrating preferential treatment for Russian banks and were angered that Russia
would try to alter its obligations without first negotiating or consulting its creditors.

On 18 September, Russian Deputy Prime Minister Shokhin announced that
“Russia is ready for dialogue, and in this connection the government would not like
foreign partners to take tough measurers against us. We call on banks to refrain from
seizing Russian bank’s assets abroad.”118 The move towards conciliation on the part of

115 Ibid.
117 From www.ft.com
Russia to foreign investors was part of an attempt by the government to restore Russian credibility and to gather additional foreign aid. Only six days later, Russia seemed to take a hard line, proposing new terms for foreign bondholders even as those investors were calling for all debt renegotiations to be postponed until a permanent finance minister was appointed.¹¹⁹ In this announcement, released on 24 September, Shokhin moved away from conciliation and towards a more aggressive posture by practically blackmailing Western investors.¹²⁰ According to Shokhin, lacking more extensive foreign aid, Russia would have no option but to default on its debt. Western response, combined with the IMF’s stance that lacking legitimate reform and strengthening of its monetary policy, seemed to temper Russia’s aggressive approach to debt rescheduling, as on 27 September the government agreed to enter into talks with foreign investors regarding more suitable ways of resolving the debt crisis.¹²¹ Foreign investors hold almost a third of Russia’s estimated 40 billion in domestic debt.¹²²

Talks with foreign banks, led by Credit Lyonnais, Deutsche Bank, Lehman Brothers, Chase Manhattan, Credit Suisse First Boston, and Merril Lynch have continued in October without resolution to this point. It appeared that the talks would not be concluded by the end of October as initially predicted by both sides.

In addition to its government bond debt, Russia has now partially defaulted on its 1994 Paris debt rescheduling with foreign government creditors. Eurobond payments were still being made, although the government was coming under increasing pressure as a result of its low reserves.

¹²² USA Today, 30 September, 1998.
Since the August 17th default on foreign debts, both the United States and the IMF have pledged to support the Russian government while at the same time advising against any radical solutions. Western governments have furthermore demonstrated fears that lacking reform in tax administration, Russia would have a difficult time establishing any long-term reform. Foreign creditors are also wary because of Russia’s lack of communication with them over proposed changes in her policy. The IMF as of late October was deciding how to proceed and meeting with Russian officials.

It would appear as though foreign concerns over misuse of investment and restructuring loans are well founded. A report issued by Russian state auditors on September 22, 1998 showed that Russia had misallocated an economic restructuring loan from the World Bank. Money from the loan was apparently used to pay for budgetary expenditures not authorized by the terms of the World Bank loan. This report was released amidst further allegations that IMF loans had also been misappropriated.

Selected Cases of Debt Moratoria

Mexico, 1820s-1880s. In 1824, Mexico contracted its first bond loan of £3.2 million ($16 million) through the London financial house of Goldschmidt and Company. Of this amount, Mexico received only $6 million in cash after discounting on the bonds, servicing withholdings, and commissions. The following year, Mexico contracted another bond loan issue through Barclay, Richardson, and Company in London for the same amount. For both bond loans, Mexico pledged one-third of its custom duties as security.

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125 At this time, the peso was equal to one dollar.
126 Payno (1862), Appendix I, No. 2.
In October 1827, when the sum retained by the bond-issuing houses to pay interest and amortization charges ran dry, the Mexican government found itself bankrupt. The government suspended interest payments before it had even spent a single peso from purely Mexican revenue sources. In two years, the new loans had sharply increased Mexico's debt burden while its productive capacity stagnated. Worse, negotiating readjustments of this "London debt" would plague Mexico for the next 60 years.

In 1886, bondholders and Mexico reached settlement on the defaulted debt (and other debt that had been incurred and defaulted on over the years). Overall, bondholders fared very well in the new agreement, considering the constant defaults, repudiations, conversions, and rescheduling agreements they had weathered in the past. The holders of the London debt bonds recovered all of their principal in 1888 with interest averaging 2.3% a year on the 1824 bond issues, and 1.1% on the 1825 bond issues.127

**Mexico: 1920s-1940s.** By contrast with the 19th century debt experience, Mexico secured much more favorable terms in the 1920-1940s period. Whereas most countries went into default in the 1930s, Mexico had been in default since 1913, following the severe chaotic conditions after the departure of Porfirio Díaz.128 Various efforts to come to an agreement with bondholders failed prior to the 1920s. In the first half of 1922, negotiations between Mexican Finance Minister Adolfo de la Huerta and the International Committee of Bankers of Mexico (ICBM) (formed in 1919), resumed. A number of issues hampered these negotiations. The Mexican government insisted that any

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128 This discussion of Mexico and the following discussion of Peru relies heavily on Chapters 9 and 10, respectively in Aggarwal (1996).
debt settlement include a new loan. President Alvaro Obregón argued that without new funds, Mexico would probably be unable to live up to any agreement. Members of the ICBM stipulated, however, that no new loan would be granted without a debt agreement and official American recognition of the Obregón government.

Following a new accord in 1922, but without new loans was once again in default by 1924. Additional agreements in 1925 and 1930 failed to generate significant debt repayments, and Mexico once again defaulted on these agreements soon after they were concluded. Efforts to resolve the default continued throughout the 1930s; but for the most part, the United States showed little interest in the debt negotiations.

This aloof attitude changed dramatically with the onset of the Second World War. Following preliminary feelers in early 1940, the United States began to negotiate a settlement of outstanding issues with Mexico. By late 1940, the United States had proposed a draft agreement addressing outstanding claims involving agricultural and oil claims. Mexico-United States governmental level relations fundamentally improved with the signing of an agreement in 1941. The accords included a promise by Mexico to pay $40 million in compensation for agrarian claims and the establishment of a joint commission to determine the amount of compensation owed the oil companies. The United States also agreed to a trade treaty and to commitments to purchase silver to back the Mexican peso, and to make loans to Mexico through the Export-Import bank. America's interest in deferring to Mexico because of its broader objectives is reflected in the pressure it put on the oil companies to take the $23 million settlement offered for the Mexican oil expropriation of 1938. When the companies objected, the State Department told them to either take it or

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accept nothing; the oil companies relented.\textsuperscript{131} With these arrangements in the works, the U.S. government had no interest in helping the lenders in their negotiations with Mexico over its debt.

The U.S. interest in a quick resolution of the debt problems at this point was not lost on the ICBM. After proposals and counterproposals, a new agreement was reached on Mexico's direct foreign debt in November 1942. Overall, the Mexican government would pay 23.7 cents on every dollar of secured debt bonds, and only 14.2 cents on every dollar of unsecured debt bonds. Over $500 million in direct government debt (principal and interest) would be paid by $50 million in debt service.\textsuperscript{132}

\textbf{Brazil in the 1980s-1990s.} The final case we consider is the Brazilian moratorium in 1987. By the end of 1986, Brazil was at a crossroads. Its worsening financial situation meant that it continued to need a large inflow of additional funds, but its deteriorating domestic situation made adopting any sort of unpopular adjustment measures impossible. Brazil had moved from negotiating from a position of strength to reacting defensively to economic events from a position of weakness. Brazil's only advantage was that the banks were also weak.\textsuperscript{133} Partly because they had few alternatives and partly because they thought that the strategy might lead to a still more generous rescheduling agreement, Brazilian policymakers began to discuss the possibility of a payments moratorium.

\textsuperscript{130} For a good discussion of the terms of the U.S.-Mexico agreement, see Cline (1953), pp. 248-249. For other discussions, see Cronon (1960) and Wood (1961).
\textsuperscript{131} For discussion of these negotiations, see Cronon (1960), Wood (1961), and Krasner (1978).
\textsuperscript{132} Wynne (1951), p.97-8; \textit{Economist}, December 5, 1942, p. 709.
On February 20, 1987, Finance Minister Dilson Funaro embarked on a dramatic effort, announcing that Brazil would suspend payments on $67 billion of its commercial debt. Shortly thereafter, Brazilian authorities froze payments on approximately $15 billion of trade credits and money-market deposits, bringing the total moratorium value to $83 billion. In addition, Funaro attempted to divide the "creditors cartel" by approaching the banks in separate groups. He sought to exploit fissures created by the differing regulations among the banks' host countries, as well as the banks' varying levels of reserves and exposures. In particular, Funaro attacked the American banks, which had a 50 percent voice in the committee despite the fact that they held only 35 percent of Brazilian debts.\textsuperscript{134}

The banks responded to the moratorium by strengthening their balance sheets: they took large loan loss reserves so that other Latin American countries could not threaten similar strong-arm tactics.\textsuperscript{135} However, the differences in bank provisioning created some instability in the bankers' coalition. As we shall see, this change, combined with continued political instability in an economically troubled Brazil would spur a complete deadlock in the negotiations.

President Sarney had originally planned to announce a suspension of interest payments for 90 days, but his financial advisors persuaded him to make the moratorium "open-ended" so that banks would have an incentive to cut a deal before the banks would have to declare their loans non-performing.\textsuperscript{136} Yet as bankers took reserves, they were not easily pressured by Brazil. Nor was the U.S. government willing to intervene. As one U.S.
official put it, "The banks can take the hit, so we can afford to show the patience of Job."\textsuperscript{137}

In May 1987, facing the bankers' hard-line stance, Sarney chose to return to the negotiating table.

Brazil's strategy was to first try to entice creditor governments into making loans, in hopes that private banks would follow. In July, Brazil's request for $7.2 billion in interest-free loans was rejected by the Reagan Administration, which advised Brazil to deal directly with the private banks.\textsuperscript{138}

Having failed to enlist creditor government cooperation, Brazil turned its attention back to the private sector. On September 25, Brazil resumed negotiations with the 14-bank advisory committee. During this round of talks, Brazil asked for a $10.4 billion loan to cover interest payments from 1987 to 1989. It also requested that the banks restructure all medium and long-term loans with a zero-percent spread. Finally, Brazil proposed to issue debt-conversion bonds, which would eventually be converted to equity.\textsuperscript{139} The banks reacted to Brazil's proposal differently. American banks were more eager to reach an agreement so that they could resume receiving interest payments, but European banks, which had increased their loan-loss reserves to a much greater extent, were less willing to cut a deal. In the end, the advisory committee rejected the proposal, which U.S. Treasury Secretary Baker called a "non-starter."\textsuperscript{140}

\textsuperscript{137} \textit{Wall Street Journal}, April 9, 1987.

\textsuperscript{138} \textit{Wall Street Journal}, February 27, 1986, p. 38.


In November 1987, Brasilia and the banks reached a provisional agreement to cover Brazilian arrears. Under the agreement Brazil was to contribute $500 million and the banks were to lend $1 billion to cover the interest payments that had fallen due during the final quarter of 1987. Brazil would have still needed to come up with another $1 billion and the banks with another $2 billion by mid-1988 to cover remaining interest arrears for 1987.141

The agreement was not to be, however. Creditor instability made the agreement difficult for the banks, and Brazilian domestic instability made political acceptance of this plan equally as difficult. His credibility already severely weakened by economic problems, Sarney's ability to reach agreement with international creditors became further restricted by the debate within the Brazilian congress over the length of the president's term.142 The period ended in November in stalemate between Brazil and the banks.

Almost one year after Brazil suspended its interest payments, it backed down and resumed negotiations with the banks. The worsening economic situation in Brazil had prompted policymakers to rethink the confrontational debt strategy. In particular, President Sarney, who was originally supportive of Funaro's hard-line stance towards the IMF and creditor banks, seemed to change his outlook. Recognizing his country's economic dependence, in early 1988 Sarney noted, "the fact is that we can't destroy the international financial system...We can scratch it, but it can destroy us."143

Finance Minister Mailson Ferrera da Nóbrega similarly recognized, "Confrontation is not the best way to work out our problems...We lost business and opportunities." In fact, shortly after he took over the Finance Ministry in February 1988, Nóbrega announced budget reduction measures, trade liberalization, and policies aimed at eliminating costly subsidies. At the same time, he reiterated the administration's desire to restore amicable relations between Brazil and the IMF.

On February 28, 1988, Brazil and the banks reached a preliminary agreement. The banks agreed to provide Brazil with a total of $5.8 billion in new loans to help cover interest payments from 1987-1989, as well as to reschedule $61 billion of long- and medium-term debt. In return, Brazilian authorities announced that they would make payments of approximately $700 million to cover the interest that had fallen due in January and February 1988, a larger amount than most observers had expected. Although Brazil tried to achieve a better LIBOR rate than other Latin American countries, it also conceded to a spread of 13/16 of 1 percent (the same rate being paid by Mexico and Argentina). Out of worry that the unstable coalition of bankers might not be able to put together the negotiated package, Brazil also agreed to pay an "early participation fee" of up to 3/8 of 1 percent as an incentive for other creditor banks to participate in the loan package. Not only did these concessions assist in restoring Brazil's credibility, they helped pave the way for reaching the official accord later that year.

Although Brazil appeared to be conciliatory, the banks' negotiations with Brazil did not proceed smoothly as bankers pursued an extremely hard-line. Disagreements between the banks and Brazil over Brasilia's debt-equity auctions impeded agreement on the new loan package.\(^{148}\) Brazil also fought against other provisions including the attachment of IMF conditionality to the disbursement of the new money, and the right of creditors to seize Brazilian reserves held abroad in case of another moratorium.\(^{149}\) From the Brazilian perspective, such demands were excessive and would be unworkable, in view of its delicate domestic political situation. Brazilian officials stressed that the government was implementing its own stabilization plan, and did not wish to be perceived domestically as slavishly following IMF directives.\(^{150}\) When Brazil temporarily halted negotiations in May, the U.S. stepped in to pressure the banks to make concessions.\(^{151}\)

After Brazil agreed to cut its budget deficit by $2.8 billion, a projected reduction from 7 percent to 4 percent of its GNP, an agreement was reached in June. The package stipulated that the banks would provide $5.8 billion in new funds. Of this sum, two loans (one worth $4.6 billion and the other $600 million) were to be disbursed in the second half of 1988. The remaining $600 million would be disbursed in the first quarter of 1989, contingent upon Brazil's fulfillment of IMF targets.\(^{152}\) At the same time, Brazil would pay $350 million, out of its existing currency reserves, to cover interest payments that had fallen

due in March 1988, and an additional $1 billion on June 30 to meet interest payments for April and May.\textsuperscript{153}

In addition to the new money provided by commercial banks and co-financing with the World Bank, the restructuring package included lower interest rates, continuation of the debt-equity program, and a spreading of principal repayment over a ten-year period beginning in 1995, a provision that allowed banks to purchase up to $15 million in 25-year tradeable exit bonds (at 6%).

After Brazil and the banks signed the agreement, in August 1988 the IMF approved $1.4 billion in standby credits.\textsuperscript{154} Except for its unusual timing (instead of preceding the agreement between debtor and creditors the loan followed it), by most appearances this was a standard IMF loan. It was to be issued in installments through February 1990, it subjected Brazil to traditional conditions such as the reduction of public spending, and it maintained the Fund's right to curtail disbursements in the absence of adequate Brazilian economic performance.\textsuperscript{155}

On September 23, the package was officially signed in New York. The IMF released its first disbursement, totaling $4 billion, in November 1988. At the same time, Brazilian interest payments in excess of $1.35 billion provided evidence of Brazil's goodwill (Brazilian authorities did not officially renounce the moratorium until the day of the signing). By early November, after making large payments to the banks, Brazil was no longer in arrears on its interest.


Brazil's dramatic bid to change the context of debt negotiations during this period grabbed the attention of the international financial community. Although Brazil did not directly benefit from its drastic actions in the short run, it was a wake up call to the U.S. government and other creditor governments that the Baker Plan was insufficient to end the debt crisis. As a consequence, this action, along with increasing political unrest in Mexico, would help in stimulating the development of the Brady Plan that called for debt writedowns.

After several hiccups and new threats of moratorium, Brazil negotiated a final rescheduling accord under Brady Plan guidelines. On November 29, 1993, as planned, the commercial banks signed a Brady plan accord that restructured $52 billion in debt, including funds held by foreign branches of Brazilian banks. Still, the final accord was contingent on an IMF accord and funding to purchase Treasury bills to provide collateral for part of the interest payments that Brazil would owe under the accord. Brazil continued its negotiations with the IMF, but failed to secure a stand-by agreement. In March 1994, the best the IMF would do was to give Brazil an informal blessing and promise future cooperation. Brazil responded by seeking a waiver of a clause in the November 1993 agreement that linked the deal to an IMF stand-by agreement and banks agreed to this demand. Finance Minister Cardoso also let it be known that Brazil had already purchased the needed Treasury zero-coupon bonds in secret open market operations that had been taking place since October 1993. By April 15, the banks and Brazil initialed the final agreement on schedule.

CONCLUSION

This paper has examined debt problems in Korea, Indonesia, and Russia and compared the process and outcomes to cases of debt rescheduling along similar lines in a number of
historical cases. We can briefly consider the nature of rescheduling and some possible lessons that we might glean from this exercise.

The Korean January 1998 rescheduling with the banks recalls the various post-1982 debt rescheduling efforts in Latin America. In these instances, bankers, debtors, and international organizations were optimistic that the “corner” had been turned on debt problems as early as 1983. As it turns out, the optimism was unwarranted. After some initial success, Mexico, Brazil, and Argentina, among many others, found themselves in repeated negotiations with bankers. It was only after the 1989 Brady plan and the recognition that rollovers and jumbo loans would not resolve the Latin American crisis that negotiations under its auspices proved more lasting. While Asia is obviously not Latin America, and Korea may well escape the cycles of crisis and rescheduling in Latin America that resulted in a lost decade of growth, we should be circumspect in cheering debt agreements at only slight below market interest rates as an enduring solution.

The Indonesian plan for private debtors explicitly attempts to learn from history. The relatively successful FICORCA program in Mexico that guaranteed firms access to foreign exchange, while at the same time resisting calls by bankers for government guarantees of private debt has proved the basis for the INDRA program. It is worth recalling that debt write-downs and cooperation between bankers and private Mexican firms was the norm, and the program did succeed in reducing the debt burden faced by these firms by allowing negotiated settlements. If similar cooperation occurs in the Indonesian case, this may well be the basis for a resolution of Indonesia’s private sector debt – which forms the bulk of its debt rescheduling problems.

The failed effort by Russia to comply with IMF programs has been driven by domestic political problems. The resulting moratorium on ruble denominated debt on
August 17, 1998 may signal further problems with additional Russian debt. The recent Russian failure to meet its Paris Club obligations does not bode well. While moratoria do not appear to be much use for restoring financial health -- at least if the Mexican and Brazilian cases are any guide -- they may provide a stimulus to creditor governments and international institutions to take more dramatic action and not simply provide standard debt rescheduling remedies. While it would be illogical for governments and international institutions to pour money into Russia without any commitment of major reform on its part, it is clear that a lack of dialogue could prove disastrous and prolong needed rescheduling.
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