Debt Crises in HIPC

[Name of Writer]

[Name of Institution]

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Introduction

Debt crises refer to a situation of tension and difficulties encountered in financing the treasury of a country. These problems can manifest with the inability to comply by the commitments made by the State and the difficulty of finding investors willing to make new loans or raising the interest rate they must pay the State for the issuance of new debt. The origin of these crises emerges from increased accumulation of public debt issued to finance the budget deficit accumulated in a country. The paper will discuss the debt crises with respect to the heavily indebted poor countries (HIPC).

Discussion

Heavily indebted poor countries (HIPC) corresponded to a group of 41 developing countries, of which 32 have a GNP per capita expressed in values of 1993 of $ 695 or less and a ratio of the NPV of debt to exports of 220% or a ratio of the NPV of debt to GNP of more than 80%. The international community has recognized that in 1996, the external debt situation of a number of very poor countries (mostly located in Africa) had become extremely difficult and had a negative impact on their development prospects (Fonchamnyo, 2009). Thus, to curb the issue of ever rising debt burden of these countries, a Heavily Indebted Poor Countries Initiative (HIPC) was introduced.

The prime objective of the initiative is to reduce the indebtedness of poor countries to a level considered sustainable. This initiative included the debt relief as part of poverty reduction, while ensuring that the necessary restructuring and development of a country are not jeopardized by the debt service whose level remains unsustainable (Fonchamnyo, 2009). HIPCs are also obliged to propose clearly defined strategies for poverty reduction. The initiative has several dimensions: relief / debt relief and reform of the structural and social policy with particular emphasis on health services and basic education. It is for the first time that all categories of creditors are involved i.e. bilateral, multilateral and commercial.

Specifically, a country must first be considered "eligible" for the HIPC Initiative by the IMF and the World Bank as per the given criteria. This criterion is based on the country's income, debt and relationship with international financial institutions. At the end of this first phase, an analysis of debt sustainability is conducted to determine the external debt situation of the country. If it is unsustainable and the implementation of an IMF program has been satisfactory, the country reaches at the decision point (Walker, 2010). At this stage, the international community is committed to provide adequate assistance to the debtor country to reach the completion point of the initiative with sustainable debt ratios. In the following period, various creditors grant an interim relief between the decision point and the expected date of completion point. When the country has fulfilled the conditions laid down in terms of reforms and effective implementation of programs with the IMF, it reaches the completion point. The remaining support is provided on that date, through a reduction in the debt stock (Walker, 2010).

Conclusion

The Heavily Indebted Poor Countries initiative (HIPC) is based on coordinated action by the international community, including multilateral development institutions (World Bank, International Monetary Fund, regional development banks), to reduce the debt burden external to a sustainable level. The HIPC Initiative was enhanced in September 1999. This initiative requires the participation of all creditors, multilateral, bilateral and private creditors. Beyond traditional efforts to reduce debt, International Monetary Fund (IMF) defines a "common reduction factor" that all creditors must apply to the stock of their claims to bring the debt ratios of the countries concerned to levels sustainable.

References

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