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REPORT

FROM THE FEDERAL REPUBLIC OF GERMANY

August 13, 1985

**STATEMENT BY FINANCE MINISTER GERHARD STOLTENBERG CONCERNING THE
INTERNATIONAL DEBT CRISIS**

(Text released by the Federal Ministry of Finance, August 8, 1985.)

In recent weeks public attention has once again focused on the international debt crisis. Several countries, above all in Latin America, have made important decisions in connection with reorienting their economic and monetary policies. New demands have been raised for the industrial countries to take further steps to relieve financial pressures. For awhile, public attention was centered on a call to boycott repayment of debts, heard at the spectacular conference held by Cuban dictator Fidel Castro in Havana.

The size of the foreign debt accumulated in the 1970's continues to be a heavy burden for most of the Latin American countries. At the end of 1984 the foreign debt for this continent alone mounted to about 360 billion dollars while total debt for all emerging and developing countries came to about 800 billion dollars. Since 1982, however, global indebtedness has decreased as a result of a considerable expansion of world trade, assistance from the international monetary fund and numerous domestic readjustment programmes. Thus, the balance of payments deficit for all emerging and developing countries has been reduced from 99.5 billion dollars per year to 43.9 billion dollars in 1984, and in Latin America from 42.1 billion dollars to as little as 5.5 billion dollars.

Negotiations on rescheduling debts at more favourable terms have at least given debtors a breathing space and interest rates have fallen compared with their 1981 - 82 peak levels. However, many countries must continue to devote a very large part of their export earnings to debt servicing and in some countries the situation is deteriorating once again.

Castro repays his quite considerable debts to the Soviet Union on agreed terms, although repayment schedules are occasionally lengthened by agreement. His crisis-ridden country receives about 4 billion dollars per year in financial aid from Moscow partly in the form of loans and partly in the form of outright grants (above all in the military sector). The Soviet leadership, which initiated the political campaign aimed at bringing about a boycott on repayment to western governments and banks, insists on repayment of capital and interest in connection with its own loans. This also applies to the dependent and allied

Marxist-Leninist regime in Cuba. Moreover, Fidel Castro himself attaches great importance to Cuba's continued credit worthiness with western 'capitalist' governments and banks, to which he owes about 2 billion dollars. Unnoticed by the public he concluded a debt rescheduling agreement stipulating firm conditions for new repayment targets with the western creditor countries within the framework of the 'Paris club' on the eve of his Havana conference of July 18. At the same time he expressed an interest in taking new loans. A similar agreement with the Federal Republic of Germany has not been possible since Castro has thus far refused to accept the internationally recognized inclusion of Berlin in such agreements.

This shows that the Cuban slogans lack all credibility. They are designed to exploit the debt crisis as a means of breaking up financial and economic relations between the western industrial countries and as many Latin American countries as possible. At the same time the Cuban dictatorship knows very well that he himself continues to be dependent on capital inflows and, as such, the maintenance of credit worthiness in the west.

The industrial countries, their governments and their banks will have to make considerable efforts to master and gradually solve the international debt problem. These efforts must include the further opening of western markets, more flexible arrangements for long-term debt rescheduling and a concerted domestic economic and monetary policy that will continue to make it possible for interest rates to fall in the future. In this respect the United States has a particular responsibility, given the significance of the dollar.

Contrary to what was said at the Havana conference, the International Monetary Fund and the World Bank will continue to play a central role for the western industrial countries and the vast majority of developing countries. If any deeply indebted country were unilaterally to refuse to meet its financial obligations, it would immediately lose credit worthiness and suffer serious social and economic consequences. However, it remains an important task for all IMF and World Bank member states to continue to improve the instruments needed to master the crisis. The annual meeting of the IMF and World Bank on October 6-12 in Seoul will again address this task.

