

## Key issues: Debt

### Objectives:

- To show the connection between economic vulnerability to shocks and debt
- To outline some debt issues for Indonesia
- To explain some ways that these can be dealt with

### Themes

Impact of debt repayment on poverty  
Debt moratorium  
Debt for aid swap

The human cost of debt is both tragic and enormous. Some developing countries have so much debt that they spend more on repaying the interest than on providing their populations with their basic human rights—primary education, basic health care, clean water and sanitation.

One of the effects of debt is that poor countries' economies are more vulnerable to shocks—like the economic impact of a disaster such as the Tsunami.

It will be difficult for Tsunami-affected governments to continue to make their scheduled debt repayments as well as provide the necessary aid and rehabilitation to their citizens and the environment needed to rebuild their lives.

### Indonesia and external debt

The Indonesian government has a public external debt of over A\$105 billion (approximately A\$1.2 billion owed to Australia alone) and last year spent one quarter of their domestic revenue on debt service payments. That is, of every \$100 the government had to spend, \$25 went on repaying debt. This year Indonesia is expected to pay A\$122 million in debt repayments to Australia.

Indonesia's external debt burden will remain a serious drain on government resources



This area of Aceh was completely destroyed by the Tsunami. How will the locals reconstruct and rehabilitate their communities?

this year and for many years to come. According to the Indonesian Central Bank, this year and every year until 2009, US\$7 billion (A\$9 billion) will be dedicated to the servicing of external debt—more than the government is able to spend on basic human services such as health and education spending that will need to be increased in the wake of the tsunami.

*What is a debt service payment?*

### Disasters, International Action and Debt

The Paris Club, the group of wealthy debtor nations, has recognised that the tsunami has had a huge impact and is offering affected countries a debt moratorium. This means that repayments do not have to be made for a certain period of time.

There is a precedent for such actions, in 1998, Honduras received significant debt relief (following Hurricane Mitch) including a Paris Club moratorium on bilateral debt service payments between November 1998 and December 2001.

However, many Non-Government Organisations (NGOs) stress that while proposals for a debt payment moratorium are welcome, these

initiatives are just a first step and what is required is debt relief.

Indonesia has repeatedly requested debt-for-aid swaps which would relieve Indonesia of repayments on existing debt to Australia, and instead channel the funds into appropriate development projects agreed to by both countries.

Debt-for aid swaps are agreements between the borrowing country and the lending country to use money that would have been spent on debt repayments on poverty reduction programs.

This model has been successfully undertaken between Indonesia and Germany, France and Britain. Germany's Deputy Minister for Economic Cooperation and Development, Uschi Eid, said that the German Government was pleased with the ongoing projects being implemented under two debt swap deals undertaken to date.

**Why did India and Thailand refuse a debt moratorium?**

*What does the term 'debt for aid' swap mean?*

*What is a debt moratorium?*

*What will a debt moratorium enable a country to accomplish?*