DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/84/134

CONTAINS CONFIDENTIAL INFORMATION

June 13, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: International Capital Markets - Developments and Prospects, 1984

There is attached for consideration by the Executive Directors a paper on developments and prospects in the international capital markets, which has been tentatively scheduled for discussion on Friday, July 13, 1984. A supplement containing background material will be issued shortly.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Watson (ext. (5)7350).

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

International Capital Markets: Developments and Prospects, 1984

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by C. David Finch

June 12, 1984

Contents

Tables

Charts

Appendix Tables

I. Introduction

The last general review of international capital market developments by the Executive Board was its discussion of SM/83/74, 5/10/83 (EBM/83/88, 6/20/83). However, aspects of this general subject were discussed in the context of several subsequent Board papers. "Recent Experience with Multilateral Debt Restructurings with Official Creditors and with International Banks" (SM/83/227, 11/7/83) 1/ contained a section on multilateral bank debt restructurings and new financing arrangements. At the same time, the Board discussed a paper prepared by a consultant on "The Fund, Commercial Banks, and Member Countries" (EBD/83/200, 8/4/83; and Sup. 1, 11/29/83). More recently, the Executive Board considered a staff paper on the "World Economic Outlook--General Survey" (WEO) (EBS/84/33, 3/2/84) 2/ which included a review of the prospects for international financial flows. The general subject of the recent and prospective role of bank lending as a source of financing for developing countries has also been touched on in a number of country discussions in the Executive Board.

The present staff report 3/ includes, in Section II, a general assessment of capital market developments and an outline of selected issues which may help focus the Executive Board's discussion of the subject. Section III reviews market developments since the emergence of major debt service difficulties in mid-1982 through early 1984, while Section IV discusses market financing flows in 1984 and 1985. Section V reviews a number of issues relating to the medium-term outlook for capital market flows, including the implications of changes in the banking environment and selected issues relating to bank debt restructurings.

1/ Discussed at Executive Board Seminar 83/2-3, 12/12/83.
2/ Discussed at EBM/84/49 (3/30/84) and EBM/84/50 (4/2/84).
3/ A staff team comprising Messrs. C.M. Watson, P.M. Keller, and E. Kalter (ETR), D. Mathieson (RES), and Ms. V.J. Sappah (Secretary—ETR) held informal discussions with bankers and with the staff of monetary and bank supervisory authorities and international organizations (BIS and OECD) in London, Frankfurt, Berlin, Amsterdam, Brussels, Luxembourg, Zurich, Berne, Basle, and Paris. Mr. Ley (PAR) participated in the meetings in Paris. Some members of the team benefited from similar discussions in New York, Washington (including the Institute of International Finance), Ottawa and Toronto, as well as Tokyo, Singapore and Hong Kong. Other staff members who participated in some of the latter meetings were Messrs. R.K Abrams and E. Maciejewski (ETR), and C.V.A. Collyns and L.E. DeMilner (WHD). These meetings took place at various times during March, April, and May 1984. Staff of the Bureau of Statistics, particularly Messrs. J. O'Connor, P. Joyce, and C. Briancon, developed and compiled the new set of data used in the analysis of banking flows. Messrs. A. Pera and B. de Schaetzen (ETR) also contributed to the paper. It should be noted that the term "country" used in this document does not in all cases refer to a territorial entity which is a state as understood by international law and practice; the term also covers some territorial entities that are not states but for which statistical data are maintained and provided internationally on a separate and independent basis.

As in past years, this paper will be accompanied by a background paper which provides additional factual information and analyses on capital market developments since mid-1982. It will also present details on regulatory developments and statistical sources.

II. General Assessment and Selected Issues for Discussion

The absence of a strong economic recovery outside North America, the persistence of high real interest rates, and the growing improvement in corporate cash flow, resulted in low private sector credit demands in many industrial countries in 1983. Notwithstanding public sector borrowing needs, banks were thus generally faced with a shortage of remunerative domestic lending opportunities. Despite the limited lending alternatives for international banks, spontaneous lending to many non-oil developing countries proceeded only very slowly. This reflected banks' concern about the creditworthiness of some countries, and precautionary retrenchment by other borrowers. As a result of these developments, highly competitive conditions prevailed in the bank credit and bond markets for lending to official and private entities in the industrial countries and also in a few developing countries. The relative share of bonds and floating rate notes in international credit flows rose, and the decline in the total volume of international credit was essentially accounted for by the lower level of direct bank lending (Table 1).

While total bank lending to non-oil developing countries grew by \$26 billion (a growth of 6.2 percent), 1/ approximately half of this was accounted for by concerted lending packages associated with Fund-supported adjustment programs. Overall, bank lending provided a much smaller proportion of the financing of current account deficits and reserve accumulations of the non-oil developing countries than at any time since the early 1970s. These considerations underline that the actions taken by public and private sector bodies since late 1982 have been crucial in preventing a sharper decline in lending flows to a number of major borrowers among the non-oil developing countries.

In the present environment, with emphasis on improving the quality of portfolios, bank as well as nonbank investors are likely to continue to seek an increase in their holdings of assets they perceive as low-risk and liquid, even if these offer very fine margins. Thus, the availability and terms of both bank and bond credit are likely to remain sharply differentiated. This would mean a continuation of the conditions sometimes

1/ At end-1982, the stock of international bank claims on banks and nonbanks in the non-oil developing countries (excluding seven offshore centers) was \$419 billion, according to the International Banking Statistics (IBS) published by the Bureau of Statistics. The data for lending flows from IBS used in this paper have been corrected for changes attributed to exchange rate movements.

Table 1. Growth in International Lending and Selected Economic Indicators, 1973-83

(In billions of U.S. dollars; unless otherwise indicated)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
International lending											
Net new international lending through banks and bond markets											
(BUR based) 1/										215 3/	185 3/
(BIS based) 2/	40	59	58	96	95	114	148	179	199	147 3/	133 3/
Bond issues (net) 4/	7	9	18	26	27	24	23	19	34	52	48
Bank lending											
(BUR based) 1/										163 3/	137 3/
(BIS based) 2/	33	50	40	70	68	90	125	160	165	95 3/	85 3/
Growth in the stock of bank claims (in percent)											
(BUR based) 1/										(7)	(6)
(BIS based) 2/	(24)	(29)	(18)	(27)	(20)	(20)	(23)	(24)	(20)	(10)	(8)
Share of net external claims in total bank claims in 14 industrial countries (in percent) 5/	8.7	9.9	10.9	12.0	12.7	12.7	14.3	15.8	17.7	18.3	(N.A.)
International payments											
Total of identified current account deficits 6/	-22	-75	-70	-66	-76	-89	-95	-148	-172	-171	-154
Seven largest industrial countries	(-4)	(-23)	(-8)	(-9)	(-18)	(-16)	(-11)	(-31)	(-15)	(-20)	(-37)
Other countries	(-18)	(-52)	(-62)	(-57)	(-58)	(-73)	(-84)	(-117)	(-157)	(-151)	(-117)
Oil exporting countries' current account balance	7	69	35	39	29	6	63	111	53	-12	-16
Non-oil developing countries' current account balance	-11	-37	-46	-33	-30	-42	-62	-88	-109	-82	-56
Reserve accumulation of non-oil developing countries 7/ (accumulation +)	10	3	-2	13	12	16	12	7	5	-4	6
Growth in value of world trade (in percent)	38.3	46.3	5.7	12.7	14.5	16.1	26.8	21.8	--	-6.4	-2.6
Production and investment in industrial countries											
Percentage growth of real GNP	6.1	0.5	-0.6	5.0	3.9	4.1	3.5	1.3	1.6	-0.1	2.3
Percentage growth in real gross fixed investment	...	...	...	...	7.3	7.0	4.7	-1.9	0.8	-3.6	3.7
Percentage change in GNP deflators	7.5	11.5	11.1	7.6	7.6	7.5	8.0	9.1	8.6	7.1	5.1
Monetary developments											
Monetary expansion in seven major industrial countries (in percent) 8/	11.9	9.3	12.5	12.7	11.2	10.3	9.5	8.4	10.0	10.8	10.9
Interest rates (six-month Eurodollar deposit rate, (in percent)	9.3	11.2	7.6	6.1	6.4	9.2	12.2	14.0	16.6	13.5	9.8

Source: Bank for International Settlements; Organization for Economic Cooperation and Development; International Monetary Fund, International Financial Statistics, and World Economic Outlook, Occasional Paper No. 27 (May 1984); and Fund staff estimates.

1/ Data on bank lending to and deposit-taking from are derived from the International Banking Statistics (IBS) of the Fund's Bureau of Statistics (cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower), excluding changes attributed to exchange rate movements.

2/ Data on bank lending and deposit-taking are derived from the BIS quarterly statistics; the figures shown are net of redepositing among banks within the BIS reporting area and, for the years after 1976, adjusted for the valuation effects of exchange rate movements on end-of-period stocks.

3/ Different coverages account for most of the differences between the Fund's Bureau of Statistics data (BUR) and the BIS data.

4/ Net of redemption and of double-counting due to bank purchases of bonds.

5/ Group of Ten countries and Switzerland, plus Austria, Denmark, and Ireland.

6/ Goods, services, and private transfers.

7/ Based on balance of payments definitions.

8/ Weighted average (1979 GNP weights) of rate of growth of money plus quasi-money.

described as a "split" market, in which much of the growth in credit is polarized between lending at very competitive margins to highly regarded borrowers, and concerted support for certain countries which are experiencing debt-servicing difficulties. With regard to the non-oil developing countries as a group, provided that major borrowing countries persist with firm adjustment programs and there is no sharp deterioration in the general economic situation, the increase in bank claims on these countries in 1984 appears likely to be broadly similar to the growth recorded in 1983.

In light of present economic and financial conditions, and the inevitable margin of uncertainty surrounding future prospects, a number of key issues have emerged which will have a significant bearing on capital market developments. These issues, which are outlined below, relate in particular to the continuing actions needed on the part of major industrial countries, developing countries, and commercial banks, to secure an orderly resolution of the current debt-servicing difficulties, and to ensure that countries can regain or preserve access to commercial financing on market terms.

1. First, with regard to actions by governments, the staff paper on the World Economic Outlook (EBS/84/33) (WEO) outlined the macroeconomic policies which would need to be pursued for a resolution of the present debt servicing difficulties. In this regard, progress depends crucially on the adjustment policies of borrowing countries; these policies will be of central importance in fostering a resumption of more spontaneous commercial financing flows. However, progress will also reflect developments in the external environment, changes in which affect borrowing countries in different ways. Projections in the World Economic Outlook leave no doubt that the margin for error in judging official policies in industrial as well as developing countries is extremely narrow. In this respect, one major concern lies in the high and recently rising level of international interest rates. This movement in rates cannot be seen in isolation from other economic developments, including changes in the volume and terms of international trade. Nonetheless, a continuing upward trend in rates would increase the risk of a further "crowding out" of developing country borrowers from the capital markets, not through liquidity shortages but through the effect of high real interest rates on their debt-carrying capacity, and hence their creditworthiness. It thus appears crucial that policy actions in member countries should contribute to restraining the rise in real interest rates and, over time, reducing them closer to historic levels. To seek to achieve this by unwarranted monetary expansion would be self-defeating, and thus a reduction in public sector credit demands through the pursuit of sound fiscal policies is essential. This action is all the more urgent in that the policies being followed to strengthen the economies of borrowing countries and to remedy remaining weaknesses in the international banking system may, in some cases, require several years to become fully effective. Thus, the recent improvement in international financial confidence may still be seriously vulnerable to a continuing rise in real interest rates.

2. With regard to actions by banks and their regulators, it is evident that the present economic outlook requires a continued strengthening of the international banking system. Bank managements and bank regulators in leading financial market countries have made progress in this task, even though some pronounced vulnerabilities remain at the present time. Banks have generally achieved some improvement in their capital ratios; and in many cases, but not all, they have made significant provisions against sovereign risk exposure to borrowers experiencing payments difficulties. Moreover, banks' risk exposure is increasingly assessed on a comprehensive and consolidated basis, and the general approach to assigning exposure by country--with some possible exceptions relating to transactions with offshore centers--is becoming relatively uniform. Nonetheless, banks still experience considerable difficulties in forward-looking country risk assessment and in risk-related pricing. In this regard, there may be some beneficial effects from banks' experience of monitoring countries' policies in the steering committees set up in connection with bank debt restructurings, and from an improved provision of information by the Fund through the International Banking Statistics series (IBS) and also by the Institute of International Finance. The need to strengthen banks' balance sheets reflects a fuller appreciation of the risks--domestic and international--to which they are exposed in the present economic environment. At a time of widely fluctuating interest rates, it is notable that floating rate lending techniques have shielded banks from interest rate risk, but, to some degree, have transformed this into credit risk. Movements in interest rates have been a major factor in the sharp and often coincident changes in the quality of banks' domestic and international loans. Thus, a number of major international banks recognize the need to reduce, over the next few years, the present concentrations in their capital and income exposure to some domestic sectors, as well as to certain major borrowers among the developing countries. Banks' awareness of these medium-term pressures is sharpened, inter alia, by their vulnerability to any loss of confidence by interbank and other wholesale depositors; in this respect, the authorities' proven ability to act swiftly to contain market disturbances is a crucial support to the system. The present strengthening of banks' financial positions is important if they are to retain public confidence as depository institutions and to support, over time, growth in the international economy. However, it carries the clear implication that banks' lending to some of the major borrowers, in particular among the non-oil developing countries, may grow only slowly in the next few years. Moreover, lending to many developing countries is likely to be more strongly concentrated in trade and project financing, where, despite the general country risk attaching to such loans, banks on the whole feel better able to judge the ultimate risks affecting their transactions.

3. Commercial banks, together with member countries, can also contribute to more stable conditions in the financial markets through a forward-looking approach to debt restructuring. It is clearly essential that the terms of bank debt restructurings should be designed to establish a debt service schedule which promises to be viable, and consistent

with countries' return, over time, to more normal financing conditions. One issue in this area that needs to be addressed, and which emerges clearly from the WEO projections, is the "hump" in the debt service projections of a number of the major borrowers among the developing countries. This raises the concern that these large gross financing requirements might delay a country's return to spontaneous market access, even if the country's economic adjustment program were well established, unless a more forward-looking approach to bank debt restructuring is adopted. For countries with well-established adjustment programs, multi-year restructurings of debt incurred before the onset of payments difficulties could assist materially in establishing realistic amortization schedules, and hence provide a more viable basis on which to regain access to spontaneous commercial flows. Such restructurings would need to be well prepared and undertaken on a strictly case-by-case basis; and the terms, including notably the grace periods and maturities, would need to be so crafted as to provide the prospect of a viable medium-term external position. To encourage the negotiation of such restructurings, and countries' eventual return to market access, it is important that the Fund should continue to be in a position to support countries' adjustment efforts with arrangements allowing them to draw, where necessary, on Fund resources.

4. A separate issue relating to bank debt restructurings and financial packages is the question whether some evolution in financing techniques is required to ensure their successful negotiation in the future. In many respects, the precise nature and techniques of these transactions are issues to be resolved on a commercial basis between borrowers and lenders in light of individual countries' circumstances. At the same time, in view of the Fund's concern to secure viable external financing for programs, there are a number of features of the present approach to restructurings which appear crucial for an effective resolution of countries' external payments problems. Restructurings and financial packages have continued to be based on a case-by-case approach to countries' difficulties, and firmly linked to Fund-supported adjustment programs. Moreover, as the present framework for bank debt restructurings has become more clearly established, this has helped to ensure the broad participation of all creditors in financial packages; and, where economic adjustment programs have been implemented, the terms of subsequent restructurings have been somewhat more favorable to the borrowing country. Given the effectiveness of this established framework, it would seem essential to avoid recourse to innovations in financing techniques which could imply a generalized treatment of member countries' problems, a loss of commitment to the concerted approach to resolving debt problems, or a weakening in the clear link between financial packages and adjustment programs. However, an issue which may merit attention is the scope for encouraging a growth of trade-related lending and other private sector transactions within the framework of financial packages, while ensuring that the financing

requirements of the government are secured. 1/ Also in the context of restructuring techniques, the question has been raised whether it would be possible or desirable to modify existing procedures in the event of seriously adverse external developments affecting individual countries or groups of countries. Again, any concessions in lending terms under such circumstances would be primarily an issue to be resolved between each borrower and the group of its creditors. In that context, the overriding concern would appear to be to seek solutions which would minimize any adverse impact on countries' prospects for later resuming normal market borrowing relationships. Here, three considerations appear important, and derive from the points outlined above. First, policy responses should be implemented on a strictly case-by-case basis, bearing in mind the differentiated impact on individual countries of changes in such factors as interest rates, trade volumes, and terms of trade. Second, refinancing should be achieved by sound and negotiated financing techniques; otherwise, efforts to restore countries' external viability could prove self-defeating. Third, financing packages should continue to be strictly linked to firm and outward-looking adjustment programs, which promise to restore balanced and sustainable economic growth. More broadly, it would seem particularly important under such circumstances to ensure that the recent collaborative efforts are continued, to the extent necessary, over a period of years.

5. Finally, an important area for reflection and action by borrowing countries lies in the implications of the changing composition of capital flows to developing countries. To underpin the prospect of renewed growth in these countries, and to render their economies less vulnerable to external shocks, some transformation of the pattern of their external financing, over time, appears to be important. Prudent external debt management, as well as sound banking practice, imply that the future growth in bank financing is likely to be moderate in comparison with the rates of expansion seen in the years preceding the onset of widespread payments difficulties. Large-scale syndications for general balance of payments and budgetary financing, of the kind frequently seen before the onset of widespread payments difficulties in late 1982, may be viewed as inappropriate for many countries. Bank lending to developing countries may tend to be associated with trade and project flows in particular, and, in this context, export credit guarantee agencies in creditor countries can play a crucial role in fostering a resumption of bank lending to countries which are engaged in firm adjustment programs. In light of these developments, a priority for policy in many developing countries is to seek ways of increasing longer term capital flows, particularly where these support well-designed and remunerative projects. One form of longer term financing which could play a growing and important role is commercial bank cofinancing with the World Bank. A resumption of growth in nondebt-creating flows, including--where countries

1/ In relation to recent financial packages, some attention has also focused on the impact of different accounting and regulatory regimes on the cohesion of bank lending groups, and this issue is discussed in Section V.3 of the present paper.

welcome this--private direct investment, could also make a significant contribution. In this general context, it is evident that the scale and direction of international capital flows depend crucially on the risk-adjusted returns that are available. Such flows will not grow if the prospects for international trade are held back by interruptions of market growth, or by mounting protectionism--which will influence direct investment in developing countries as well as their exports. At the same time, countries' commitment to establish comprehensive adjustment policies including appropriate pricing policies and realistic interest and exchange rates, as well as fiscal and monetary policies consistent with a reduction in inflation, will be important in attracting capital flows and in sustaining more satisfactory rates of growth.

III. Recent Developments in Bank Lending and Other Flows

During 1983, the total flow of new credits through international capital markets recorded a further decline (Chart 1 and Table 1). Issues of international bonds, 1/ at $48 billion, were close to the previous year's peak of $52 billion, but there was a further fall in international bank lending flows. According to the International Banking Statistics (IBS) compiled by the Bureau of Statistics, the growth in international bank loans declined from $163 billion in 1982 to $137 billion in 1983. 2/ This section of the paper briefly reviews the economic and financial background to these developments, and then discusses bank lending, bond market activity, and other international capital flows in 1983.

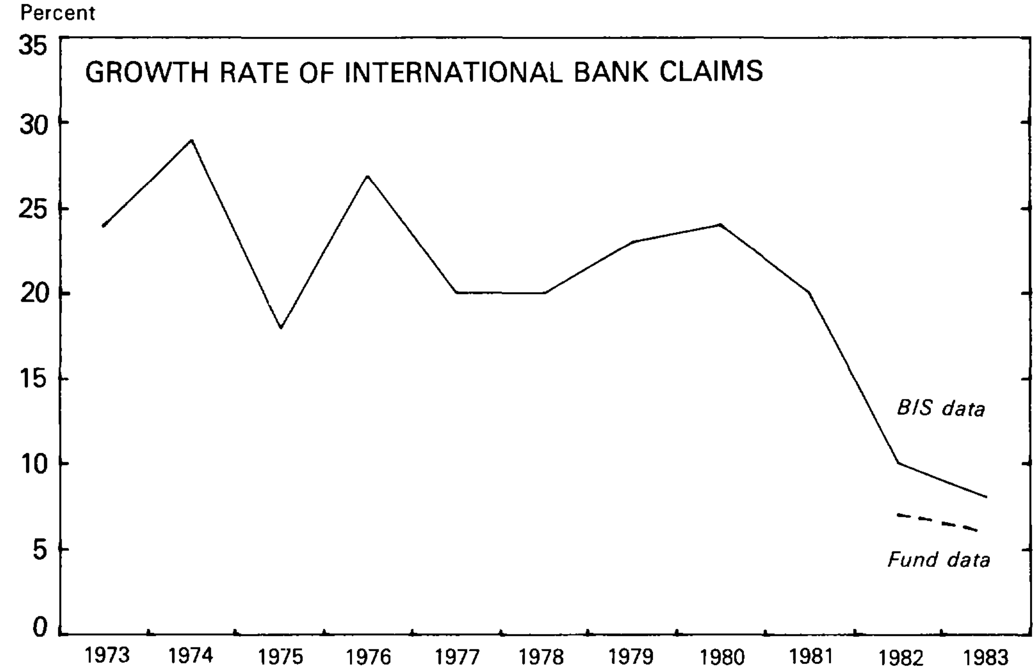
1. Economic and financial environment

Since mid-1982, developments in the international financial markets have been dominated by two factors: the responses of lenders and borrowers to the external payments difficulties of many developing countries, and the progressive recovery of the industrialized countries' economies from the protracted world recession. As a result of tightened financing constraints and the adjustment efforts undertaken, the current account deficits of the non-oil developing countries declined further, from $82 billion in 1982 to $56 billion in 1983. During 1983, however, banks found relatively limited lending opportunities in most of the alternative markets. One reason for this lay in the reduced external payments imbalances for most major country groups. The aggregate of identified current account deficits declined from $172 billion in 1981 to $154 billion in 1983. Indeed, excluding the seven largest industrial countries, the total of current account deficits declined from $157 billion to $117 billion over this period (Table 1). A second reason for the slower growth of international credit to industrial country borrowers

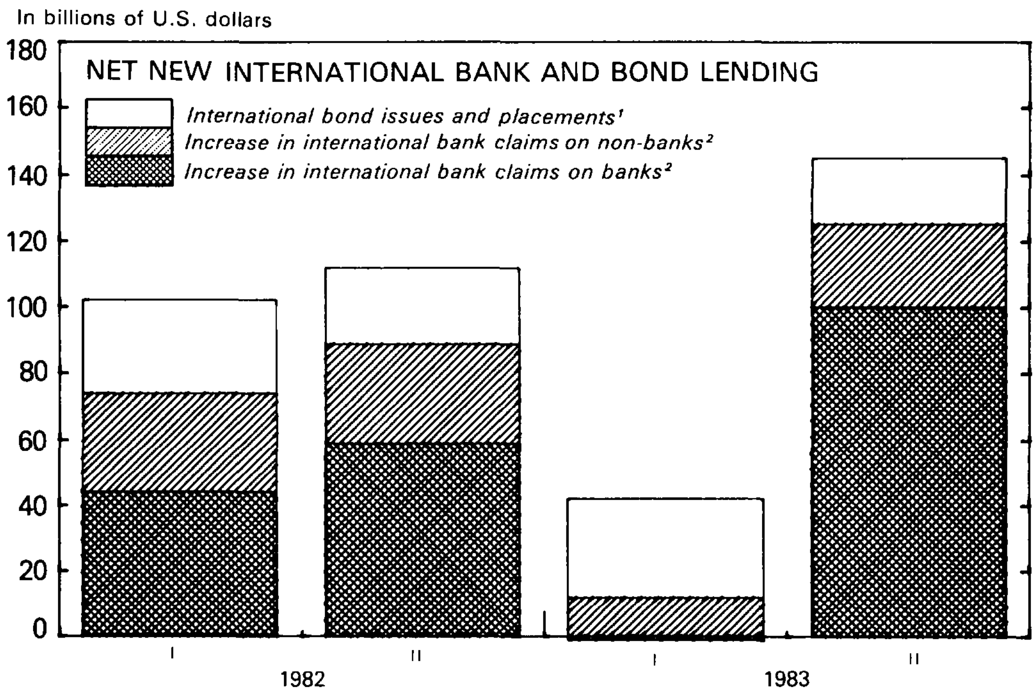
1/ Net of redemptions and of purchases of bonds by banks.
2/ All IBS data in this paper have been adjusted to exclude changes attributed to exchange rate movements. A technical note on the measurement of flows will be included in the accompanying background paper.

CHART 1

NET LENDING THROUGH INTERNATIONAL CAPITAL MARKETS



Sources: Staff estimates based on BIS data provided in *International Banking Developments*; and IMF International Banking Statistics.



Source: Staff estimates based on IMF International Banking Statistics.

[1]Net of repayments; excludes double counting due to banks issuing and holding bonds.

[2]Measured in U.S. dollars, excluding changes attributed to exchange rate movements.

was the slow pace of recovery in most of these countries, other than the United States. Against the background of this moderate growth, and declining inflation, short-term interest rates 1/ fell from 13 percent in 1981 to 11 percent in 1982 and 9 percent in 1983. Long-term interest rates declined more moderately, from 13 percent in 1981 and 1982 to 11 percent in 1983, thus restoring a normal yield curve. However, given the sharp decline in inflation, ex post real interest rates 2/ remained at historically high levels throughout the period. In early 1984, there was a renewed rise in short- and long-term market interest rates. This resulted in increasing concern about the role of public sector borrowing in major countries in putting upward pressure on the level of real interest rates, at a time of spreading economic recovery, and on the implications that rising real interest rates could hold for the resolution of debt servicing difficulties.

2. International bank lending

a. The changing pattern of international lending

The growth in banks' cross-border lending, 3/ which had amounted to 8.0 percent (at an annual rate) in the first three quarters of 1982, decelerated sharply in the fourth quarter of that year. Lending was particularly low in the first half of 1983, but rose more rapidly in the second half, in part following a normal seasonal pattern in cross-border lending between banks. 4/ Overall, the rate of growth in bank claims for 1983 amounted to 5.6 percent, down slightly from 7.0 percent in 1982.

1/ Interest rates in the seven major industrial countries, weighted by GNP.

2/ Nominal interest rates adjusted for actual inflation.

3/ Total cross-border lending by banks is measured as the sum of cross-border interbank accounts by residence of borrowing bank and of international bank credits to nonbanks by residence of borrower, corrected for changes attributed to exchange rate movements. In interpreting the flows thus derived, it is necessary to bear in mind that the Fund's IBS series follows a balance of payments approach to recording credit flows, and is thus based on the geographical location of banks rather than their nationality. As a result, activity within a money market center--e.g., lending by a British bank in London to local branches of U.S. banks--are not captured. On the other hand, lending by a U.S. bank to its own branches in Europe or the Far East will show up in the data as a cross-border flow. Thus, the review of recent developments which follows does not reflect interbank lending within the major centers, nor does it net out redepositing between banks when recording flows across borders.

4/ The half-yearly movements in global interbank flows--especially between industrial countries--appear large relative to other flows, but they are small if scaled by the aggregate stock of global cross-border interbank claims of some $1,800 billion, and they are subject to short-run fluctuations. Global lending to nonbanks was relatively more stable; there was no change between the first and second half of 1982, and then a more moderate decline and recovery in the first and second half of 1983.

Industrial countries' recourse to new bank lending declined in late 1982 and in 1983 (Table 2). This deceleration reflected low private credit demands and a higher level of bond issues. However, lending to industrial countries showed a significant increase in the second half of 1983, with a rise in cross-border lending between banks in these countries (Appendix Table I). While the rise in lending between banks in industrial countries partly reflected a seasonal pattern, it is noteworthy that almost half of the growth in lending to industrial countries in the second half of 1983 was accounted for by external borrowing by the United States (and essentially by U.S. banks).

The non-oil developing countries experienced sharply reduced market access to bank lending in 1983. Trade flows were generally below those of 1982, and there were sizable cutbacks in a number of countries' investment programs and projects in an effort to limit budgetary expenditures. New lending to non-oil developing countries amounted to $26 billion in 1983 (an increase of 6.2 percent), 1/ following an increase of $43 billion in 1982. Approximately one half of the growth of banks' claims on non-oil developing countries in 1983 took the form of concerted lending to a number of Latin American countries and to Yugoslavia, in conjunction with bank debt restructurings and Fund-supported programs; concerted lending to Mexico alone amounted to $5 billion. Most African countries experienced a further decline in their already limited access to bank loans; there was a net reduction in credit outstanding to countries other than South Africa. Elsewhere within the non-oil developing group, however, some European and Asian countries continued to have access to spontaneous bank lending at market terms; lending to some of these countries expanded significantly in the final quarter of 1983. The overall deceleration in a number of these countries' bank borrowings may be largely attributed to a decline in their demand for credit, partly as a result of economic adjustment measures; indeed, some countries, particularly in Asia, pursued increasingly cautious borrowing policies.

Lending to oil exporting countries grew by $5 billion in 1983, compared with $9 billion in 1982. However, flows to individual countries followed a differentiated and somewhat uneven path. Despite a strong expansion in lending to both high- and low-absorber Middle Eastern countries in the final quarter of 1983, lending to these countries slowed in 1983. There was also a major slowdown in lending to oil exporting countries outside the Middle Eastern area, reflecting to a large extent the banks' unwillingness to continue lending to some of the major oil exporters with unsettled debt problems (notably Nigeria and Venezuela).

1/ Based on the end-1982 stock of international claims on banks and nonbanks in the non-oil developing countries (excluding seven offshore centers) of $419 billion.

Table 2. Total Cross-Border Bank Lending and Deposit-Taking, 1982-83 1/

(In billions of U.S. dollars)

			1982		1983	
	1982	1983	1st half	2nd half	1st half	2nd half
Lending to 2/	163	137	73	90	12	125
Industrial countries	118	93	63	55	6	87
Of which: United States 3/	(46)	(42)	(39)	(7)	(5)	(37)
Developing countries 4/	52	31	32	20	8	23
Oil exporting	(9)	(5)	(5)	(4)	(-2)	(7)
Non-oil	(43)	(26)	(27)	(16)	(10)	(16)
Offshore centers 5/	23	10	4	19	-2	12
Centrally planned economies 6/	-1	-2	--	-1	-1	-1
Unallocated 7/	-29	5	-26	-3	1	4
Deposit-taking from 8/	176	163	88	88	34	129
Industrial countries	122	103	60	62	16	87
Of which: United States 3/	(80)	(34)	(52)	(28)	(19)	(15)
Developing countries 4/	11	24	5	6	6	18
Oil exporting	(-4)	(1)	(-3)	(-1)	(-3)	(4)
Non-oil	(15)	(23)	(8)	(7)	(9)	(14)
Offshore centers 5/	21	25	12	9	7	18
Centrally planned economies 6/	3	3	-1	4	1	2
Unallocated 7/	19	8	12	7	4	4
Change in net claims on 9/	-13	-26	-15	2	-22	-4
Industrial countries	-4	-10	3	-7	-10	--
Of which: United States 3/	(-34)	(8)	(-13)	(-21)	(-14)	(22)
Developing countries 4/	41	7	27	14	2	5
Oil exporting	(13)	(4)	(8)	(5)	(1)	(3)
Non-oil	(28)	(3)	(19)	(9)	(1)	(2)
Offshore centers 5/	2	-15	-8	10	-9	-6
Centrally planned economies 6/	-4	-5	1	-5	-2	-3
Unallocated 7/	-48	-3	-38	-10	-3	--

Sources: International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ Data on lending and deposit-taking are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.
2/ As measured by differences in the outstanding liabilities of borrowing countries, defined as cross-border interbank acounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower.
3/ Not corrected for valuation changes attributed to exchange rate movements.
4/ Excluding offshore centers.
5/ Consisting of Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles, Panama, and Singapore.
6/ Excludes Fund member countries.

The outstanding bank debt of nonmember countries in Eastern Europe has declined since 1981, following the Polish debt crisis. In part, this reflected the transfer of bank claims on some countries to export credit insurance institutions in the creditor countries. Lending to these countries recovered somewhat in the final quarter of 1983, though virtually all new lending was to the U.S.S.R. Other non-Fund member countries in Eastern Europe continued to have little access to new bank credit.

The above developments in international bank lending were foreshadowed to some extent by OECD data on new publicized medium- and long-term international bank credit commitments. Recorded commitments amounted to $67 billion in 1983--a contraction of approximately one third compared with the previous year (Table 3). 1/ During the first quarter of 1984, OECD data suggest that activity continued at about the pace of 1983: new commitments amounted to $16 billion, corresponding to an annual rate of about $64 billion. Lending to industrial country borrowers continued to be slow, reflecting limited external financing requirements as well as the continuation of an extensive reliance on bond financing, including floating rate notes. Commitments to non-oil developing countries expanded by almost $9 billion; however, $6.5 billion of this amount was accounted for by a new money package for Brazil.

b. Changes in the source of funds

There was some change in the relative importance of different country groups as providers of funds to the banking system in 1983. The contribution of industrial countries to overall deposit flows declined from $122 billion in 1982 to $103 billion in 1983. This was more than accounted for by banks in the United States, which reduced their new deposits from $82 billion in 1982 to $16 billion in 1983 (Appendix Table I). However, owing in part to increased depositing by nonbanks (including nonbank financial institutions), industrial countries as a group continued to be the largest single supplier of funds to the international banking system, accounting for 63 percent of the world total. At the same time, there was a significant increase in deposits with the international banking system by non-oil developing countries, particularly in the second half of 1983. This increase resulted in part from a buildup of gross official reserves by some countries in the group--mostly Asian countries, but also certain Latin

1/ However, the OECD data tend to understate actual gross bank commitments to non-oil developing countries in 1983 because they do not include an estimated $24 billion in commitments corresponding to the restructuring of medium- and long-term maturities in that year. Including these restructured amounts, bank credit commitments to non-oil developing countries in 1983 were $16 billion higher than in 1982. OECD data are not directly comparable to the data on lending previously referred to in the text, as they are on a gross commitments basis, and cover only new medium- and long-term bank credits which are publicized and which have an original maturity of more than one year.

Table 3. New Publicized Medium- and Long-Term External Bank Credit Commitments, 1979-84

	1979 1/	1980 1/	1981	1982	1983	1982 1st half	1982 2nd half	1983 1st half	1983 2nd half	1984 1st quarter
				(In billions of U.S. dollars)						
Industrial countries	24.1	39.3	44.8	51.6	28.0	22.7	29.0	15.5	12.5	5.9
Seven largest	12.9	23.4	27.8	31.2	15.2	14.0	17.2	7.9	7.2	1.3
Others	11.2	15.9	17.0	20.4	12.9	8.7	11.7	7.6	5.3	4.6
Oil exporting countries	7.7	5.4	5.6	7.7	6.4	4.0	3.7	4.5	1.9	1.0
Non-oil developing countries	43.2	32.9	42.5	36.9	28.5	22.0	14.9	16.7	11.8	8.6
Major exporters of manufactures	16.0	15.4	19.7	17.7	13.8	9.6	8.2	7.7	6.1	7.6
Net oil exporters	12.5	9.0	10.9	10.9	8.1	7.9	3.0	6.6	1.5	0.3
Low-income countries	3.8	0.8	2.0	1.2	1.1	0.3	0.9	0.6	0.5	0.2
Other net oil importers	10.9	7.7	9.9	7.1	5.4	4.2	2.8	1.7	3.7	0.4
Centrally planned economies 2/	3.6	1.7	0.7	0.2	0.4	0.2	--	--	0.4	--
International organizations and unallocated	0.4	0.7	1.0	1.7	3.8	1.0	0.8	1.1	2.7	0.5
Total	79.1	79.9	94.6	98.2	67.1	49.9	48.3	37.8	29.3	15.9
Memorandum items:										
International credit commitments 3/	...	...	147.7	103.4	80.4	52.4	51.0	41.0	39.4	50.5
Industrial countries	...	...	91.3	54.7	40.3	24.2	30.5	18.3	22.0	40.4
Oil exporting countries	...	...	5.6	8.1	6.5	4.0	4.1	4.6	1.9	1.0
Non-oil developing countries	...	...	49.0	38.4	29.2	22.9	15.6	17.0	12.2	8.7
Other	...	...	1.8	2.1	4.3	1.3	0.8	1.1	3.2	0.5
				(In percent)						
Share of non-oil developing countries in new external commitments	54.8	41.2	45.0	37.6	42.4	44.1	30.9	44.2	40.2	53.7
Ratio of new commitments to net bank lending 4/	... (63.3)	... (49.9)	... (57.3)	60.3 4/ (103.4)	48.6 4/ (78.9)	67.4 4/ (99.8)	54.3 4/ (107.3)	315.0 4/ (151.2)	23.3 4/ (65.5)	... (...)

Sources: Organization for Economic Cooperation and Development, Financial Statistics Monthly; International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ Includes only Eurocredit commitments.
2/ Excludes Fund member countries.
3/ Includes also medium- and long-term bank facilities, usually backing other forms of financing.
4/ Based on the Fund's International Banking Statistics (cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower); figures shown in parentheses are based on the Bank for International Settlements' quarterly data provided in International Banking Developments.

American countries, notably Mexico. It may also have reflected increases in regular working balances of international firms. However, in several instances, the increase in international bank deposits by nonbanks may also have reflected a shift in the portfolio preferences of private depositors due to increased economic and political uncertainties. The withdrawal of funds by the oil exporting countries, taken as a group, continued in the first half of 1983, but this trend later reversed and their deposits increased marginally over the year as a whole, following a decline of $4 billion in 1982. Centrally planned economies continued to expand their deposits in 1983 at about the same pace as in the preceding year, reflecting a buildup of official exchange reserves.

As a result of these developments in lending and deposit-taking in 1983, there was a shift in the distribution of net financing flows (new lending less deposits). While industrial countries, as a group, remained net suppliers of funds to the banking system, the United States, which had supplied $34 billion net in 1982, became a net taker of $8 billion in 1983. Meanwhile, the net flow to non-oil developing countries from banks in the rest of the world was down sharply to very small amounts (Table 2).

c. Lending maturities and spreads

Statistics published by the Bank for International Settlements (BIS) show that the maturity of outstanding bank debt of most of the countries outside the BIS reporting area continued to lengthen somewhat in the first half of 1983, as evidenced by the reduced share of short-term debt in total debt outstanding (Table 4). Though data for 1983 as a whole are not yet available, it is generally believed that the trend toward a lengthening of maturities continued through the second half of 1983 as well. If sustained, this development would mark a significant departure from the tendency toward a general increase in short-term indebtedness that had prevailed through June 1982. The decline in the share of short-term debt partly reflected the lengthening of maturities resulting from recent bank debt restructuring arrangements, and developments in the cross-border interbank market. It also reflected a deliberate effort by some borrowers enjoying access to spontaneous credits to lengthen the maturity of their borrowings.

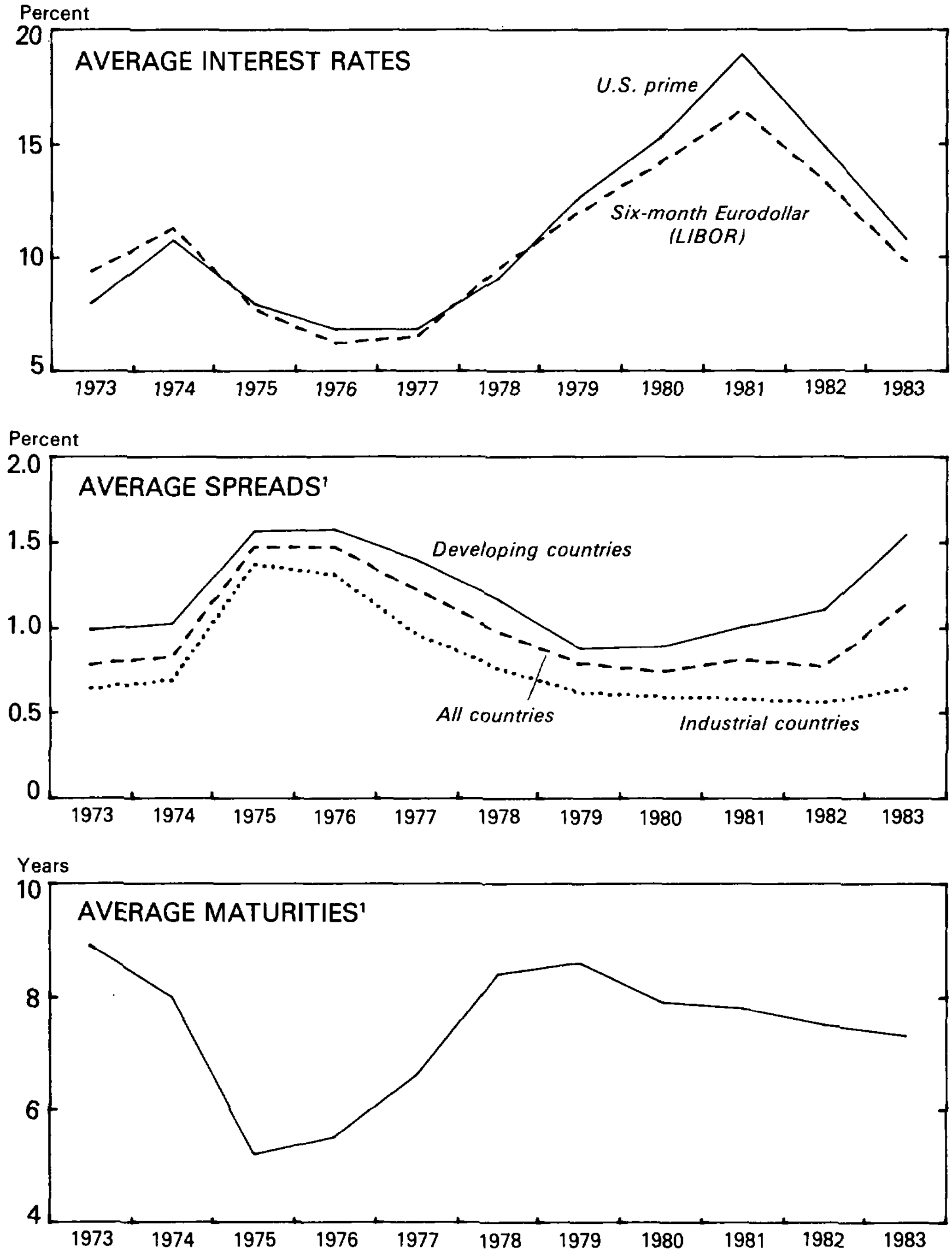
The OECD data covering the maturity of new medium- and long-term bank credit commitments show mixed trends for different country groups. Broadly, they indicate some tendency toward longer maturities for oil exporting countries, as well as for non-oil developing countries that have been engaged in debt restructurings and new financing packages.

Reference interest rates 1/ in 1983 settled at levels substantially below the 1982 average rates, resulting in a major improvement in average interest rates applicable to bank credit commitments (Chart 2). However,

1/ Mainly, LIBOR, U.S. prime rate, and the interest rate on certificates of deposit.

CHART 2

TERMS ON INTERNATIONAL BANK LENDING, 1973-83



Sources: OECD, *Financial Market Trends;* and IMF, *International Financial Statistics.*

[1]New publicized medium- and long-term international bank credit commitments.

Table 4. Short-Term Claims 1/ in Percent of Outstanding Bank Claims, 1978-83

(In percent)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982	June 1983
Industrial countries (other than Group of Ten and Switzerland, Austria, Denmark and Ireland)	41.5	41.4	43.0	44.0	43.7	42.2
Oil exporting countries	47.6	50.8	53.1	56.9	55.4	54.5
Nigeria	34.8	28.6	31.1	33.3	36.8	39.0
Venezuela	54.3	61.1	58.8	61.5	57.5	57.2
Other	45.8	47.1	52.0	57.6	58.0	56.4
Non-oil developing countries	44.7	43.2	45.5	46.1	46.4	45.7
Six largest borrowers 2/	34.6	37.5	44.4	44.5	45.7	45.1
Argentina	(51.4)	(51.5)	(52.3)	(46.8)	(54.3)	(53.4)
Brazil	(28.3)	(29.3)	(35.4)	(34.7)	(34.9)	(34.0)
Korea	(57.3)	(55.8)	(62.3)	(57.8)	(60.0)	(56.5)
Mexico	(31.8)	(34.6)	(44.2)	(48.7)	(47.6)	(47.7)
Philippines	(50.0)	(52.7)	(58.1)	(56.9)	(60.0)	(59.7)
Yugoslavia	(19.4)	(23.2)	(27.9)	(28.0)	(26.7)	(30.0)
Other	54.2	49.2	46.9	48.2	47.3	46.5
Centrally planned economies 3/	41.9	41.0	38.4	43.1	39.3	39.0
All countries	44.4	43.8	45.6	47.1	46.7	45.9

Source: Bank for International Settlements, The Maturity Distribution of International Bank Lending.

1/ Remaining maturity of one year or less.
2/ As of end-December 1980.
3/ Excluding Fund member countries.

these rates increased markedly in the first four months of 1984 and, by end-May 1984, were above those recorded one year earlier. Fine spreads over the reference interest rates were obtained by many industrial country borrowers, a number of non-oil developing countries in Europe and Asia, and some oil exporting countries in the second half of 1983 and the first few months of 1984. However, there has been a widening differentiation in spreads applied to bank credits to these borrowers, compared with other groups. Moreover, nonprime borrowers usually paid higher fees, while the maturities obtained tended to be somewhat shorter. The recorded differentiation of credit terms understates, if anything, the extent of the segmentation of the market and the "bimodal" risk assessment by banks, since an increased number of developing countries were effectively excluded from the market because of banks' risk perceptions.

3. Bond markets and other financial flows

With net international bank lending sharply reduced since mid-1982, other private and official international flows have become relatively more important as sources of international capital. New issuance activity in international bond markets has expanded to record levels, and net foreign direct investment flows have been sustained at high levels, despite the impact of a major world recession and high real interest rates. Official transfers and lending are once again playing a major role, at least in relative terms, in meeting the reduced financing requirements of the non-oil developing countries.

a. The bond markets

A record $77 billion of bonds were issued in 1983; this encompassed $50 billion of Eurobonds and $27 billion of foreign bond issues. In 1983, 57 percent of all bond issues were denominated in U.S. dollars, 17 percent in Swiss francs, and 9 percent in deutsche mark (Table 5). Although there were no SDR-denominated bonds issued during 1982 or 1983, ECU-denominated bonds totaled $2.2 billion in 1983 (4 percent of total Eurobonds), reflecting, among other factors, the issuance activities of European Economic Community institutions. A general absence of a lengthening of bond maturities in 1983 continued to reflect the concerns of market participants regarding future movements in inflation, interest rates, and exchange rates. Even without the capital gains associated with declining interest rates, investors still obtained high real yields on bond holdings as inflation continued to decline in the major industrial countries.

The recovery of issuing levels, which began late in 1981, combined with the contraction of syndicated lending to make the international bond market the primary source of international credit for many corporate and sovereign borrowers from the industrial countries in the latter part of 1983. Since mid-1982, access to the international bond markets has been limited to those corporate and sovereign borrowers that are regarded by investors as the best credit risks. As a result, bond market activity

Table 5. Developments in International Bond Markets, 1978-83

	1978	1979	1980	1981	1982	1983
	(In billions of U.S. dollars)					
Bond market lending (net of redemptions) 1/	30	32	28	41	62	60
By category of borrower						
Industrial countries	19	21	20	31	50	47
Developing countries	4	3	2	3	3	2
Other (including international organizations)	7	8	6	7	9	11
	(In percent)					
By currency of denomination						
U.S. dollar	37	38	43	63	64	57
Deutsche mark	22	22	22	5	7	9
Swiss franc	21	25	20	16	15	18
Japanese yen	13	7	5	6	5	5
Other	7	8	10	10	9	11
	(In percent per year)					
Interest rate developments						
Eurodollar deposits 2/	8.9	12.1	14.2	16.8	13.2	9.6
Dollar Eurobonds 3/	8.8	10.1	12.5	14.4	14.5	12.4
Deutsche mark international bonds 3/	6.1	7.2	8.8	10.2	9.1	8.1

Sources: Organization for Economic Cooperation and Development, Financial Statistics Monthly; and International Monetary Fund, International Financial Statistics.

1/ This series is net of redemptions but is not adjusted for double-counting due to bank purchases of bonds.
2/ Three-month deposits.
3/ Bonds with remaining maturity of 7-15 years.

was sustained by the financing requirements of the fiscal authorities in many industrial countries (which, in some cases, represented refinancing of earlier, more expensive syndicated credits), by the borrowing needs of multilateral institutions, and by the substitution of long-term borrowing for short-term borrowing on the part of private corporations. Industrial country borrowers and international organizations together accounted for 95 percent of total international bond issuance. In contrast, gross issues by developing countries fell from an already low level of $4.7 billion in 1982 to $3.3 billion in 1983. Five developing countries (Indonesia, Korea, Malaysia, South Africa, and Thailand) accounted for nearly 80 percent of these issues.

The growing importance of floating rate notes (FRNs) was another aspect of changed market conditions. Financial institutions often substituted purchases of securities for extending large internationally syndicated loans. In this regard, FRNs were regarded by most banks--but not all--as relatively liquid and risk-free securities, and banks showed a willingness to sacrifice some yield on these instruments in order to achieve an improved asset composition. During late 1983, yields on FRNs fell as low as 1/4 or 1/8 percent over LIBOR, but these yields did not include the effects of the fees associated with FRN issuance, which could often add another 1/4 to 1/2 percent to the nominal spread. Even with these issuance fees, borrowers from industrial countries and certain European and Asian non-oil developing countries found FRNs at times to be less expensive than syndicated loans. Banks from the major industrial countries also issued FRNs to obtain a secure source of medium- and long-term funding for their medium-term syndicated loans and for short-term debt restructured into medium-term assets. Banks have thus been major issuers as well as purchasers of these instruments. FRN issues rose from $15.3 billion in 1982 to $19.6 billion in 1983, and their share of total international bond issues thereby reached 25 percent in 1983. In the Eurodollar bond market, the importance of the FRN was even more pronounced. Nonetheless, two thirds of all foreign bonds and Eurobonds issued in 1983 were straight debt issues with fixed coupons, and bonds convertible into equity instruments constituted a further 7 percent of total issues.

In the period since mid-1982, the distinction between bank lending and securities' business has become somewhat blurred by the increasing direct competition between floating rate note issues and syndicated bank credits for highly regarded borrowers, particularly since banks have held a significant share of floating rate notes in their own portfolio. Further, some issuance was undertaken by borrowers with a view to retiring earlier, more expensive bank debt. 1/ Recent developments in the securities markets have been marked by two further features, in addition to the competition between security and direct credit-based transactions discussed above, both of which may tend toward an increasing integration of international financial markets. 2/ First, in the area

---

1/ It may be noted, however, that such a refinancing was also achieved by one borrower through a direct, market renegotiation of a syndicated credit.

2/ The removal of U.S. withholding tax would--if it occurs--be a further factor increasing the tendency in this direction.

of capital market liberalization, there were further moves in 1983 to increase foreign borrowers' access to national markets, in both Germany and Switzerland. In late May 1984, substantive measures were announced to liberalize progressively the use of yen-denominated instruments in the international capital markets, and to increase foreign financial institutions' ability to conduct business in Japan. 1/ Second, the use of innovative financing techniques has continued to develop rapidly in 1983. While the role of zero coupon and low interest rate bonds diminished with the lower level of nominal interest rates, currency and interest swaps 2/ have played an increasingly important part in bond market transactions. The predominant reason for the present development of the role of swaps in the bond market lies in borrowers' search for access to funds at the lowest possible cost, by exploiting differing market perceptions of individual borrowers and using swaps to match these borrowing opportunities with their own preferences as to currency and interest rate basis. Through these techniques, there is increasing arbitrage between borrowing conditions in various medium-term markets, both between floating rate and fixed rate instruments and between different currency denominations (to the extent that national authorities permit this). Over time, this could lead to a greater integration of bond market conditions, and could result in a more rapid transmission of interest and exchange rate pressures from one market to another.

b. Foreign direct investment and official flows

As a result of the reduced access of most developing countries to international loan and bond markets, foreign direct investment and official lending and transfers have become, but only in relative terms, important sources of finance for many of these countries. 3/ Despite the absolute decline in the level of foreign direct investment from $13 billion in 1982 to $8 billion in 1983, these inflows financed an increasing share of the current account deficits and reserve accumulations of the non-oil developing countries. This share rose from 10 percent in 1980 to 13 percent in 1983. There also have been striking differences, over time, in the cost of servicing direct investment and the external debt of the non-oil developing countries. While direct investment-related income payments by non-oil developing countries remained the same in 1983 as in 1978, interest payments on their external debt increased threefold, to over $59 billion in 1983, reflecting the sharp increase in the size of debt. Official transfers and lending to the non-oil developing countries remained in the $35-36 billion range throughout 1981-83. As the sum of the current account deficits and reserve accumulations of the non-oil developing countries has declined from $115 billion in 1981 to $63 billion in 1983, official transfers and lending have risen from 32 percent of the associated financing

1/ Details of these measures are described in the background paper.

2/ In interest swaps, two borrowers exchange with each other floating rate and fixed rate interest obligations on debt.

3/ The Executive Board is to discuss a staff paper on "Direct Investment Flows to Developing Countries" on July 18, 1984.

requirements in 1981 to 57 percent in 1983. Thus, between 1980 and 1983, there was an almost complete reversal of the financing roles of borrowing from private creditors and the combination of foreign direct investment and official transfers and lending. In 1980, net external borrowing from private creditors equaled 64 percent of the sum of the current account deficits and reserve accumulations of the non-oil developing countries, whereas foreign direct investment and official transfers and lending had a share of 45 percent. 1/ By 1983, the share of net external borrowing from private creditors had fallen to 32 percent, and that of foreign direct investment and official lending and transfers had increased to 70 percent. If the use of Fund resources is also added to the sum of foreign direct investment and official flows, then the total expanded from 46 percent of the total financing requirement in 1980 to 86 percent in 1983.

IV. Prospects for 1984 and 1985

1. Economic and financial environment

The continuing recovery of output and trade in the world economy, and improvements in the current account positions of many major borrowers, will strongly influence international flows of credit in 1984 and 1985. In the industrial countries, the economic recovery is expected to extend into 1985, with real GNP growing by 3.6 percent during 1984 and 3.2 percent in 1985. At the same time, the recovery is expected to begin to spread to the developing countries. World trade (measured in U.S. dollars), which declined by 2.6 percent in 1983, is expected to rise by 7 percent in 1984, and the exports and imports of the non-oil developing countries are projected to increase in 1984 by 9 percent and 6 percent, respectively.

The non-oil developing countries' current account deficit is expected to decline from $56 billion in 1983 to $50 billion in 1984 and 1985--the lowest levels since 1978. The deficit of the oil exporting group is projected to fall sharply from $16 billion in 1983 to $8 billion in 1984 and $7 billion in 1985. For the industrial countries, however, the combined current account deficit is expected to expand from $1 billion in 1983 to $23 billion in 1984, as the projected increase in the U.S. current account deficit (from $34 billion in 1983 to $68 billion in 1984) is only partly offset by a larger surplus projected for Japan.

The external debt-servicing capacity of the non-oil developing countries is likely to reflect the interaction of two sets of factors. On the one hand, their adjustment efforts and the recovery of international trade will contribute to an improvement in debt to export ratios. Thus, the World Economic Outlook projects a growth in the external debt of the non-oil developing countries, from $669 billion in 1983 to

---

1/ These shares do not sum to one, since there are other (often negative) items, such as errors and omissions and the use of Fund credit.

$711 billion in 1984, but a decline in the ratio of external debt to exports from 150 percent in 1983 to 145 percent in 1984. On the other hand, the outlook for global credit flows in 1984 and 1985 is likely to be characterized by a continuing need to finance the fiscal deficits of some of the major industrial countries, as well as by an increase in private sector credit demands, associated with the spreading recovery in activity. In this situation, unless action is taken to curb excessive public sector credit demands, there is a clear risk that high and rising real interest rates could continue to prevail, and that the rebuilding of financial market confidence could be in part reversed. High interest rates have been one factor adversely affecting the willingness of banks to sustain and to resume lending to certain developing countries. A continuing increase in rates, even against the background of the recovery in world trade, could further reduce the access to bank credit of marginal borrowers among the developing countries, and could have serious implications for the debt-servicing capability of many developing countries.

2. International bank lending

a. General outlook

Banks in most money centers entered 1984 with somewhat improved capital asset ratios and, in many cases, were apparently still quite liquid. Indeed the relative lack of opportunities to lend to highly regarded borrowers continues to be reflected, at the present time, in sharp competition in the spontaneous sector of international lending, and in the very fine terms available for selected borrowers, including some developing countries. However, the acceleration in international lending in the second half of 1983, together with the recent rise in international interest rates, give grounds for concern that credit pressures may be building in some parts of the system--and most notably in the United States--that are crucial for the determination of the terms and servicing cost of international lending. Moreover, it seems likely that banks' preference for liquid assets may have risen as a result of experience during the last two years, and any such tendency could be reinforced by a revival of financial strains associated with higher real interest rates--not least because this could renew depositors' concern about the impairment of the quality of some banks' assets. At the same time, banks are also far more conscious of a capital constraint on their lending, because of medium-term pressures on the banking system. In view of these concerns, there is reason for continuing vigilance in relation to the outlook for bank lending to many developing countries.

b. Prospects for lending to groups of countries

The continuing recovery of economic activity in the _industrial countries_, accompanied by sizable public sector financing needs, points toward a significant increase in bank lending to this group, for which lending flows are largely demand-determined. Primarily as a result of a further deterioration in the U.S. current account, the combined current account deficit of these countries is projected to increase in 1984 and 1985. For the smaller industrial countries, the recent absence of very large syndicated credits does not reflect a concern regarding the extent of their reliance on commercial balance of payments finance, but rather the receptiveness of the bond market to their issues, combined with the effect of their reduced net financing needs. More broadly, the overall demand for syndicated lending by industrial countries will reflect to a considerable extent both the pace of recovery and developments in the bond markets, which in 1982 and 1983 had represented very attractive alternative sources of financing for these countries. However, the absorptive capacity of the bond markets through 1984 and 1985 will clearly be linked in part to interest rate and currency developments and expectations.

The willingness of banks to increase, over time, their lending to developing countries will clearly depend on the continuation of adjustment performance, especially by countries experiencing payments difficulties. The willingness of banks will also be influenced by the continuation and spread of a balanced international economic recovery, without a revival of inflation or a continuing rise in real interest rates. These conditions remain essential for the growth of export markets, for the ability of governments to resist protectionist pressures, for an improvement in debt service ratios, and thus for the performance of banks' international assets. While committed to continue with concerted lending to support the adjustment efforts of countries pursuing firm economic adjustment programs, many major banks generally intend to restrain--relative to capital and domestic assets--the growth in their overall exposure to developing countries during the next few years. A further issue on which banks have increasingly focused lies in the large gross financing requirements of some of the major borrowing countries during the next few years, corresponding to a "hump" in their debt service commitments. This may have influenced short-term plans of banks as regards lending to specific countries, but, perhaps more generally, also to the non-oil developing countries as a group. Banks' heightened awareness of cross-border lending risks is likely to imply that the number of non-oil developing countries enjoying access to spontaneous lending on a significant scale will remain quite limited for the immediate future. Thus, as in 1983, a substantial proportion of banks' lending to non-oil developing countries will reflect commitments under financial packages arranged in conjunction with bank debt restructurings and Fund-supported economic stabilization programs. These considerations underscore the crucial importance of successful implementation of such programs in major borrowing countries. Setbacks in this area would heighten greatly the perceived risk in cross-border lending and would reduce international banks' willingness to participate in bank debt restructurings and new financial packages.

With regard to the types of bank financing that are likely to be favored, the events since August 1982 appear to have resulted in some change in banks' attitudes to the use of large-scale general purpose syndicated credits for the financing of general budgetary and external payments needs of developing countries. Such use is now viewed as largely undesirable for many borrowers. Therefore, growth in spontaneous lending is likely to favor trade- and project-related lending. Trade and project finance also often have a direct link to the export activities of banks' domestic clients. However, it is notable that there has been an increased appreciation of the risk inherent in short-term cross-border lending. While banks traditionally viewed such lending as subject to less risk than longer maturities, they found their short-term exposure effectively converted to longer maturity as part of several debt restructuring agreements. It is now recognized that a rapid increase in the share of countries' short-term indebtedness, relative to exports and liquid reserves, can make a borrower's external payments position more vulnerable to even a temporary shift in market sentiment. In the immediate future, the growth of trade of countries experiencing debt-servicing difficulties and without spontaneous market access may not result, in most cases, in a sizable increase in the amounts of trade finance extended by banks; moreover, some of the growth in trade finance to these countries may be offset by a reduction in the rate of growth of concerted medium-term lending.

In light of these considerations, the increase in bank lending to non-oil developing countries in 1984 appears likely to be broadly similar to the growth recorded in 1983. While the component of concerted lending in the total of bank finance will remain large in 1984, it should decline to some degree over time, and be replaced with somewhat increased spontaneous recourse to normal trade finance and some placements of syndicated loans. The pace of spontaneous bank lending to the non-oil developing countries could also accelerate, for example, if one or more of the major Asian countries which have not borrowed on capital markets to a significant extent in recent years were to accelerate their borrowing. By contrast, should coordinated lending packages and restructurings not be adhered to, lending to non-oil developing countries could fall well below the already low 1983 level.

The outlook for new bank lending to oil exporting developing countries is highly differentiated. Some countries in this group are experiencing debt-servicing difficulties, while others had substantial recourse to bank lending in 1983. Moreover, several countries in this group are undertaking significant adjustment efforts. Under these circumstances, it appears unlikely that banks would be looking toward a faster overall increase in their claims on this group. Some oil exporting countries are likely to rely again to some extent on a drawdown of reserves, although a sharply reduced current account deficit is forecast for the group as a whole.

Finally, banks consider that there has been some selective improvement in the creditworthiness of countries in Eastern Europe, but the scale of lending in this area--other than to the U.S.S.R.--appears likely to be modest.

In view of these developments in different sectors, it appears likely that the accelerated pace of global new bank lending observed in the second half of 1983 will continue, but chiefly on account of increased flows to the industrial countries. This would result in a substantial increase in global bank lending in 1984 over 1983 as a whole. Moreover, should the bond markets, because of interest rate and currency fluctuations, become less buoyant, bank lending to industrial countries and a few developing countries could be significantly larger.

3. Bond markets and other financial flows

a. Bond markets

In the first quarter of 1984, Eurobonds and foreign bonds were issued at an even faster rate than in 1983, with a total of $19.4 billion of Eurobonds and $6.5 billion of foreign bonds. Floating rate notes accounted for 38 percent of the total bond issues during this first quarter. Over the same period, developing country issues were $1.1 billion; the implied annual rate of $4.4 billion is higher than the rate of issuance in 1983, but only six non-oil developing countries were active in these markets. There are a number of factors which suggest that, in 1984, international bond issuance could persist at a relatively high level. There remains the continuing need to finance large fiscal imbalances in some of the major industrial countries, notably the United States. In addition, private credit demands are likely to revive if the world economic recovery is sustained. If, however, rising interest rates evident in the U.S. dollar markets during early 1984 were to spread to other markets, then the fast pace of international bond market issuance evident in the first quarter of 1984 may not continue throughout the rest of the year. The pace of FRN issues is expected to slow because major banks and other major investors have, already in 1983 and early 1984, acquired FRNs at a much faster rate than the growth in the overall size of their portfolios, possibly overestimating the liquidity of some of these issues. Any recovery in the private demand for bank loans will also reduce the incentive to purchase these lower-yield instruments. Industrial country issuers and international organizations are again likely to account for approximately 95 percent of total bond issues, and the share of developing countries is not likely to increase in the near term.

While the currencies of denomination used in the international bond markets are likely to shift in response to changes in expectations regarding interest rate and exchange rate movements, the U.S. dollar, the deutsche mark, and the Swiss franc will no doubt continue to serve as the principal currencies. However, in the first quarter of 1984, the share of bonds denominated in sterling rose, while ECU-denominated bonds maintained their relative share. The share of bonds denominated in yen declined, although the share of yen issues could rise during 1984 and 1985, with the prospective liberalization of the Japanese capital markets.

Since 1981, rising bond market issues have offset the deterioration in the real level of bond market activity that had occurred in 1976-80. A continued expansion of activity in international bond markets, encompassing a lengthening of maturities and lower real interest rates, will depend on the creation of a stable international environment involving the maintenance of anti-inflationary monetary policies and sustainable fiscal positions in the major industrial countries. Recent experience suggests that the lengthening of bond maturities and declines in long-term real interest rates may occur only very gradually.

b. Other flows

In view of the changing composition of financial flows to developing countries, it may be helpful to review the near-term outlook for foreign direct investment and official flows. Foreign direct investment flows generally respond much more to longer term considerations regarding economic and political developments than to short-term changes in economic conditions. The flows of foreign direct investment to the non-oil developing countries in 1984 and 1985 will largely reflect investment plans made during a period of world recession and emergence of widespread debt-servicing problems. Thus, despite the expected improvements in economic growth and debt positions of the non-oil developing countries, the World Economic Outlook forecasts net foreign direct investment inflows to these countries to rise only slowly from \$8 billion in 1983 to \$9 billion in 1984 and \$10 billion in 1985, levels which are well below the \$13 billion inflow experienced in 1981. Official lending and transfers are projected to total \$37 billion in 1984 and \$36 billion in 1985. The total of official lending and transfers will thus have remained in the \$35-37 billion range since 1981, reflecting, in part, the difficulties encountered in many donor countries in committing additional funds during a period of restrained fiscal expenditures.

V. Issues Relating to the Medium-Term Outlook

The period since late 1982 has been characterized by continuing strains in the capital markets in three related respects. A large number of developing country members experienced a sharp deterioration in their ability to meet scheduled debt-servicing commitments. Banks and their regulators became seriously concerned about the impaired quality of their domestic and international assets, including notably concentrations in their exposure to certain major borrowers among the developing countries. Finally, and partly as a result of these pressures, a highly differentiated market for sovereign credit developed: banks, while liquid and extending some credits on exceptionally fine terms to selected borrowers, became increasingly unwilling to lend spontaneously to many developing countries on a significant scale.

These problems have been met by a number of policy initiatives taken by member countries, by creditor groups, and by the multilateral financial institutions, with a view to stabilizing the financial system and establishing a more appropriate pattern of private capital flows. First, many developing countries engaged in comprehensive adjustment programs, supported by the Fund, with the objective of regaining or preserving access to spontaneous commercial financing. Second, a large number of debt restructurings and concerted financing packages were agreed, to secure financial support for orderly adjustment, and to prevent an even more serious cutback in countries' imports and a wider proliferation of payments and trade restrictions. Third, measures were taken to strengthen the financial system, including notably an increase in the financial resources of the Fund and steps to begin to reinforce the soundness of the commercial banking system.

This section of the paper discusses the impact of the strains which have developed, and of these policy responses, on capital market flows over the medium term. Thus, it begins with a review of changes that are taking place in the banking system, and goes on to assess the implications of these for banks' international lending during the next few years. Finally, it discusses selected issues that have arisen in connection with bank debt restructurings and new financing packages.

1. The changed banking environment

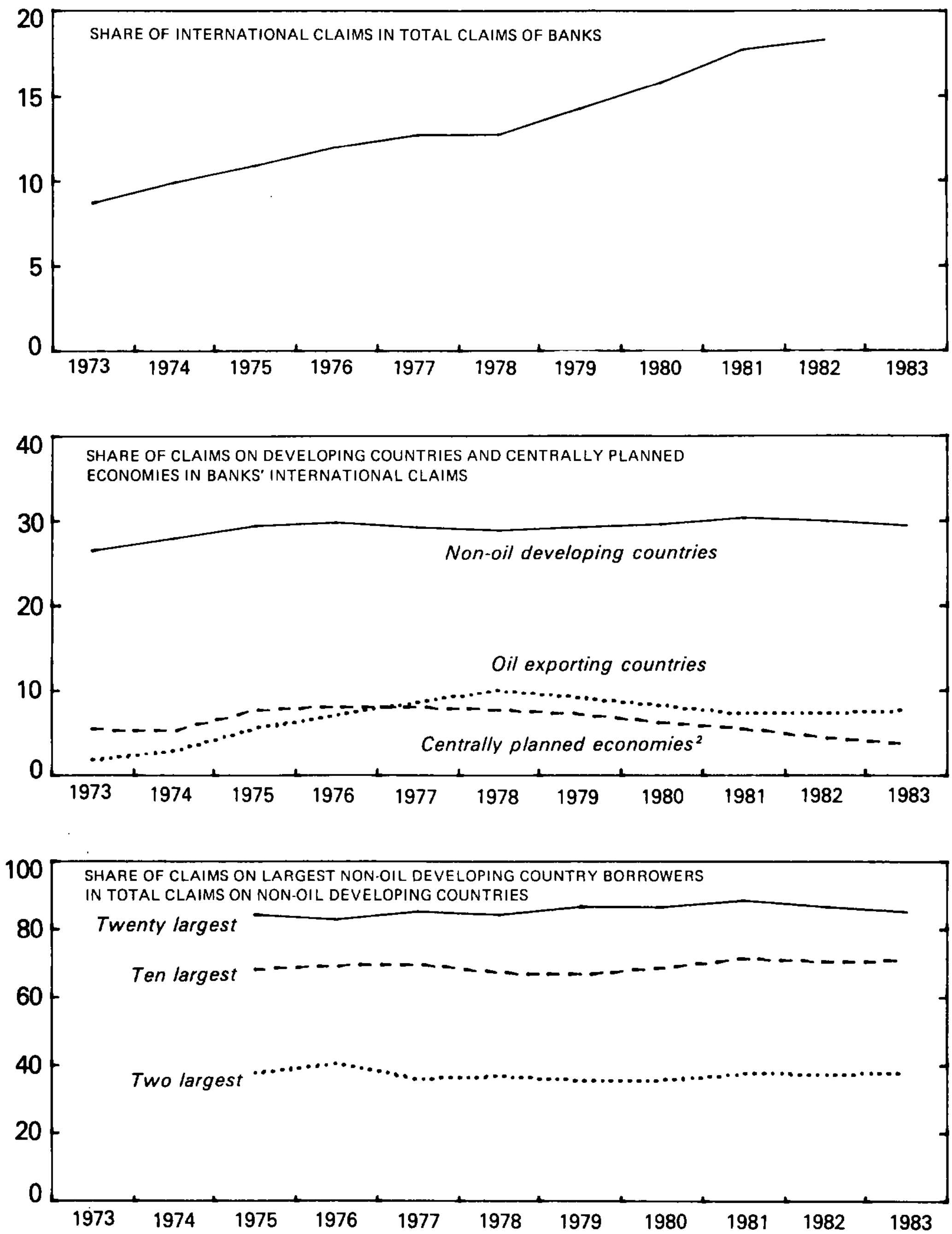
a. The risks to which the banking system is exposed

In recent years, banks have become increasingly concerned about their exposure to lending and funding risks in both domestic and international business. In part, the pressures which developed during this period were cyclical, but they also reflected a number of structural changes. Their impact on banks' behavior may well carry implications for international lending activities over the medium term.

Firstly, banks' earlier projections of medium-term economic growth rates and real interest rates have become more cautious during the past few years. Notwithstanding the economic recovery, banks now appreciate more fully the risks for both domestic and cross-border lending in the present international environment. Currently, particular concern is focused on the risks inherent in continuing high (and rising) real interest rates for the international trade and payments outlook. Banks are also disturbed at the spread of trade protection, with its impact on export growth and direct investment flows, and thus on the quality and liquidity of their international assets. Moreover, banks recognize that the risks inherent in both domestic and international assets--and sectors and groupings within these broad categories--are often likely to deteriorate simultaneously and sharply during periods of high interest rates and of downswings in economic activity. Consequently, concentrations in some banks' exposure to major borrower countries and to some economic sectors appear more problematic than before, and a dilution of these concentrations, over time, now seems essential to banks and their regulators (Chart 3).

CHART 3

CONCENTRATION OF INTERNATIONAL BANK CLAIMS[1], 1973-83



Source: Staff estimates based on BIS data provided in *International Banking Developments.*

[1]Excludes interbank transactions within the 15 BIS reporting countries.

[2]Excludes Fund member countries.

A second structural factor influencing banks' behavior is that the flexibility they have gained in recent years in asset and liability management has had associated costs. On the one hand, through floating rate lending in U.S. dollars, or in banks' domestic currencies (where not discouraged by the authorities), the impact of changes in interest rates is now experienced more immediately by banks' customers. This has relieved banks of much of their exposure to interest rate risk. However, it has passed through this exposure to their customers, including highly "leveraged" commercial borrowers and countries with large external borrowings. Thus, the banks' interest rate risk has, to some degree, been transformed into credit risk. At the same time, developments in the banks' own liability management and the removal of interest rate ceilings on deposits--especially but not exclusively in the United States--have appeared to be contributory factors underlying wider swings in interest rates in recent years. As a result, borrowers with a high proportion of floating rate debt have experienced severe credit strains at times of monetary restraint. Moreover, the dependence of many banks on the wholesale money markets can leave them open to sudden pressures if concerns about the quality of their assets develop.

Third, the impact of inflation, high interest rates, technological advance, and innovation in financing instruments has been to increase competition for savings in a number of major financial market countries, and to blur some of the dividing lines between depository institutions and other intermediaries, as well as between business based on loans and on securities. A further source of increased competitive pressure has been that some of the banks' traditional customers among larger nonbank corporations, in response to the adverse financial developments of the last decade, have begun to restructure their finances and to increase their internal financing through retained earnings. Increasingly, major corporations are also in a position to tap external savings directly through security issues in domestic or international capital markets at very fine rates; indeed, for prime corporations these margins can be below those for major banks. Banks in the United States and, to differing degrees, in some other financial market countries, are increasingly aware of the risk to earnings which results from the more highly competitive nature of banking in a deregulated financial environment.

These changes in the business risk of banks differ widely in their incidence from country to country. In aggregate, they are significant for patterns of international lending--the more so because they derive from structural developments which may continue and spread more widely over time.

b. Developments in official regulation

In response to these changes in the general economic and financial environment, and following a period of decline in many banks' capital ratios (Table 6), bank supervisory authorities in financial market countries have been committed for some time to securing a progressive increase in banks' capital resources and a strengthening of procedures

Table 6. Capital-Asset Ratios of Banks in Major Financial Market Countries, 1977-83 1/

(In percent)

	1977	1978	1979	1980	1981	1982	1983
Canada 2/	3.40	3.27	3.16	2.98	3.46 3/	3.65	4.06
France 4/	2.36	2.08	2.43	2.22	1.99	1.87	1.76
Germany, Federal Republic of 5/	3.41	3.32	3.31	3.27	3.26	3.31	3.34
Japan 6/	5.28	5.12	5.13	5.28	5.25	5.03	5.22
Luxembourg 7/	...	...	...	3.52	3.45	3.50	3.59
Netherlands 8/	4.41	3.86	4.29	4.20	4.33	4.60	4.68
Switzerland 9/							
Largest 5 banks	6.09	6.20	6.11	6.18	5.78	5.51	5.36
All banks	5.59	5.68	5.63	5.66	5.36	5.19	5.09
United Kingdom							
Largest 4 banks 10/	5.90	6.30	6.10	5.80	5.20	4.88	4.99
All banks 11/	5.20	5.20	5.10	5.00	4.47	4.14	4.35
United States							
Largest 10 banks 12/	4.17	4.06	3.95	4.02	4.23	4.70	5.41
Largest 25 banks 12/	4.52	4.41	4.31	4.39	4.57	4.98	5.58
Large banks with foreign offices 13/	...	4.58	4.47	4.49	4.54	4.62	4.48 14/

Source: Fund staff calculations based on data from official sources, as indicated in footnotes.

1/ Given the problems of consistency across banks and over time in the accounting of bank assets and capital, aggregate figures such as the ones in this table must be interpreted with caution.
2/ Ratio of equity plus accumulated appropriations for losses (beginning with 1981, appropriations for contingencies) to total assets (Bank of Canada Review).
3/ The changeover to consolidated reporting from November 1, 1981 had the statistical effect of increasing the aggregate capital-asset ratio by about 7 percent.
4/ Ratio of reserves plus capital, to total assets excludes cooperative and mutual banks (Commission de Controle des Banques, Rapport).
5/ Ratio of capital including published reserves, to total assets (Deutsche Bundesbank, Monthly Report).
6/ Ratio of reserves for possible loan losses, specified reserves, share capital, legal reserves plus surplus and profits and losses for the term, to total assets (Bank of Japan, Economics Statistics Monthly).
7/ The ratio of capital plus reserves, general provisions and subordinated debt (treated as own funds), to liquid liabilities.
8/ Ratio of capital, disclosed free reserves and subordinated loans, to total assets. Eligible liabilities of business members of the agricultural credit institutions are not included (De Nederlandsche Bank N.V., Annual Report).
9/ Ratio of capital plus reserves, to total assets (Swiss National Bank, Monthly Report).
10/ Ratio of share capital and reserves, plus minority interests but excluding loan capital, to total assets (Bank of England).
11/ Ratio of capital and other funds (sterling and other currency liabilities), to total assets (Bank of England). Note that these figures exclude U.K. branches of foreign banks, which normally have little capital in the United Kingdom.
12/ Ratio of primary capital, to total assets (Comptroller of the Currency).
13/ Banks with foreign offices with assets of $100 million or over--in 1981 there were 190 such banks (Board of Governors of The Federal Reserve System, Federal Reserve Bulletin); ratio of total equity capital, to total assets.
14/ Through September 30, 1983.

for assessing and monitoring exposure to risks in all aspects of banks' business. Through the Basle Committee on Banking Regulations and Supervisory Practices, and through regional groupings of bank supervisors, steps have been taken to broaden the coverage of supervision, and to promote the principle that banks' exposure should be managed and supervised on a consolidated basis--that is, including exposure through subsidiaries as well as branches of the parent bank. At the same time, supervisors have accorded increased importance to the quantity and quality of capital backing the assets of the banking system, and to ensuring that this is strengthened over time in reflection of the pattern of risks to which individual institutions are exposed.

Supervisors have also been directly or indirectly concerned to ensure that the impaired quality of banks' assets--both domestic and international--is reflected in banks' balance sheets. In some cases, emphasis has been placed primarily on a progressive increase in capital resources, relative to assets. In other instances, sizable provisions have also been made against exposure to certain sovereign borrowers, as well as to private sector debtors. As regards the foreign exchange transfer risk on international loans, provisions have been made either against exposure to individual countries, or in the form of a "basket" provision against a particular group or groups of countries. The extent of provisions, which may have had a material effect on financial confidence in some cases, has reflected a variety of factors relating to patterns in the asset and income concentrations of individual banks and groups of banks. However, both the need and the capacity of banks to make sizable provisions have played a role; for some major banks supervisors will no doubt continue to press for increased provisions or stronger retentions to build up capital. One element affecting the degree of provisioning undertaken may have been the extent of tax deductibility permissible. In some European countries, banks benefit from a relatively favorable tax treatment in that regard; in the United States and Japan, banks have had more limited possibilities for deducting provisions against sovereign or foreign exchange transfer risks for tax purposes, although recent changes have modestly increased the scope for this. In the recent period, regulatory practices (including supervisory, accounting, stock exchange, and fiscal regulations) have also attracted attention because they are an important part of the framework in which bank debt restructurings and new financing packages have been assembled. This question is discussed in V.3 below.

There are two further avenues through which multilateral official action can support a more balanced development of sovereign credit flows in the future: continuing official support for sound borrowing policies, and improved information. First, with regard to countries' external borrowing, the Fund's Article IV surveillance has been strengthened substantially in the area of external debt management. The scope for Article IV surveillance to contribute to sound debt management--and to stable and balanced conditions for growth in world trade--cannot be overemphasized. Second, with regard to information, the Fund has taken initiatives in the area of collecting and disseminating data on international banking flows, in particular through the compilation of International Banking Statistics (which are used in the present report and described in the background document). Moreover, the Fund has encouraged member countries to improve the comprehensiveness and timeliness of their own published data. Further, at the request of borrowing countries seeking to resolve their payments difficulties, the Fund has been able to provide information about these countries' economic situation and policies to creditor groups, a role which may well continue to be helpful as countries seek to regain access to regular commercial financing. Also in the area of improved information, it should be noted that the formation of the Institute of International Finance (and of the Japan Center for International Finance) is evidence of banks' awareness of gaps to be filled, and of the need for fora in which to exchange experience on international lending issues. Such fora, if broadly supported by banks, could make a valuable contribution to the process of improving the basis on which individual banks form views on international lending. A description of the recent activities of the Institute of International Finance is contained in the Annex to this paper.

2. Implications for banks' international activities

The revival of economic growth in the industrialized countries in 1983 provided one crucial element for a rebuilding of financial confidence. Banks in some financial market countries experienced a stabilization or improvement in the quality of their domestic assets, after a period of worsening loan loss experience, and in a number of countries banks recorded substantially increased operating income. While some pronounced vulnerabilities in the banking system remain, many banks took advantage of their improved position to begin to increase their capital resources (Table 6). At the same time, many banks added to loan loss provisions against their international exposure, but the impaired quality of some of these loans has been reflected in the valuation of assets to quite widely differing degrees. While most international banks were relatively liquid in 1983, there was also a general move to strengthen further their funding and general treasury management. Many nondollar-based banks took steps to secure their dollar funding, in particular by issuing floating rate notes, or issuing fixed rate bonds and "swapping" interest obligations with a floating rate issuer. There was also an increasing disposition among some non-U.S. banks to move toward building up their external business in domestic currency, where their profit margins may be better protected and their refunding position (on the market and in terms of lender-of-last-resort facilities) more clearcut. The actions which banks have taken often represent only a partial and continuing response to the risks they perceive. Thus, in certain cases, significant weaknesses remain in the international banking system; their elimination will no doubt take several years, and will require an environment of relative economic and financial stability.

Two general implications flow from the responses of bank managements and bank supervisors to changes in the international economy. First, the development of bank lending--domestic and international--will increasingly be linked to the growth, over time, of the banks' capital base. Indeed, to the extent this occurs, Euromarket business, taken together with other lending, will tend to become subject to an overall capital multiplier. Second, partly as a result of this and of the experience of some "overlending" in recent years, banks which had pursued primarily an objective of balance sheet growth have begun to temper this with a greater emphasis on the risk-adjusted return on their assets. This evolution--if coupled with improved, forward-looking risk assessment and better risk-related pricing--should contribute to a more balanced growth in banks' international lending. To some extent, it has already resulted in a greater emphasis being placed on activities which have a low capital weighting for risk asset ratios, or are "off balance sheet" and generate fee income. However, such a shift does not necessarily imply that banks will find it viable to concentrate, over the medium term, only or mainly on lending to the highest quality borrowers. The competition for such assets from nonbank investors and intermediaries is likely to remain considerable, and the risk-adjusted return on them--taken in isolation--would not suffice to cover existing banking overheads.

Banks acknowledge, of course, that it is easier to formulate a "return on assets" objective, and a policy for balanced and selective growth in their international business, than to achieve these results in practice. In the area of exposure monitoring, it is clear that significant improvements have been effected. Loans and guarantees to borrowers extended by different departments of a bank, or by various of its branches and subsidiaries, are now generally integrated within overall country risk limits. In turn, these are formally reviewed on a regular basis; and, with room under existing limits often substantially reduced, increases in lending to particular countries have tended increasingly to become a matter for decision by senior management. A remaining area of classification where practices vary is the treatment of transactions with offshore centers. In view of recent experience, transactions with offshore center branches which combine both local and offshore business are increasingly placed under local country risk limits. Some, but by no means all, banks would still make an exception for business with pure "offshore license" units, on the grounds that they do not consider such deposits to be subject to foreign exchange transfer risk as a result of developments in the offshore center's domestic economy.

The general enhancement of exposure monitoring, including the more comprehensive application of country risk limits, does eliminate some factors which contributed to an unduly rapid increase in lending to a number of countries in the period to mid-1982. However, it must also be recognized that banks find it difficult to assess sovereign risk on a forward-looking basis, and to reflect this in graded market pricing. In many cases, sophisticated economic projections are made, but credit judgments may well depend on more immediate factors. Countries' ability and willingness to demonstrate strong economic management, and to take forceful adjustment measures in the face of adverse economic developments, are crucial elements influencing banks' willingness to extend new credit. This is a positive factor, but it must be recognized that banks do not find these elements easy to project into the future. Another--less helpful--factor may well continue to be implicit comparisons with the activities of other peer-group banks. In some cases, the forward-looking implications of deteriorating or improving trends in a country's performance may escape notice for some time, and this can result in abrupt changes of perceptions of creditworthiness (in both directions). Thus, it is by no means clear that unduly rapid increases in lending to individual countries are a thing of the past. Moreover, the exceptionally rapid growth in floating rate note business on very fine terms in early 1984 is acknowledged by a number of banks to suggest that problems of "feast and famine" in international banking activity have not been overcome entirely. This difficulty in risk-related pricing may account in part for the extremes of the present "split" market--in which much lending is polarized between very finely priced transactions on the one hand and concerted financing on the other.

The difficulties banks experience in judging the terms, scale, and timing of international lending may not be diminished by a growing preponderance of trade and project financing, or use of negotiable instruments. In the event of a sharp change in market perceptions, such flows are not necessarily less vulnerable to "overshooting," or less subject to foreign exchange transfer risks, than syndicated lending for general balance of payments purposes. Nonetheless, the shift in banks' preferences in favor of trade and project finance, especially in support of domestic clients, and also toward cofinancing with the World Bank, may possibly be part of a trend over the next few years toward a growing reintegration of international financing with underlying "real" transactions and--correspondingly--of countries' external borrowing with the growth of sectors of the domestic economy. In many cases, banks feel better able to judge the ultimate risk attaching to these transactions. At the same time, the prospect of a high priority being given to growth in banks' domestic currency lending in support of home country exports, while in many respects healthy, could result over time in a somewhat less "multilateral" trade and financial system.

While problems remain in the area of risk assessment, the more pessimistic prognoses of banking developments have so far proved wide of the mark. In this connection, two developments are striking. The first is the fact that payments difficulties did not spread by contagion in Asia, notwithstanding the difficulties of the Philippines: bankers took account of the export effort and adjustment measures of individual countries in this region. The second is the success of banks in mustering wide support for concerted financing packages where countries entered into Fund-supported adjustment programs. By virtue of these two elements lending to non-oil developing countries grew by about 6 percent in 1983, very much in line with official forecasts. Over time, countries which can demonstrate flexibility and export orientation in their economies, and which are able to restrain their net financing requirements through comprehensive adjustment measures, should be able to retain or restore their access to credit markets. Nevertheless, while banks are likely to continue to expand their general international business over the medium term, lending to developing countries in the period ahead is likely to be somewhat restrained, and relatively selective. One important factor in this, which is likely to remain operative for several years, lies in the discomfort felt by some leading banks over the extent of the concentration of their existing capital and income exposure to some of the major borrowers among the developing countries. While some asset swaps or sales have taken place to even out positions, it appears that the scope of these has been very modest. Thus, there are reasons in terms of banking developments as well as countries' external debt management which point toward a relatively slow growth in some of the major borrowing countries' bank debt during the next few years.

Finally, attention has focused on the impact of recent changes in the international interbank market, and on the potential medium-term implications of these for lending to the developing countries. Some general developments in cross-border interbank lending were touched on in Section III of this paper, while the broad characteristics of interbank activity have not evolved greatly since the comprehensive study of the international interbank market was published by the BIS in July 1983. 1/ Nonetheless, some points appear worthy of comment.

First, it is clear that the factors which have led to a deceleration in interbank lending, both within financial centers and across borders, are in part structural. One such factor is the pressure on banks to strengthen their overall capital/asset ratios, a reason cited by some major U.S. and European banks for a relative decrease in their gross assets deployed in the interbank market. The impact of such pressures on banks may vary considerably depending on the capital weighting (for gearing or risk asset ratios) which national regulatory systems attribute to interbank loans, in the sense that a weighting below 100 percent lessens the impact of interbank business on capital to assets ratios and effectively increases the return on capital that interbank earnings provide.

A second underlying development influencing the potential growth of interbank lending lies in the changes in country-risk classification that banks have made during the last two years. These changes followed the onset of payments difficulties in certain major borrowing countries, when it became clear that interbank lending could prove to be much less liquid than formerly believed, in particular where such loans had been transformed into balance of payments funding. Exposure to branches of foreign banks in major financial centers is now monitored under the lending limits both for their parent banks and for their countries of origin, and indeed much greater attention is given to inquiries about the standing and commitments of all counterparty banks. For the most part, this transition is over, although (as noted above) there is not yet an entire consensus on the treatment of some transactions with

---

1/ "The International Interbank Market, a Descriptive Study," Bank for International Settlements Economic Paper No. 8 (July 1983).

offshore centers. Thus, as a result of the experience of the last two years, there has been a return to a somewhat narrower role for the interbank market. The core of the "interbank market" as traditionally conceived (undocumented lending, without a premium) is now restricted as a major source of net financing to a relatively select list of banks, taking deposits in a number of highly regarded centers; such banks are typically sizable takers and placers of funds in the market. Lending to banks outside this circle is much more limited in terms of volume and maturity--as part of banks' overall risk exposure to particular countries--and especially so in the case of banks which use the market primarily for funding purposes. In particular, short-term "interbank business" in the traditional sense is not viewed as an appropriate vehicle for medium-term balance of payments finance. The earlier weak management of some interbank lending by creditor banks, and inappropriate use by some debtor banks, is now seen to have played a part in the emergence of payments difficulties through the substantial maturity mismatching which arose. In this respect, despite major problems associated with the transition, the retrenchment in the interbank market over the last two years has had the positive aspects that interbank exposure has been brought within the framework of country risk assessment, and inappropriate maturity mismatching diminished.

A further issue arising in connection with the interbank market is the impact of the recent deceleration in its growth on international lending to end-users of funds--and, within this general picture, the significance of the decline in deposits of some oil exporting countries and the recent switch in the U.S. banks' new lending and depositing toward net funding from the market. 1/ The question has been raised whether smaller nondollar-based banks would tend to reduce their external lending, particularly to developing countries, as a result of the deceleration in the growth of the interbank market. A first point in this regard is that the present level of lending to individual countries is overwhelmingly a reflection of perceptions concerning their creditworthiness. Indeed, the terms of other lending by banks--directly or through floating rate notes--make clear that funding and liquidity were not a constraint on lending in 1983. Moreover, the deceleration in the growth of interbank lending is much less marked when scaled by the growth in final lending; and, to some degree, interbank activity may mirror, rather than drive, the level of final lending. Nonetheless, some nondollar banks without a secure source of liquidity in the U.S. market do undoubtedly feel concern about future funding hazards; and, for some, external lending in domestic currency may not be a significant alternative. In this respect, the slower growth in the interbank market could have some implication, over time, for the breadth of participation in syndicated lending in U.S. dollars. However, this does not necessarily imply that borrowers perceived as creditworthy will find any overall supply constraint on raising funds from the international banking system or the securities markets.

1/ In terms of the stock of international bank claims, the U.S. banks remain very large net suppliers.

Finally, while these developments have resulted in a market somewhat less vulnerable to risk, the fact remains that the interbank market, reflecting its informal nature, is built on confidence: thus, it will remain a sensitive barometer of banking conditions, and it has the potential to transmit crises from one financial institution or center to areas not originally affected by a crisis. In that respect, it was particularly encouraging that the crisis in the Philippines in 1983 did not produce more widespread problems in the international interbank market. More recently, the U.S. authorities acted swiftly and comprehensively to prevent a loss of confidence in the interbank market following the withdrawal of wholesale deposits from a major bank in May 1984, illustrating the seriousness with which disturbances in this market are viewed by the authorities.

3. Developments in bank debt restructurings

a. Overview

The restructuring of cross-border bank debt has remained a central issue in international capital market developments, and the related financing packages accounted for about half of new lending to non-oil developing countries in 1983. Recent Multilateral Debt Restructurings with Official and Bank Creditors, Occasional Paper No. 25 (December 1983) provided an overview of developments in restructurings until early October 1983. Since then, four countries, including one nonmember, have formally reached restructuring agreements with banks, and eight countries have completed or are in the process of completing a second round of restructuring or new money packages. In addition, some other countries have declared their intention to seek debt relief agreements from banks. Altogether, from January 1983 to April 1984, 22 restructuring agreements were signed, involving 19 countries (including 2 non-Fund members), while 12 agreements remain under negotiation. Over the same period, as regards Fund member countries, amounts restructured (excluding short-term debt) and new financing related to bank debt restructuring reached some $94 billion, or the equivalent of 22 percent of the external bank debt of developing countries. In 1983, bank debt restructurings reduced the debt service of non-oil developing countries by $24 billion, or the equivalent of 5 percent of their exports of goods and services. Further relief was provided by agreements on maintenance or rollover of short-term debt. Reschedulings agreed to in the first four months of 1984 are projected to result in a reduction of debt service payments by at least $10 billion.

b. Selected issues in recent restructurings

Agreements have differed widely across countries, but a number of common themes have emerged in recent years. First, in those countries which have undergone restructuring, a new pattern of debtor-creditor relationship has continued to evolve. Banks' steering committees, set up at the time of initial restructuring, have maintained continuing liaison between the borrowing country and the creditor banks. This concerted approach, as well as helping to prevent an even sharper reduction in net new lending by commercial banks, has allowed the banks to monitor more closely policies pursued by the debtor country. As a result, banks' managements are gaining greater experience in assessing countries' economic and financial policies, and this may contribute, over time, to a more appropriate flow of lending to countries in the future based on a comprehensive assessment of their prospects and policies. Moreover, the existence of such a framework has also greatly facilitated subsequent rounds of restructuring. A significant and encouraging sign that has emerged from these subsequent rounds of negotiations is that, in those countries where successful adjustment efforts are being carried out, banks have been willing to agree to terms more favorable to the debtor countries, namely, lower margins and fees, and longer repayments and grace periods. Nearly all agreements signed since October 1983 with countries that had previously undergone debt restructuring show a narrowing of spreads and a lengthening of grace periods compared to the original agreement. Whereas Occasional Paper No. 25 noted that spreads for agreements signed over the 1978-83 period typically ranged from 1 3/4-2 1/4 percent over LIBOR, the most recent agreements show spreads from 1 1/4-2.0 percent. Maturities for restructurings and concerted new lending to member countries have recently ranged up to ten years, with a five-year grace period, compared with a previous maximum of eight years with a three-year grace period.

Against this, in cases where no improvement in economic performance was apparent, or where the country was unable to fulfill the terms of an existing restructuring agreement, banks have been increasingly unwilling to enter into new agreements and have preferred de facto or informal deferment agreements that are periodically renewed. As a consequence, there has been some tendency among countries that have undergone restructuring to become polarized into two groups. First, those where firm adjustment policies are implemented and where signs of a gradual return to more normal payments relations seem to be emerging. Second, those where, despite restructurings and due to lack of adjustment, no solution to the debt problem is yet in sight. In the latter countries, new lending from commercial banks has largely dried up, and banks are reducing their exposure to the extent possible; hence, a return to creditworthiness is not envisaged for a long time.

Lately, banks have been encountering difficult choices regarding some smaller debtor developing countries. These are countries which have, over the last few years, repeatedly undergone a debt restructuring, each time failing to meet their new restructuring obligations, and requiring further rounds of restructuring. Some banks consider that the prospect of repayment of these loans is fairly remote, but in a broader perspective consider that there is little alternative, under present circumstances, to a repeated deferment of payments. Thus, the recent experience of restructurings has underlined the crucial significance of establishing viable repayment schedules and of countries' actions in undertaking comprehensive and timely adjustment measures. Experience has shown that, with delays in implementing stabilization programs, conditions could rapidly deteriorate, greatly increasing banks' reluctance to concede more favorable terms and provide new lending. On the other hand, in those countries which have implemented timely adjustment policies, combined with well-conceived debt relief packages, banks' confidence has strengthened and there are signs that some elements of spontaneous lending may begin to resume. Thus, recent developments have confirmed the continuing need for strong links between bank debt restructuring and economic adjustment programs in resolving external payments difficulties.

Finally, the question has been raised whether the diversity of regulatory practices has adversely affected the cohesion of groups of banks participating in "new money" packages and debt restructurings. Generalizations in this area are difficult, but four observations appear particularly relevant. First, it is evident that a wide variety of considerations have been reflected in banks' attitudes to participation in these packages, and such business factors as relative exposure and traditional trade links have perhaps been more important than regulatory differences per se. Second, different accounting and valuation conventions are at times important, but mainly where they reflect differing philosophies on the general conduct of banking business. In some countries, banks place more emphasis on full and regular disclosure and, in particular, on distributable earnings; in these circumstances, for example, the accrual of income on sizable loan exposures may be a prime consideration for market reasons. At the other end of the spectrum are cases where stress is laid on very cautious asset valuation, and on qualified disclosure, in part with a view to smoothing the earnings of a bank during periods of turbulence. Third, with the possible exception of tax authorities, those responsible for regulating banks generally dispose of considerable flexibility in dealing with banks' affairs, although they face difficult issues in resolving the conflicting pressures to protect depositors in the short term and to support a restoration of the longer term quality of banks' assets. Where necessary, this flexibility has been used effectively by bank supervisors to avoid actions which could jeopardize the orderly resolution of countries' payments difficulties--for example, in ensuring that lending limits did not operate in a way that prevented new loans in support of countries' adjustment programs. More broadly, bank supervisors have taken the approach that concentrations of international exposure in relation to capital should be diluted only progressively and over a period of years. Where supervisors are involved in giving specific guidance to banks on asset classification, the timely recognition of favorable developments in borrowing countries (and--where applicable--of the regular service of trade-related debt) may well be an area where forward-looking actions might play a role in supporting the adjustment efforts of borrowers, and thus helping to underpin the quality of banks' assets. Fourth, and most importantly, the possible impact of regulatory differences on the cohesion of banking groups must be assessed against the remarkable success that has been achieved in mustering financing from widely different financial institutions during the last two years, in support of countries pursuing Fund-supported economic adjustment programs.

c. Factors influencing a return to more normal market access

In assessing sovereign risks, banks and bank regulators have attached much importance to a debtor country's progress under a Fund-supported program. Hence, the speed with which a country regains normal market access is likely to depend to a large extent on its implementation of measures set out in such programs. Also, strictly at the country's request, Fund management and staff could assist in apprising creditor banks of the progress in adjustment efforts, to help assure that banks' lending decisions are based on comprehensive and accurate information regarding the member's payments position and prospects. In those countries where significant improvement has been achieved under Fund-supported programs, the Fund's role in helping to secure additional external financing may diminish with a return to more spontaneous forms of lending. However, the adoption of this latter course of action would very much depend on a country's circumstances, and on a case-by-case assessment whether satisfactory financing can be assumed at the outset of the program period. The prospects for countries to regain access to private financing on a more spontaneous basis will also depend crucially on developments in the external environment, changes in which have the potential to affect individual countries in widely different ways. Countries' financing needs cannot be forecast in isolation from these external factors, and the general approach to such problems is discussed in Section II of this paper.

While certain countries are at a relatively early stage in seeking to resolve their external payments problems, others have already made considerable progress and have well-established adjustment programs. Thus, attention is increasingly directed to the issues which will need to be resolved to restore the full debt service capacity of borrowing countries. Of particular significance is the problem of a "hump" in the amortization payments of some borrowers over the next few years, which coincides with the ending of grace periods and rollover arrangements which resulted from restructurings in 1982 and 1983. Aspects of this debt service profile were discussed in the recent analysis of the World Economic Outlook, and are summarized in Table 7. Even in those countries that have made significant progress in implementing adjustment policies, the prospect of this "hump" in debt service, and thus in gross financing requirements, could weaken confidence and seriously delay a return to more normal market access. To restore the conditions under which countries can regain access to credit on a spontaneous basis, restructuring arrangements for countries with well-established adjustment programs will need to be more forward-looking, and cover more than one year of maturities falling due. In general, banks so far have been reluctant to commit themselves for periods of more than 12 months, for fear of losing influence over the policies pursued by the debtor countries.

Table 7. Debt and Debt Service Ratios for Groups of Developing Countries

Country Group	Debt Ratio 1/			Debt Service Ratio 2/			Interest Payment Ratio 3/			Amortization Ratio 4/		
	1984	1987	1990	1984	1987	1990	1984	1987	1990	1984	1987	1990
Non-oil developing countries												
Net oil exporters	189	178	168	31	40	30	20	17	15	11	23	16
Major exporters of manufacturers	117	97	84	19	20	18	12	9	7	7	11	11
Low income	300	298	308	23	24	22	11	10	10	12	14	12
Other net oil importers	170	161	160	23	28	26	14	12	11	9	16	15
Major borrowers	187	165	150	29	34	30	19	15	12	10	19	18

Source: International Monetary Fund, "World Economic Outlook--General Survey" (EBS/84/33, 3/2/84).

1/ Ratio of debt to exports.
2/ Ratio of interest and amortization payments to exports.
3/ Ratio of interest payments to exports.
4/ Ratio of amortization payments to exports.

A new initiative, however, was taken in the case of Mexico with its well-established adjustment performance under a Fund-supported program. In early June 1984, the banks' advisory committee, in a meeting convened by the Managing Director, agreed to negotiate a multi-year restructuring of the Mexican public sector debt. This multi-year approach is seen as facilitating Mexico's early return to normal market access. For creditors to embark on a multi-year restructuring in other instances, the borrowing country's commitment to a firm adjustment program will be crucial. If cases arise of an intermediate character, solutions may possibly be found to establish some presumption of restructuring, while maintaining adequate monitoring of implementation of the country's adjustment program. In view of the inevitable uncertainty of projections, it seems likely that multi-year arrangements will not be extended to new money packages. A separate point to be borne in mind in establishing a viable medium-term framework is that recent restructurings have shown the importance of the treatment of short-term indebtedness. Restructurings made in conjunction with Fund programs have often covered short-term bank debt by agreements to maintain banks' exposure, and these generally expire within a few years.

As restructuring and new financing packages move to a more forward-looking basis, it may be that banks can also be offered somewhat greater options to provide new money in the form of trade financing and other lending to the private sector, provided that maintenance of overall exposure is securely covered by agreements and that requirements for the medium-term financing of the public sector are assured. Over time, trade-related financing is likely to grow in step with countries' imports, even if other exposure shows little or no real growth in the rest of the 1980s. Thus, to the extent that short-term financing does begin to grow more naturally, the agreements to maintain exposure would become less onerous. More broadly, it may be worth exploring the possibility of providing, in financial packages, more diverse currency options and market-oriented financing possibilities, tailored to the requirements of different lending banks. At the same time, it would seem important to avoid innovations which could threaten the cohesion of bank lending packages, imply an arbitrary approach to financing, or break the clear link in the market's perceptions between a new financing agreement and the implementation of an economic adjustment program.

While there has been little experience so far with return to spontaneous market access, a number of indications have appeared that may point to the way in which such return to normal market access could occur. Among the first signs of improved creditworthiness is probably the greater willingness of banks to adopt a more forward-looking approach to debt restructurings, and to agree to terms more favorable to the borrowing country. This might then be followed by a differentiated resumption of market access according to lending categories and instruments. An early element is likely to be a spontaneous increase in trade- or project-related lending, with relatively less general balance of payments or budgetary financing needed. Indeed, a resumption of lending for general purposes on the scale seen in earlier years would be inappropriate from the point of view of countries' external debt management, as well as that of prudent banking practice. A next stage might be the arrangement of a limited syndication with a small group of banks, followed at a later stage by wider distributions of loan claims or securities. The return of non-oil developing countries to the international and foreign bond markets is likely to occur at a much slower rate than to the loan market, although, if the incipient trend toward the "securitization" of bank lending continues, the distinction between placements of loans with small groups of banks, syndicated credits, and floating rate notes may become increasingly blurred. Bonds of countries experiencing debt-servicing difficulties have generally been serviced promptly, and this should be a factor in favor of the return of some countries to these markets. Indeed, a progressive improvement has been noted in the risk premium on some securities of borrowers which have been engaged in bank debt restructurings and concerted lending. Thus, in the future, some of these countries seem likely to re-enter the bond market, initially through private placements rather than public issues.

The Institute of International Finance, Inc.

A factual paper on the Institute of International Finance, Inc. (IIF) was circulated to Executive Directors on August 4, 1983 (as SM/83/172). On May 10, 1984, Executive Board members attended a presentation by the Managing Director of the IIF, Mr. Andre de Lattre, covering the various activities of the IIF. In view of this recent contact with the IIF, the account of its activities below is relatively brief.

Membership of the IIF has now increased to 189 banks, accounting for some 80 percent of global lending to developing countries. A primary objective of the IIF is to improve the timeliness and quality of available information to these member banks on sovereign borrowers. To this end, the IIF offers members an on-line, interactive data system--the Country Evaluation System (CES)--which provides information, including current year estimates, on some 80 macroeconomic indicators for 26 countries. The scope of the CES is being progressively expanded to cover a total of 40-50 developing countries which have significant outstanding borrowings from commercial banks. In addition to the CES statistics, which are regularly updated, the IIF prepares in-depth reports on selected borrower countries. These review the country's economic policies, development plans, balance of payments prospects and financing requirements, focusing on information that is particularly valuable to international lenders. Countries covered so far include Chile, Indonesia, Korea, and Thailand; reports are also in preparation on the Ivory Coast, Morocco, and Turkey.

A second objective of the IIF is to facilitate communication among the major participants involved, together with commercial banks, in the international lending process: borrowing countries, multilateral organizations, and government institutions. In this context, the IIF undertakes visits to borrowing countries to obtain information on their economic and financial policies, focusing in particular on issues which may affect their future financing requirements and debt-servicing capacity. These visits will contribute to the IIF's research program, and will be reflected in the data and reports on countries referred to above. As the pattern of visits becomes established, the visiting team will normally comprise two or three staff from the IIF, together with a similar number drawn from commercial banks with a particular expertise on the economy and finances of each country concerned. Informal visits have been paid in recent months to Thailand, Turkey, Korea and Morocco. Visits are planned to Chile, Ecuador and Ivory Coast in July. Following such visits, longer papers on each country will be prepared, the summaries of which will be available through the Country Report system described above. In addition to its contact with borrowing countries, the IIF also intends to undertake a continuing exchange of views with multilateral organizations and government regulatory institutions. It will seek to keep these bodies informed of the concerns of the various members of the international banking community as they affect credit availability. One objective of the IIF's contacts with official bodies is to contribute to the avoidance of crisis situations at an early stage.

The IIF also aims to assist in identifying and articulating common concerns in the international financial community in relation to sovereign lending, debt restructuring, and official policies which will affect the banking environment. One means of assisting members to improve the process of international lending is to gather working groups of lenders on a regular basis to reflect on issues of mutual concern. In recent months, a working party of the IIF has been reviewing a number of current topics, and its four committees on selected issues are due to report to the Working Party for its meeting on July 9. Committee No. 1 has been undertaking an evaluation of the existing rescheduling system, in order to see if it could be improved. It has been examining the terms of restructuring, including the length of the consolidation period, and the treatment of trade financing when medium-term debt is restructured; it has also been examining whether private sector debt could be better handled in reschedulings. In addition, it has responsibility for examining the question of promoting foreign direct investment. Committee No. 2 is examining legal questions relating to bank lending, including the documentation of rescheduling and "new money" agreements under different national systems of law. It is also examining the impact of different national regulations on the restructuring and "new money" packages. Committee No. 3 was set up to examine technical issues, and has been addressing principally the possibility and advisability of using currencies other than the U.S. dollar in rescheduling and "new money" packages. Committee No. 4 is concerned with the prospects of new initiatives in the area of sovereign debt, within the broad framework of the case-by-case approach to restructuring and financial packages. A particular focus of its work is to seek ways of encouraging growth in trade financing, including greater support from official export credit agencies.

There is to be a plenary meeting of the Working Party on July 9, 1984, and the Annual Meeting of the IIF will be held at the time of the Bank/Fund Annual Meetings in September.

Table I. Cross-Border Interbank Lending and Deposit-Taking, 1982-83 1/

(In billions of U.S. dollars)

	1982	1983	1982 1st half	1982 2nd half	1983 1st half	1983 2nd half
Lending to 2/	104	99	44	60	-1	100
Industrial countries	69	82	32	37	--	82
Of which: United States	(46)	(40)	(40)	(6)	(4)	(36)
Developing countries 3/	20	5	13	7	-1	6
Oil exporting	(2)	(-2)	(2)	(--)	(-4)	(2)
Non-oil	(18)	(7)	(11)	(7)	(3)	(4)
Offshore centers 4/	15	10	1	14	--	10
Centrally planned economies 5/	-1	-1	--	-1	-1	--
Unallocated	1	3	-2	3	1	2
Deposit-taking from 6/	125	116	54	71	18	98
Industrial countries	108	79	52	56	6	73
Of which: United States	(82)	(16)	(51)	(31)	(10)	(6)
Developing countries 3/	--	8	-5	5	3	5
Oil exporting	(-3)	(-1)	(-3)	(--)	(-2)	(1)
Non-oil	(3)	(9)	(-2)	(5)	(5)	(4)
Offshore centers 4/	16	22	11	5	6	16
Centrally planned economies 5/	3	3	-1	4	1	2
Unallocated	-2	4	-3	1	2	2
Change in net claims on 7/	-21	-17	-10	-11	-19	2
Industrial countries	-39	3	-20	-19	-6	9
Of which: United States	(-36)	(24)	(-11)	(-25)	(-6)	(30)
Developing countries 3/	20	-3	18	2	-4	1
Oil exporting	(5)	(-1)	(5)	(--)	(-2)	(1)
Non-oil	(15)	(-2)	(13)	(2)	(-2)	(--)
Offshore centers 4/	-1	-12	-10	9	-6	-6
Centrally planned economies 5/	-4	-4	1	-5	-2	-2
Unallocated	3	-1	1	2	-1	--

Sources: International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ Data on lending to or funds received by and deposit-taking from or funds taken from are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.

2/ As measured by differences in the outstanding liabilities of borrowing countries, defined as cross-border interbank acounts by residence of borrowing bank.

3/ Excluding offshore centers.

4/ Consisting of Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles, Panama, and Singapore.

5/ Excludes Fund member countries.

6/ As measured by differences in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending banks.

7/ Funds received by minus funds taken from.

Table II. International Bank Lending to Nonbanks and Deposit-Taking from Nonbanks, 1982-83 1/

(In billions of U.S. dollars)

			1982		1983	
	1982	1983	1st half	2nd half	1st half	2nd half
Lending to 2/	59	38	29	30	13	25
Industrial countries	49	11	31	18	6	5
Of which: United States 3/	(--)	(2)	(-1)	(1)	(1)	(1)
Developing countries 4/	32	26	19	13	9	17
Oil exporting	(7)	(7)	(3)	(4)	(2)	(5)
Non-oil	(25)	(19)	(16)	(9)	(7)	(12)
Offshore centers 5/	8	--	3	5	-2	2
Centrally planned economies 6/	--	-1	--	--	--	-1
Unallocated 7/	-30	2	-24	-6	--	2
Deposit-taking from 8/	51	47	34	17	16	31
Industrial countries	14	24	8	6	10	14
Of which: United States 3/	(-2)	(18)	(1)	(-3)	(9)	(9)
Developing countries 4/	11	16	10	1	3	13
Oil exporting	(-1)	(2)	(--)	(-1)	(-1)	(3)
Non-oil	(12)	(14)	(10)	(2)	(4)	(10)
Offshore centers 5/	5	3	1	4	1	2
Centrally planned economies 6/	--	--	--	--	--	--
Unallocated 7/	21	4	15	6	2	2
Change in net claims on 9/	8	-9	-5	13	-3	-6
Industrial countries	35	-13	23	12	-4	-9
Of which: United States 3/	(2)	(-16)	(-2)	(4)	(-8)	(-8)
Developing countries 4/	21	10	9	12	6	4
Oil exporting	(8)	(5)	(3)	(5)	(3)	(2)
Non-oil	(13)	(5)	(6)	(7)	(3)	(2)
Offshore centers 5/	3	-3	2	1	-3	--
Centrally planned economies 6/	--	-1	--	--	--	-1
Unallocated 7/	-51	-2	-39	-12	-2	--

Sources: International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ Data on lending and deposit-taking are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.

2/ As measured by differences in the outstanding liabilities of borrowing countries, defined as international bank credits to nonbanks by residence of borrower.

3/ Not corrected for valuation changes attributed to exchange rate movements.

4/ Excluding offshore centers.

5/ Consisting of Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles, Panama, and Singapore.

6/ Excludes Fund member countries.

7/ Including certain international organizations.

8/ As measured by differences in the outstanding assets of depositing countries, defined as international bank deposits by nonbanks by residence of depositor.

9/ Lending to minus deposit-taking from.

Table III. New Publicized Medium- and Long-Term International Bank Credit Commitments to Non-Oil Developing Countries, 1979-84

(In billions of U.S. dollars)

	1979 1/	1980 1/	1981	1982	1983	1982 1st half	1982 2nd half	1983 1st half	1983 2nd half	1984 1st quarter
Non-oil developing countries	43.2	32.9	42.5	36.9	28.5	22.0	14.9	16.7	11.8	8.6
Africa	1.8	1.6	2.1	2.2	0.7	1.4	0.8	0.4	0.3	0.1
Asia	10.3	8.2	11.7	11.5	8.4	5.5	6.0	4.2	4.1	1.4
Europe	7.8	4.9	4.7	3.7	3.6	2.1	1.6	1.3	2.3	--
Spontaneous lending 2/	7.8	4.9	4.7	3.7	3.0	2.1	1.6	1.3	1.7	0.5
Concerted lending 2/	...	...	...	...	0.6	...	...	...	0.6	...
Middle East	0.2	0.7	0.2	0.6	0.7	--	0.6	0.3	0.3	0.1
Western Hemisphere	23.0	17.5	23.8	18.9	15.1	13.0	5.9	10.5	4.6	6.6
Spontaneous lending 2/	23.0	17.5	23.8	18.9	1.1	13.0	5.9	0.2	0.9	6.6
Concerted lending 2/	...	...	...	...	14.0	...	...	10.3	3.7	6.5
Memorandum item:										
Countries restructuring in 1983 3/	24.4	18.9	23.5	18.4	15.0	12.7	5.7	10.3	4.7	6.5
Africa	0.7	0.5	0.6	0.4	0.2	0.3	0.1	--	0.1	--
Europe	1.9	2.3	1.4	0.5	0.6	0.3	0.2	--	0.6	--
Western Hemisphere	21.7	16.1	21.5	17.5	14.2	12.1	5.3	10.3	3.9	6.5

Sources: Organization for Economic Cooperation and Development, Financial Statistics Monthly; and Fund staff estimates.

1/ Includes only Eurocredit commitments.
2/ Spontaneous lending excludes new commitments to countries which, in 1983, obtained new bank credit in conjunction with a Fund program; these countries are: Argentina, Brazil, Chile, Ecuador, Mexico, Peru, Uruguay, and Yugoslavia. Commitments to these countries in 1983 are considered concerted lending.
3/ Including: Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guyana, Jamaica, Liberia, Madagascar, Malawi, Mexico, Morocco, Peru, Romania, Sudan, Togo, Uruguay, Yugoslavia, and Zambia.

Table IV. Terms on New Publicized Medium- and Long-Term International Bank Credit Commitments, 1979-84

(In percent when not otherwise indicated)

	1979	1980	1981	1982	1983	1982 1st half	1982 2nd half	1983 1st half	1983 2nd half	1984 1st quarter
Six-month Eurodollar interbank rate (average)	12.0	14.15	16.52	13.31	9.77	15.13	11.49	9.44	10.11	9.88 1/
U.S. prime rate (average)	12.66	15.26	18.87	14.86	10.79	16.38	13.34	10.69	10.90	11.0
Average maturity (in years/months)	8/6	7/9	7/8	7/5	7/3	7/5	7/9	7/7	7/0	8/5
OECD countries	...	8/0	7/8	8/3	7/8	...	...	...	...	...
Centrally planned economies	...	6/7	5/7	4/9	4/5	...	...	...	...	...
Oil exporting countries	...	7/3	7/9	6/0	7/2	...	...	...	...	...
Other developing countries	...	7/8	7/9	7/0	7/0	...	...	...	...	...
Average spread										
All borrowers	0.79	0.74	0.81	0.77	1.14	0.78	0.75	1.18	1.04	...
OECD countries	0.62	0.59	0.58	0.52	0.64	0.52	0.51	0.64	0.65	...
Centrally planned economies	0.70	0.88	0.62	1.03	1.12	...	...	...	...	...
Oil exporting countries 2/	1.05	0.77	0.79	0.94	0.85	0.81	1.05	0.73	1.04	...
Other developing countries	0.85	0.91	1.04	1.14	1.70	1.06	1.27	1.70	1.56	...

Sources: Organization for Economic Cooperation and Development, Financial Market Trends; International Monetary Fund; Morgan Guaranty Trust, World Financial Markets (for LIBOR); Federal Reserve: Bulletin (for prime rate); and OECD unpublished data (details on maturities).

1/ January only.
2/ OPEC countries.