

EXTERNAL DEBT AND ITS SERVICING PROBLEMS
OF THE LESS DEVELOPED COUNTRIES :
A REVIEW OF LITERATURE

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April 1986

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**A Dissertation Submitted to the
University of Poona in Partial
fulfilment of the requirements
for the Degree of Master of
Philosophy in Economics**

**Gokhale Institute of Politics and Economics,
Pune 411 004.**

April 1986

ACKNOWLEDGEMENTS

I am extremely grateful to Professor B. G. Bapat, for the help, encouragement and guidance during the course of preparing this dissertation.

Shri S. M. Kulkarni deserves high praise for the efficient typing of the manuscript.

April 1986

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INTRODUCTION

In the '70s and '80s the foreign debt has remained one of the most important problems of the LDCs (Less Developed Countries). Historically, LDCs did face the problem of debt in the last century and the first half of this century but it was not a pervasive one. But after the oil shock of 1973, the problem became more severe. This happened because the rise in the oil prices, poor economic performance of the LDCs resulting into huge current account deficits of the LDCs. Therefore there was a tremendous rise in the foreign borrowing. Oil exporting countries, on the contrary, had surpluses on their current account which were mostly lent to the LDCs. Many LDCs resorted to the private sources for their borrowing. This led to a rise in debt and it's servicing burden. Since, the late 1970s and early 1980s the burden has been growing continuously.

The debt problem has various aspects, such as bank exposure view point, country risk analysis, global debt and debt servicing aspect, debt and international monetary adjustments, etc.. In this dissertation I have concentrated my attention on the global debt and it's servicing aspects.

In Chapter I we will have a brief historical review of foreign debt. And this chapter will also highlight the theoretical explanation for the rising debt requirement of the LDCs in their development programmes. Here the two-gap

model is discussed at greater length.

In Chapter II, we will take a statistical overview of debt and its servicing emphasising maturities, net inflows and transfers. The time period considered is from 1973 to 1982, during which the debt problem assumed serious proportions.

Chapter III reviews the factors influencing debt and its servicing, mainly interest rates, terms of trade, exchange rates and protectionism.

Chapter IV attempts to review the policies adopted by the developing and developed countries, and the international lending institutions. Some further proposals for increasing the volume of lending on concessional terms are also reviewed.

Chapter V gives the summary of the arguments made earlier. It also brings out the conclusions emerging from our discussion.

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