DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/83/47

CONTAINS CONFIDENTIAL
INFORMATION

March 9, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Payments Difficulties Involving Debt to Commercial Banks

The attached paper on payments difficulties involving debt to commercial banks provides background material to the paper on Fund policies and external debt servicing problems (SM/83/45, 3/8/83), which has been tentatively scheduled for discussion on Wednesday, April 6, 1983.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

Payments Difficulties Involving Debt to Commercial Banks

Prepared by the Exchange and Trade Relations Department 1/
(In consultation with the Area and Other Departments)

Approved by C. David Finch

March 8, 1983

Contents | Page

1/ Prepared by a staff team headed by Richard C. Williams and including Messrs. R. Abrams, P. Keller, J. Lipsky, E. Maciejewski, and A. Pera. Considerable assistance with the case studies in Annex II was provided by Ms. B. Dillon and Messrs. H. Flickenschild and C. Loser.

Contents | Page

Contents | Page

I. Introduction

This paper, dealing with debt owed to commercial banks, is one of four background papers to the recent staff study on "Fund Policies and External Debt Servicing Problems" (SM/83/45, 3/8/83). A second companion paper describes the experience with official debt rescheduling, debt management policies, and external debt limitations, while the third paper suggests how available information on international banking and debt statistics may be brought together to provide improved estimates of countries' external indebtedness. 1/ The fourth paper summarizes and updates available information on developing country debt.

Issues relating to debt restructuring by commercial banks were last reviewed by the Board in January 1981. 2/ Since that time, the prolonged global stagnation, together with high real interest rates in international markets, inter alia, have aggravated further the debt service burden of the non-oil developing countries. An unprecedented number of countries have experienced severe external payments difficulties, as reflected in an accumulation of payments arrears and other debt servicing problems. As a result, there has been a sharp increase in the number of countries which have approached commercial banks either for a formal debt rescheduling or for other forms of debt relief arrangements. However, it was only in the second half of 1982 that that group of countries included the largest non-oil developing borrowers from international capital markets. This paper reviews the experience of 23 countries, 21 of which are Fund members, which have sought formal rescheduling or otherwise approached commercial banks since 1978 to resolve their debt servicing difficulties. 3/ Of these 23 countries, as of end-January 1983, 4/ 14 already had completed negotiations with foreign commercial banks, and 13 were involved in ongoing negotiations (4 countries which previously had negotiated an arrangement are involved in negotiating a new arrangement).

1/ The other three companion papers are "External Debt Servicing Problems--Background Information" (SM/83/46, 3/9/83), "Data on International Banking and External Debt" (SM/83/48, 3/8/83), and "External Debt and Debt Service of Developing Countries" (SM/83/49, 3/8/83).

2/ This review took place on the basis of SM/80/275 (12/31/80), "Debt Restructurings by Commercial Banks--Recent Experience of Some Fund Members" (EBM No. 81/12-13).

3/ The country cases reviewed in this study include only those involving formal multilateral restructuring arrangements, and instances of bilateral resolutions of debt difficulties are excluded. In addition, the multilateral restructuring negotiations currently in progress regarding debt to commercial banks of the Dominican Republic, Honduras, and Venezuela have not been included because sufficient information was not yet available when the country studies were prepared. Developments in these and other cases under negotiation will be summarized in the next paper reviewing developments and prospects in international capital markets.

4/ This paper, and the attached case studies on which it is in part based, reflects developments up to this date.

As noted in the most recent World Economic Outlook (ID/83/2, 1/19/83), commercial bank lending has become an increasingly important source of external funding to developing and other countries, while also representing a growing proportion of commercial bank assets. During the four-year period ended 1981, 60 per cent of the combined current account deficits of non-oil developing countries was financed by commercial banks. For the 21 Fund member countries whose experience is reviewed in this study, net bank lending during that period amounted to 79 per cent of their combined current account deficit. In June 1982, debt to banks of these 21 countries was equivalent to 63 per cent of the total external claims of banks on non-oil developing countries in the BIS reporting area (net of redepositing).

This paper does not address general balance of payments issues, but rather focuses specifically on the resolution of bank debt problems. However, following a general overview of the study's findings (Section II), Section III provides background information on the evolution of bank financing and the role of economic policies pursued in the cases under review. Section IV describes the scope and terms of completed and proposed arrangements. Annexed are detailed case studies of the three largest borrowing countries involved--Argentina, Brazil, and Mexico--and brief individual descriptions of the remaining 20 country experiences on which this paper is based.

II. Overview

The previous staff paper on bank rescheduling (SM/80/275) found, in all the cases then under review, 1/ that bank lending had expanded very rapidly over a relatively short period and then declined sharply prior to the restructuring, with net bank lending turning negative at some point. That review also indicated that bank lending flows generally were large relative both to the borrowing country's economy and other sources of external financing, and that lending frequently had been procyclical relative to movements in exports usually resulting from export price changes. These variations in bank lending were associated with serious problems of economic management. External bank loans in many cases financed unsustainable increases in public sector expenditure and were linked to expansionary domestic policies and declining domestic savings rates. In many of those cases where bank lending was directly associated with development projects, the productivity of the project was too low or the payback period too long to service the corresponding debt, given the overall demand management and pricing policies which were pursued.

1/ The paper was based on the experiences of six countries--Jamaica, Nicaragua, Peru, Sudan, Turkey, Zaire--which encountered payments problems and approached their bank creditors for a general restructuring of their debt during the latter part of the 1970s.

Regarding the terms of bank debt restructuring, it was noted that, while banks were prepared to reschedule principal payments in arrears as well as those falling due for various periods in the future, interest payments were expected to be made on a current basis, and that arrears in respect of interest payments had to be cleared as a precondition for signing most arrangements. It also had become apparent that banks generally preferred a comprehensive "multilateral" restructuring of banks' debt rather than the provision of additional credits to countries subject to payments difficulties. Very rarely were there explicit understandings on the provision of new bank financing--or even maintenance of existing exposure--in these arrangements. Generally, debt service payments were reduced during the first years after the agreement, but in all of these earlier cases there was still a net outflow vis-à-vis banks during the immediate post agreement period.

Many of the country cases examined in this paper are still under negotiation or were only recently completed, and important issues are still evolving. Even though preliminary analysis indicates that the conclusions of the earlier paper remain broadly valid for many of the individual country cases included in this study, there were important differences in certain cases. The recent sharp increase in the number of countries which have approached the banks for relief reflected the prolonged and severe deterioration of the global economic environment which placed demand management, investment, and external debt policies of borrowing countries under extreme pressure. In particular, the emergence of significantly positive real interest rates in international capital markets stood in sharp contrast to the situation in previous cyclical downturns. This development led to a rapid increase in the debt servicing burden, and greatly complicated the efforts of borrowers to adapt their policies to rapid changes in international economic conditions.

In contrast to previous experience, recently some large borrowers did not wait for changes in market sentiment to result in a rapid and sustained decline in lending before moving to open negotiations with the banks. In general, it appears the more dependent a country was on market finance, the more rapidly it sought an arrangement with banks in response to a change in the market's perception of its "creditworthiness." Another new factor has been the "contagion" effect of the debt servicing difficulties of some countries in a region on the perceived creditworthiness of other countries in the area. In a few--but not unimportant--cases, this general erosion of confidence forced countries, whose economic management had hitherto been judged by the market to be relatively sound, and whose prospects had been viewed as reasonably favorable, to approach the banks for debt relief.

Regarding the terms of restructuring of bank debt, it appears that banks remain generally unwilling to reschedule payments--particularly interest--in arrears, to reschedule future interest payments, or to restructure principal maturities at less than market-related interest rates. However, due to the magnitude of the payments disequilibrium in a number of recent cases, debt restructuring on market terms appeared feasible only if the banks were willing to provide additional financing or at least maintain their "exposure." The banks therefore have exhibited a preference to reschedule debt on commercial terms, while recognizing that this may require continued growth of their exposure in some instances. In some recent negotiations, this approach has been reflected in the banks' willingness to consider proposed understandings on maintaining (or restoring) short-term exposure together with commitments to provide net new medium-term financing within the framework of the restructuring arrangements.

Recent negotiations have been both broader in scope and more complex than previously, in part because of the increased relative importance to both lenders and borrowers of the affected debt, and the much larger number of banks involved. It has become necessary in many restructurings to resolve such issues as the treatment of short-term debt in general and, in certain cases, interbank deposits. These issues involve important questions of intercreditor equity that have been a source of difficulty in some cases, and for which no standard solution has yet emerged. While previously the successful conclusion of an arrangement in general did not result in an early resumption of bank lending, the major arrangements recently completed or currently under negotiation seek to reverse this pattern. However, since some of these situations are still evolving, a full assessment of more recent developments cannot yet be made.

The role of the Fund vis-à-vis the resolution of bank debt payments difficulties continues to develop in response to changing circumstances. This evolution reflects the relative lack of standardized procedures for bank debt restructuring--as well as the evolving nature of the Fund's relations with commercial banks. As in the case of restructurings of official debt, private bank creditors generally had urged countries experiencing payments difficulties to negotiate upper credit tranche arrangements with the Fund prior to conclusion of their negotiations; in almost all cases this was done. Given the interdependence between the design of a feasible stabilization program and the availability of bank financing in several cases under review, there were direct contacts between Fund management and staff and the banks in which the circumstances and prospects of the members were discussed. These contacts took place with the approval of interested debtor authorities; frequently the Fund staff participated in meetings between representatives of the banks and the national debtor authorities.

In the recent difficulties facing the largest developing country borrowers, the Fund has played an important coordinating role. The increasingly active role of the Fund has taken several forms. On some occasions, the Fund had been instrumental in initiating negotiations between the parties when it became evident that a feasible stabilization program would require some kind of debt rearrangement. In one recent instance (Sudan) an external finance coordinator was appointed, with the full consent of all parties involved, in order to help coordinate the restructuring terms between various groups of official and private creditors in a way that is consistent with the debtor's capacity to meet the repayment terms. In a few recent cases, the Fund has found it necessary to establish a close link between commercial bank debt restructuring arrangements and Fund-supported programs by requesting an explicit commitment from the banks regarding their lending posture. These were instances where the magnitude of the bank debt involved gave rise to possible systemic implications, and where, in the absence of such assurances on bank lending, it did not appear to be possible to develop an economic program which could be supported by Fund resources.

In other instances, adding to the banks' assessment of the risk of cross-border lending in general has been the perception of regional risk. Both in Eastern Europe and in Latin America, certain countries were finding their access to capital markets restricted, even without any basic change in their underlying economic situation, mainly due to debt problems in neighboring countries. In some such cases, the Fund, with the full knowledge of the debtor authorities, has been a conduit of information between the countries and their creditors, in an effort to help ensure that market sentiments be guided by more complete and reliable economic information.

III. The Evolution of Bank Financing and Economic Management

1. Overview

While the 23 individual country studies (Table 1) which form the basis for this paper encompass a wide diversity of experiences, some generalizations may be useful regarding the evolution of bank finance in these cases, and the difficulties of economic management which were experienced in the countries reviewed. In almost every instance, bank lending expanded very rapidly prior to the onset of payments difficulties, and often financed a widening current account deficit associated with expansionary fiscal policies. Particularly in some of the more recent cases, capital flight and rising interest payments pre-empted a growing part of the commercial financing inflows. In many cases, the emergence of payments difficulties was anticipated by a sharp slowdown in the rate of growth in bank lending, sometimes accompanied by a shortening of maturities, which eventually led to a request to negotiate a debt relief arrangement. In previous periods, these developments often took place over several years, but the emergence of serious bank debt problems in Mexico, Brazil, and Chile during 1982 occurred more abruptly, though it was not accompanied by a major slowdown in the growth of bank lending over the calendar year prior to commencement of difficulties. Some of the recent cases suggest that the very size of banks' exposure resulted in the onset of an actual or imminent debt crisis in a matter of months rather than years. Moreover, the conclusion could be drawn that the larger the balance of payments current account deficit relative to the size of the economy, and the more dependent the country was on commercial bank lending to finance the deficit, the more rapidly it would seek an arrangement with the banks in the face of a perceived significant change in market sentiment.

Table 1. Bank Debt Restructuring Cases, 1/ 1978-83

Completed

(Classified by date of formal agreement) 2/

1978
Peru - June (rollover and refinancing)
Jamaica - September (refinancing)
Peru - December (rollover and rescheduling)

1979
Jamaica - April (refinancing)
Turkey - June (rescheduling and new financing
Turkey - August (rescheduling and new financing)

1980
Peru - January (refinancing)
Togo - March (rescheduling)
Zaire - April (refinancing)
Bolivia - August (temporary deferment)
Nicaragua - December (rescheduling)

1981
Jamaica - July (refinancing)
Bolivia - April (rescheduling)
Nicaragua - September (rescheduling)
Sudan - December (rescheduling)

1982
Turkey - March (rescheduling)
Nicaragua - March (rescheduling)
Poland - April (rescheduling--1981 maturities)
Senegal - June (rescheduling)
Guyana - June (temporary deferment)
Liberia - July (rescheduling)
Poland - November (rescheduling--1982 maturities)
Malawi - November (rescheduling)
Romania - December (rescheduling)

1983
Ecuador - January (deferment and rescheduling) 3/

Under Negotiation

(Classified by date of original approach to banks)

1982
Argentina (refinancing)
Brazil (refinancing)
Chile (rescheduling)
Costa Rica (rescheduling) 4/
Cuba (rescheduling)
Madagascar (refinancing)
Mexico (rescheduling)
Togo (rescheduling)

1983
Poland (rescheduling of 1983 maturities)
Romania (rescheduling of 1983 maturities)
Yugoslavia (refinancing)

Source: Appendix Table 3.

1/ Bank debt restructuring is defined here to cover either the rescheduling or the refinancing, or both, of debt service payments in arrears (generally principal repayments) and of future maturities on the short- and medium-term debt. Rescheduling is a formal deferment of debt service payments over a period exceeding one year with new maturities applying to the deferred amounts. Refinancing is either a straight rollover of maturing debt obligations or involves the conversion of existing and/or future debt service payments into a new medium-term loan.

2/ Agreement either signed or reached in principle as of January 31, 1983.

3/ Temporary deferment of principal repayments through December 31, 1983 and rescheduling of 90 per cent of the deferred principal repayments on December 31, 1983.

4/ Agreement (in principle) reached in December 1982 on interest, which provides for a revolving short-term trade facility equivalent to 50 per cent of the combined amount of interest in arrears as of December 31, 1982, current interest due in 1983, imputed interest on interest in arrears and interest for bonds. However, this agreement is conditional on a concomitant agreement on principal, which has not yet been reached.

Regardless of the speed with which an arrangement was sought, however, additional bank credit became difficult to obtain once negotiations were under way. As a large number of negotiations took place in the second half of 1982, and since many countries which had rescheduled debt in earlier years have subsequently negotiated new arrangements for later maturities, it is not possible to draw firm conclusions regarding future access to international capital markets once debt has been rescheduled.

In many of the cases examined, the emergence of servicing difficulties on bank debt could be attributed to some extent to economic policy management. For example, difficulties were associated with development projects which produced insufficient returns in the repayment period. In a number of other cases, the emergence of payments difficulties appeared to be associated with lenders' doubts regarding the appropriateness of demand management and exchange rate policies. On the other hand, market perceptions of risk in certain recent cases appeared to have been influenced by regional factors largely independent of the policy stance of the individual country.

2. The evolution of bank financing

Although the lack of complete and consistent data series for all 23 cases reviewed poses certain problems for analysis, some generalizations appear useful. Of the 21 non-oil developing countries which either have restructured or were in the process of restructuring their bank debt between 1978 and the present, all experienced a period of very rapid increase in international bank loans prior to the development of debt service difficulties. In 16 of the 17 cases for which complete data are available, gross external bank credit had expanded by at least 30 per cent in at least one of the three years prior to commencement of the debt restructuring process. 1/ Gross bank claims on the non-oil developing countries as a group increased at an average annual rate of about 22 per cent during 1977-81, and by 26 per cent in 1979, the year of the most rapid increase (Table 2).

For the non-oil developing countries, in 11 of the 19 cases for which data are available, debt restructuring discussions started after a year in which bank credit growth either approached or exceeded the average rate of expansion for the non-oil developing country group as

---

1/ Comparable BIS data are available only since 1975. Thus, data are not available prior to the start of Zaire's debt renegotiation talks and only for one and two years prior to the start of talks on Jamaica and Peru, respectively. BIS data on Liberia are not usable because of its status as an offshore financial center, since a majority of the claims on the country reported by BIS reporting banks relate to the financial activities of nonbank financial intermediaries and multinational corporations working out of Liberia rather than financing economic activity in Liberia.

Table 2. External Claims of Banks in BIS Reporting Area on Countries Which Have Experienced Debt Service Difficulties

(In millions of U.S. dollars; end of period)

	1977	1978	1979	1980	June 1981	Dec. 1981	June 1982
Non-oil developing countries	127,800	150,200	189,700	234,800	243,700	279,100	292,300
Of which:							
Argentina	4,757	6,688	13,085	18,942	21,287	22,918	22,921
Bolivia	507	732	908	817	788	870	648
Brazil	23,795	31,684	36,863	43,320	44,118	49,537	52,268
Chile	1,602	2,713	4,487	6,662	7,850	9,565	10,616
Costa Rica	302	368	582	750	758	766	711
Ecuador	1,641	2,446	2,958	3,599	3,678	4,156	4,277
Guyana	78	107	111	123	140	120	118
Jamaica	333	520	511	523	478	491	435
Liberia 1/	4,934	6,254	6,766	7,273	6,899	7,284	7,021
Madagascar	25	25	147	296	294	316	308
Malawi	68	107	173	192	180	167	153
Mexico	19,899	23,236	30,662	41,031	44,969	55,443	61,853
Nicaragua	407	658	333	368	403	500	523
Peru	3,164	3,390	3,552	3,892	2,865	4,289	5,070
Romania	1,419	2,543	3,978	5,297	5,108	4,763	4,154
Senegal	133	204	310	333	295	374	314
Sudan	558	680	740	761	686	880	917
Togo	64	237	325	305	242	232	188
Turkey	2,742	2,986	2,931	3,284	3,043	3,099	2,907
Yugoslavia	3,762	5,555	7,477	9,633	9,587	9,689	9,243
Zaire	1,091	1,227	1,176	1,079	1,134	1,116	984
Centrally planned economies 2/	38,800	47,300	54,400	56,700	53,900	57,900	51,400
Of which:							
Cuba	1,441	1,746	1,910	1,653	1,401	1,404	1,048
Poland	9,076	11,723	15,049	15,137	14,109	14,674	13,205

Source: Bank for International Settlements, "International Banking Developments" (quarterly).

1/ Offshore financial center.
2/ Not Fund members.

a whole. In three other cases (Peru, Jamaica, and Senegal), the rate of expansion in bank debt in the year prior to the restructuring discussions was relatively low. In contrast, Guyana, Malawi, Nicaragua, Romania, and Yugoslavia all experienced a year of negative growth in net bank credit prior to requesting a bank debt restructuring.

In a number of cases, bank funding was clearly procyclical, closely following a surge in export receipts associated with the commodity cycle. In these cases, recourse to bank credit expanded sharply as export values increased rapidly, since there was often an even greater expansion in imports. However, as export prices fell subsequently, bank funding became difficult (or, in some cases, impossible) to obtain. Important examples of early debt service difficulties caused by procyclical lending were Peru and Zaire during the 1973-74 rise in copper prices, and Jamaica during the 1974-75 rise in bauxite and sugar prices. More recently, Mexico's difficulties may be attributed to an important extent to an overestimation of future oil revenues by the authorities and the lending banks involved.

According to the BIS data (that relates to bank debt only) 1/, in 2 of the 17 cases in which data were available for three or more years prior to the restructuring discussions, there was a tendency for debt to banks maturing in less than one year to increase as a per cent of the total bank debt outstanding: Brazil and Mexico (Appendix Table 2). In the case of Brazil, the increase was from 28 per cent in 1978 to 35 per cent in 1981, though the share of total bank debt maturing in less than one year declined in the first half of 1982. In the case of Mexico, there was a marked and sustained increase in bank debt maturing in less than one year during the January 1978-June 1982 period, with the share of such debt rising from 32 per cent to 49 per cent between 1978 and 1981 and increasing further during the first half of 1982.

1/ BIS data are the only comparable source available. In some instances, these data differ significantly from those used by the national country authorities and referred to in Annexes II and III. The BIS collection of semi-annual maturity distribution data only began in 1978 and end-of-year data is currently available only through June 1982. Also, the data is collected on a time-to-maturity basis (i.e., how much debt will fall due within a period), and not on the basis of whether the obligation was originally short- or long-term. In addition, funds borrowed outside the reporting area and onlent to another country may not be recorded as credit extended to the ultimate borrower. Thus, if foreign branches of a country's banks are located outside of the reporting area and borrow to finance loans in the banks' home country, these borrowings may not be recorded as such. For example, US$2.9 billion (i.e., 5 per cent of Brazil's US$59.3 billion) in bank debt outstanding came into the country via one foreign branch of a domestic bank. While most of this debt was probably obtained from within the BIS reporting area, a portion could have entered through other offshore centers and hence may not have been correctly recorded.

It is commonly held that, as a country's perceived creditworthiness declines, it will increase its short-term borrowing rather than accept (publicized) syndicated loans on substantially less favorable terms than it received previously. However, available data and the time lags involved make it difficult to draw any firm conclusions as to the precise role recourse to short-term debt may have played in aggravating debt service difficulties.

Experience has shown that, once negotiations with banks commence, bank credit flows tend to remain relatively low until the restructuring is concluded, and may be quite low for some period thereafter. In only three of the ten cases where restructuring negotiations took a year or more to conclude and where data are available did growth in bank exposure exceed an annual rate of 10 per cent during the negotiation period; moreover, any expansion was generally attributable to prior commitments and credit extensions granted earlier in the year. Of the eight countries which restructured their debt prior to 1982, in only three cases (Jamaica, Nicaragua, and Sudan) did the expansion in bank exposure exceed 10 per cent in the year the debt restructuring took place.

Little can be said about the growth of bank credit after an agreement is concluded because, of the six countries which concluded renegotiations prior to 1981, only Peru had not been negotiating for additional restructuring during 1982. In the three years for which data are available following the 1978 debt renegotiation, Peru's bank debt had grown, but at a rate slower than the average of non-oil developing countries as a whole. It is noteworthy, however, that, between June 1981 and June 1982, Peru's bank debt increased by 31 per cent. Also, Turkey was able to once again syndicate credit in international markets in 1982. Of the 21 non-oil developing countries which have been involved in restructuring negotiations in the 1978-January 1983 period, only Ecuador, Guyana, Sudan, Togo, and Zaire received no syndicated credits throughout the period.

Once it became apparent that a debt restructuring might be necessary, syndicating new commitments became quite difficult. In only nine cases were syndications made in the year the restructuring talks started or afterward (Appendix Table 1). Further, in the cases of Argentina, 1/ Brazil, Mexico, Senegal, and Yugoslavia, the syndication predated the talks, while in the case of Jamaica they were directly related to the renegotiation process. Liberia's syndication, on the other hand, related to companies only technically residing in the country. Thus, of the nine, only Peru and Turkey have re-established some access to the market for syndicated credits. However, so-called "Club" arrangements and direct bank-to-bank financing have continued for other countries.

1/ Talks involving Argentina actually began in January 1983.

Broadly, the experience of the two non-Fund member countries which have been involved in bank debt restructurings (Poland and Cuba) was similar to that of the Fund member countries. Poland's bank debt grew at an average annual rate of over 30 per cent between 1975 and 1979. In 1980, outstanding bank debt ceased to grow--Poland was unable to raise new syndicated commitments--and, in 1981, the year rescheduling talks started, it declined slightly. Cuba's debt grew by more than 20 per cent annually during 1975-78, but the growth rate fell to less than 10 per cent in 1979, and outstanding bank debt declined significantly in 1980 and 1981. A small bank loan syndication was arranged in 1981, but there were no others after the talks were initiated in late 1982.

3. Economic management and debt difficulties

The increased relative reliance by developing countries on commercial bank credit to finance growing balance of payments current account deficits could have constrained economic policy management in view of the importance of maintaining perceived market creditworthiness to help ensure continued private financing. In the end, access to substantial and growing net lending flows from commercial banks in many instances has tended to facilitate expansionary demand and incomes policies, and on occasion these were associated with the maintenance of an unrealistic exchange rate. However, the importance of bank borrowing in financing current account deficits in those countries encountering debt servicing difficulties differed markedly. Broadly, these countries fell into two groups. The group of African countries, Guyana, and (to a lesser extent) Costa Rica had made relatively limited use of access to bank credit to finance their current account deficits. Except for occasional large inflows associated with major projects, bank borrowing generally financed less than 25 per cent of the current account deficits of this group. In comparison, such borrowing accounted for 50 per cent or more of the current deficit in the second group of countries, and, in some instances, approached or even exceeded the current account deficit (Table 3). Nonetheless, with the exception of Brazil, Ecuador, Mexico, Senegal, and Togo, all the countries reviewed experienced some decline in net bank credit flows relative to their current account deficits in the six-month period prior to the commencement of restructuring discussions, although in some instances this resulted from a widening deficit rather than a leveling off or decline in banking flows.

In examining the role of policy management where debt servicing problems emerged, it was found that, in many cases, a large proportion of outstanding bank debt was contracted for projects which produced insufficient returns in the period of repayment. In most of these cases, the loans related either to large-scale investment projects where the expected returns accrued more slowly than the debt service payments, or where projects proved to be unprofitable following declines in commodity prices. Noteworthy examples include projects in Zaire, Nicaragua, Poland, and Bolivia.

Table 3. Net Bank Lending as a Per Cent of Current Account Deficits

	1976	1977	1978	1979	1980	1981
Non-oil LDCs	43.7	64.6	54.5	64.9	52.8	41.8
Argentina	1/	1/	1/	2/	122.8	86.6
Bolivia	192.8	150.1	63.7	44.2	-54.8 3/	17.0
Brazil	99.5	33.3	112.9	48.2	50.3	53.6
Chile	1/	64.5	102.1	149.1	110.4	62.4
Costa Rica	26.6	19.0	18.1	38.6	25.5	3.9
Ecuador	787.8	61.5	110.2	78.3	95.4	54.2
Guyana	14.2	8.8	116.0	4.7	12.0	-1.6
Jamaica	7.1	-174.5	187.0	-5.9	7.2	-9.5
Liberia 4/	...	...	...	...	...	...
Madagascar	-3.1	20.7	0.0	23.2	25.1	5.1
Malawi	17.4	-3.5	23.5	30.7	8.8	-15.0
Mexico	127.6	79.1	102.2	132.2	134.9	110.5
Nicaragua	248.9	30.5	502.0	1/	7.2	23.0
Peru	42.2	13.9	92.1	1/	472.2	23.6
Romania 5/	-925.0	126.9	148.1	86.8	54.5	-64.1
Senegal	-19.5	20.5	19.3	20.4	4.0	6.8
Sudan	23.6	72.3	25.1	11.0	2.5	12.1
Togo	12.5	18.6	58.6	27.8	-7.8	-34.0
Turkey	53.4	16.5	19.6	-3.7	9.9	-7.7
Yugoslavia	1/	57.4	140.0	52.5	94.2	5.9
Zaire	2.6	2.8	85.5	-37.8	-46.9	6.4

Sources: Bank for International Settlements, "International Banking Developments" (quarterly); and Fund staff estimates.

1/ Current account surplus.
2/ Not a meaningful figure. In 1979, Argentina had a very small current account deficit.
3/ Negative value implies net reduction in bank credit.
4/ Liberia is an offshore banking center and hence bank finance figures may be deceptive.
5/ Convertible current deficit only.

In many cases, the phase of rapid expansion in commercial bank debt was associated with expansionary fiscal policies accompanied by widening current account balance of payments deficits. In these cases, the banks ultimately came to doubt the country's ability or willingness to alter its economic policies, and perceived that the country may have exceeded its debt servicing capacity. They then reacted accordingly--in some cases, by attempting to reduce their short-term exposure. This latter element was present to a greater or lesser extent in all of the debt rescheduling cases, but in about half of the cases it could be considered to have been a major factor.

More recently, an emerging perception of the regionalization of risk has become an important factor in the attitude of the international banks. In a few of the more recent cases (e.g., Brazil), debt servicing (i.e., financing) difficulties arose in large part as a result of developments in other countries in the region, rather than from a market perception that the country's own policies were weak or that the country's underlying circumstances had deteriorated. Even though major banks may have perceived that such countries were following prudent policies, uncertainty regarding the willingness of smaller lenders to continue to expand or even maintain their exposure in light of problems in neighboring countries caused a negative reassessment of the riskiness of continued net lending. In these circumstances, fears became self-fulfilling as bankers' uncertainties resulted in a marked decline in net inflows and in some cases net withdrawals of funds.

IV. Scope and Terms of Restructuring

1. Scope

a. An overview

Bank debt restructuring has evolved in recent years from simple refinancing of specific outstanding debt obligations into formal "multilateral" rescheduling arrangements. Increasingly these have involved large future debt service repayments on the nonguaranteed medium-term commercial debt, and the number of individual banks involved has increased significantly. While only 3 of the 11 bank restructuring arrangements reached in principle or signed during the 1978-80 period were formal bank debt rescheduling agreements, 11 out of the 14 bank debt restructuring arrangements reached in principle or signed since 1981 were formal rescheduling agreements (Table 1). In 10 of these latter cases, future maturities were rescheduled, and arrears on principal were rescheduled in four instances. Arrears on interest payments were rescheduled in only two cases and, in one (exceptional) case, principal in arrears not covered by a previous rescheduling agreement was rescheduled.

Prior to 1981, in problem cases banks frequently refinanced outstanding debt obligations as they matured either by simply rolling them over or by consolidating them into a new medium-term loan. Banks generally preferred to avoid a formal debt renegotiation (although there were exceptions); to some extent, this view was also shared by debtor countries. In most recent cases, however, both debtors and creditors have been willing to discuss formal restructuring arrangements, including rescheduling of principal in arrears and future maturities. In a number of the most recent cases currently under negotiation (e.g., Argentina, Brazil, Chile, Mexico, and Yugoslavia), banks have been discussing the restructuring of large amounts of future maturities and, to support the initiatives underlying the country's economic program, considerable new net medium-term financing (Appendix Tables 3 and 4).

b. Type of debt covered

Recent bank debt restructuring agreements typically covered at least future maturities of medium-term debt of the public sector. Five agreements, i.e., Bolivia (1980 and 1981), Togo (1981), Senegal (1982), and Guyana (1982), covered both public and publicly guaranteed medium-term debt. In many of the other cases, i.e., Jamaica (1978, 1979, and 1981), Togo (1980), Zaire (1980), Nicaragua (1981 and 1982), Liberia (1982), Malawi (1982), Poland (April and December 1982), Senegal (1982), Romania (1982), and Ecuador (1983), the agreements covered principal repayments on the medium-term debt contracted by the public sector only. In virtually all the cases, trade-related financial credits, which were not officially guaranteed in the creditor banks' home countries, were covered. Short-term debt was covered also in agreements with Bolivia (1981), Nicaragua (1980, 1981, and 1982), Sudan (1981), Romania (1982), and Ecuador (1983). In one case, i.e., Turkey (1982), the purpose of the arrangement was to improve the maturity profile resulting from the terms agreed under the June and August 1979 agreements, which had covered short-term debt.

In most of the bank debt restructuring cases currently under negotiation, the arrangements are expected to cover future maturities of medium-term debt of the public sector not covered by official guarantees in the banks' home countries. In the case of Brazil and Chile, national debtor authorities have proposed that nonguaranteed medium-term debt of the private sector be covered. In several cases, the negotiations cover short-term debt--interbank deposits are discussed below--either through rescheduling (Costa Rica, Mexico, and Madagascar) or by rollovers (Argentina, Brazil, Chile, Mexico, and Yugoslavia). Short-term bank debt service obligations in arrears are to be covered in the restructuring arrangements sought by Costa Rica (principal and interest), 1/ Madagascar (principal), and Argentina (principal). In several recent

1/ See footnote 4 to Table 1 for the treatment of interest according to the agreement in principle reached in December 1982.

cases (e.g., Argentina, Brazil, and Mexico), the national debtor authorities have made specific proposals in the form of so-called draft principles for the requested refinancing or rescheduling arrangements which specify the types of debt to be covered by the restructuring arrangement. 1/

The treatment of publicly issued securities and notes, including floating rate notes, proved to be a difficult issue in the negotiation of three recent arrangements (i.e., Poland (April 1982), Costa Rica, and Ecuador (1983)). In the case of Poland (April 1982--on maturities due during March 26-December 31, 1981), floating rate notes and other similar marketable securities were covered by the agreement. In the case of Costa Rica, 2/ as requested by the lead banks, it was agreed in December 1981 that only bonds and floating rate notes held by financial institutions would be covered by the arrangement. In the case of Ecuador (January 1983), the arrangement covers publicly issued bonds and floating rate notes held (for their own account) by lenders signing both the extension and the rescheduling of maturities due in 1983. Another problem that has emerged is the treatment of interbank obligations (including private deposits or placements). In the case of Mexico, banks initially considered that only "true" interbank credits (i.e., money-market operations used for short-term liquidity management) should be excluded from a rescheduling arrangement, implying that acceptance credits should be included unless they were past due. 3/ Even though it appears that much of the interbank borrowing of foreign branches and subsidiaries of developing country banks may have been used to fund lending operations in their home country rather than as an instrument of short-term liquidity management, the consensus that eventually emerged in the case of Mexico was to exclude all interbank operations from the debt to be covered in the formal rescheduling arrangement. 4/ In another recent case, i.e., Brazil, interbank deposits (placements) were specifically covered in the debtor's proposal, with a view to restoring the level of such interbank placements as of a date some months in the past.

c. Types of debt service payments covered

Most of the recent bank debt restructuring agreements covered maturities that were falling due within approximately 12 months from the opening of negotiation. Given the procedural delays in several instances, the agreements were actually signed well after the due dates of the rescheduled maturities. Also, maturities falling due after the date on which an agreement in principle was reached were often rescheduled. In the last two years or so, Sudan (1981) was the only case where no future

---

1/ For details, see the individual country notes in Annex II.

2/ Arrangement under negotiation since the summer of 1981.

3/ Although the exact status of PEMEX acceptance credits is not clear, the proposed agreement assumes that Mexico will be current on non-rescheduled debt.

4/ However, there is an informal agreement among the banks to maintain the prenegotiation level of interbank exposure.

maturities were covered, while in earlier years future maturities were not covered in a larger number of cases (i.e., Jamaica (1978 and 1979), Peru (June 1978, December 1978, and 1980), and Turkey (1979)). In all these latter cases, the arrangement covered only principal in arrears, while that with Sudan covered both interest and principal in arrears. Both principal in arrears and future maturities were covered in the arrangements with Nicaragua (1980, 1981, and 1982), Zaire (1980), Bolivia (1981), Togo (1981), Poland (November 1982), 1/ and Romania (1982).

The debtors' proposals for most of the bank debt restructuring cases currently under negotiation, i.e., Argentina, Brazil, Costa Rica, Romania, Togo, and Yugoslavia, would cover maturities falling due in 1983. In the cases of Chile and Mexico, coverage has been requested for future maturities through December 31, 1984; the Cuban and Polish authorities are seeking to reschedule future maturities through December 31, 1985. In the case of Madagascar, bankers announced in November 1982, and reiterated in January 1983, that they would be willing to reschedule the future maturities on all external debt outstanding as of December 1982, including short-term debt. The coverage of principal in arrears is under discussion in four pending cases, i.e., Argentina, Costa Rica, Madagascar, and Togo.

As a result of regulatory procedures, as well as accounting practices, banks are generally unwilling to reschedule either interest in arrears or interest payments falling due in the future. Until now, the only two exceptions were Sudan (1981) and Nicaragua (1980, 1981, and 1982), where both interest and principal in arrears were rescheduled. In general, countries that had accumulated interest arrears at the time negotiations started were required under the terms of the agreements to clear the arrears either at the consolidation date or shortly thereafter. 2/ Such requirements were included in ten of the completed arrangements, and in two of those still under negotiation. Even in the cases where arrears on interest payments were rescheduled (e.g., Nicaragua), part of such payments had to be paid in cash before signing and the terms relating to the rescheduled amounts were generally much less favorable than those relating to principal repayments in arrears.

2. Terms of restructuring

a. Consolidation periods

The consolidation period of a restructuring arrangement refers to the period of time encompassing the original maturity dates of all the debt which is refinanced or rescheduled in the arrangement.

1/ Including 5 per cent of principal on 1981 maturities that were not rescheduled under the April 1982 agreement, which was in arrears.

2/ Under specific provisions attached to the agreement, Togo had to clear its arrears on interest by May 1980, and Poland, under a separate agreement, agreed to pay all interest due in 1982, including interest in arrears, by March 1983.

Consolidation periods may include those periods during which (i) arrears accumulated, 1/ or (ii) future debt payments fall due, either or both of which may be refinanced or rescheduled in the arrangements.

Consolidation periods (covering arrears and future maturities to be restructured) varied significantly between bank debt restructuring agreements reached in principle or signed since 1978 (Table 4). In general, consolidation periods for arrears are shorter than those for future maturities, and in most cases, were less than a year. Among the bank debt restructuring arrangements currently under negotiation, national debtor authorities have requested that arrears be rescheduled or refinanced in four cases, i.e., Costa Rica, Madagascar, and Togo (with arrears accumulated over more than a year and a half in all cases) and Argentina (where certain debt service-related arrears started to accumulate in April 1982).

In the agreements surveyed, consolidation periods for future maturities typically fell within a one- to two-year period. Consolidation periods generally include the year in which an agreement was reached in principle or a formal agreement was signed. Of the 23 country cases reviewed, ten agreements (Jamaica (1978), Peru (1980), Togo (1980), Zaire (1980), Nicaragua (1982), Guyana (1982), Poland (November 1982), Malawi (1982), Romania (1982), and Ecuador (1983)) had a consolidation period of about one year, and eight agreements (i.e., Jamaica (1979 and 1981), Nicaragua (1980, 1981), Bolivia (1981), Turkey (1982), Senegal (1982), and Liberia (1982)) had a consolidation period of about two years.

With respect to arrangements currently under negotiation, some of the debtor countries (i.e., Cuba and Poland) have asked the creditor banks to consider consolidation periods for future maturities of three years or more, while Mexico and Chile have requested consolidation periods for future maturities of two years or more. In one case (i.e., Madagascar), bankers have proposed that all future maturities on short-, medium-, and long-term debt outstanding at end-December 1982 be refinanced. In all the other cases (i.e., Argentina, Brazil, Costa Rica, Romania, Togo, and Yugoslavia), the national debtor authorities have requested a one-year consolidation period for future maturities.

b. Proportion of maturities covered 2/

In all of the agreements reviewed since 1978, at least 80 per cent of the maturities falling due during the consolidation periods was restructured (Table 5), and in 11 of the 25 agreements reached in principle or signed (i.e., Peru (June 1978), Zaire (1980), Togo (1980),

---

1/ In many bank debt restructurings, the consolidation period for accumulated arrears did not end at the time when the agreement was reached in principle or signed, but rather at the beginning of the consolidation period for future maturities.

2/ Total amount rescheduled or refinanced less downpayments (if any) over total amount rescheduled or refinanced.

Table 4. Consolidation Periods

	Arrears 1/	Future Maturities	Total Consolidation Periods
		(Completed) 2/	
Peru (1978)	--	6 months	6 months
Jamaica (1978)	--	1 year	1 year
Peru (1978)	--	2 years	2 years, 9 months
Jamaica (1979)	--	2 years	2 years
Turkey (1979) 3/	2 years, 6 months	--	2 years, 6 months
Peru (1980)	--	1 year	1 year
Togo (1980)	6 to 9 months	1 year	1 year, 6 to 9 months
Zaire (1980)	1 year	1 year	2 years
Bolivia (1980)	8 months	8 months	8 months, 8 months
Nicaragua (1980)	2 years, 3 months	1 year, 9 months	4 years
Jamaica (1981)	--	2 years	2 years
Bolivia (1981)	3 months	2 years	2 years, 3 months
Nicaragua (1981)	3 years	1 year, 7 months	4 years, 7 months
Sudan (1981)	2 years, 2 months 4/	--	2 years, 2 months 4/
Turkey (1982)	--	3 years 5/	3 years 5/
Nicaragua (1982)	3 years, 6 months	1 year	4 years, 6 months
Poland (1982)	--	9 months	9 months
Senegal (1982)	2 months	2 years	2 years, 2 months
Guyana (1982)	--	1 year	1 year
Liberia (1982)	--	2 years	2 years
Poland (1982)	1 year (at least)	1 year	2 years (at least)
Malawi (1982)	--	1 year	1 year
Romania (1982)	4 months (at least)	1 year	1 year, 4 months (at least)
Ecuador (1983)	--	1 year, 2 months	1 year, 2 months
		(Under negotiation)	
Argentina	9 months	1 year	1 year, 9 months
Brazil	--	1 year	1 year
Chile	--	2 years	2 years
Costa Rica	1 year, 5 1/2 months	1 year	2 years, 5 1/2 months
Cuba	--	3 years, 4 months	3 years, 4 months
Madagascar	5 months	3 years	3 years, 5 months
Mexico	--	2 years, 5 months	2 years, 5 months
Poland	--	3 years	3 years
Romania	--	1 year	1 year
Togo	2 years, 9 months	1 year 6/	3 years, 9 months
Yugoslavia	--	1 year	1 year

Source: Appendix Table 4.

1/ Estimated; with the periods starting on the approximate date at which debt service-related arrears were reported for the first time and ending (1) on the date of the agreement or at the beginning of the consolidation periods for future maturities in the case of completed restructuring arrangements; and (2) on December 31, 1982 in the case of restructuring arrangements under negotiation.
2/ Based on agreements reached in principle or signed during the 1978-January 1983 period.
3/ June and August agreements.
4/ According to the December 1981 amended agreement.
5/ Final maturity was extended from 7 years to 10 years and the grace period from 3 years to 5 years.
6/ Expected.

Table 5. Proportion of Maturities Consolidated

(In per cent--future obligations; unless otherwise indicated)

76/100 1/	80/80 2/	80/90 3/	87.5	90	95	100	100/100 4/	Other
				(Completed)				
Zaire (1980)	Romania (1982)	Bolivia (1981)	Jamaica (1978) (1979)	Peru 5/ (1978) (1980) Senegal 10/ (1982) Ecuador 11/ (1983)	Liberia (1982) Poland (June 1982) (November 1982)	Guyana (1982) Jamaica (1981) Malawi (1982) Peru (1978) Turkey (June 1979) 13/ (August 1979) 14/ (1982)	Nicaragua (1980) 7/ Togo 8/ (1980)	Sudan 6/ (1981) Nicaragua 9/ (1981) (1982) Bolivia 12/ (1980)
				(Under negotiation)				
	Costa Rica 15/					Argentina Brazil Chile Cuba Madagascar Mexico Yugoslavia		Poland 16/ Romania 17/ Togo 18/

Source: Appendix Table 4.

1/ 76: arrears; 100: future obligations.
2/ 80: arrears; 80: future obligations.
3/ 80: arrears; 90: future obligations.
4/ 100: arrears; 100: future obligations.
5/ And 50 per cent of amount due on January 1979 as per June 1978 agreement.
6/ Arrears only. Interest rescheduled up to 82 per cent (according to the December 1981 amended agreement) and principal up to 100 per cent.
7/ However, interest in arrears was rescheduled up to 75 per cent only.
8/ Ratios of rescheduled maturities on a number of specific loans are assumed to be 100 per cent.
9/ Interest and principal in arrears were rescheduled up to 90 per cent only and principal on future maturities up to 100 per cent.
10/ Agreement reached (in principle) on both amounts and terms, but signing contingent upon further agreement on penalty clauses and terms. Arrears on principal that are covered by the agreement are assumed to be rescheduled on the same terms as maturities due after July 1982.
11/ 90 per cent of deferred principal repayments as of December 31, 1983.
12/ 100 per cent of principal due and in arrears.
13/ Bankers' credits and third-party reimbursement claims.
14/ Principal on convertible Turkish lira deposits.
15/ Agreement reached (in principle) on interest in arrears due in 1983 (see footnote 4 to Table 1) but conditional upon a concomitant agreement on principal in arrears and due in 1983.
16/ The ratio of future maturities to be rescheduled is unknown.
17/ 60 per cent of maturities due in 1983, with the payment of 10 per cent of the 30 per cent downpayment due in 1983 to be made in 1984.
18/ The ratios of future maturities as well as of accumulated arrears to be rescheduled are unknown.

Turkey (June and August 1979, and 1982), Nicaragua (1980, 1981, and 1982), Jamaica (1981), Malawi (1982), and Guyana (1982)), 100 per cent of the maturities falling due during the consolidation period was either rescheduled or refinanced. Between 90 and 95 per cent of future maturities was rescheduled in virtually all the other cases, i.e., Peru (December 1978 and 1980), Liberia (1982), Poland (April and November 1982), Senegal (1982), and Ecuador (1983).

In the great majority of the cases under negotiation, the national debtor authorities have asked that 100 per cent of maturities for a future period be refinanced or rescheduled. However, in the case of Costa Rica, banks have proposed that only 80 per cent of future maturities be rescheduled, and in the case of Romania, only 60 per cent of future maturities may be rescheduled. 1/

c. New maturities

The maturities applying to rescheduled principal payments falling due in the future typically ranged from 5-7 years, although the maturity has increased slightly for those cases dealt with in 1982. Overall, such terms compared favorably with average maturity terms in both 1981 and 1982 of new medium- and long-term bank lending commitments not related to restructuring arrangements. In only two cases since 1978 have restructured maturities differed substantially from these averages, i.e., Zaire (1980), with new maturities of 10 years, and Nicaragua (1980, 1981, and 1982) with 10-12 years. The restructured maturities for arrears and for short-term debt were about the same as those for future maturities (Table 6). With respect to arrangements currently under negotiation, debtor country authorities generally have requested that the same maturities apply to the restructuring of both accumulated arrears and future maturities on short- and medium-term debt.

d. Interest charges

In the majority of the agreements reviewed, including arrangements under negotiation, interest charges are based on the 3- or 6-month London interbank offer rate (LIBOR) for the U.S. dollar. However, in five completed agreements (i.e., Nicaragua (1980, 1981, and 1982), Poland (November 1982), and Ecuador (1983)) and five arrangements under negotiation (i.e., Argentina, Brazil, Chile, Costa Rica, and Mexico), interest charges are to be based on either LIBOR or the U.S. prime rate, at the lenders' option.

Spreads applied to the basic interest rate (i.e., LIBOR or U.S. prime rate) in agreements reached in principle or signed since 1978, typically ranged from 1 3/4 to 2 per cent. Exceptions were, on the lower side of the spectrum, Togo (1 1/2 per cent in 1980) and Nicaragua

1/ In addition, however, the payment of 10 per cent of principal repayments due in 1983 may be deferred until 1984.

Table 6. New Maturities Applying to Refinanced or Rescheduled Debt, 1978-1983

(In years, unless otherwise indicated)

		Arrears		Short-Term	Future Debt Service Payments (Medium- and long-term)		Grace Periods	
		Principal	Interest	Debt	Principal	Interest	Arrears	Future obligations
					(Completed)			
Jamaica	(1978)	--	--	--	5	--	--	2
Peru	(1978) 1/	--	--	--	5	--	--	2 and 2
Jamaica	(1979)	--	--	--	5	--	--	2
Turkey	(1979) 2/	--	--	3 and 7	--	--	-- and 3	--
Turkey	(1979) 3/	--	--	--	--	--	3	--
Peru	(1980)	--	--	--	5	--	--	2
Zaire	(1980)	10	--	--	10	--	5	5
Bolivia	(1980)	--	--	up to 8 months	up to 8 months	--	--	--
Nicaragua	(1980)	11	5	5 and 11	12	--	0 and 5	5
Togo	(1980)	1 1/2	3 months	--	3 1/2	--	--	1
Jamaica	(1981)	--	--	--	5	--	--	2
Bolivia	(1981)	7	--	3 1/2	6 and 5	--	2 and 3	2
Nicaragua	(1981)	10	...	10	10	--	1	5
Sudan	(1981)	7	1	...	--	--	3 (principal only)	--
Turkey	(1982)	--	--	--	3 4/	--	--	2 4/
Nicaragua	(1982)	10	...	10	10	--	0	5
Poland	(April 1982)	--	--	--	7	--	--	4
Senegal	(1982)	6 1/2	--	--	6 1/2 and 7 1/2	--	3	3 and 4
Guyana	(1982)	--	--	--	6 to 7 months	--	--	--
Liberia	(1982)	--	--	--	6	--	--	3
Poland	(November 1982)	7 1/2	--	--	7 1/2	--	4	4
Malawi	(1982)	--	--	--	6 1/2	--	--	3
Romania	(1982)	6 1/2	--	6 1/2	6 1/2	--	3	3 (incl. short-term debt)
Ecuador	(1983) 5/	--	--	6	6	--	--	1 (incl. short-term debt)
					(Under negotiation)			
Argentina		7	--	--	7	--	3	3
Brazil		--	--	--	8 1/2	--	--	2 1/2
Chile		--	--	--	8	--	--	5
Costa Rica 6/		...	...	...	...	...	...	...
Cuba		--	--	--	10	--	--	3
Madagascar		...	--	...	...	--	--	...
Mexico		--	--	8	8	--	--	4
Poland		...	--	--	...	--	--	...
Romania		--	--	--	6	--	--	4
Togo		...	...	--	...	--	...	...
Yugoslavia		--	--	--	3 to 5	--	--	--

Source: Appendix Table 4.

1/ December 1978; the June 1978 agreement with Peru, which involved a rollover of maturities and new loans, is not taken into account in this table.

2/ June.

3/ August.

4/ Final maturity was extended from 7 years to 10 years and the grace period from 3 years to 5 years.

5/ New maturities to be applied to deferred principal repayments, which will be rescheduled on December 31, 1983.

6/ Terms on the arrangement on principal repayments, which has not yet been reached, are unknown. As indicated in footnote 4 to table 1, the agreement on interest payments reached in principle in December 1982 is conditional upon agreement on principal repayments.

(3/4-1 1/4 per cent in 1980, 1981, and 1982), and on the higher side of the spectrum, Bolivia (2 1/4 per cent in 1981), Guyana (2 1/2 per cent in 1982), and Ecuador (2 1/4-2 1/8 per cent in 1983). Detailed information on the (weighted) original spreads applied to the restructured loans is not available in most cases. Generally, however, the average spreads applied to the restructured debt service payments appeared to be significantly higher than the average spreads for the loans being restructured.

With respect to arrangements currently under negotiation, spreads proposed by the national debtor authorities generally exceed 2 per cent. Two important exceptions are Mexico, which has requested restructuring arrangements with a spread of 1 7/8 over LIBOR or 1 3/4 over the U.S. prime rate, 1/ and Romania, where a spread of 1 3/4 over LIBOR for the rescheduled future principal maturities has been proposed.

Information on the refinancing or rescheduling fees applied in agreements since 1978 by and large is not generally available. The types and amounts of fees appear to vary greatly, however, on a country-by-country basis. As an example of cases where some information on fees is available, Ecuador (1983) is paying an extension flat fee of 1/4 of 1 per cent on each principal repayment deferred in 1983 and will pay a 1 per cent flat conversion fee when most of the deferred amounts will be rescheduled, while Poland (April and November 1982) and Romania (December 1982) paid a flat rescheduling fee of 1 per cent applied to the rescheduled amounts. With respect to the bank debt restructuring arrangements under negotiation, the type and amount of fees were explicitly specified in the requests made by three debtor countries, i.e., Argentina, Brazil, and Mexico. The Argentine authorities have proposed a refinancing fee of 1 1/8 per cent; the Brazilian authorities have proposed that a flat fee of 1 1/2 per cent would be paid by the Central Bank on the originally scheduled maturity date of each segment of the debt covered by the arrangement. The Mexican authorities proposed that the arrangement would include an initial flat restructuring fee of 1 per cent payable in four installments.

3. New financing

a. Arrangements completed since 1978

Few of the bank debt restructuring agreements completed since 1978 provided for new bank financing within the context of the arrangement. The few exceptions include: Jamaica (1981), which was granted new medium-term loans totaling US$71 million; Peru, which received new medium-term loans in connection with its arrangements with banks; and Poland, where the November 1982 arrangement provided (under a separate agreement) trade-related short-term credits for three years, equivalent to 50 per cent of interest payments due and made in 1982.

1/ However, the same request asked for a spread of 2 1/4 over LIBOR or of 2 1/8 over the U.S. prime rate (which is another key element of the Mexican financial arrangement for 1983) to apply to the US$5 billion new medium-term loan from banks.

b. Bank debt restructuring arrangements under negotiation

The three major restructuring arrangements under negotiation (i.e., Argentina, Brazil, and Mexico) involve sizable new medium-term bank financing, in addition to official new financial assistance and other forms of new financing (e.g., trade-related credits). In certain other cases under negotiation, proposals include possible new financing; in the case of Yugoslavia, emphasis has been placed on the provision of new lending in lieu of "rescheduling."

The Argentine authorities have requested a new medium-term syndicated loan of US$1.5 billion to be disbursed in tranches of US$500 million, timed to coincide with drawings under the stand-by arrangement with the Fund scheduled for May, August, and November 1983. The loan is subject to a number of conditions, including the conclusion of the refinancing agreements with each individual bank involved in the ongoing restructuring process. Similarly, Brazil is seeking US$4.4 billion in fresh commitments for disbursements in 1983, with each disbursement linked (i) to the continued ability of Brazil to make purchases under the proposed extended arrangement with the Fund; and (ii) to the conclusion of a satisfactory arrangement to refinance 1983 amortization payments due to banks. Together with their formal request for bank debt rescheduling made on December 8, 1982, the Mexican authorities asked the banks for a US$5 billion new medium-term syndicated loan to be disbursed in 1983. The loan documentation is expected to include, among other provisions, (i) a request that the individual members of the lending syndicate comply with the final restructuring principles of the contemplated rescheduling arrangement; and (ii) a specific reference to a written explanation and confirmation from the Managing Director with respect to US$2-2.5 billion in financial assistance to be obtained from official creditors other than the Fund. 1/ In these three cases, the new financing associated with the prospective arrangements is expected to carry maturities of 6-8 years, with grace periods of 2 1/2-3 years, and a spread over LIBOR or the U.S. prime rate of 2 1/8-2 1/4 per cent.

In addition to the restructuring arrangements described above, in each of the three cases the national debtor authorities have requested additional financing (including for instance maintenance of credit lines and interbank deposit levels); details of these proposals are contained in subsection 4.b.

4. Undertakings in the agreements

Except in the most recent cases of bank debt restructuring under negotiation (i.e., Argentina, Brazil, and Mexico) and two completed agreements (i.e., Poland in April 1982, and Romania), there is more limited information concerning the specific scope and types of undertakings by both the banks and the debtor countries. In most cases,

1/ For additional details on the proposed arrangements for Argentina, Brazil, and Mexico, see Annex II.

documentation equivalent to the Agreed Minutes on official multilateral debt reschedulings under the auspices of the Paris Club has not been made public.

a. Completed arrangements

With respect to arrangements reached in principle or agreed since 1978, it is clear that banks almost always required debtor countries to have a financial arrangement in the upper credit tranches with the Fund in place before negotiation actually started, or else the countries were required to agree on such an arrangement with the Fund before the end of the requested consolidation period for future maturities (Appendix Table 3).

Bank debt restructuring arrangements were made conditional on the existence of an arrangement with the Fund before an agreement in principle could be reached in the case of Togo (1980), Liberia (1981), Senegal (1982), and Sudan (1981). The signing of the agreement reached in principle was made conditional upon there being an arrangement with the Fund before the end of the consolidation period in the cases of Ecuador (January 1983), Bolivia (1981), Guyana (1981), and Malawi (1982). In one instance (i.e., Bolivia (1981)), the agreement explicitly specified that the nonexistence of an arrangement with the Fund by a specified date would be treated as an "event of default." 1/ All bank debt refinancing agreements with Jamaica (1978, 1979, and 1981), Peru (1978 and 1980), Liberia (1982), Romania (1982), and the rescheduling of deferred principal repayments (Ecuador (1983)), were conditional upon compliance with performance tests under arrangements with the Fund.

In one instance (i.e., Ecuador (1983)), the bank arrangement was conditional upon the debtor country reaching bilateral agreements with its official creditors. In the case of Poland, the negotiation of the bank debt restructuring started after Poland had reached an agreement in principle on rescheduling its debt obligations due to 14 official creditors. In one case, i.e., Malawi (1982), the signing of the agreement was made conditional on both the existence of an arrangement with the Fund and the granting of an IBRD Structural Assistance Loan before the end of the consolidation period. In a number of other cases (e.g., Romania (1982)), undertakings by the debtor country also included assurances regarding broadly comparable treatment between debt restructured by banks and that restructured under the auspices of the Paris Club or through individual arrangements with other creditors (e.g., in the case of Romania, OPEC countries or the CMEA International Bank of Economic Cooperation). Also, in all the cases reviewed, the debtor country committed itself to be current on unrescheduled interest in arrears by a specified date and to remain current on all future interest payments.

1/ That is, the creditors have the right to declare restructured loans due and repayable on demand.

In a few cases, the banks formally expressed their intention to consider a further extension of future maturities (e.g., Poland (April 1982 on 1981 maturities) and Malawi (1982)) or to negotiate a refinancing agreement either to convert deferred principal repayments into a longer term loan prior to a specified date (e.g., Guyana (1982)), or to reschedule 90 per cent of the deferred principal repayments at the end of the extension period (i.e., Ecuador (1983)).

b. Arrangements under negotiation

For all Fund members currently negotiating an arrangement with the banks, an arrangement with the Fund in the upper credit tranches is already in place or is about to be submitted to the Executive Board. In most of the prospective arrangements, failure to meet the performance tests under the Fund-supported program is treated as an "event of default." 1/ Two other important undertakings by these countries to be included are (i) to remain current on future interest payments; and (ii) to clear any arrears on current payments, especially those related to the private sector's debt obligations to foreign commercial banks, by establishing specific procedures for that purpose. In the case of Argentina, the proposed refinancing arrangement would be explicitly conditional on the satisfactory resolution of existing swap arrangements, with outstanding arrears to be cleared by the time the agreement is programed to be reached on the debt refinancing arrangement (i.e., June 30, 1983). 2/ In the case of Brazil, in order to remain current on interest, the Brazilian authorities have already established a mechanism to collect all payments due on the debt to be covered by the refinancing arrangement in a foreign-currency denominated account in the Central Bank. Although this initiative was not a specific undertaking agreed with the banks, the implied assurance provided by such a mechanism appeared to be welcomed by the largest creditor banks. In the case of Mexico, the authorities have set up special procedures aimed at a settlement of interest arrears on the private sector's debt to foreign banks by September 30, 1983 (see Annex II).

In three cases, i.e., Argentina, Brazil, and Mexico, the "draft principles" of the formal requests of the national authorities refer to a number of undertakings on the part of the banks. In particular, the banks were formally asked to: (i) roll over either all the short-term debt or the short-term debt of the private sector; (ii) maintain their deposits (Argentina) or exposure (Mexico) or interbank money

---

1/ In the case of Argentina, the disbursements on the US$1.5 billion new medium-term bank loan are conditional upon drawings on Fund resources.

2/ In addition, the national authorities proposed that principal on all the private sector's loans carrying a 1981 exchange rate guarantee and not renewed under the 1982 scheme had to be rescheduled and established the minimum terms for that rescheduling.

market lending (Brazil) in the foreign agencies and branches of the debtor countries' banks at specified levels; (iii) syndicate a new medium-term credit (Argentina and Brazil) or agree to a sizable increase in net new bank financing (Mexico); and (iv) agree that, with respect to the contemplated bank debt restructuring arrangement, all the banks would agree on "substantially identical terms" along the lines set forth in the proposals.

5. Impact of bank debt restructuring

The data provided in Table 7 give some broad indication of the absolute and relative magnitudes of the debt relief resulting from each of the restructuring arrangements since 1978. 1/ The total consolidated amounts typically represented between 15-30 per cent of the disbursed debt owed to banks, although, in some cases, it represented more than 60 per cent of total bank debt outstanding. When compared to the bank debt falling due in the year of the agreement, the consolidated amounts generally exceeded 50 per cent. Also, except in a few cases, the debt relief generally has been large in relation to GDP, typically ranging from 4-8 per cent. However, the data suggest that the relative importance of the debt relief varied considerably from country to country and the variations are too great to permit any general conclusions. Nevertheless, it should be noted that in many cases (i.e., Jamaica (1978 and 1981), Turkey (1979), Togo (1980), Sudan (1981), Liberia (1982), Malawi (1982), Romania (1982), Senegal (1982), and Ecuador (1983)), anticipated debt relief from banks formed a key element in the adjustment programs agreed with the Fund.

1/ Debt relief as used here refers to the amount of debt rescheduled or restructured (including arrears) falling due during a given period.

Table 7. Amounts of Debt Consolidated and Selected Ratios--Selected Countries, 1978-1983

Date of Signature	Amount of Debt Consolidated (Millions of U.S. dollars)	Proportion of Maturities (In per cent)	Amount of Debt Consolidated 1/: Disbursed debt to banks: Total (In per cent)	Amount of Debt Consolidated 1/: Disbursed debt to banks: Up to and including one year (In per cent)	Amount of Debt Consolidated 1/: GDP (In per cent)
(Completed) 2/					
Peru (June 1978)	186	100.0	5.4	11.4	1.5
Jamaica (September 1978)	63	87.5	10.9	30.4	1.9
Peru (December 1978)	200	90.0	5.9	12.3	1.6
Jamaica (April 1979)	149	87.5	29.3	96.1	6.7
Turkey (June and August 1979)	2,760	100.0	73.1	...	5.2
Peru (January 1980)	340	90.0	9.1	18.0	2.5
Togo (March 1980)	69	100.0	17.3	88.5	6.8
Zaire (April 1980)	402	100.0 3/	31.9	...	10.3
Bolivia (August 1980)	156	100.0 4/	10.9	23.1	4.4
Nicaragua (December 1980)	562	100.0 5/	88.9	...	43.1
Jamaica (March 1981)	89	100.0	18.5	47.8	3.3
Bolivia (April 1981)	416	90.0 5/	37.5	88.1	8.4
Nicaragua (September 1981)	180	100.0 5/	25.0	49.3	8.2
Turkey (March 1982)	2,900	100.0	68.6	...	4.9
Nicaragua (March 1982)	55	100.0 5/	6.9	18.2	2.5
Poland (April 1982)	2,300	95.0	14.2	43.0	4.7
Senegal (June 1982)	77	90.0	18.2	41.4	3.0
Guyana (June 1982)	14	100.0	9.7	25.0	3.5
Poland (November 1982)	2,300	95.0	15.1	41.8	5.4
Malawi (November 1982)	42	100.0	20.6	70.0	...
Romania (December 1982)	1,600	80.0	31.8	...	3.7
Ecuador (January 1983)					
Deferment	1,080	100.0	23.2	43.4	7.8
Rescheduling	970	90.0	20.8	39.0	7.0
(Under negotiation)					
Argentina	9,000 6/	100.0	35.6	68.7	18.3
Brazil	4,700	100.0	8.5	25.2	1.5
Chile	2,600	100.0	22.1	53.3	10.8
Cuba	1,000 7/	100.0	77.8	...	...
Madagascar 8/	195	100.0	61.5	...	8.9
Mexico	18,500	100.0	...	...	10.3
Poland	... 9/	...	...	...	...
Romania	515	60.0 10/	11.5	28.5	...
Yugoslavia	1,400	100.0	14.1	53.0	...

Sources: Data provided by national authorities; BIS data (debt to banks); and Fund staff estimates.

1/ The denominators of these ratios pertain to the year prior to debt consolidation.
2/ Agreement reached in principle or signed as of January 31, 1983.
3/ 76 per cent only for principal in arrears.
4/ Due and in arrears.
5/ Future maturities only.
6/ Mid-point of the amount to be refinanced; the actual amount to be refinanced is expected to fall within US$8,000 million to US$10,000 million.
7/ Maturities falling due during the September 1982-December 31, 1985 period.
8/ Based on latest information made available to the Fund.
9/ Maturities falling due during 1983-1985.
10/ In addition, the payment of 10 per cent of the total amount of maturities due in 1983 (i.e., US$859 million) is deferred to 1984.

Table 1. Medium- and Long-Term Bank Loan Commitments, 1975-1981

(In millions of U.S. dollars)

	1975	1976	1977	1978	1979	1980	1981	1982
Non-oil developing countries	9,134.1	12,182.9	13,027.8	24,633.2	43,178.4	32,895.1	45,098.2	36,832.8
Of which:								
Argentina	34.4	895.5	818.1	1,298.0	2,107.3	2,389.5	2,864.0	2,581.4
Bolivia	90.1	161.0	100.0	227.0	47.0	--	--	--
Brazil	2,119.8	3,308.3	2,553.5	4,937.5	6,498.2	5,278.6	7,269.6	6,639.6
Chile	--	125.0	326.5	1,141.0	682.5	919.3	2,305.0	1,220.0
Costa Rica	46.0	--	54.0	220.8	252.0	222.0	--	--
Ecuador	55.0	17.0	445.2	50.0	885.5	714.0	325.5	59.5
Guyana	24.0	4.0	--	--	--	--	--	--
Jamaica	103.0	15.0	--	--	126.0	--	70.0	--
Liberia	--	--	30.0	80.0	30.5	23.0	--	103.2
Madagascar	--	--	3.0	30.0	26.3	5.5	--	--
Malawi	--	--	25.0	12.0	50.0	12.0	--	--
Mexico	2,165.9	1,974.2	2,657.4	5,664.4	10,438.0	5,979.9	10,573.8	7,317.1
Nicaragua	55.0	--	40.0	--	--	--	--	--
Peru	433.3	350.0	144.4	--	550.4	344.0	909.2	1,066.0
Romania	6.1	--	125.0	653.0	280.0	457.6	337.0	--
Senegal	20.0	--	25.0	60.0	--	--	7.5	--
Sudan	36.8	19.0	--	--	--	--	--	--
Togo	--	--	--	--	--	--	--	--
Turkey	170.0	170.0	184.1	250.0	3,171.0	--	--	288.2
Yugoslavia	72.6	83.5	292.8	747.6	1,651.0	1,832.1	564.2	559.0
Zaire	27.0	--	--	--	--	--	--	--
Centrally planned economies	1,924.3	1,566.4	1,094.0	1,917.7	2,615.1	1,658.1	681.5	215.1
Of which:								
Cuba	234.0	140.5	10.0	--	126.2	--	59.4	--
Poland	475.0	468.9	19.0	406.2	861.1	736.0	--	--

Source: OECD, *Monthly Statistics*.

Table 2. Debt of Less than One Year Remaining to Maturity as a Percentage of Total Bank Debt

(End of period)

	1978	1979	1980	1981	June 1982
Non-oil developing countries	41	38	43	44	47
Argentina	51	52	52	47	52
Bolivia	43	47	42	39	36
Brazil	28	29	35	35	34
Chile	42	41	39	39	41
Costa Rica	52	43	51	49	45
Ecuador	50	43	48	51	53
Guyana	56	46	38	38	36
Jamaica	30	32	39	30	27
Liberia 1/	...	...	...	...	...
Madagascar	60	67	60	23	22
Malawi	42	45	37	30	46
Mexico	32	35	44	49	50
Nicaragua	67	67	51	38	33
Peru	47	50	58	60	64
Romania	44	50	43	35	40
Senegal	38	42	43	44	37
Sudan	53	51	55	68	55
Togo	19	20	21	20	22
Turkey	70	35	29	25	28
Yugoslavia	20	23	28	28	26
Zaire	32	32	28	30	33
Centrally planned economies	42	41	38	43	41
Cuba	56	57	55	53	51
Poland	34	39	33	36	34

Source: Bank for International Settlements.

1/ Offshore banking center.

Table 3. Aspects of Bank Debt Restructurings

Country	Status of Restructuring: In process	Status of Restructuring: Completed (date of agreement and type)	Coverage: Medium- and long-term debt: Private sector debt	Coverage: Medium- and long-term debt: Public and publicly guaranteed debt	Coverage: Medium- and long-term debt: Public sector debt	Coverage: Short-term debt: Public	Coverage: Short-term debt: Private	Coverage: Arrears: Principal	Coverage: Arrears: Interest	Coverage: Future debt service 1/	New Medium-Term Loan	Bridge Loan	Other New Financing	Official Debt Rescheduling	IMF Arrangement: In place	IMF Arrangement: Being negotiated	IMF Arrangement: Conditional upon
Argentina	Yes 2/	No (specific refinancing)	No	No	Yes 3/	Yes (principal)	Yes 4/ (principal)	Yes	No	Yes	Yes 5/	Yes 6/	Yes 7/	No	Yes	No	Yes
Bolivia	No	Yes August 1980; (temporary deferment)	No	Yes	No	Yes (principal)	No	No (rolled over)	No	Yes	No	No	No	No	No	No	No
	No	Yes April 1981 (rescheduling)	Yes	Yes	No	Yes (principal)	No	Yes	No	Yes	No	No	No	No	No	No	Yes
Brazil	Yes	No (refinancing)	Yes	No	No	Yes (rollover through 1983)	Yes (rollover through 1983)	No	No	Yes	Yes 8/	Yes 9/	Yes 10/	No	Yes	No	Yes
Chile	Yes	No (rescheduling)	Yes 11/ (financial only)	Yes	No	Yes (rolled over)	No	No	No	Yes	Yes	No	Yes 12/	No	Yes	No	Yes
Costa Rica	Yes 13/	No (rescheduling)	No	Yes 14/	No	Yes (principal and interest)	No	Yes	No 15/	Yes	No	No	No 15/	Yes 16/	Yes	No	Yes
Cuba	Yes 17/	No (rescheduling)	No	No	Yes	No	No	No	No	Yes	No	No	No	Yes (requested)	No	No	No 18/
Ecuador	No	Yes (deferment and rescheduling)	No	No	Yes	Yes	No	No	No	Yes	No	No	No	No 19/	Yes	No	Yes
Guyana	No	Yes 20/ June 1982 (temporary deferment)	No	Yes	No	No	No	No	No	Yes	No	No	No	No 21/	No	No	Yes

Table 3 (continued). Aspects of Bank Debt Restructuring

Country	Status of Restructuring: In process	Status of Restructuring: Completed (date of agreement and type)	Coverage: Medium- and long-term debt: Private sector debt	Coverage: Medium- and long-term debt: Public and publicly guaranteed debt	Coverage: Medium- and long-term debt: Public sector debt	Coverage: Short-term debt: Public	Coverage: Short-term debt: Private	Coverage: Arrears: Principal	Coverage: Arrears: Interest	Coverage: Future debt service 1/	New medium term loan	Bridge loan	Other New Financing	Official Debt Rescheduling	IMF Arrangement: In place	IMF Arrangement: Being negotiated	IMF Arrangement: Conditional upon
Jamaica	No	Yes September 1978 (refinancing)	No	No	Yes	No	No	No	No	No	No	No	No	No 22/	Yes	No	Yes
		November 1978 (effective April 1, 1979 (rollover and refinancing)	No	No	Yes	No	No	No	No	No	No	No	No	No 22/	Yes	No	Yes
		July 1981 (refinancing)	No	No	Yes	No	No	No	No	Yes	Yes	No	Yes	No	Yes	No	Yes
Liberia	No	Yes July 1982 (rescheduling)	No	Yes	No	No	No	No 23/	No	Yes	No	No	No	Yes	Yes	No	Yes
Madagascar	Yes	No (refinancing) 24/	No	Yes	No	Yes	No	Yes	No	Yes	No	No	No	Yes	Yes	No	Yes
Malawi	No	Yes November 1982 rescheduling (tentatively reached) 25/	No	No	Yes	No	No	No	No	Yes	No	No	No	Yes	Yes	No	Yes 26/
Mexico	Yes 27/	No (rescheduling)	No 28/	No	Yes (public sector)	Yes	No 28/ 29/	No	No	Yes 30/	Yes 31/	Yes 32/	Yes 33/	No	Yes	No	Yes
Nicaragua	No	Yes 34/ December 1980 (rescheduling)	No	No	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	No	No	No
		September 1981 (rescheduling)	No	No	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	No	No	No
		March 1982 (rescheduling)	No	No	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	No	No	No

Table 3 (continued). Aspects of Bank Debt Restructurings

	Status of Restructuring		Coverage: Medium- and long-term debt			Short-term debt		Arrears							IMF Arrangement		
Country	In process	Completed (date of agreement and type)	Private sector debt	Public and publicly guaranteed debt	Public sector debt	Public	Private	Principal	Interest	Future debt service 1/	New Medium Term Loan	Bridge Loan	Other New Financing	Official Debt Rescheduling	In place	Being negotiated	Conditional upon
Peru	No	Yes June 1978 (rollover and refinancing)	No	No	Yes	No	No	No	No	Yes	No	No	No	Yes	Yes	No	Yes
		December 1978 (rollover and rescheduling)	No	No	Yes	No	No	No	No	Yes	No	No	Yes	Yes	Yes	No	Yes
		January 1980 (refinancing) 35/	No	No	Yes	No	No	No	No	Yes	No	No	Yes	Yes	No	Yes	Yes
Poland	No	Yes April 1982 36/ (rescheduling)	No	No	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No	No
	No	November 1982 (rescheduling)	No	No	Yes	No	No	Yes 37/	No 38/	Yes	No	No	No 38/	No 39/	No	No	No
	Yes 40/	No (rescheduling)	No	No	Yes	No	No	No	No	Yes	No	No	No	No	No	No	No
Romania	No	Yes December 1982 (rescheduling)	No	No	Yes	Yes	No	Yes	No	Yes	No	No	No	Yes	Yes	No	Yes
	Yes 41/	No (rescheduling)	No	No	Yes	No	No	No	No	Yes	No	No	No	Yes	Yes	No	Yes
Senegal	No	Yes 42/ June 1982 (rescheduling)	No	Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	Yes	No	Yes
Sudan	No	Yes December 1981 (rescheduling) 43/	No	Yes	No	Yes	No	Yes	Yes	No	No	No	No	Yes	Yes	No	Yes
Togo	No	Yes March 1980 (rescheduling)	No	Yes	No	No	No	Yes	No	Yes 44/	No	No	No	Yes	Yes	No	Yes
	Yes 45/	No (rescheduling)	No	Yes	No	No	No	Yes 46/	Yes 46/	Yes	No	No	No	Yes 47/	Yes	No	Yes

Table 3 (concluded). Aspects of Bank Debt Restructurings

Country	Status of Restructuring: In process	Status of Restructuring: Completed (date of agreement and type)	Coverage: Medium- and long-term debt: Private sector debt	Coverage: Medium- and long-term debt: Public and publicly guaranteed debt	Coverage: Medium- and long-term debt: Public sector debt	Coverage: Short-term debt: Public	Coverage: Short-term debt: Private	Coverage: Arrears: Principal	Coverage: Arrears: Interest	Coverage: Future debt service 1/	New Medium Term Loan	Bridge Loan	Other New Financing	Official Debt Rescheduling	IMF Arrangement: In place	IMF Arrangement: Being negotiated	IMF Arrangement: Conditional upon
Turkey	No	Yes: June 1979 48/ (rescheduling and new financing)	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes 49/	Yes	No	Yes
		August 1979 50/ (rescheduling and new financing)	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes 49/	Yes	No	Yes
	No	March 1982 51/ (refinancing)	No	Yes	No	No	No	No	No	No	No	No	No	No	Yes	No	No
Yugoslavia	Yes 52/	No (rescheduling)	Yes	No	Yes 53/	Yes 54/ (roll-over)	No	No 55/	No	Yes	Yes 56/	Yes 57/	Yes 58/	No	No	Yes	Yes
Zaire	No	Yes: April 1980 59/ (refinancing)	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	Yes 60/	No	No

Source: Restructuring agreements.

1/ Refers to future maturities for principal repayments extending more than 12 months into the future.
2/ Under the draft principles, the rescheduling agreements between Argentina and each of its individual banks are to be signed by June 30, 1983.
3/ Except those obligations covered by an official guarantee from the creditor banks' home countries.
4/ Rescheduling of private sector obligations covered by an exchange rate guarantee issued under the scheme in operation during 1981 and rolled over maturing swaps outstanding at end-December 1982 to be restructured.
5/ US$1.5 billion.
6/ US$1.1 billion.
7/ BIS loan of US$500 million granted in January 1983.
8/ US$4.4 billion, in addition to US$1.2 billion disbursed in 1982.
9/ US$2.9 billion.
10/ US$1.2 billion obtained from BIS and US$1.23 billion from the short-term Exchange Stabilization Fund of the U.S. Treasury and maintenance of money market financing to Brazilian banks abroad.

(Footnotes continued)

11/ However, owing to possible extension of state guarantee on private debt of the nonfinancial sector, a restructuring of all the Chilean private sector debt might be requested.
12/ US$280 million, i.e., US$200 million from the U.S. Government and US$80 million from the IBRD.
13/ Agreement reached in principle with respect to interest payments in December 1982 but made conditional upon a concomitant agreement with respect to principal (see footnote 15).
14/ Publicly issued securities, bonds and floating rate notes held by foreign financial institutions are covered by the contemplated agreement.
15/ However, according to the agreement reached in December 1982 on interest in arrears and due in 1983, the banks agreed to provide a revolving short-term credit facility equivalent to 50 per cent (US$228 million) of the combined total of interest in arrears as of December 31, 1982, current interest in 1983, imputed interest on interest in arrears, and 1983 interest for bonds.
16/ *First meeting with official creditors held in Paris in January 1983.*
17/ At a very initial state. Information based on the Cuban authorities' request of September 1982, as reported in the press, and latest information made available by the press.
18/ Cuba is not a Fund member.
19/ The agreement is conditional upon bilateral agreements with official creditors on maturities falling due during November 1, 1982 and December 31, 1983.
20/ Banks indicated their intention to negotiate a refinancing agreement to convert the deferred principal repayments into a longer term loan prior to January 31, 1983.
21/ The authorities are known to have approached individual donor governments for bilateral debt relief; however, except for two successful bilateral reschedulings, major foreign creditors turned down Guyana's request, expressing their preference for making debt arrangements within the Paris Club format and with a *Fund-supported program in place. A donors' meeting was held at the IBRD headquarters in December 1982.*
22/ While there was no multilateral rescheduling of debts to official creditors, the U.S. Eximbank deferred some payments and new financing was provided through the Caribbean Group for Cooperation and Economic Development, organized under the chairmanship of the IBRD.
23/ The bank, which owed most of the arrears, informally agreed to repay those arrears in 12 monthly installments.
24/ Individual private debt rescheduling operations (primarily with French commercial banks, Arab banks based in Paris, and German banks) were completed in 1981. The currently contemplated arrangement as proposed by the banks, involves a global rescheduling of the total stock of debt (short-, medium-, and long-term debt, including principal repayments in arrears but excluding any interest payments in arrears).
25/ The arrangement includes some reference to a similar rescheduling for maturities due during September 1983 August 1984.
26/ And a World Bank structural adjustment loan.
27/ According to the Mexican request of December 8, 1982 agreement has to be reached by March 31, 1983.
28/ Private sector's debt automatically and informally rolled over.
29/ The rescheduling of future maturities on medium-term debt of the public sector is linked to the settlement of the issue of the interest in arrears on the Mexican private sector's short- and medium- term debt; moreover, bank's exposure to Mexico at mid-August 1982 is to be maintained (including level of interbank placements).
30/ Principal repayments have been rolled over twice, i.e., on August 22, 1982 (for 90 days) and on November 23, 1982 for 120 days). Maturities falling due during the August 22, 1982-December 31, 1983 period are subject to rescheduling.
31/ US$5 billion (net new medium-term bank financing).
32/ A coordinated effort has been made among the monetary authorities of the major lending countries in the context of a major line of credit to the Bank of Mexico agreed in August 1982 through the BIS and a separate use of a swap arrangement with the U.S. Federal Reserve System. Of a total short-term financial assistance of US$2.55 billion, the United States contributed US$1.6 billion, including US$500 million in the form of a drawdown under a swap arrangement with the U.S. Federal Reserve System.
33/ New medium-term financing from official sources (other than the IMF) in an amount of US$2-2.5 billion, mostly in the form of export credits and government-to-government financial assistance; assumed to be disbursed in 1983.
34/ The three agreements all contained several highly unusual features, especially with respect to the treatment of interest on the rescheduled amounts. The December 1980 agreement did not cover debt obligations owed by the nationalized banks and the nationalized and commercial enterprises, which were covered under the 1981 and 1982 agreements, respectively.

(Footnotes concluded)

35/ 90 per cent of the maturities due in 1980 was rolled over until early 1981 at a lower than originally agreed spread over LIBOR, before being consolidated into a new medium-term loan. In 1981, however, the Peruvian authorities decided to forego the refinancing of the amounts rolled over during 1980 and repaid them in full.
36/ Signature date of the rescheduling of maturities due to foreign commercial banks in 1981; Poland applied for Fund membership on November 7, 1981.
37/ Principal in arrears on maturities due in 1981 which were not rescheduled under the April 1982 agreement.
38/ A short-term trade-related facility of six months, revolving up to 3 years, was agreed under a separate agreement. The amount involved, i.e. US$500 million, represents approximately 50 per cent of all interest due (and fully paid) in 1982.
39/ Negotiations on the 1982 official debt rescheduling have not yet started owing to political developments.
40/ At a very early stage. The Polish authorities are seeking a comprehensive three-year rescheduling arrangement, covering maturities on the medium- and long-term debt falling due during 1983-1985.
41/ Based on the latest information made available to the Fund staff.
42/ An agreement (in principle) was reached in June 1982 on both the amounts and the terms but has not yet been signed. The signing is contingent upon a further agreement on penalty clauses and terms.
43/ As Sudan was unable to make the March 29, 1982 payment in full, which was scheduled under the December 1981 agreement, banks agreed to postpone the unpaid portion for settlement in three equal installments three months apart starting in September 1982.
44/ On a number of specified loans only.
45/ Very little progress made so far. Aspects are described on the basis of the Togolese authorities' request made in April 1981.
46/ Including arrears under the March 1980 rescheduling agreement.
47/ Currently being discussed with completion contingent upon compliance with performance criteria under new Fund program.
48/ Bankers' credits and third party reimbursement claims. The agreement with respect to third party reimbursement claims was actually signed in early 1981.
49/ OECD consortium.
50/ Convertible Turkish lira deposits.
51/ Consolidation of terms under the (June and August) 1979 agreements.
52/ Description of aspects is based on proposal submitted to the Yugoslav authorities in early January 1983.
53/ Refinancing by means of a new US$1 billion medium-term loan.
54/ For 18 to 24 months; (amount estimated at US$1.5 billion).
55/ All debt repayments due in the period January 18-March 31, 1983, rolled over for 90 days.
56/ US$600 million.
57/ US$500 million from the BIS.
58/ 15 Western governments agreed at referendum in January 1983 to grant US$1.3 billion of mostly commercial medium-term credits.
59/ Agreement signed on the outstanding uninsured syndicated bank debt.
60/ However, the bank debt restructuring agreement did not require Zaire to have a program with the Fund in place; nor was it conditional on such a program.

Table 4. Terms and Conditions of Bank Debt Restructuring

Country, Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ million)	(In years unless otherwise noted)		(In per cent; spread over LIBOR/U.S. Prime)
Argentina					
Restructuring in process 1/					
Arrears at end 1982	100 per cent of principal)	8,000 to	3	7	2 1/8 - 2
Due in 1983	100 per cent of principal)	10,000	3	7	2 1/8 - 2
New medium-term loan (1983)	New financing	1,500	3	5 1/2	2 1/4 - 2 1/8
Bridge loan (1982)		1,100 2/	2 to 3 months	1 year and 3 months	1 5/8 - 1 1/2
Undertakings with respect to private sector's debt					
Bolivia					
Agreement of August 1980					
Arrears on short- and medium-term debt	100 per cent of principal	156	--	8 months	1 3/4
Agreement of April 1981 3/					
Arrears on short-term debt	80 per cent of principal	99	2	3 1/2	2
Arrears on medium-term debt	80 per cent of principal	73	3	7	2 1/4
Due April 1981/March 1982	90 per cent of principal	122	2	6	2 1/4
Due April 1982/March 1983	90 per cent of principal	122	2	5	2 1/4
Brazil					
Refinancing in process 4/					
Medium- and long-term					
Due in 1983	100 per cent of principal	4,700	2 1/2	8 1/2	2.125 - 1.875 5/ 2.250 - 2.000 5/ 2.50 - 2 1/4 5/
Short-term loans	100 per cent rollover in 1983	9,600 (trade-related)	--	--	...
New loans					
1982	New financing	1,200	...	...	...
1983	New financing	4,400	2 1/2	8	2.125 - 1.875 6/ 2.250 - 2.000 6/ 2.500 - 2.250 6/
Official assistance	New financing	...	...	...	...
Bridge loan (1982)		2,900	...	...	...
Chile 7/					
Rescheduling in process					
Medium term due:					
in 1983	100 per cent of principal	1,300	5	8	...
in 1984	100 per cent of principal	1,300	5	8	...
Short-term debt	100 per cent roll over	3,200 (incl. trade-related: 1,800)	--	--	...
New loan					
1983	New financing (net)	720	...	...	...

Table 4 (continued). Terms and Conditions of Bank Debt Restructuring

Country, Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ million)	(In years unless otherwise noted)		(In per cent; spread over LIBOR/U.S. Prime)
Costa Rica 8/					
Tentative Agreement Reached in December 1982 (Agreement in principle on interest and conditional on Agreement on principal repayments)					
Arrears on short-term debt (public and publicly guaranteed)	--	)			
Arrears on medium-term debt (public and publicly guaranteed as of Dec. 31, 1982)	--	) 112	...	...	...
Due in 1983	--	116	...	...	...
(including accrued interest)		(10)	...	...	...
Rescheduling in process for principal					
Principal in arrears and due in 1983	90 per cent of principal (bankers' proposal)	...	...	...	2 3/8 - 2 1/4 (bankers' proposal)
Cuba					
Rescheduling asked by Authorities 9/ (in September 1982)					
Medium- and long-term due during September 1982 - December 1985	100 per cent of principal	1,000 (tentative)	3	10	...
Ecuador					
Agreement of January 1983					
Short-, medium-, and long-term public debt due Nov. 1, 1982 - December 31, 1983					
a. Deferment	100 per cent of principal	1,080 (including 820 in short-term debt)	--	1	2 1/4 - 2 1/8
b. Rescheduling (effective December 31, 1983)	90 per cent of principal	970 (including 670 in short-term debt)	1	6	2 1/4 - 2 1/8
Guyana					
Temporary Rescheduling Agreement Reached in June 1982 10/					
Medium and long-term due during March 11, 1982- March 31, 1983 (public and publicly guaranteed medium- and long-term debt)	100 per cent of principal (temporary deferment)	13.6	6 to 7 months	--	2 1/2

Table 4 (continued). Terms and Conditions of Bank Debt Restructuring

Country, Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ million)	(In years unless otherwise noted)		(In per cent; spread over LIBOR/U.S. Prime)
Jamaica					
Agreement of September 1978					
Due April 1978/March 1979	7/8 of principal	63	2 11/	5 11/	2
Agreement of April 1979					
Due April 1979/March 1980	7/8 of principal 12/	77	2	5	2
Due April 1980/July 1981	7/8 of principal 12/	72	2	5	2
Agreement of June 1981					
Due April 1981/March 1983	100 per cent of principal	89	2	5	2
(of which: 1982/1983)	(100 per cent of principal)	(41)	(2)	(5)	(2)
Syndicated loan (July 1981	New financing	71	3	7	2 1/4
Other new loans	New financing	23.5			
March 1982		(...)	(...)	(7)	(2 1/2)
July 1982		(...)	(1)	(4)	(1 3/4)
Liberia					
Agreement of July 28, 1982 13/					
Due July 1, 1981 - July 31, 1983	95 per cent of principal	13	3	6	1 3/4
Madagascar					
Restructuring in process 14/ (Global restructuring of all maturities) 15/					
In arrears	100 per cent of principal	69.6	...	...	...
of which: short-term		(51.6)	(...)	(...)	(...)
Future maturities	100 per cent of principal	125.7	...	...	...
of which: short-term		(65.1)	(...)	(...)	(...)
Malawi					
Tentative Agreement Reached in November 1982 16/					
External public debt					
Due during Sept 1982-August 1983	100 per cent of principal	41.5	3	6 1/2	1 7/8
Mexico					
Rescheduling in process. 17/					
Mexico's public sector short-, medium- and long-term 18/ due during August 23, 1982 - December 31, 1984	100 per cent of principal	14,900	4	8	1.7/8 - 1.3/4
Syndicated loan 19/	New financing (net)	5,000	3	6	2.1/4 - 2 1/8
Official financing	New financing	2,000 to 2,500	...	...	...

Table 4 (continued). Terms and Conditions of Bank Debt Restructuring

Country, Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ million)	(In years unless otherwise noted)		(In per cent; spread over LIBOR/U.S. Prime)
Settlement of interest in arrears on private sector's debt 20/	--	1,000 to 1,500	--	--	1.0 - 7/8
Nicaragua					
Agreement of December 1980					
Arrears on interest or due up to December 1980 21/ 22/	75 per cent of arrears and amount due	70	--	5	) 3/4 - 1 1/4, but with deferred interest payment provision and interest recapture clause 23/
Arrears on principal as of December 1979 21/	100 per cent of arrears on principal	252	5	11	)
Due after December 1979	100 per cent of principal	240	5	12	)
Agreement of September 1981					
Arrears and	90 per cent of interest and principal)		1	10	) 3/4 - 1 1/4 with deferred interest payment provision and interest recapture clause 23/
Due after September 1981 (debt of nationalized banks)	100 per cent of principal)	180	5	10	)
Agreement of March 1982					)
Arrears and	90 per cent of interest and principal)		0	10	)
Due after March 1982 (debt of nationalized businesses)	100 per cent of principal)	55	5	10	)
Peru 24/					
Agreement of June 1978					
Due during second semester of 1978	100 per cent of principal	186 25/	--	due 1/3/79	...
Agreement of December 1978					
Due in 1979	90 per cent of principal)		2	6	1 7/8
Due in 1980	90 per cent of principal)	200 25/	2	5	...
Due in 1/1979 as per June 1978 agreement	50 per cent of amount rolled over)		--	1	1 3/4
Agreement of January 1980 26/					
Due in 1980	90 per cent of principal	340 25/	2	5	1 1/4
Poland					
Agreement of April 1982 27/					
Medium-term debt due March 26, 1981-Dec. 1981	95 per cent of principal	2,300	4	7	1 3/4
Agreement of November 1982 28/					

Table 4 (continued). Terms and Conditions of Bank Debt Restructuring

Country, Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ million)	In years unless otherwise noted)		(In per cent; spread over LIBOR/U.S. Prime)
Medium-term debt due in 1982, including arrears on unrescheduled maturities due in 1981	95 per cent of principal	2,300	4	7 1/2	1.3/4 - 1.1/2
Rescheduling in process 29/					
Medium-term due during 1983-1985	...	...	...	...	...
Romania					
Agreement of December 7, 1982					
Arrears on the 1981 debt obligations	80 per cent of such debt obligations	1,900	3	6 1/2	1.75
Due in 1982 on all debts (including short-term)	80 per cent of principal		3	6 1/2	1.75
Rescheduling in process 30/					
Medium- and long-term due in 1983	10 per cent of principal	86	--	1	1.75
	60 per cent of principal	515	4	6	1.75
Senegal					
Restructuring partially completed 31/ (June 1982)					
Due between May 1, 1981 and June 30, 1982 (including arrears)	90 per cent of principal	48.6	3	6 1/2	2
Due between July 1, 1982 and June 30, 1983	90 per cent of principal	28.7	4	7 1/2	2
Sudan					
Agreement of December 1981					
Arrears on interest as of end-December 1979	82 per cent of interest in arrears	115	--	3	1 3/4
Arrears on interest due in first quarter of 1981		55	5 months	9 months	1 3/4
Arrears on principal as of end-December 1979	100 per cent of arrears on principal as of end-1979	398	3	7	1 3/4
Togo					
Agreement of March 1980					
Arrears as of end-1979	100 per cent of arrears on interest and on principal	8.0	Settlement to be made in 1980 in 3 equal installments		
		17.4	6 months	1 1/2	Original rates maintained. However, spreads on euroloans reduced to 1 1/2

Table 4 (continued). Terms and Conditions of Bank Debt Restructuring

Country, Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ million)	(In years unless otherwise noted)		(In per cent; spread over LIBOR/U.S. Prime)
Due in 1980 on a number of specific loans	100 per cent of principal	44.0	1	3 1/2	Original rates maintained
Rescheduling in process 32/					
Arrears as of end-1982	... per cent of arrears	...	...	...	...
Due in 1983 on medium- and long-term public and publicly guaranteed loans	... per cent of principal	...	...	...	...
Turkey					
Euroloan of June 1979 33/	New financing (net)	407	3	7	1 3/4
Agreement of June 1979					
Banker's credits	100 per cent of principal	430 34/	3	7	1 3/4
Third party reimbursement claims	100 per cent of principal	130	--	3	1 1/2
Agreement of August 1979					
Convertible Turkish lira deposits 35/	100 per cent of principal	2,200 36/	3	7	1 3/4
Agreement of March 1982					
Improve the maturity profile of the August 1979 rescheduling agreement	100 per cent of principal	2,900	2	3	1 3/4
Yugoslavia					
Restructuring in process					
Medium-term loans due in 1983	100 per cent of principal	1,400	0	3 to 5	...
Short-term debt	rolled over (through either 1983 or 1984)	1,500	--	--	
All debt payments due in first quarter of 1983	100 per cent of principal rolled over	...	0	90 days	...
New syndicated loan	New financing (net)	1,000	0	3 to 5	...
Zaire 37/					
Agreement of April 1980					
Arrears on principal as of end-1979	76 per cent of principal	287	5	10	1 7/8 for first 5 years 2 thereafter
Due after 1979	100 per cent of principal	115	5	10	1 7/8 for first 5 years 2 thereafter

Sources: Restructuring agreements; and Fund staff calculations.

1/ Argentine authorities' request of December 1982. Argentina and each of its individual bank creditors have to sign

(Footnotes continued)

the restructuring agreements before June 30, 1983.

2/ The cumulate gross disbursements outstanding should not exceed US$1.1 billion at any point.

3/ Current status of this agreement is uncertain. Negotiation with banks reportedly started in mid-November 1982, as Bolivia could not meet the Fund program requirement that was specified in the April 1981 agreement.

4/ Brazilian authorities' request of December 20, 1983.

5/ The spreads over LIBOR/U.S. prime rate are 2.125 per cent/1.875 per cent for amounts on deposit with the Central Bank or--as generally acceptable maxima--for loans to public sector borrowers with the Republic's guarantee, PETROBAS and CVRD; 2.25 per cent/2.0 per cent as the generally acceptable maxima for public sector borrowers without the Republic's guarantee, private sector borrowers with Development Bank guarantee and for commercial and investment banks under Resolution 63; 2.5 per cent/2.25 per cent as generally acceptable maxima for private sector borrowers originally scheduled maturity date of each segment of the affected debt.

6/ The Central Bank stands ready to borrow the committed funds at either 2.125 per cent over LIBOR or 1.875 per cent over U.S. prime rate. For loans to other borrowers, the spreads agreed must be acceptable to the Central Bank, which indicated the following maxima for spreads over LIBOR to be generally acceptable (spreads over U.S. prime rate in parentheses): public sector borrowers with the Republic's guarantee as well as PETROBAS and CVRD--2.125 per cent (1.875 per cent); public sector borrowers without the Republic's guarantee, private sector borrowers with Development Bank guarantee, and Resolution 63 loans to commercial and investment banks--2.25 per cent (2.0 per cent); private sector borrowers, including multinationals--2.5 per cent (2.25 per cent). Brazil is also prepared to pay a 0.5 per cent commitment fee on undisbursed commitments, payable quarterly in arrears, and a 1.5 per cent flat facility fee on amounts disbursed, payable at the time of disbursement. The latter fee can be negotiated between borrower and lender, subject to Central Bank approval.

7/ Information based on the Chilean authorities' request of January 1983.

8/ Under the December 1982 agreement on interest payments, the banks agreed in principle to provide Costa Rica with a short-term trade-related credit facility equivalent to 50 per cent of the combined total of interest in arrears as of December 31, 1982, current interest in 1983, imputed interest on interest in arrears, and interest for bonds; the arrangement amounts to rescheduling about 80 per cent of interest in arrears on short- and medium-term debt and current interest in 1983 (including accrued interest and interest for bonds).

9/ Information based on the Cuban authorities' request of September 1982, as reported in the press.

10/ Banks indicated their intention to negotiate a refinancing agreement to convert the principal repayments into a longer-term loan prior to January 31, 1983. The temporary agreement was made conditional upon successful completion of negotiations for a upper credit tranche program with the Fund.

11/ Grace period and maturity were measured from the date of the first disbursement.

12/ The rescheduled amounts were rolled over on a short-term basis and were converted into medium-term loans on April 1, 1980 and on April 1, 1981 for the 1979/80 and 1980/81 reschedulings, respectively.

13/ Terms are almost identical to those in the original bank proposal. Also, the bank that was owed most of the arrears informally agreed to allow Liberia to repay the arrears in 12 monthly installments.

14/ Information based on latest information made available to the Fund.

15/ Based on outstanding debt, including short-term debt, as of December 31, 1982 and including payments arrears on both the short- and medium-term debt.

16/ A possible similar rescheduling for debt service payments due during September 1983-August 1984 was indicated in the tentative agreement. However, the issue of including short-term debt obligations was not resolved.

17/ Information based on the Mexican proposal of December 8, 1982.

18/ For the purpose of the rescheduling, Mexico's public sector debt (short-, medium-, and long-term) excludes (i) loans made, guaranteed, insured, or subsidized by official agencies in the creditor countries; (ii) publicly issued bonds, private placements (including Japanese yen-denominated registered private placements) and floating rate certificates of deposit and notes (including floating rate notes); (iii) debt to official multilateral entities; (iv) forward exchange and precious metal contracts; (v) spot and lease obligations in respect of movable property, short-term import and export related trade credits; (vi) interbank obligations (including placements) of the foreign agencies and branches of Mexican banks, excluding guarantees on interbank placements; (vii) financing secured by legally recognized security interest in ships, aircraft and drilling rigs; and (viii) the Central Bank's obligations arising from the contemplated arrangements to liquidate interest payments in arrears.

(Footnotes concluded)

19/ The US$5 billion loan is to be raised in the form of a medium-term international syndicated credit in which banks would participate on the basis of their pro rata exposure to Mexico as of August 23, 1982. The loan document would include a specific reference to a written explanation and confirmation from the Fund Managing Director with respect to a US$2-2.5 billion financial assistance to be obtained from official creditors (other than the Fund), a requirement to provide information about the implementation of the financial program, a request on the part of the lending syndicate not to object to the final restructuring principles of the contemplated rescheduling operation, the customary cross-default clause, a specification of events of defaults (including the failure of Mexico to comply with the performance criteria agreed with the Fund in connection with the three year extended arrangement, and nonmembership), and the implementation of the proposed mechanism to eliminate the interest arrears on the private sector debt.

20/ Specifically, Mexican private borrowers owing interest on foreign bank debts payable in foreign currency and outstanding prior to September 1, 1982 can use the new procedures (proposed by the Mexican authorities) to settle interest payments due in the period from August 1, 1982 to January 31, 1983. Settlement is made by depositing the local currency equivalent of the amount of interest due in foreign currency, at the controlled exchange rate of the date at which the deposit is constituted. Special foreign currency deposits will be opened by the foreign lenders with the Bank of Mexico, and the amounts of interest owed will be credited to these accounts. Ten per cent of the outstanding balance in these accounts will be paid to creditors on January 31, 1983, while the remainder will be settled in monthly installments, subject to the availability of foreign exchange. Any balance outstanding as of September 30, 1983 will be refinanced as a loan on terms to be agreed with individual banks.

21/ On short- and medium-term debt.

22/ Banks agreed to recalculate the interest due but unpaid at a spread of 1/2 percentage point above the actual LIBOR during the relevant period, rather than at the higher spreads specified in the original contracts.

23/ All four categories of debt are subject to interest accrual at a spread of 1 per cent above LIBOR between December 15 1980 and December 14, 1983; of 1 1/4 per cent between December 15, 1983 and December 14, 1986; of 1 1/2 per cent between December 15, 1986 and December 14, 1990; and of 1 3/4 per cent between December 15, 1990 and December 14, 1992. However, actual payments of interest can be limited to 7 per cent a year. Any excess of accrued interest will be added to a deferred interest payment pool which will be repaid whenever the accrued interest rate payments are less than 7 per cent per annum, or if this does not exhaust the pool by December 15, 1985, the balance will be amortized between 1986 and 1990 with 10 per cent due in each of 1986 and 1987, and the rest during the remaining three years. The agreement also contains an interest recapture clause. If Nicaragua fulfills all the terms of the contract, the interest rate spread would be reduced by 1/8 percentage point for every US$20 million of principal repaid after 1985. However, the spread would not be reduced below 1 per cent.

24/ All rescheduling agreements cover only public sector obligations. Bank loans with creditor country guarantees were included in the Paris Club agreement, rather than the bank reschedulings.

25/ Under the 1978 and 1980 bank reschedulings, amounts were initially rolled over on a short-term basis to be consolidated into a medium-term loan at a specified date early in the following year. The estimates are actual amounts of debt relief.

26/ In January 1980 Peru prepaid the 1979 bank rescheduling and the terms of the 1980 rescheduling were renegotiated.

27/ The agreement, which covers maturities due during March 26 - December 31, was effective May 10, 1982. Short-term facilities and interbank deposits were specifically excluded.

28/ In addition, under a separate agreement, Poland obtained revolving short-term (six-month) credit facilities of US$500 million (i.e., approximately half of the total amount of interest due and paid in 1982); these credit facilities can be rolled over through 1985.

29/ The Polish authorities announced in December 1982 that they were seeking a three-year rescheduling agreement that would coincide with their 1983-85 socio-economic plan.

30/ Information based on latest information made available to Fund staff. The (estimated) amount of the medium-term loan to be rescheduled is US$859 million; 30 per cent of the amount is to be paid in the form of a downpayment in 1983 with the payment of 10 per cent of downpayment deferred to 1984.

31/ An agreement (in principle) was reached on both the amounts and the terms but has not yet been signed. The signing is contingent upon a further agreement on the penalty clauses and terms.

32/ Negotiations were initiated in April 1981 but little progress has been made so far; the resumption of negotiations is contingent upon approval of a new stand-by arrangement with the Fund, which was approved by the Fund's Executive Board on March 4, 1983.

(Footnotes concluded)

33/ Disbursement was to be based on letter of credit financing for imports. Other conditions for the first disbursement (50 per cent) include making the first purchase under IMF stand-by arrangement and the signing of the agreement on convertible Turkish lira deposits. For the second and third disbursements (25 per cent each), other conditions include making the purchase under the IMF stand-by arrangement scheduled for November 1979 and March 1980, and implementation of programs for third-party reimbursement claims and arrears on nonguaranteed debts.

34/ All previously rolled over.

35/ Holders allowed to switch currency of denomination; liability switched from commercial banks to Central Bank.

36/ US$2.0 billion rolled over prior to June 30, 1979; US$0.2 billion due in second half of 1979.

37/ Bank debt refinancing agreement covers only syndicated loans (and other floating rate loans) without creditor country guarantee.

I. Introduction

The following annexes present descriptive material regarding the 23 country cases which form the base sample for the paper "Payments Difficulties Involving Debt to Commercial Banks." These annexes are of four types: Annex II contains case studies of the three commercial bank debt restructuring cases currently under negotiation which involve the largest amount of debt (Argentina, Brazil, and Mexico); Annex III contains brief descriptive notes on the remaining 20 country cases which are also under negotiation. Annex III also contains brief notes which provide an update on those cases that were already reviewed in SM/80/275, as well as restructurings which have been completed since SM/80/275 was issued.

These notes are not intended to present a complete study of the experiences described, but rather are designed to provide summary background material for those readers who wish to review the basic elements of individual country cases. The reader should note that this paper includes developments only through end-January 1983, so it is possible that there have been changes in the cases still under negotiation which are not reflected in these notes.

Argentina

1. Background

In late 1978, with foreign reserves equal to 16 months' imports, the Argentine authorities introduced a system (the tablita) whereby a daily schedule for the depreciation of the peso, at a steadily decelerating rate, was announced many months in advance. The tablita was intended to be part of a broader set of policies aimed at bringing down Argentina's rate of inflation, which had remained persistently above 100 per cent. The supporting demand management policies were not, however, put in place, and the peso appreciated by 40 per cent in real effective terms over the two years through December 1980. Between 1978 and 1980 imports tripled and the current account moved from a surplus equal to almost 4 per cent of GDP to a deficit equal to 7 per cent of GDP. In 1979, strong growth in agricultural exports and heavy private sector borrowing abroad enabled Argentina to continue to run an overall payments surplus. The foreign debt of the private sector doubled in 1979, reflecting the lifting of deposit requirements on foreign borrowing and the introduction of the tablita, which had reduced both the exchange risk involved in borrowing abroad and the relative peso cost of foreign compared to domestic funds. By the last half of 1980, however, belief had become widespread that the exchange policy was unsustainable; between September 1980 and March 1981, short-term private capital outflows exceeded US$5 billion.

During the first half of 1981 the tablita was abandoned and the peso was devalued by about 65 per cent in a series of large, discrete devaluations. While these actions had a strong and immediate impact on the trade balance, private capital flight continued. In June 1981 the authorities introduced a system of exchange rate guarantees for private sector loans contracted or renewed for at least 540 days. About US$5 billion in guarantees were granted under this system, mostly at the minimum term. While these operations may have provided a temporary respite, they produced a severe bunching of amortization payments due between December 1982 and May 1983. In late 1981, with the balance of payments under continued pressure, the Central Bank also undertook a substantial volume of 180-day foreign currency swap operations with both bank and non-bank private sector borrowers.

Argentina's external debt, including short-term, rose from US$12.5 billion at the end of 1978 to US$35.7 billion at the end of 1981, an almost three-fold increase within a three-year period. While private sector borowing was most heavily concentrated in the early part of this period, the outstanding debt of the public sector doubled from end-1979 to end-1981, with short-term debt accounting for about half of this increase. The share of short-term in total debt rose from 20 per cent in 1978 to almost 40 per cent in 1981. According to BIS data, foreign commercial banks funded three quarters of Argentina's borrowing during this period, and their share in Argentina's external debt rose from 56 per cent at the end of 1978 to 70 per cent in December 1981. Argentina's debt service payments tripled over these three years and the debt service ratio rose from 34 per cent to 55 per cent. Most of this increase was accounted for by higher interest payments, with the impact of the recent heavy borrowing on the amortization schedule being reflected primarily in the years 1982 and beyond.

A new economic team which assumed office at the end of 1981 floated the peso, terminated the exchange guarantee and swap operations, and took major steps toward reducing the fiscal deficit and the rate of monetary expansion. At the same time efforts were undertaken to improve the maturity structure of Argentina's debt by repaying short-term obligations with new medium-term syndicated loans. These efforts were, however, brought to an abrupt halt with the outbreak of the conflict in the South Atlantic in April 1982. During the second quarter of 1982 trade was severely disrupted, private capital flight reached massive proportions, and more than US$2 billion in external payments arrears were accumulated. The international capital markets have been virtually closed to Argentina since that time. During and after the war, the Argentine authorities introduced wide-ranging controls on trade and payments. Swap operations were resumed in May, the exchange guarantee system was reintroduced in July, and the Central Bank began to issue U.S. dollar-denominated external bonds in lieu of providing foreign exchange to meet external obligations. Argentina's difficulties during this period were compounded by the prospect of a severe bunching of amortization payments; of a total outstanding debt of US$34 billion at the end of August 1982, almost half was scheduled to fall due before the end of 1983. This bunching reflected the impact of the 1981 exchange rate guarantee scheme for private sector loans, the 180-day swap operations with the private sector, and the recent heavy reliance of the public sector on short-term borrowing.

2. The rescheduling process

In September 1982, Argentina began negotiations with the Fund on a 15-month financial program supported by a stand-by arrangement. At about the same time, the Argentine authorities initiated discussions with the international banks that had major local operations in Argentina on a possible bridge loan in connection with the stand-by. The early stages of the discussions on the bridge loan were conducted on a somewhat ad hoc basis, but subsequently the banks formed a Working Committee. By October, agreement in principle had been reached on the terms of a US$1.1 billion bridge loan.

In a meeting between the banks and the Managing Director in November 1982, the Managing Director requested certain undertakings regarding a three-part package as a precondition for his submission of the Argentine program to the Executive Board. These undertakings included: the confirmation that negotiations on the bridge loan had been completed and that the first tranche of US$600 million had been disbursed; assurances regarding the availability of US$1.5 billion of net new medium-term financing for 1983; and the understanding that the banks would reschedule principal falling due in 1983, including short-term maturities, "on realistic terms, with due regard being paid to existing debt obligations and to balance of payments prospects in the years ahead." In addition, the BIS provided a short-term loan of US$500 million in late January 1983.

The bridge loan was signed on December 31, 1982. The first tranche of the bridge loan (US$600 million) was conditional upon the Managing Director's endorsement of the Fund program, and this tranche was disbursed in early January 1983. The second tranche (US$400 million) was to have been tied to the distribution of the stand-by documentation to the Board, implying that all preconditions were met; this amount was, however, not actually disbursed until the time of the initial purchase under the stand-by arrangement in late January 1983. The third tranche (US$300 million) is tied to the first "conditional" purchase under this arrangement in May. 1/ Disbursements of the bridge loan were also conditioned upon Argentina being current on interest to the participating banks as of specified dates. Repayment of the bridge loan is tied to the January, August, and November 1983 and February 1984 purchases under the Fund arrangement. Under this schedule, the bridge loan is to be fully repaid by February 1984. The bridge loan carries a spread of 1 5/8 per cent over the LIBOR or 1 1/2 per cent over prime at the lender's option.

The medium-term loan was agreed on in principle in December, but has not yet been signed. The loan will be disbursed in three equal tranches, conditional upon Argentina actually making purchases under the stand-by arrangement as scheduled in May, August, and November; it is also conditional upon Argentina being current on all interest to the participating banks and on servicing the bridge loan. The medium-term loan has a grace period of three years and a maturity of four and a half years, both measured from the date of the first disbursement in May 1983, and carries a spread of 2 1/4 per cent over LIBOR or 2 1/8 per cent over the U.S. prime rate. Both the bridge loan and the medium-term loan were distributed among about 250 participating banks in proportion to their share in Argentina's total debt to banks.

At Argentina's request, the debt restructuring process has taken the form of separate agreements between each Argentine public sector borrower and its individual bank creditors. However, each agreement must conform to a set of "draft principles" circulated by the lead banks to the other participating banks. The rescheduling involves 1982 maturities in arrears, as well as maturities falling due in 1983. Under the "draft principles," all the separate rescheduling agreements are to be signed before June 30, 1983, a date which represents the deadline under the stand-by for the elimination of all external payments arrears. Principal in arrears as of December 31, 1982, plus amounts falling due in 1983, are to be rescheduled with a grace period of three years and a maturity of seven years, measured from June 1983.

1/ Total gross disbursements under the bridge loan total US$1.3 million; however, the maximum amount outstanding is US$1.1 billion. The amount outstanding at the end of 1983 would be US$400 million.

The amounts rescheduled will carry a spread of 2 1/8 per cent over LIBOR or 2 per cent over U.S. prime. The rescheduling is to include all short-, medium-, and long-term obligations of the Argentine public sector to foreign banks, except certain types of excluded debt. In particular, those obligations covered by an official guarantee from the creditor country, publicly issued bonds, private placements, and most documentary trade financing are excluded from the rescheduling. The amount involved in the rescheduling is estimated to be between US$8 billion and US$10 billion.

Given the agency-by-agency approach, negotiations on the various aspects of this refinancing package could be subject to delay. Therefore, drawdowns of the US$1.5 billion medium-term loan have also been made conditional on progress in the refinancing: in particular, agreements covering 50 per cent and 90 per cent of the amounts to be rescheduled must be completed before the disbursement of the first tranche and second tranche, respectively, of the medium-term loan.

3. Exchange rate guarantees and swaps

Exchange rate guarantees had been reintroduced in July 1982 with the primary objective of encouraging the renewal of loans for which exchange rate guarantees had been granted in 1981. By the time the new scheme was terminated in October, applications had been received for US$4.5 billion in guarantees on previously unguaranteed debt. However, renewals had been requested for less than US$1 billion of the US$5 billion in loans that had received guarantees during 1981. Since almost US$1.5 billion of these loans matured in the last five weeks of 1982 and a further US$1.7 billion came due in the first quarter of 1983, this posed a major problem for the Argentine authorities. The Central Bank did not have the foreign exchange to permit the repayment of these debts, and the monetary expansion that would have resulted from letting the private sector roll over these loans by repaying them at the guaranteed rate ($a 4,000 to $a 7,000 per U.S. dollar) and renewing them at the current exchange rate (about $a 50,000 per U.S. dollar) would have been extremely inflationary.

Confronted with this situation, the Argentine Government had initially considered assuming these obligations, after the private sector had paid the appropriate peso amounts, and incorporating them into the general package of debts which the authorities hoped to reschedule during 1983. The actual course adopted was different. On November 17, the Central Bank announced that principal on all loans carrying a 1981 exchange rate guarantee and not renewed under the 1982 scheme had to be rescheduled, and established the minimum terms for that rescheduling. The foreign creditor either could accept a U.S. dollar-denominated bond or promissory note of the Government of Argentina carrying a grace period of about three and a half years and a total maturity of about five years or could renegotiate the loan directly with the Argentine borrower, provided that the repayment terms were no shorter than those attached to the bonds or promissory notes. The renegotiated loans would not, however, carry an exchange rate guarantee. Interest on these loans continued to be freely transferable. The spread on the government bond or promissory note was 2 per cent over LIBOR; the spreads on loans renegotiated directly with private sector borrowers were to be freely determined. Preliminary estimates indicate that, because of this action, about US$4 billion in debts which would have come due in December 1982 and in 1983 will be deferred to April 1986-April 1988.

As noted above, the Central Bank of Argentina had, in December 1981, undertaken a large volume of 180-day foreign currency swap operations with the private sector. Although such operations were suspended by the economic team which took office in late December 1981, they were resumed again in mid-1982 in order to roll over the December swaps and encourage new private sector inflows. In December 1982, faced with about US$1.1 billion in swaps outstanding and falling due over the next six months, the Argentine authorities annouced the compulsory renewal of all maturing swaps for a minimum period of 90 days at the original contract rate. In early March 1983, when the first 90-day extension periods expired, the Argentine authorities announced the unilateral suspension of payments on these obligations. The terms and conditions on which the loans covered by swap operations are to be rescheduled are not yet known.

4. Impact of the financing package

The gross relief provided by these various operations, including both the three-part package arranged in conjunction with the stand-by and the actions on exchange-guaranteed loans and swaps, is estimated at about US$14.5 billion in 1983. The stream of amortization payments which results from the financing package peaks at about US$4 billion in 1986 and US$5 billion in 1987; on the basis of debt outstanding as of the end of August 1982, Argentina already had about US$2 billion in amortization payments falling due in each of these years. These numbers would imply that, even with no new borrowing other than the arrangements considered here, amortization payments on medium- and long-term debt would be equal to an estimated 40 per cent of Argentina's exports of goods and services in 1985 and 1986. Assuming an average interest cost of 10 per cent, the debt service ratio would be about 65 per cent. These estimates do not include service on amounts owed to the Fund.

5. Role of the Fund

Discussions between the Argentine authorities and the Fund staff on the elements of an adjustment program to be supported by a stand-by arrangement with the Fund were successfully concluded in early November 1982. Shortly thereafter, the Managing Director of the Fund invited representatives of 17 banks from seven countries to meet with him at the Federal Reserve Bank of New York to discuss the economic programs of Argentina and Mexico and the financing requirements of these two countries. At that meeting, the Managing Director explained that the viability of the proposed Argentine adjustment program depended critically upon Argentina being able to reschedule all maturities falling due in 1983 and receiving new medium-term financing sufficient, in combination with resources provided by the Fund, to enable Argentina to repay outstanding arrears and cover the much-reduced current account deficit foreseen for 1983. In view of his responsibility for determining the viability of the program, the Managing Director asked the bank Working Committee to provide him with written assurances--before he submitted the proposed stand-by arrangement to the Executive Directors for approval--that Argentina's bank creditors had agreed to provide a medium-term loan and to restructure all maturities coming due in 1983, including short-term debt, on realistic terms. At a subsequent meeting between Fund management and representatives of the banks, the amount of the medium-term loan was set at US$1.5 billion. The financing package also included the US$1.1 billion bridge loan, which had been agreed in principle before the Managing Director's initial meeting with the banks.

The communication from the Working Committee to Argentina's bank creditors concerning participation in this package included a statement from the Managing Director outlining Argentina's economic program and explaining that he needed written assurances from the banks that the bridge loan, the medium-term loan, and the rescheduling would proceed as agreed before he would be in a position to go to the Executive Board of the Fund with the Argentine stand-by request. The Managing Director also noted that he had asked the monetary authorities of the main creditor countries to encourage active participation in this effort. On January 3, 1983, the Chairman of the Working Committee provided the Managing Director with notification that commitments had been received for the full amount of the bridge loan and the medium-term loan. Throughout this time, the Managing Director kept the Executive Directors of the Fund informed of his efforts to secure the financing necessary to assure the viability of the proposed program.

While the Fund made receipt of certain undertakings from the banks a precondition for proceeding with the Argentine stand-by request, the banks, as described in Section 2 above, tied the financing which they provided closely to the processing of and performance under the stand-by arrangement. Furthermore, in determining the pattern of disbursements on the medium-term loan, the banks took into account Argentina's undertakings under the stand-by arrangement with regard to the elimination of external payments arrears. As discussed above, Argentina is in the process of negotiating separate rescheduling agreements for the main public sector borrowers. While the conditions of the rescheduling will depend on the covenants in each agreement, the Working Committee guidelines do not indicate any direct link between the rescheduling agreements and performance under the stand-by arrangement.

6. Treatment of official creditors

In the case of Argentina, there was no discussion of a rescheduling of debt owed to official creditors and the banks have not made a rescheduling of official debt a condition for their own undertaking.

The amount owed by Argentina to official creditors is, however, small compared to the amount owed to banks. According to Berne Union data, total principal plus interest scheduled for payment in 1983 on an official and officially guaranteed medium- and long-term debt was US$565 million.

Brazil

1. Background

The sudden Brazilian payments crisis has its long-term roots in the development strategy pursued since the mid-1960s of supplementing an insufficient domestic savings effort with foreign resources that were largely borrowed at commercial terms. The high rates of growth and substantial improvements in the standard of living for broad segments of the population were achieved at the expense of severe distortions as policymakers attempted to make gradual adjustments to large dislocations in the world economy.

However, certain events in 1982 precipitated the eruption of the crisis. Domestically, demand management had been relaxed during most of the year, ahead of important nationwide elections. Externally, exports recorded their first decline in value terms since 1967 as a consequence of the deepening recession in the industrial countries, associated protectionist measures and falling commodity prices, financial difficulties in developing countries (e.g., in Latin America, West Africa, and the Middle East) that had recently become important buyers of Brazilian manufactures, and the real appreciation of the cruzeiro, to a large extent due to the continued strength of the U.S. dollar against other major currencies. At the same time, high foreign interest rates and the continuing growth of external debt--more than 75 per cent contracted at variable rates--boosted net interest payments to US$11 billion. Despite a concurrent substantial increase in nonfactor service payments, however, it appears that the payments situation would have been manageable in the near term, particularly in view of an almost flat amortization schedule, falling interest rates abroad, the tightening of domestic demand management, and the adoption of measures to restrict imports and current payments.

The latent payments crisis erupted in the wake of Mexico's liquidity crisis in August 1982 when banks drastically scaled down the customary flow of cash loan disbursements and began to cut back short-term trade-related credit facilities. In September and October 1982, the Brazilian authorities worked out a foreign sector adjustment program for 1983, approached their largest bank creditors and the U.S. Government for emergency assistance, and initiated discussions with the Fund that were to be followed by the open negotiation of a three-year adjustment program after the mid-November elections.

2. Evolution of the role of banks

Brazil's total external debt--both public and private--increased from US$62.8 billion at the end of 1980 to US$72.0 billion at the end of 1981, and further to US$75.3 billion at the end of June 1982. Provisional estimates put the total at US$81.3 billion at the end of 1982. 1/ For

1/ Excluding US$0.5 billion outstanding under the compensatory financing facility.

the same dates, medium- and long-term debt rose from US$53.8 billion to US$61.4 billion to US$64.4 billion. 1/ At the end of September 1982, medium- and long-term debt stood at US$66.8 billion 1/ and it is estimated to have reached US$68.0 billion at the end of 1982. Short-term debt increased from US$9.0 billion at the end of 1980 to US$10.6 billion at the end of 1981, and to US$10.9 billion at the end of June 1982. By the end of 1982, short-term debt is estimated to have risen to US$13.3 billion as support operations more than offset the contraction of commercial short-term facilities.

Debt to commercial banks amounted to US$47.8 billion (or 76 per cent of total debt) at the end of 1980, US$57.6 billion (or 80 per cent of total debt) at the end of 1981, and US$61.6 billion (or 82 per cent of total debt) at the end of June 1982. The estimated data for the end of 1982 are US$66.1 billion (or 81 per cent of total debt). Except for the end of 1982--when there were US$1.4 billion of official support operations outstanding--all short-term debt has been owed to banks. About 10-12 per cent of bank debt is owed to Brazilian banks abroad. Most of bank debt was disbursed in the form of cash loans; the balance arose from buyers' or suppliers' financing. A tightening in the minimum maturity requirements for financial loans 2/ at the end of 1978 has helped to stabilize the maturity structure of total debt in the face of falling average maturities for nonfinancial debt (see Chart).

According to data compiled by banks for July 1982, 3/ 25 per cent of medium- and long-term bank debt was owed to U.S. banks, 15 per cent to Brazilian banks, 12 per cent to Japanese banks, and 10 per cent to banks in the United Kingdom. The total number of bank creditors (including subparticipations) by year-end amounted to 1,114. Little is known about the geographic breakdown of short-term debt.

In comparison to Mexico (i) Brazil's total and bank debt grew less rapidly; (ii) Brazil relied considerably less on short-term financing; (iii) Brazil has fewer bank creditors, but the concentration of the debt in the hands of a few large bank creditors is less pronounced. However, total bank exposure is virtually identical for both countries. The paramount importance of the banks in Brazil's current adjustment program results from their traditional role as the chief financier of Brazil's development effort and from the resource drain that threatens to be caused by the amortization of US$4.7 billion of medium- and long-term bank debt in 1983, not to speak of US$9.6 billion of short-term facilities.

1/ All debt with a maturity over one year must be registered with the Central Bank within 30 days. Debt pending registration at any point of time may amount to US$1.0-1.5 billion.

2/ Mostly bank loans but also intercompany loans.

3/ Total medium- and long-term debt of US$50.6 billion, compared with US$50.7 billion according to the Central Bank's debt register for the end of June 1982.

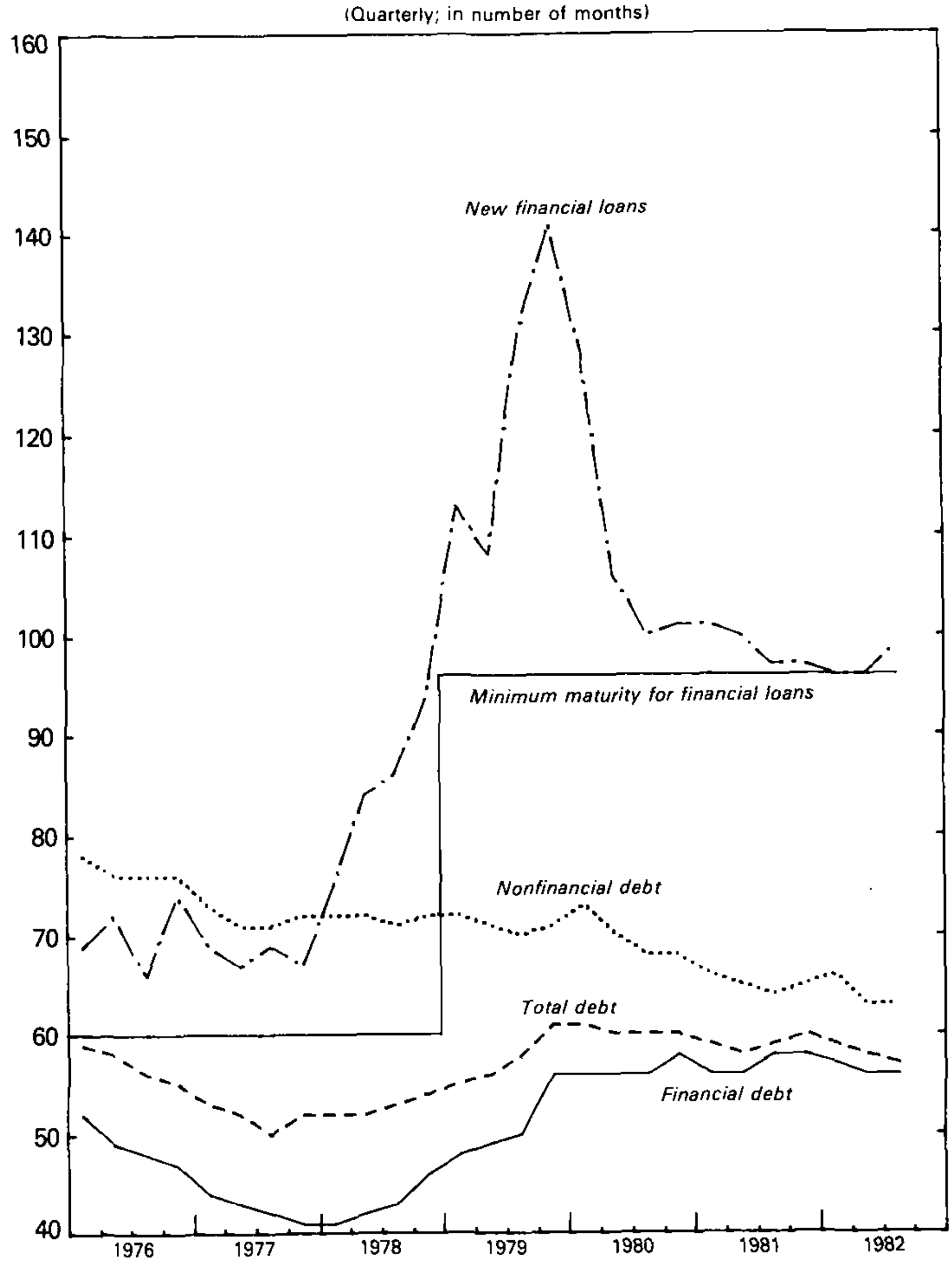
ANNEX II

CHART 10

BRAZIL

AVERAGE MATURITY OF NEW FINANCIAL LOANS CONTRACTED AND OF THE OUTSTANDING EXTERNAL DEBT[1]

(Quarterly; in number of months)



Source: Central Bank of Brazil

[1]Medium and long term debt.

As discussed in greater detail below, Brazil received emergency assistance from the banks, initially in the form of a restricted club deal and subsequently through a more broad-based bridge operation. In late December 1982, Brazil approached all of its bank creditors with a formal four-part request for fresh medium-term lending, the refinancing of amortization payments, the rollover of short-term facilities, and the maintenance or re-establishment of money market facilities for Brazilian banks abroad. By late January, virtually all of the new funds had been committed and the other three parts of the request were well on their way toward satisfactory resolution.

3. Brazil's approach to the banks

After the Mexican payments crisis in August 1982, the customary flow of bank financing dried up as banks were unwilling to make new commitments and were even attempting to delay disbursements under existing ones. At the same time, the approaching national elections made an open discussion of Brazil's payment problems impossible.

a. The bridging operation

Faced with rapidly dwindling reserves, Brazil first turned to its major bank creditors for financial support. On November 3, 1982, the Central Bank confirmed the conclusion of an agreement in late October of a bridging loan, but was unwilling to disclose any details in view of the approaching election less than two weeks later. In the event, six U.S. banks 1/ disbursed US$0.6 billion in November 1982. As the payments problems persisted, Brazil addressed a formal request to 40 commercial banks in the United States, United Kingdom, Japan, Canada, Germany, France, Switzerland, and the Middle East for a bridge loan of almost US$2.9 billion (including the US$0.6 billion already disbursed; Table 1). The response was favorable and US$2.3 billion (including the initial US$0.6 billion) were disbursed by the end of 1982. Together with official disbursements from the Fund, the BIS, and the U.S. Treasury, these funds permitted Brazil to stay current on all its payments obligations in late 1982.

b. The four-part request

On December 20, 1982, Brazil presented in New York to the representatives of some 125 of its major bank creditors a package for financial assistance from banks in 1983. The Brazilian request, which had been worked out on the basis of the adjustment program agreed with the Fund, consisted of four parts, viz., new loans, refinancing of amortization, rollover of short-term loans, and maintenance of money market financing of Brazilian banks abroad. Each of the parts is looked after by its own coordinating committee formed of representatives of 40 banks with substantial exposure in Brazil. The coordinating committees are chaired by Morgan Guaranty Trust (new loans), Citibank (refinancing), Chase

---

1/ Citibank, Bank of America, Chase Manhattan, Morgan Guaranty Trust, Manufacturers Hanover, and Chemical Bank.

Table 1. Brazil: Bridge Loan Requests from 40 Banks in 1983, by Country

(In millions of U.S. dollars)

Total	2,871
U.S. banks	1,593 1/
U.K. banks	297
Japanese banks	257
Canadian banks	235
German banks	171
French banks	141
Swiss banks	127
Arab banks	50

Source: Central Bank of Brazil.

1/ Includes US$600 million already disbursed from the six largest U.S. creditor banks.

Manhattan (rollover), and Bankers Trust (maintenance). On December 21, 1982 the bank representatives met among themselves under the chairmanship of Morgan Guaranty Trust to discuss the Brazilian request. The request was endorsed in principle and the coordinating committees began their work. Early responses were generally favorable and, by late January 1983, the various parts of the request were all but fully met.

c. Part one: new loans

In addition to US$1.2 billion to be disbursed from commitments made in 1982, Brazil is seeking US$4.4 billion in fresh commitments for disbursement in 1983. The US$4.4 billion represents 12 per cent of the registered exposure 1/ as of June 30, 1982 of the 121 banks (the committing group) with loan claims in excess of US$50 million. 2/ The commitments are to be disbursed quarterly with each installment linked to the continued ability of Brazil to make purchases under the proposed extended arrangement. Members of the committing group are free to choose borrowers from a list of public sector borrowers prepared by the Central Bank or from private sector applicants, including domestic banks. Residually, the Central Bank stands ready to borrow the committed funds at either 2.125 per cent over LIBOR or 1.875 per cent over prime rate. 3/ For loans to other borrowers, the spreads agreed must be acceptable to the Central Bank, which indicated the following maxima for spreads over LIBOR to be generally acceptable (spreads over prime rate in parentheses): public sector borrowers with the Republic's guarantee as well as PETROBRAS and CVRD--2.125 per cent (1.875 per cent); public sector borrowers without the Republic's guarantee, private sector borrowers with Development Bank guarantee, and Resolution 63 loans to commercial and investment banks--2.25 per cent (2.0 per cent); private sector borrowers, including multinationals--2.5 per cent (2.25 per cent). Brazil is also prepared to pay a 0.5 per cent commitment fee on undisbursed commitments, payable quarterly in arrears, and a 1.5 per cent flat facility fee on amounts disbursed, payable at the time of disbursement. The latter fee can be negotiated between borrower and lender, subject to Central Bank approval. All payments will be exempt from Brazilian taxes. The maturity of the loans will be eight years, including 30 months' grace.

The loan documentation is to contain, inter alia, (i) two conditions of effectiveness relating to the conclusion of a satisfactory arrangement to refinance 1983 amortization payments to banks (see Part two, below) and the approval of the extended arrangement with the Fund; (ii) the requirement for Brazil to make each purchase under the extended arrangement with the Fund within two months of the test dates; and (iii) a covenant relating

1/ That is, medium-term exposure measured on a disbursement (as contrasted with commitment) basis.

2/ For the resulting country distribution as of December 31, 1982 and according to the AGEFI newsletter (see Table 2).

3/ All interest rates, spreads, and fees are expressed in per cent per annum unless otherwise indicated.

Table 2. Brazil: Request for New Loans in 1983, by Country

(In millions of U.S. dollars)

Total (121)	4,409
U.S. banks	1,512
Japanese banks	727
U.K. banks	584
Canadian banks	422
French banks	340
German banks	315
Benelux banks	197
Swiss banks	122
Middle East banks	66
Scandinavian banks	32
Other banks	92

Source: AGEFI Newsletter (12/31/82).

to the compliance with Fund performance criteria and a formal certification from the IMF that this is indeed the case or that the conditional purchases have actually been made.

In the final days of 1982, the coordinating committee discussed the loan proposal with representatives of the committing group in New York and London. Some difficulties notwithstanding, in late January 1983 Morgan Guaranty Trust had firm commitments for US$4.1 billion and it was all but certain that the target of US$4.4 billion would be reached.

d. Part two: refinancing of principal falling due in 1983

Of US$7.2 billion of medium- and long-term debt to be amortized in 1983, US$4.0 billion corresponds to repayments of financial loans from foreign banks. Another US$0.7 billion corresponds to buyers' and suppliers' credits financed by foreign banks. The request defines the "affected debt" as principal falling due in 1983 of all public and private borrowers owed to commercial banks and other financial institutions abroad, having an originally scheduled maturity of more than one year, and registered with the Central Bank. Certain debt instruments were specifically exclued, viz., publicly issued bonds, yen-denominated placements, floating rate CDs, notes (including floating rate notes), privately placed securities, debt to foreign governments or government agencies (including export credit agencies), or multilateral organizations, or guaranteed by foreign governments or their agencies (including export credit agencies), foreign exchange and precious metals contracts, lease obligations, and interest subsidies under the FINEX (export financing) program.

The Central Bank proceeded in late 1982 to put into place a mechanism with effect from the first business day of 1983 to collect all local currency payments due on the "affected debt" in a foreign currency denominated account in the Central Bank. The funds accumulated in the Central Bank in connection with the affected debt held in the Central Bank's accounts in the name of the foreign creditor can only be withdrawn by the foreign countries to make new loans to Brazilian private and public sector borrowers. The "affected debt"--whether on deposit with the Central Bank or on loan to Brazilian borrowers--will be amortized like the new loans under part one of the request, i.e., in 12 semiannual installments commencing 30 months after the originally scheduled maturity of the relevant part of the affected debt. The Republic will assume the guarantee of all affected debt by public sector borrowers that is not already guaranteed in that way. The spreads over LIBOR/prime rate are the same as for the new loans. A flat fee of 1.5 per cent will be paid by the Central Bank on the originally scheduled maturity date of each segment of the "affected debt". Like the new debt, all payments are exempt from Brazilian taxes. Also, the documentation is symmetrical to the one for the new loans with respect to the conditioning on the extended Fund facility and the successful conclusion of part one of the request.

The replies to the request have been highly positive but, due to the sheer number of creditors involved, work on part two of the request is still ongoing.

e. Part three: rollover of short-term loans

The Brazilian authorities estimated trade-related short-term lending to Brazil (financing of raw material imports and export prefinancing) at the end of 1982 to have amounted to US$8.8 billion. New data compiled at the end of January 1983 show that the total was US$9.6 billion. US$8.6 billion of the total amount represented PETROBRAS' lines of credit and Brazilian commercial banks' short-term positions; the balance were lines of credit of other companies and of the monetary authorities. Except for US$0.2 billion from Brazilian banks abroad, the entire amount was owed to foreign banks. Brazil is requesting the banks to roll over their short-term lending in 1983. There seem to have been no major difficulties in meeting this request.

f. Part four: maintenance of money market lending

Funds raised by foreign branches of Brazilian banks, mainly in the New York interbank market, were estimated to be in excess of US$10 billion. The proceeds of these often very short-term funds have been lent to banks in Brazil and to the monetary authorities, mostly over the medium and long term. (Central Bank estimates put borrowing from Brazilian banks abroad at the end of 1982 at US$6.9 billion, including US$6.7 billion at maturities in excess of one year.) The request is to renew the interbank lines and to re-establish them to their mid-1982 level in cases where they have been reduced. According to press reports, however, Brazil has recently begun to offer higher than normal interest rates and other fees in the interbank market. Thanks to this and to official support, agreement on part four of the request appeared imminent in late January 1983.

g. Cooperation by official agencies 1/

Throughout the Brazilian payments difficulties, foreign national authorities have been active both to provide short-term financing and to facilitate acceptance of Brazil's financing proposal to the banks. As early as October and November 1982, the U.S. Treasury made three disbursements totaling US$1.23 billion from its short-term Exchange Stabilization Fund. The support operation was not made public until President Reagan's visit to Brazil at the beginning of December. Another disbursement of US$0.25 billion was made on December 13, 1982 as a short-term bridge for a facility to be arranged through the BIS before the first repayment to the U.S. Treasury of US$0.6 billion fell due at the end of December. The U.S. Government also led other industrial countries in arranging a US$1.2 billion bridging facility through the BIS. US$0.5 billion of that facility was disbursed in late 1982, and the balance in the first half of January 1983. In the second half of January, the BIS facility was augmented by a US$0.25 billion contribution from Saudi Arabia.

1/ The role of the Fund is discussed separately in Section 6, below.

A strong confidence-building psychological effect emanated from the meetings of G-5 finance ministers in Germany in December and of the G-10 in France in January, especially the agreement to expand size and access to the GAB and the decision to increase Fund quotas expeditiously by a substantial amount. Bank regulators in the United States and elsewhere seem to have encouraged smaller banks not to withdraw their support, while the Federal Reserve Bank of New York appears to have supported Brazilian banks operating in New York.

4. Financial impact of the requested financial support from banks

The 1983 balance of payments financing requirement is estimated at US$28.6 billion, consisting of a current account deficit of US$7 billion; amortization payments on all medium- and long-term external debt of US$7.2 billion; short-term commercial debt of US$9.6 billion; repayment of bridging operations of US$3.7 billion from the banks, the U.S. Treasury, and the BIS; and net export financing requirements of US$1.1 billion to meet the export target of US$22 billion. Of this, US$10.2 billion, or 36 per cent, are expected to be financed by financial loans with at least eight years' maturity from foreign and Brazilian banks (parts one and two of the request). Another US$9.6 billion, or 34 per cent, would result from the rollover of short-term lines of credit (part three of the request). Finally, banks are expected to participate in new long-term import financing of US$1.1 billion. Thus, the total balance of payments flows from banks are projected to contribute US$20.9 billion, or 73 per cent, to the gross financing requirement. The remaining US$7.7 billion are projected to come from international organizations, foreign governments, short- and medium-term import financing from nonbanks, direct foreign investment, and use of some of the Fund-supplied resources.

Of the US$20.9 billion of bank financing, all but US$0.8 billion is expected to come from foreign banks. Provision of the US$0.8 billion from Brazilian banks depends crucially on the maintenance of money market facilities (part four of the request). It is estimated that the full disbursement of the US$20.9 billion would increase bank exposure in Brazil by 5.8 per cent, compared with 20.5 per cent in 1981 and 14.8 per cent in 1982.

5. Relationship to rescheduling by official creditors

Brazil has not approached its official creditors for debt relief, and the adjustment program agreed with the Fund does not envisage such a possibility.

6. Role of the Fund

The Fund's management and staff have actively supported Brazil's attempts to obtain additional financial support and particularly its approach to the banks. The adjustment program is predicated on continuing, albeit substantially lower and declining, net inflows of financial loans.

The staff cooperated, both in the field and after return to headquarters, with the technical personnel of the banks to expedite the preparation of the supporting documentation for Brazil's request. Similarly, staff and management accelerated the customary in-house clearance procedure for the documents worked out by the mission so as to permit Brazil to meet the ambitious time schedule for its approach to the banks. The Managing Director initiated his endeavors vis-à-vis the banks while the mission was still in the field. In addition to direct bilateral contacts with individual bankers, the Managing Director accepted an invitation from the Brazilian authorities to attend the meeting between Brazil and its major bank creditors on December 20, 1982 in New York. In his remarks, the Managing Director informed the bankers of his support of Brazil's request for an extended arrangement with the Fund, as well as a further request under the compensatory decision and, possibly, the buffer stock financing facility. The Managing Director described the objectives and broad architecture of the three-year program. In discussing the measures under the program, he emphasized that most of them had already been taken or would be in place prior to the adoption of the arrangement by the Fund's Executive Board. The Managing Director stressed that the financial projections under the program were consistent with Brazil's request for financial assistance from the banks in 1983 and that, for Brazil to continue to meet all of its external obligations on schedule, a speedy implementation of adequate financial arrangements between Brazil and international banks was indispensable. On December 22, 1982, the Managing Director informed the Finance Ministers and monetary authorities of the G-10 of his intervention in New York.

Contacts between the Fund's staff and management and the banks have continued since the December 20, 1982 meeting.

Mexico

1. Background

Mexico experienced very rapid growth of output and employment in 1978-80, supported to an important extent by a rapidly growing oil sector. Despite the sharp rise in revenues, the deficit in the current account of the balance of payments widened rapidly, primarily due to an increase in aggregate demand, fueled by sharp growth in public expenditures. In 1981 and early 1982, part of the continued growth of the public sector deficit was financed by a stepped-up increase in short-term foreign borrowing, as the international oil market weakened and the prices of other commodities exported by Mexico declined. At the same time, interest payments increased sharply. This reliance on short-term credit was in contrast to previous years, when foreign borrowing was mostly in the form of medium- and long-term credits. In 1981, Mexico's new net short-term borrowing totaled about US$9 billion, or almost half of the total net flows (US$18.5 billion). In the first half of 1982, net foreign borrowing by the public sector, mostly in the form of short-term credits, totaled US$6 billion. As had been the case in previous years, most of the new borrowing was obtained from commercial banks abroad. In addition, there was capital flight, which intensified in the second and third quarters of 1982. By that time, access to the international capital markets was virtually brought to a halt.

As measures to control domestic pressures taken in early 1982 failed to work and international reserves were declining sharply, the Mexican authorities announced measures designed to halt capital flight, in particular through the establishment of two foreign exchange markets, including a freely floating one. Moreover, the Mexican authorities decided in August 1982 to negotiate a voluntary 90-day postponement of all the principal repayments falling due during the 90 days beginning August 23 on all the public sector debt owed to foreign commercial banks. At that time, the Mexican authorities considered that the 90-day period would be adequate for the resolution of the debt servicing problems, including the negotiation of an extended arrangement with the Fund. However, in early September, the introduction of exchange controls, the nationalization of commercial banks, and the related policy implications made the proposed schedule unrealistic. In particular, negotiations with the Fund were extended through November. Therefore, on November 23, 1982 the commercial creditor banks agreed to a further 120-day postponement to conclude the rescheduling of outstanding short-term debt, the postponed principal repayments on medium- and long-term debt, and all other amortization payments through December 1983, owed by the Mexican public sector.

2. Evolution of the role of banks

Mexico's total outstanding debt amounted to US$51 billion at the end of 1980, US$75 billion at the end of 1981, and US$82 billion at the end of August 1982. At the same time, the public sector debt grew from US$35 billion, or 69 per cent of the total, to US$60 billion, or 73 per cent of the total. Short-term debt, which was US$12 billion at end-1980 (24 per cent of total debt) grew to US$23 billion by end-1981 (31 per cent of total debt), and US$25 billion (30 per cent of total debt) by end-August 1982. Data from the Bank for International Settlements (BIS) indicate that Mexico's total liabilities to banks in the BIS reporting area amounted to about US$64 billion at the end of June 1982, amounting to about 78 per cent of Mexico's total external debt. Of this debt to banks, about US$32 billion (39 per cent) would fall due within one year, and about US$38 billion (46 per cent) would fall due within two years.

Commercial banks are expected to play a major role in the implementation of the medium-term economic program recently formulated by the Mexican authorities, which is supported by the use of Fund resources. Specifically, the authorities are negotiating a restructuring of foreign debt with the international banking community. In addition, commercial banks are about to agree with the Mexican authorities on new medium-term syndicated credits, which, together with credits from official sources, should help provide Mexico with adequate balance of payments financing through the end of 1983.

3. Restructuring negotiations

Commercial banks responded to the Mexican authorities' request of August 22, 1982 to postpone all principal repayments on credits owed by the public sector for 90 days, by rolling over for 90 days all such payments falling due through November 23, 1982. In response to a second request by Mexico's Minister of Finance on November 12, 1982, a new postponement of 120 days was obtained on November 23, 1982. During this period, the Mexican authorities and foreign commercial banks are expected to conclude a rescheduling of all the principal repayments falling due in 1983 and 1984, the postponed principal repayments owed in 1982, and the refinancing of all short-term debt outstanding. Thus, in the November 12 cable, Mexico's Minister of Finance indicated that the Mexican authorities would "prepare a presentation to the financial community that would include a restructuring proposal that would solve the liquidity problem of Mexico on a permanent basis and which would also include a request for the additional amounts of credit which are necessary to implement Mexico's economic adjustment program and agreement with the IMF."

In order to handle the proposed rescheduling, a 13-member Bank Advisory Group of international commercial banks was set up in August 1982. The group was specifically set up to handle debt negotiations between the Mexican authorities and Mexico's approximately 1,400 commercial bank creditors. Representatives of two U.S. banks have acted as co-chairmen of the Group. The Group has been subdivided so that the members of the Bank Advisory Group act as regional coordinators to assist in the syndication and rescheduling effort for particular geographic areas. 1/

1/ Such regional committees include a committee located in New York dealing with the U.S. commercial banks, a committee located in London but operating under close cooperation with the Bank of England, and committees located in Tokyo, Frankfurt, and Paris. In addition, in the United States, three major banks other than the two co-chairmen have been acting as "contact" banks with other U.S. banks.

a. Debt rescheduling

On December 8, 1982, the Minister of Finance and Public Credit of Mexico sent a cable presenting the Mexican authorities' proposal and related restructuring principles for the agreement envisaged with the commercial banks. In the cable, the Minister of Finance and Public Credit asked that each bank restructure its loans to Mexico's public sector by March 23, 1983, and that the restructuring terms be "substantially identical" among banks. The Minister's cable also asked that (i) a number of specified existing obligations, including interbank obligations of the foreign agencies and branches of the (government-owned) Mexican banks, be excluded from the contemplated rescheduling; (ii) the extensions requested on August 22 and November 12, 1982 be further extended until the rescheduling operation is finalized; and (iii) the banks maintain their existing exposure to the foreign agencies and branches of Mexican banks.

The restructuring proposal by the Mexican authorities would cover the so-called "specified debt," i.e., the principal maturities of the public sector's short- and medium-term debt outstanding as of August 23, 1982 and falling due between August 23, 1982 and December 31, 1984. Such payments would total about US$14.9 billion. In cases where the debt arises from a guarantee, endorsement, collateral or similar instrument, only such payment obligations that are invoked and payable during the period specified above would be treated as "specified debt." The proposed payments schedule would be stretched over eight years, with the first payment to be made in the first quarter of 1987 and the last payment in the fourth quarter of 1990. The repayment dates would be staggered and the payments would be made in 16 equal quarterly installments, in the original currency, carrying a floating interest rate of 1 7/8 percentage points over LIBOR or 1 3/4 percentage points over the U.S. prime rate. Non-U.S. dollar loans would be comparably priced, and debt that was originally tax exempt would be restructured as tax-exempt debt. Banks would receive an initial flat restructuring fee of 1 percentage point payable in four quarterly installments. The agreement would include the customary cross-default and other bond covenant clauses.

Under the restructuring operation, the so-called "specified debt" 1/ excludes (i) loans made, guaranteed, insured, or obtained at preferential interest rates from official agencies in the creditor countries; (ii) publicly issued bonds, private placements (including Japanese yen-denominated registered private placements) and floating rate certificates of deposit and notes (including floating rate notes); (iii) debt to official multilateral entities; (iv) forward foreign exchange and precious metal contracts; (v) spot and lease obligations in respect of movable property, short-term import and export-related trade credits;

1/ Excluded debt is defined only in the context of the restructuring principles and has no relation to the calculation of each bank's exposure for purposes of allocations of new loans.

(vi) interbank obligations (including placements) of the foreign agencies and branches of Mexican banks, excluding guarantees on interbank placements; (vii) financings secured by legally recognized security interests in ships, aircraft and drilling rigs; and (viii) the Central Bank's obligations arising from the contemplated arrangements to liquidate interest payments in arrears. The so-called "specified debt" explicitly excludes the nonbank private sector debt.

b. New net financing by commercial banks

In addition to the rescheduling operation, in the telex of December 8, 1982, Mexico's Minister of Finance and Public Credit asked for a new syndicated medium-term loan of US$5 billion; with respect to this loan, the Mexican authorities proposed (i) a six-year maturity including a three-year grace period; (ii) that the first disbursement (US$1.7 billion) be made available at the time of the first purchase under the extended arrangement with the Fund; and (iii) that further disbursements (of US$1.1 billion each) would be made at the time of each of the next three Fund purchases. This request was firmly supported by the Managing Director of the Fund (see section 6).

The US$5 billion loan is to be raised in the form of a medium-term international syndicated credit in which banks would participate on the basis of their pro rata exposure to Mexico as of August 23, 1982. Specifically, Mexico requested each participating bank in the syndicate to commit 7 per cent of its total exposure as of August 23, 1982, including loans to the public and private sectors, acceptances, interbank placements in the foreign agencies and branches of Mexican banks, bonds, and contingent liabilities with respect to the debt of public and private sector Mexican borrowers to third parties (i.e., credits with official guarantees provided in the creditor banks' home countries). Mexico has asked for interest rates of either three or six months LIBOR plus 2 1/4 percentage points or U.S. prime rate plus 2 1/8 percentage points, at the lender's option. Repayment of the loan would be made in 13 approximately equal quarterly installments and a one half of 1 per cent per annum commitment fee would be charged. The loan would be tax exempt and any portion of the loan not drawn by June 30, 1984 would be canceled. The loan document would include a specific reference to a written explanation and confirmation from the Fund Managing Director with respect to a US$2-2.5 billion financial assistance to be obtained from official creditors (other than the Fund), a requirement to provide information about the implementation of the financial program, a request on the part of the lending syndicate to individual banks not to object to the final restructuring principles of the contemplated rescheduling operation, the customary cross-default clause, a specification of events of defaults (including the failure of Mexico to comply with the performance criteria agreed with the Fund in connection with the three-year extended arrangement, and nonmembership), and the implementation of the proposed mechanism (see (d) below) to eliminate interest arrears on private sector debt.

By December 14, 1982, the banks' responses to the request for the US$5 billion loan were deemed sufficient to allow the Managing Director to present Mexico's request for a three-year extended arrangement to the Fund's Executive Board for consideration on December 23, 1982. 1/ By December 18, "very positive" reactions had been received from the various national banking areas involved, although a number of banks had not yet formally decided to participate in the contemplated syndication.

Mexico's request was approved by the Fund Executive Board as scheduled, i.e., on December 23, 1982, after the Managing Director formally stated to the Executive Board that there was "sufficient assurance" that Mexico could raise the US$5 billion loan. At that time, the overall response of the banks was deemed to be "highly positive," with the Bank Advisory Group reporting that they had already raised US$4.3 billion. However, there were still a number of problem areas, including delayed responses by banks in certain countries and smaller banks, and a number of communication and logistical problems. Most of the smaller banks indicated that they were about to reduce their exposure to Mexico (as well as other countries); in this respect, they argued that the margins offered on Mexico's rescheduling were less attractive than those set for Brazil and Argentina, and expressed serious concern about the impact of interest in arrears (see (d) below) on the Mexican private sector debt on their balance sheet. Since then, however, this problem has been resolved.

As of February 8, 1983, a total amount of US$4.8 billion had been raised, with the following "regional" breakdown: United States: US$1.8 billion; Latin America: US$0.1 billion; Asia: US$0.8 billion; United Kingdom, Middle East, Australia, India, Ireland, Turkey, Israel, Greece, and the Soviet Union: US$0.6 billion; Belgium, France, Luxembourg, Portugal, and Spain: US$0.5 billion; Canada: US$0.4 billion; Germany, Netherlands, and Scandinavia: US$0.3 billion; and Austria, Hungary, Italy, Switzerland, and Yugoslavia: US$0.2 billion. By late February, the total amount of US$5 billion had been raised, and the agreement was scheduled to be signed on March 3.

c. Cooperation by official agencies

While the Bank Advisory Group has been central to the negotiations with Mexico, a number of national monetary authorities has also been instrumental in helping raise the US$5 billion loan, in line with the Fund Managing Director's request of December 3, 1982 (see Section 6). In particular, the U.S. Federal Reserve System has played an active role in prompting its national banking system to participate in the loan; in this respect, U.S. bank regulators have reportedly helped persuade the smaller regional banks to maintain lending to Mexico. Their role was of particular importance in explaining that the Mexican proposal for solving

1/ December 15, 1982 was originally set as the benchmark deadline for Mexico's 1,400 creditor banks to signal their decision to participate in the US$5 billion loan syndication (see section 6).

the issue of interest arrears (see (d)) was adequate, allowing banks to avoid writing off the related earnings in their 1982 accounts. Similarly, the Bank of England has been active in coordinating the responses of banks in the United Kingdom.

It should be noted that a coordinated effort has been made among the monetary authorities of the major lending countries in the context of a major line of credit to the Bank of Mexico agreed in August 1982 through the BIS and a separate use of a swap arrangement in the U.S. Federal Reserve System. Of the total short-term financial assistance of US$2.55 billion, the United States contributed US$1.6 billion, including US$500 million in the form of a drawdown under a swap arrangement with the U.S. Federal Reserve System.

d. The issue of interest in arrears

A major issue that emerged in the last four months of 1982 was the accumulation of arrears on interest payments on the debt by the private sector to commercial banks abroad. 1/ At the time of the November negotiations, this issue constituted a major difficulty because of the implications for the profit and loss outcome for the banks abroad. The issue of interest in arrears on the private sector debt was specifically addressed by the Mexican proposal. Moreover, the Mexican Government recently established special procedures for the settlement of these arrears. Mexican private borrowers owing interest on foreign bank debts payable in foreign currency and outstanding prior to September 1, 1982 can use the new procedures to settle interest payments due in the period from August 1, 1982 to January 31, 1983. Settlement is made by depositing the local currency equivalent of the amount of interest due in foreign currency at the controlled exchange rate on the date at which the deposit is constituted. Special foreign currency deposits will be opened by the foreign lenders with the Bank of Mexico, and the amounts of interest owed will be credited to these accounts. The accounts will bear competitive interest rates--LIBOR plus 1 per cent or U.S. prime rate plus 7/8 per cent--which will be remitted on a monthly basis. Ten per cent of the outstanding balance in these accounts will be paid to creditors on January 31, 1983, while the remainder will be settled in monthly installments, subject to the availability of foreign exchange. Any balance outstanding as of September 30, 1983 will be refinanced as a loan on terms to be agreed with individual banks. The arrears on interest payments are estimated to amount to US$1-1.5 billion.

e. Other issues

Another difficulty in the ongoing discussions on debt restructuring has been the treatment in the contemplated rescheduling agreement of Mexico's short-term debt obligations to foreign commercial banks. As described in section 3a, most of the public sector's short-term debt

1/ Principal repayments were informally rolled over.

to commercial banks is included in the rescheduling exercise. The main exceptions are certain categories of trade credits, including documentary letters of credit, discounts of documentary drafts, and interbank placements in the foreign agencies and branches of Mexican banks. The Mexican authorities requested that banks maintain their existing exposure to the branches and agencies of Mexican banks, but indicated that sufficient funds would be provided to process interest payments on their interbank obligations. Banks have expressed some reservations to the Mexican request to roll over their placements with Mexican banking or financial entities; in this respect, banks abroad are said to have been asking the Mexican authorities to make a firm commitment on a specific repayment schedule with respect to such short-term debts. Eventually, it has been agreed that interbank deposits (placements) should not be included in the "specified debt" subject to restrictions, and creditor banks have agreed in principle to maintain interbank deposits (placements) at their August 1982 level.

4. Financial impact of the restructuring

The medium-term economic program, adopted by the Mexican authorities and supported by a three-year extended arrangement with the Fund, assumes that most principal repayments due to commercial banks by the public sector that were postponed in 1982 and amortization falling due in 1983-84 will be renegotiated. The public sector debt (including short-, medium-, and long-term debt) to be renegotiated amounts to about US$19 billion. It consists of about US$7.6 billion of principal repayments falling due between August and December 1982, US$7.3 billion falling due in 1983, and about US$4 billion falling due in 1984. Moreover, principal repayments due by the nationalized banks and the private sector are also expected to be refinanced, once the respective magnitudes are established. An estimated amount of US$7.5 billion of principal repayments due by the nationalized banks and about US$8-10 billion due by the private sector may be renegotiated through 1984.

The US$5 billion loan to be disbursed in 1983 represents about 60 per cent of the US$8.3-8.8 billion external financing gap currently projected for 1983, on the basis of (i) a current account deficit of US$4.25 billion, including interest payments abroad of US$12 billion; (ii) of private capital inflows (including reinvested earnings) in the amount of US$1-1.5 billion; (iii) of nondeferrable public debt repayments netted against expected capital inflows resulting in an outflow of US$1 billion; (iv) of a US$1.5 billion improvement in gross foreign reserves; and (v) the scheduled repayment of the US$2.5 billion bridging loans obtained to date. The remaining financial requirements would be covered by the use of Fund resources (US$1.6 billion) and official sources (US$2-2.5 billion).

5. Relationship to rescheduling by official creditors

At this time, no multilateral rescheduling by official creditors is under way or planned.

6. Role of the Fund

As indicated earlier, the restructuring of the debt obligations (principal repayments) owed by Mexico to the commercial banks is a key element of the medium-term economic program presented in support of a request for a three-year extended arrangement with the Fund, which was approved by the Fund Executive Board on December 23, 1982. Fund management and staff have been closely associated with the discussions on the debt restructuring; in this respect, since August 1982, Fund staff observers have participated in several meetings of the Bank Advisory Group. In particular, on November 16, in a meeting in New York with the chairmen or representatives of the banks of the Bank Advisory Group, the Managing Director stressed that support from commercial banks was vital to the success of the economic program to be adopted by Mexico and asked the banks to commit new large loans (up to US$6.5 billion in 1982/83, including US$1.5 billion for 1982) before final approval of Mexico's request for use of Fund resources.

In light of the reported reluctance of many banks to agree to the Mexican proposal, on December 3, 1982, the Managing Director advised Mexico, the Banking Advisory Group, and the international financial community (including commercial banks and official multilateral entities) that he would not recommend the approval of Mexico's request for the use of Fund resources to the Executive Board without written assurances from both official sources and commercial banks that adequate external financing was in place and that the principles of a realistic restructuring scheme of the Mexican debt were being favorably considered by the community. The Managing Director also set December 15, 1982 as the deadline for receiving the necessary assurances from the international financial community.

Following the Managing Director's cable on December 8, 1982, the Mexican authorities issued their formal request for debt restructuring and new bank net financing of US$5 billion (see Section 3). The procedures and the formats 1/ relating to the banks' responses to the Mexican request were worked out in close cooperation with the Managing Director and Fund senior staff. On the basis of the responses that were available at the Bank Advisory Group as of December 10, 1982, the Managing Director formally reported to the Fund Executive Board on December 14, 1982 (EBM/82/158, 12/10/82) that "conclusions had been reached in the negotiations, in which the Fund had taken part, between the authorities of Mexico and Argentina and the respective advisory groups of international bankers." The Mexican request for an extended arrangement was then submitted for Board consideration. Contacts with the Bank Advisory Group have continued since the approval of the extended arrangement on December 23, 1982.

1/ Format of reply of individual banks to the United Mexican States, the Bank of Mexico, and the Bank Advisory Group for Mexico, and format of reply of the Bank Advisory Group to the Fund Managing Director.

Bolivia

1. Economic background

In recent years, Bolivia's economic performance has been characterized by sharply declining domestic savings and investment, a deceleration of economic growth, rising inflation, and a deterioration of the balance of payments. Behind these developments were three interrelated factors: (1) the volatile political situation; (2) serious weaknesses in the public finances which contributed to the balance of payments problem; and (3) a general lack of confidence manifested by large capital outflows and a slow growth of domestic savings.

2. Evolution of commercial bank debts

The external public and publicly guaranteed debt of Bolivia amounted to US$2.6 billion at the end of 1981, almost three times the amount outstanding at the end of 1975. The growth of the external debt began to slow down in 1978. The share of foreign banks has grown steadily from 19 per cent of the total at the end of 1975 to 42 per cent at the end of 1981. The dramatic increase in foreign bank borrowing in the period 1976-78 was intended to finance ambitious development projects, inspired by the sharp increase in petroleum and mineral prices after 1974. However, as the anticipated increase in petroleum production and government revenues failed to materialize, Bolivia's external creditworthiness started to decline and foreign banks became reluctant to lend to Bolivia in 1978. The authorities also refinanced US$155 million of the Central Bank's outstanding foreign commercial loans with maturities of less than five years in 1978. As a result, the share of disbursements from commercial banks declined from 64 per cent of the total in 1978 1/ to 32 per cent in 1979. During the period of active commercial borrowing, the debt profile deteriorated. However, two long-term general-purpose loans from the Argentine state bank, amounting to US$125 million each in 1980 and 1981, helped fill the financing gap and improve the debt profile.

Debt service payments (principal and interest) on medium- and long-term external public debt have increased since the mid-1970s, reflecting the increase in commercial loans and rise in interest rates. Such payments grew two and a half times during the 1976-81 period from US$111 million to US$278 million, despite the general rescheduling in 1981.

3. Restructuring of bank debt

In August 1980, Bolivia reached an agreement with a consortium of foreign commercial banks to defer principal payments (including those on

---

1/ Including the US$155 million refinancing loan that was fully disbursed in 1978.

short-term liabilities) falling due between August 1980 and January 1981. The deferred payments, which amounted to US$172 million, were to be included in a more general rescheduling to be signed in January 1981. However, since the agreement on the rescheduling was not reached by that date, banks kept rolling over 100 per cent of principal due from Bolivia until April 1981. The rescheduling agreement reached in April 1981 included loans for a total of US$416 million to cover principal payments originally maturing between August 1980 and March 1983. The agreement rescheduled approximately 80 per cent of the amounts rolled over; the balance of 20 per cent was paid in three installments during 1981. Principal on short-term debt rolled over was rescheduled with a grace period of two years and a maturity of three and a half years, while principal on medium-term debt rolled over was rescheduled with a grace period of three years and a maturity of seven years. In addition, 90 per cent of principal on medium-term loans falling due between April 1981 and March 1983 was rescheduled with a grace period of two years and a maturity of five to six years. Interest on the various parts of the rescheduling was set at either LIBOR plus 2 per cent or LIBOR plus 2 1/4 per cent.

Under the original terms of the restructuring agreement between Bolivia and the banks, Bolivia was to have had a Fund program in place before the agreement became effective in April 1981. The actual agreement extended that deadline until June 30, but stipulated that after that date, and until the final consolidation date on April 6, 1983, the absence of a Fund program "in full force and effect" would be considered an event of default. The banks have subsequently extended that deadline a number of times. So far, no agreement has been reached between the authorities and the Fund, and Bolivia is in arrears on payments to foreign commercial banks. Since it is not known if the banks have extended the deadline or waived the requirement of a Fund program, the current status of the agreement is uncertain.

Until October 1982, Bolivia had been paying all interest and principal due to the banks under the agreement on schedule. Since then, however, it has been reported that Bolivia has accumulated arrears on debt service payments to commercial banks reaching a total of US$55 million by December 1982. Bolivia also has been in arrears on its official debt service and was temporarily in arrears to the IBRD and IDB. In addition, Bolivia has received very little new lending from the banks since the signing of the agreement.

It has been reported that the authorities started to renegotiate with foreign commercial banks in mid-November 1982. However, no information is available yet as regards the new negotiations.

4. Financial impact

In the absence of the rescheduling, the ratio of medium- and long-term debt service (principal and interest) plus interest payments on short-term debt and payments arrears to exports of goods and nonfactor services would have been 46 per cent in 1980 and 48 per cent in 1981.

In the absence of the rescheduling exercise and assuming that amortizations had been made according to their original maturities, the ratio of medium- and long-term debt service to exports of goods and nonfactor services--which was 17.6 per cent in 1976--would have been 42 per cent in 1980 and 37 per cent in 1981. If, in addition, interest payments on short-term debt and payments arrears are included, the ratios would have been 46 per cent in 1980 and 48 per cent in 1981. In the event, the actual ratio was about 27 per cent in both 1980 and 1981. When interest payments are considered, the rescheduling agreement would result in net debt relief of about US$71 million in 1982. In 1983, the relief would be negative by about US$80 million.

5. Relationship to rescheduling by official creditors

Although Bolivia is in arrears on service payments on external debt to official creditors, it is not known to have approached its official creditors.

6. Role of the Fund

The original rescheduling agreement in April 1981 required that Bolivia had a Fund-supported program in place before the agreement became effective. However, since then no agreement has been reached between the Fund and the authorities on a stabilization program. Major bank lenders to Bolivia have contacted the Fund staff on a number of occasions to express their preference for the Fund to reach an early agreement with Bolivia. These banks feared that some of the smaller banks could withdraw from the syndicate in the continued absence of a Fund program, thus forcing Bolivia into default. After the conclusion of the Article IV consultation in May 1982, the Fund staff concluded that, in the circumstances, it was doubtful that a program could be negotiated and that, even if one could be negotiated, it was unlikely that it could be implemented effectively. However, the circumstances changed after the change of government in the second half of 1982: the Fund staff is considering a mission, perhaps as early as March 1983, as soon as the new authorities indicate their readiness to open a discussion of Bolivia's conditions and perspectives with the Fund.

Chile

1. Background

Chile's external debt grew very rapidly between 1978 and 1981, doubling from US$5.9 billion to US$12.6 billion. The increase was entirely due to the expansion in private sector debt, because public sector external debt actually declined during most of the period. The expansion in private external debt reached a peak in 1981, when private medium- and long-term debt nearly doubled. The twofold increase in Chile's external debt during the period 1979-81 financed the widening of the current account deficit of the balance of payments from 5.7 per cent of GDP in 1979 to 14.3 per cent of GDP in 1981.

The increases in the current account deficits were related to the decline of copper prices in late 1980 and in 1981, and to a substantial appreciation of the peso in real terms. The authorities had pegged the peso to the U.S. dollar at a fixed parity in June 1979, and subsequently domestic inflation continued to stay well above world levels. The appreciation of the exchange rate altered the domestic terms of trade in favor of the nontradable sector of the economy: investment in construction and services rose substantially, largely financed abroad through the intermediation of the domestic banking system. Consumption expenditure also rose, while, in 1981, the deterioration of the tradable sector's competitive position caused a fall in exports other than copper, and a sharp rise in imports.

At the end of 1981, a number of factors contributed to cause a sharp decline in domestic demand. The continuous weakness of copper prices finally resulted in a perceived decline in income, while the slowdown of domestic inflation from an annual rate of about 30 per cent to world levels changed the public's expectations about the profitability of investment in the nontradable sector. At the same time, higher rates of interest in the international financial markets were fully reflected in very high real domestic interest rates. As growth in foreign demand was hampered by the world recession and the loss in competitive position, Chile entered a severe recession; output declined rapidly and with it employment. By May 1982, the rate of unemployment had reached 17 per cent and by July it had climbed to around 25 per cent. In early 1982, as the overvaluation of the exchange rate became apparent, capital outflows began on a large scale. Successive devaluations of the peso did not revive the economy, nor stop the outflow of short-term capital. Despite net medium- and long-term capital inflows of about US$1.9 billion and a substantial improvement in the current account deficit, during 1982 the Central Bank of Chile lost about half of the US$3.2 billion reserves outstanding at the end of 1981.

The recession caused a substantial deterioration in the financial condition of Chile's enterprises, particularly those involved in construction and services. The balance sheets of Chile's commercial banks were affected, as a relevant part of their assets became of doubtful collectibility. This situation made it more difficult for Chile's private sector to gather resources from the international capital markets in the second part of 1982. However, Chile's public entities continued to have access to the institutional financial markets; in December 1982, a US$300 million syndicated loan by CODELCO, the State copper company, was oversubscribed.

At the end of December 1982, Chile's external debt amounted to about US$17.4 billion, of which about US$13.9 billion was medium- and long-term debt, and about US$3.5 billion short-term debt. More than 60 per cent of medium- and long-term debt (approximately US$8 billion) was nonguaranteed debt of the private sector, mostly owed by Chilean commercial banks. More than 80 per cent of Chile's private sector debt is owed to foreign financial institutions, and most of it bears a variable rate of interest. At the end of 1982, public and publicly guaranteed external debt amounted to about US$5.1 billion. Of this amount, about US$3.6 billion is estimated to be debt to foreign financial institutions. Overall, Chile's medium- and long-term obligations to banks amounted to about US$11 billion at the end of 1982. In addition, at the end of 1982, Chile's short-term debt to banks amounted to US$3.5 million, including about US$1.8 billion in commercial banks' lines of credit.

2. Events leading to the rescheduling

During the second half of 1982, the Chilean authorities negotiated a two-year stand-by program with the Fund, with the aim of reviving confidence in the Chilean economy both domestically and abroad. The program was approved by the Executive Board on January 10, 1982. Before the program was approved, the Chilean authorities had expressed their intention of meeting with Chile's main foreign bank creditors, in order to find a solution to Chile's financing needs in 1983. It is not clear whether the solution envisaged by the Chilean authorities involved a formal rescheduling of the debt.

The situation became much more difficult in early February, due to a major bank crisis. In mid-December, the Chilean Commission for the Control of Bank Entities completed a five-month inquiry on the conditions of the Chilean banking system. According to the results of the inquiry, at least 30 per cent of the assets of Chilean banks had to be classified as B- or worse. The inquiry indicated that the situation of the Banco Hipotecario de Chile (BHC), one of Chile's largest private banks, was particularly critical. Also, on January 10, the Commission concluded that the BHC represented a major drain of resources from the rest of the banking system, and requested that the Government liquidate the bank, and two other financial entities. The Government proceeded to liquidate the institutions on January 13. The Government also intervened in five other banks, including the largest private bank of the country (the Banco de Chile), and others which were among the largest Chilean financial institutions. The liquidated institutions had external liabilities totaling about US$400 million, while the five intervened banks' medium- and long-term foreign liabilities amounted to about US$3.8 billion. As could be expected, the Government's action raised fears, both abroad and domestically, regarding the solvency of the whole Chilean banking system.

Although the domestic assets and liabilities of the liquidated banks were soon transferred to the State-owned Banco del Estado, the Government announced its intention of discussing with foreign lenders the treatment of the foreign liabilities of the liquidated banks. This announcement was interpreted by many foreign bankers as a sign that the Government was unwilling to assume the banks' foreign obligations. Worries started to develop among foreign bankers about the treatment of the foreign liabilities of the Chilean banks which had been intervened. Apparently, these fears induced a number of foreign banks to withdraw their short-term lines of credit to Chilean banks or other Chilean entities. Between January 17 and 19, 1983, the net international reserves of the Central Bank declined by US$180 million; it is estimated that most of this decline came from withdrawals of commercial banks' short-term foreign lines of credit. On January 19, the Chilean authorities announced that they would "take steps to insure that all financial obligations [of these intervened institutions] would be met." 1/ They reiterated that the liabilities of the liquidated banks would be transferred to the Banco del Estado. This announcement appeared to preclude the extension of a government guarantee to the intervened commercial banks' foreign liabilities.

Domestically, the Government extended a 100 per cent guarantee to deposits of the liquidated institutions, up to an amount equivalent to US$3,500, while deposits of larger amounts were given only a 70 per cent guarantee. A 100 per cent unlimited guarantee was extended to the deposits of the five intervened institutions, and an emergency line of credit was established by the Central Bank for institutions with temporary liquidity problems. Despite these measures, there was some decline in commercial bank deposits, and the Central Bank offset these withdrawals by extending additional credit to the financial institutions affected. By January 20, the withdrawal of deposits had slowed significantly.

3. The rescheduling process

Soon after the banking crisis began, the Chilean authorities approached foreign commercial banks in order to discuss the possibility of rescheduling maturities falling due in 1983 and 1984. At the end of January 1983, the Chilean authorities met with an advisory committee of 13 U.S. and international banks, and proposed a two-year rescheduling exercise involving (a) the refinancing of amortization payments falling due in 1983 and 1984 on medium- and long-term debt of the public sector and of financial institutions. The amount involved would be about US$1.3 billion each year, of which US$500 million within each year would correspond to public sector amortization payments, and the rest to financial sector obligations; (b) the rolling over of about US$3.2 billion short-term debt, of which about US$1.8 billion is trade-related credit and lines of credit to public companies; (c) new net financing by the commercial banks of about US$720 million, which would represent about a 5 per cent increase in the banks' exposure to Chile. The rescheduling of

1/ These obligations did not carry any guarantee of any Chilean public sector entity.

medium- and long-term debt amortization payments would carry a maturity of eight years, with a five-year grace period. In addition to the financial resources stemming from the rescheduling exercise, Chile has already arranged new 1983 financing for US$280 million with the U.S. Government (US$200 million in CCC agricultural credit) and the IBRD (the remainder).

The terms proposed by the Chilean authorities have not been openly accepted by the banks. A new meeting between the Chilean authorities and a larger group of banks is scheduled to take place in late February. While a final proposal for Chile's rescheduling is being discussed, the Advisory Committee has agreed to a 90-day postponement of principal payments on short-, medium-, and long-term debt falling due after January 31, 1983. In support of the Chilean request, the Advisory Committee has sent a cable to other creditor banks suggesting the acceptance of the postponement. A number of issues is still unsettled between Chile and its foreign creditors in addition to the term of the rescheduling and the amount of the new financing. The most important unresolved issue is the possible extension of a State guarantee to private sector debt; as noted above, most of Chile's external debt is nonguaranteed debt of the private sector, and most of the debt service being rescheduled is owed by the Chilean private financial sector. It is therefore likely that foreign commercial banks will request the Chilean Government to extend a guarantee on this debt; such a guarantee has already been requested for the banks which are being liquidated by the Government and for the ones which have been intervened. However, the extension of such a guarantee would pose serious problems of both a technical and an economic nature. First, the issuance of such guarantees would likely result in a large expansion of bank credit and would impair the stabilization program agreed with the Fund. Second, the granting of State guarantees for bank foreign liabilities may generate requests for the establishment of such a scheme for bank domestic liabilities.

4. Role of the Fund

As mentioned above, a Fund program with Chile was approved soon before the banking crisis developed in early 1983. The Fund program was based on the assumption that in 1983-84 a normal flow of financing would be available to Chile, involving about a 4 per cent increase in bank exposure to Chile. The banking crisis made this assumption unreasonable, unless a rescheduling of the outstanding debt would take place. However, the Fund program remains the basic framework on which Chile's rescheduling proposal is built. 1/

The Chilean authorities have requested assistance from the Fund in dealing with the banks. The attitude of the Fund management has been to stress the importance of observing the Fund program already in place, and to make Fund assistance conditional on this observance.

1/ The increase in bank exposure to Chile according to the Fund program was about US$130 million less than the increase implied by the Chilean rescheduling plan, due to somewhat different assumptions about inflows of direct investment capital and imports.

Costa Rica

1. Background

Costa Rica has been facing increasingly severe economic and financial difficulties since late 1980/early 1981. The colon has depreciated by more than 350 per cent in relation to the U.S. dollar in the last two years, and service payments on most of Costa Rica's external public debt have been suspended since August 1981. Owing to both declining terms of trade and strong demand pressures, the current account deficit widened to the equivalent of 14 1/2 per cent of GDP in 1980. Despite the continued heavy recourse to foreign borrowing by the public sector, the overall balance of payments shifted from a surplus of US$102 million in 1977 to a deficit of US$456 million in 1980. By the end of 1980, Costa Rica had accumulated payments arrears of US$283 million, mostly on external debt payments.

In June 1981, the Costa Rican Government adopted a stabilization program supported by a three-year arrangement (EFF) with the Fund. However, the EFF arrangement became inoperative two months later because of a number of major departures from the program, including an accumulation of large external payments arrears and failure to meet the balance of payments test. At the end of 1981, the net international reserve position of the Central Bank, including payments arrears, fell short of the target by US$465 million. In August 1981, the Costa Rican authorities declared a moratorium on all debt service payments to all creditors except official multilateral organizations.

2. Evolution of the role of banks

At the end of December 1980, Costa Rica's total medium- and long-term debt was about US$1.7 billion, including US$962 million to private commercial banks and, by the end of 1981, it had increased to almost US$2 billion. 1/ At that time, outstanding external debt with an original maturity of over 1-10 years accounted for about 61 per cent of the total. Data from the Bank for International Settlements (BIS) indicate that Costa Rica's liabilities to banks in the BIS reporting area totaled US$1.3 billion at the end of 1981, including US$0.6 billion in liabilities falling due within one year, and US$0.1 billion falling due within two years.

Total debt service (excluding interest payments on short-term debt) in relation to exports of goods and services was 46 per cent in 1981 compared with about 34 per cent in 1980. Total debt service on account of debt owed to commercial banks accounted for around 60 per cent of total debt service.

1/ These figures are based on the IBRD debtor reporting system. A more comprehensive survey conducted by the authorities with the help of foreign investment advisors toward the end of 1982 indicates that medium- and long-term debt (including certificates of deposit) was closer to US$2.8 billion.

Total external arrears on contractual debt service payments (including certificates of deposit) amounted to US$642 million in 1981, including US$116 million on short-term debt obligations to banks and US$145 million on medium- and long-term debt obligations to banks. A large portion of the unpaid interest payments is owed to foreign commercial banks by both the Central Bank and a number of public enterprises. At end-June 1982, arrears outstanding totaled US$865 million, including US$137 million on short-term debt obligations to banks and US$250 million on medium- and long-term debt obligations to banks.

Principal owed to banks which is falling due in 1983, and all outstanding debt obligations to banks in arrears as of the end of December 1982 (around US$641 million) are currently in the process of being renegotiated.

3. *Restructuring negotiations*

On July 15, 1981 Costa Rica sent telexes to its foreign creditors announcing that it was unable to repay short-term maturities falling due through September 30, and asking creditors to roll over these amounts. Shortly thereafter, Costa Rica stopped paying either principal or interest on its debts to the banks, and by August 1981 Costa Rica was also in arrears to official creditors. A first meeting of the Costa Rican authorities with the banks was held on September 25, at which time the banks stipulated that no final agreement would be possible until an operative Fund arrangement was in place. As noted in Section 1, the performance clause on arrears, as well as a number of other performance clauses, had been broken shortly after Costa Rica's EFF was approved in June 1981. Discussions on a possible new one-year stand-by arrangement to replace the inoperative EFF were initiated in November 1981.

A second meeting between Costa Rica's representatives and the banks' representatives was convened in early December 1981. At this meeting, in view of the forthcoming elections scheduled for February 1982, the banks said that they would be willing to roll over all principal amounts falling due between August/September 1981 and September 1982 in order to provide time for a new Fund program to be put in place. In turn, however, the banks demanded that Costa Rica pay all interest in arrears (about US$90 million) before the extension was signed, and remain current on all interest due during 1982 (about another US$185 million, including interest on bonds). At the December meeting, the Costa Rican authorities insisted that they were not in a position to comply with the banks' demands but that the situation would be reviewed further. Also during this meeting, it was agreed that bonds and floating rate notes held by financial institutions (but not individuals) would be rescheduled. Whether service on Costa Rica's bonds and floating rate notes should be rescheduled pari passu with bank debt had been an important issue in the discussions. At a meeting with the bank steering committee on January 13, 1982, Costa Rican authorities told the banks that they could not meet interest payments as proposed. As a result, the negotiations were suspended.

Negotiations resumed only after the new Government took office in May 1982. The latter announced on May 10 that some interest payments would be resumed soon and called a meeting with the steering committee of commercial banks for June 7-8, 1982. Costa Rica made a first payment in respect of interest in arrears in accordance with a specified formula on July 15, 1982 to nearly 200 commercial banks and official export agencies. 1/

A number of meetings with banks took place between June and December 1982, and Fund staff made three visits to San Jose (June, August, and late September) to negotiate a new one-year stand-by arrangement, which was approved by the Executive Board in December 1982. Meantime, Costa Rica was sued for default in November by an unidentified private Swiss investor on a Sw F 20 million (US$9.2 billion) bond issue arranged in 1980. No interest had been paid on this bond issue since October 1981, giving rise to arrears amounting to US$960,000. 2/ However, this initiative has not yet set off similar claims by other lenders under a cross-default clause, although legal action by individual bondholders remains possible. The decision regarding the legal suit by the Swiss noteholder against the Central Bank of Costa Rica, which was awaited from a Geneva court for mid-January 1983, is not yet known. In spite of a number of initiatives, banks and nonbank investment institutions, the issues of bond rescheduling and of the related lawsuits have not yet been fully resolved.

The Costa Rican authorities met again with foreign commercial bank representatives in Washington, D.C. on November 22 and 24, 1982. The purpose of this meeting was to discuss the proposal on the renegotiation of Costa Rica's public external debt submitted by the Costa Rican authorities following a previous meeting in San Jose on November 10 and 11, and commitments made to the Fund in connection with their request for a new stand-by arrangement with the Fund. In this proposal, the Government of Costa Rica expressed its wish to reach a temporary agreement with its creditors with a view to reaching a formal agreement on a long-term global restructuring of the external public debt. On debt-related interest arrears, the Government of Costa Rica proposed to provide some adequate settlement in 1983 through a combination of cash payments and an import credit facility ("revolver"), with, however, a low downpayment in cash. As to the debt obligations falling due in 1983, the Government of Costa Rica would pay all interest owed to banks on short-, medium-, and long-term loans, interest and principal falling due to official multilateral institutions, all payments to bilateral creditors once an official debt restructuring agreement was reached under the auspices of the Paris Club, all interest on new capital inflows, all interest falling due on account of publicly issued securities, and all interest falling due on account of trade-related certificates of deposit. Furthermore, the Government of

1/ At that time, Costa Rica announced that it would continue to pay US$6-10 million each month. As noted earlier, the banks had insisted that all interest arrears be paid before a temporary extension on principal repayments due could be signed.

2/ Subsequently, a similar suit was brought in Canada.

Costa Rica proposed that all principal payments in arrears, as well as all principal repayments falling due in 1983, be rescheduled with a substantial grace period.

The negotiations on the basis of this proposal on November 22 and 24 were inconclusive. The bankers were reportedly asking the Costa Rican authorities to pay US$280 million in interest arrears before any rescheduling could take effect. The banks (through their steering committee) also proposed that no more than half of these interest arrears be recycled. 1/ However, the proposal was discussed again in two subsequent meetings, i.e., on December 11, in Washington, D.C., and on December 13 and 14 in New York.

At the December 11, 1982 meeting, the Costa Rican authorities specified their November 1982 proposal. In particular, they asked the banks to liquidate all debt-related interest arrears through the combination of a 5 per cent cash downpayment and short-term import credit facilities for the remaining 95 per cent. They explained that this solution was consistent with their cash flow projections for 1983. Since only up to US$170 million out of a total cash flow of US$460 million could be allocated to banks, the Costa Rican authorities were not in a position to meet the banks' request for a 50 per cent downpayment.

In the event, the banks agreed--in principle--to provide Costa Rica with a credit facility equivalent to 50 per cent (or US$228 million) of the combined total of interest in arrears as of December 31, 1982 (US$280 million), current interest in 1983 (US$147 million), imputed interest on interest in arrears (US$10 million) and 1983 interest for bonds (US$18 million). However, this tentative agreement was made conditional upon the restructuring of principal in arrears as of the end of 1982 and of principal repayments falling due in 1983 (including interest on publicly issued securities returned to banks). As of December 17, 1982, no agreement had been reached on the restructuring of principal in arrears and due in 1983. Bankers were asking for 10 per cent downpayment, interest rates of either U.S. prime plus 2 1/4 percentage points or LIBOR plus 2 3/8 percentage points, an extension commission of 3/8 per cent, and a conversion fee of 1 per cent per month on maturing credits.

The above agreement was confirmed in the statement by the Fund staff on Costa Rica at Executive Board Meeting 82/163 of December 20, 1982, which approved a one-year stand-by arrangement with Costa Rica. The Fund staff reported in the statement that the Costa Rican authorities and the steering committee had reached an agreement, in principle, on the payment of past due interest and interest falling due in 1983. Costa Rica has agreed to pay in 1983 all past due interest and interest falling due in 1983 to about 180 commercial banks. In turn, the banks have agreed to grant Costa Rica a trade credit facility, of a revolving nature, in an amount equivalent to 50 per cent of the total payments to be made by Costa Rica to the banks in 1983. The Fund staff also reported that there were good indications that an extension through the end of January 1984 would be granted

1/ Terms are unknown.

by banks to Costa Rica on principal maturities falling due in 1983. These arrangements had not yet been finalized as of end-February 1983. Negotiations on a definitive rescheduling of principal, including past due principal, will be taking place during the course of 1983. The arrangements achieved so far were deemed to be broadly in line with what has been assumed in the Fund program.

4. Financial impact of rescheduling

Since the process of rescheduling is not yet completed, it is not possible to assess the financial impact of the contemplated rescheduling of commercial bank debt obligations in arrears and falling due in 1983. In particular, Costa Rica's ability to reduce or eliminate its external arrears will depend on the terms and conditions of the agreements finally reached with both official and private creditors.

The program (see Section 6) assumes that principal repayments (both past due and those falling due in 1983) owed to foreign commercial banks and bilateral official creditors will be rescheduled. It also assumes that Costa Rica will resume payments of interest on external public debt falling due in 1983.

5. Relationship to rescheduling by official creditors

In their letter of intent, the Costa Rican authorities have committed themselves to initiate negotiations on debt obligations owed to official creditors. In compliance with this commitment, the Costa Rican authorities and Western official creditors signed a Paris Club agreement on January 11, 1983.

6. Role of the Fund

With the approval of the Costa Rican authorities, the Fund staff met with the banks prior to the December 1981 meeting. The staff indicated to the banks that a requirement that Costa Rica pay interest in arrears, with no new financing from the banks, would necessitate a severe adjustment effort and make it very difficult to put together a workable program.

The Fund staff was in communication with commercial banks since June 1982. On several occasions since October 1982, the staff has pointed out that the rescheduling of principal on debt obligations in arrears and falling due during 1982/83 owed to both official and private bank creditors was an important element of a one-year stand-by arrangement to be discussed by the Executive Board in December 1982, and that the country will be in a position to pay interest in arrears to the extent that it receives external financial assistance additional to that contemplated in the program with the Fund. Specifically, the program envisages the rescheduling of principal (both current and past due) owed to both commercial banks and bilateral official creditors. Arrears on principal repayments are assumed in the program to accumulate temporarily in 1983 until such time as the rescheduling agreements are finalized. They are assumed to be eliminated as soon as such agreements become effective.

Cuba

1. Background

Owing to declining world prices of sugar and higher interest payments on its foreign debt, Cuba's convertible currency reserves declined sharply in 1982. Earnings from sugar exports are said to represent on average four fifths of total export earnings. According to the National Bank of Cuba, Cuba's convertible currency reserves totaled no more than US$132 million in mid-August 1982. This compares with debt amortization due in 1982 of US$1.5 billion. No estimates have been provided on interest payments due. Other factors that adversely affected reserve developments included the continuing decline in short-term external credits; this process, which started in September 1981, accelerated during September-December 1982 with some US$500 million in short-term credits being withdrawn.

2. Evolution of the role of banks

According to an August 1982 report of the National Bank of Cuba, Cuba's external debt in convertible currencies (owed to developed countries) amounted to US$3.5 billion in mid-August 1982. More than half of this amount, i.e., US$1.9 billion, was owed to financial institutions. In 1982, principal repayments on debt owed to financial institutions reportedly amounted to US$1.3 billion, representing about 88 per cent of total principal repayments falling due this year. Net short-term capital outflows from the official sector and the money deposit banks were projected to exceed US$120 million in 1983. Net outflows from the banks were projected to account for more than 70 per cent of the total.

According to data from the Bank for International Settlements (BIS), Cuba's claims on banks in the BIS reporting area totaled US$105 million at the end of June 1982, compared with US$142 million at the end of December 1981. Cuba's liabilities to banks in the BIS reporting area amounted to US$1.6 billion at the end of December 1981, including US$0.8 billion in liabilities with maturities falling due within one year, and around US$1.1 billion in liabilities falling due within two years. It should be noted that, owing to the limitations of the BIS data, these figures may well underestimate the size of Cuba's foreign debts.

3. Restructuring negotiations

In early September 1982, Cuba formally requested renegotiations of principal repayments falling due in September-December 1982, as well as during 1983-85, on the medium- and long-term debt owed to Western official official and private creditors, including commercial banks. The National Bank of Cuba estimated that such debt obligations would amount to US$1.2 billion, including about US$1 billion owed to Western commercial banks. In a telex sent by the National Bank of Cuba to Western creditors, Cuba asked for agreement within 90 days to the postponement of such debt obligations. Moreover, the Cuban authorities were asking to reschedule debt obligations over ten years, including a three-year grace period. They stated that Cuba would continue to pay all interest, including interest on the rescheduled debt obligations. They also indicated that short-term credits would not be included in the contemplated agreement, provided, however, that such short-term credits could be rolled over. The National Bank of Cuba reportedly appealed to correspondent banks not to demand collateral deposits against letters of credit and to "respect Cuba's foreign earnings and assets."

Preliminary talks between the Cuban authorities and 12 Western official creditors, as well as some 250 Western commercial banks, were held in Havana for five days in late October/early November 1982. 1/ The first formal meeting between Cuban representatives and a bank steering committee was reportedly held in Paris on December 16, 1982, to exchange information. Recent press reports indicate that Cuba's effort to reschedule its medium- and long-term debt to both official and bank creditors has moved much more slowly than the Cuban authorities had anticipated. One of the major reasons has been Cuba's failure to offer a credible economic stabilization program. Latest (unofficial) information indicated that banks have agreed to a further postponement, i.e., through end-February 1983, for principal repayments on maturing Euroloans.

4. Financial impact of the restructuring

Since the current status of the renegotiation process is not known, the approximate amount of the debt relief to be provided by an agreement with Western commercial banks remains unknown. In addition, reliable balance of payments estimates for 1982 and projections for 1983-85 are not available.

5. Relationship to rescheduling by official creditors

The relationship between rescheduling by the Western commercial banks and by the Western governments involved is not known. It should be noted, however, that a five-country task force (comprising France, Italy, Japan, Spain, and Sweden) was created last summer to prepare an analysis of Cuba's economic and financial situation. The task force visited Havana in late October/early November 1982; its report was made available for discussion by the official creditors in late November 1982. According to press reports, the report warned official creditors about a number of inconsistencies in the information provided by the National

---

1/ However, a first meeting with French banks apparently took place on March 25, 1982; another meeting with Japanese banks apparently took place in September 1982 in Tokyo in order to discuss the rescheduling of US$100 million of principal repayments.

Bank of Cuba in late August 1982. The task force apparently concluded that more information on the real sector, the budget, and the external sector (including a thorough analysis of Cuba's foreign debt), would be necessary before discussions on the contemplated renegotiations could start. According to the latest press reports, Western official creditors (including Japan) were expected to meet in January 1983 to decide how to proceed with Cuba's request for debt rescheduling. Negotiations are not expected to take place within the Paris Club.

6. Role of the Fund

Cuba is not a Fund member.

Ecuador

1. Economic background

Since 1979, Ecuador's economy has been characterized by slow real-GDP growth rates, accelerating inflation, and increases in the current account deficit, mostly related to expansionary fiscal policies, the deterioration in the price of Ecuador's main export commodities, and rising interest rates in international financial markets. Since 1981, foreign capital inflows have not been sufficient to cover the widening current account deficit. As a result, the overall balance turned into a deficit in 1981 for the first time in four years. Massive foreign exchange speculation contributed to the deterioration of the balance of payments position and capital outflows.

2. Evolution of borrowing from commercial banks

Ecuador's total (public and registered private) external debt has increased rapidly since the mid-1970s, rising from US$1.2 billion at the end of 1975 to an estimated US$6.4 billion at the end of 1982. The structure of external indebtedness has also changed, as the country came to rely more on commercial financing. External public debt owed to commercial banks increased from less than 25 per cent of total external public debt in the mid-1970s to 64 per cent of the total at the end of 1982. During 1982, the commercial banks had become increasingly reluctant to lend to Ecuador, and the country found it increasingly difficult to meet the debt service obligations on medium- and long-term debts. Faced with these difficulties, Ecuador relied mostly on the expansion in public short-term external debt, the outstanding level of which increased from US$110 million at the end of 1981 to the current level of over US$600 million (excluding the short-term debts subject to rescheduling). This rapid buildup of short-term debts in 1982 involved a large number of "nontraditional" institutions which previously had little Ecuadorian exposure.

3. Restructuring of bank debt

At the request of the Ecuadorian authorities, representatives from the Government and commercial creditors met in New York during the period October 18-19, 1982. At these meetings, which were attended by a Fund representative, the authorities requested a rescheduling of amortization payments on Ecuador's public external debt falling due during the period November 1, 1982 to December 31, 1983. The amount involved is about US$1,080 million, of which about US$740 million corresponds to short-term debt amortization payments. The authorities requested to transform the maturities falling due into a seven-year loan, with a two-year grace period. After the rescheduling negotiation started in November 1982, Ecuador postponed amortization payments on public external debt due to foreign banks. The payments postponed during 1982 amounted to US$158 million.

After several meetings with the creditor banks held in November and December 1982, an agreement was reached in January 1983. A major difficulty in the negotiations was the conflict of interest between two distinct groups of creditor banks. The first group consisted of sources of medium- and long-term credit which had dealt with Ecuador traditionally. The second group consisted of a large number of banks (close to 90) which acquired the short-term exposure only recently, in 1982. The latter group was reported to be more reluctant to agree to a rescheduling.

In the event, Ecuador's requests were substantially accepted, and most of the amortization payments on the public sector debt 1/ due to commercial banks between November 1, 1982 and December 31, 1983 were deferred until December 31, 1983, and, on that date, would be rescheduled over six years. The total amount of deferred principal repayments is US$1,078 million, of which US$742 million are maturing short-term debt. 2/ Ninety per cent only (i.e., US$970 million) of the deferred amount is to be rescheduled; once rescheduled, the deferred maturities will become the obligation of the Central Bank, with a guarantee by the Government of Ecuador. Ten per cent of the rescheduled amount (i.e., US$108 million) will be due in four quarterly installments commencing on the conversion date, i.e., December 31, 1983. The remaining 90 per cent is to be repaid in 21 quarterly installments starting December 31, 1984. An interest rate of either 2 1/4 percentage points over the 3-month LIBOR rate or 2 1/8 percentage points over U.S. prime rate or adjusted CD rate will be charged, and a flat conversion fee of 1 per cent will be applied to the rescheduled amount and be payable on the conversion date. The actual implementation of the restructuring arrangement with respect to the deferment of principal repayments is subject to two conditions, the first being that Ecuador must have an upper credit tranche arrangement in place with the Fund, acceptable to the creditor banks, and the second being that Ecuador must reach agreements with official creditors on maturities falling due during the period November 1, 1982-December 31, 1983. In addition, with respect to the rescheduling arrangement included in the agreement, Ecuador must be able to draw under the arrangement with the Fund at the time the deferred amortization will be rescheduled. Negotiations with the Fund began in July 1982 and are still under way. Until recently,

---

1/ Including publicly issued bonds and floating rate notes held for their own account by lenders signing the extension and the restructuring agreement.

2/ The agreed interest rates applicable to the deferred principal repayments are those specified in the original loan agreements or notes until the originally scheduled dates of repayments and, thereafter and until the conversion date, three-month LIBOR plus 2 1/4 per cent or U.S. prime rate plus 2 1/8 per cent or adjusted CD rates plus 2 1/8 per cent. In addition, a 1/4 of 1 per cent flat extension fee on each deferred principal repayment will be paid either at the original maturity date or at the effective date of extension.

the authorities were not known to have approached official creditors. However, contacts may have been established after the agreement with the banks.

4. Financial impact

The gross debt relief from the rescheduling plan of US$920 million, or about 6 per cent of GDP, is expected to reduce the 1983 debt service ratio from 79 per cent of exports of goods and services to 48 percentage points.

5. Relationship to rescheduling by official creditors

As noted above, the renegotiation of official debt represents a condition of the rescheduling of bank debt, but the authorities are not known to have approached official creditors. The public external debt outstanding from official creditors amounted to about US$950 million (22 per cent of the total external public debt) at the end of 1981.

6. Role of the Fund

Fund staff was invited to the first series of meetings with banks in October 1982, but was not directly involved in subsequent negotiations. The one-year stand-by arrangement under negotiation since July incorporates the debt rescheduling which was finalized in January 1983.

Guyana

1. Economic background

Economic activity in Guyana has been very depressed for the last several years. During the period 1977-81, real GDP declined by almost 9 per cent and the inflation rate accelerated from 10 per cent to 29 per cent, while the current account deficit rose from 7 per cent of GNP in 1978 to 34 per cent of GNP in 1981. Since 1979, gross official reserves have been extremely low, and large external payments arrears have accumulated. By June 1982, total payment arrears outstanding amounted to about US$85 million. Of this amount, about US$8.5 million represented arrears on debt service payments, largely on account of a nationalization loan. A three-year extended arrangement with the Fund, approved in mid-1980, was canceled in mid-1982 at the request of the authorities.

2. Evolution of commercial bank debts

Borrowing from foreign commercial banks has been very low in recent years, and there have been practically no new loans since 1981. As a result, the share of the debt to foreign banks in total external debt fell from 19 per cent in 1978 to 14 per cent in 1981.

3. Restructuring of bank debt

Guyana arranged three bilateral debt relief operations with foreign banks between 1979 and 1981: (1) the Bauxite Industry Development Company (BIDCO) obtained a US$31 million debt refinancing loan from a consortium of banks in early 1979; (2) in 1980, 80 per cent of external debt service payments owed by the Central Government of Guyana and by governmental entities to a Canadian bank, estimated at US$29 million, were converted into a six-year loan; and (3) the principal payments of US$10 million owed by BIDCO to a Swiss bank since 1979 were renegotiated in 1981, and part of the payment (US$8.5 million) was deferred until 1983.

Early in 1982, the authorities requested a comprehensive rescheduling of public and publicly guaranteed medium- and long-term external debts to commercial banks. The Government announced in May 1982 that it had reached tentative agreement with creditor banks on converting the principal payments on such debts falling due during the period March 11, 1982 through January 10, 1984 (approximately US$35 million) into two seven-year loans. Ultimately, however, a quite different agreement was concluded in June 1982, involving only the temporary deferment of principal payments falling due during March 11, 1982 through March 31, 1983 (approximately US$13.6 million). Interest on the deferred principal payments was set at 2 1/2 per cent over LIBOR, payable on September 30, 1982 and March 31, 1983. A fee of 1/2 per cent on the principal amount deferred is payable on each original payment due date; also the coordinating agent was to be paid a fee of US$25,000 on the date of agreement. One of the conditions of the deferment was to commence negotiations with the Fund for the use of Fund resources. No short-term debts are covered in the agreement. Banks indicated their intention to negotiate a refinancing agreement to convert the deferred principal payments into a longer-term loan prior to January 31, 1983.

4. Financial impact

As the recent pressures on the debt service payments have to a large extent originated from the interest payments, the deferment of principal payments on commercial bank loans is not expected to result in much relief. As a result, the debt service ratio was estimated to increase from 20 per cent in 1981 to about 30 per cent in 1982, despite the deferment of the US$9.3 million in principal payments due in 1982.

5. Relationship to rescheduling by official creditors

In view of the importance of bilateral loans in Guyana's external debt structure and the existence of arrears on service payments on such loans, it appears that the country could obtain significant relief from the rescheduling of such debts. The authorities are known to have approached individual donor governments for bilateral debt relief. In general, the latter have expressed their preference for making debt rescheduling arrangements within the Paris Club and with a Fund-supported program in place.

6. Role of the Fund

Although entering into negotiation with the Fund is a condition of the current deferment agreement between the authorities and commercial banks, the Fund's involvement in the actual negotiation has been minimal and the Fund staff has not participated in the meetings with the banks.

Jamaica

1. Background

Between 1978 and 1981, Jamaica renegotiated its debt with the commercial banks three times. The rescheduling followed a period of negative growth and continuous balance of payments deficits. During the period 1973-77, real GDP declined by 18 per cent, while the balance of payments registered deficits in all years but one. Expansionary monetary and fiscal policies caused inflation to rise above world levels and the current account of the balance of payments to deterioriate; increases in real wages resulted in a decline of competitiveness and output; loss of confidence related to the uncertain political outlook led to a sharp decline in investment. During this period, the current account deficits (averaging about 9 1/2 per cent of GDP) were partially covered by foreign borrowing--increasingly at commercial terms--by the Central Government and state enterprises with government guarantees. Public debt rose from US$175 million at the end of 1971 to US$813 million at the end of 1976; debt to commercial banks rose from US$40 million at the end of 1972 to US$410 million at the end of 1976. In 1976, a substantial decline in exports, compounded by a slowdown in financing from foreign banks and by private capital flight, led to the exhaustion of foreign reserves. Despite the introduction of strict trade and exchange control measures, Jamaica experienced several foreign exchange shortages in 1977; arrears began to accumulate on commercial payments and on payments of interest and amortization on private nonguaranteed debt. Jamaica continued, however, to remain current on debt service with respect to public sector obligations.

2. The process of rescheduling 1/

Jamaica approached its major bank creditors for the first time in mid-1977, requesting debt relief for a substantial part of medium-term public sector obligations due to private banks during the fiscal year 1978/79. The authorities anticipated that they would also be seeking a restructuring of the maturities falling due in the following two final years. A steering committee of U.S. banks was formed and agreed to consider a refinancing of the maturities falling due in 1978/79, provided Jamaica observed the terms of the Fund arrangement. At the end of 1977, a two-year stand-by arrangement with the Fund, approved in August 1977, became "inoperative" when it became apparent that divergence from the program was significant. Negotiations with the Fund for a three-year program supported by an extended facility began immediately, and were successfully concluded in May 1978. The program was approved in June 1978. The negotiations with the banks continued into 1978, as some difficulties were encountered in putting together the refinancing package. In September 1978, the agreement was signed and the first

1/ A detailed analysis of the rescheduling for the years 1978/79, 1979/80, and 1980/81 may be found in SM/80/275 (12/31/80).

disbursement of US$29 million was made. The banks agreed to refinance seven eighths of maturities falling due during fiscal 1978/79. The amount of the agreement was US$63 million, including a deferral of payments on loans guaranteed by the EXIMBANK. The refinancing arrangement provided for a five-year loan, with repayments beginning in September 1980, and carried an interest spread of 2 percentage points above LIBOR.

The second renegotiation of Jamaican debt concerned the maturities falling due in the fiscal years 1979/80 and 1980/81, amounting to about US$126 million. Preliminary discussions began in September 1978, and this time the steering committee was enlarged to include European and Japanese banks. In November 1978, the banks agreed in principle to reschedule seven eighths of maturities falling due to them during the fiscal years 1979/80 and 1980/81; the agreement became effective on April 1, 1979. The amounts rescheduled were to be rolled over on a short-term basis and then, on April 1 of 1980 and 1981, to be consolidated into medium-term loans. The reschedulings were subject to the provision that Jamaica was able to make all the purchases available to it under the EFF arrangement. Under the agreement, each of the two medium-term loans had a grace period of two years and a maturity of five years for the consolidation date; interest was set at 2 per cent above LIBOR.

In 1978 and 1979, the undertaking of the public sector debt renegotiations and the EFF arrangement, coupled with a substantial increase in the support of donor countries, allowed the inflow of external capital to Jamaica to increase substantially. Exports expanded by more than 30 per cent in this period. However, due to the one third rise in imports, both the current account deficit and the overall deficit expanded from about 2 per cent of GDP in 1977 to 6 per cent in 1979. The foreign exchange shortage remained acute, and arrears on international payments rose to US$55 million by the end of 1979.

During 1978 and 1979, Jamaica was able to purchase under the extended arrangement. The restructuring of maturities falling due in 1978/79 proceeded as scheduled, and maturities falling due in 1979/80 were rolled over. However, Jamaica could not make the January 1980 purchase under the EFF. Discussion with a Fund mission on a one-year stand-by arrangement began immediately, but, after the Government announced in March that elections would be held in the fall, the authorities decided to discontinue discussion with the Fund on a new program.

The discontinuation of the negotiations with the Fund prevented the signing of the first medium-term consolidation loan in April 1980. However, in the expectation that new discussions with the Fund would begin after the elections, the banks continued rolling over outstanding obligations on a short-term basis, as well as seven eighths of the amounts falling due after April 1. In September 1980, the first payment of the 1978 refinancing became due and the banks agreed to roll over the amount in full, and to begin rolling over 100 per cent of the other amounts falling due. By October 1980, the amounts rolled over had reached US$125 million. Import payments arrears also increased, and their outstanding amount reached US$113 million by the end of 1980. Throughout this time, however, Jamaica remained current on interest payments on public sector debt.

In October 1980, elections were held and the new government immediately reopened negotiations with the Fund on an EFF program and began discussions with the banks with regard to the debt which had been rolled over in the short term, as well as on future financing needs.

The negotiations with the Fund were successfully concluded in March 1981, and a new EFF arrangement was approved in April. The Fund arrangement envisaged a rescheduling of amortization payments falling due in the final years 1981/82 and 1982/83, and the concessions of new loans for US$70 million by the commercial banks in the first year of the program.

Discussions with the banks were held during the first half of 1980, and the final agreement was signed on June 20, 1982. According to the agreement, 100 per cent of the financial payments on government and government-guaranteed external debt falling due in fiscal 1981/82 and 1982/83 were deferred until April 1, 1983, at which date they would be converted into a five-year loan, with two years of grace. The deferral of payments was subject to the purchases under the EFF arrangement taking place at the scheduled dates. The amount of the rescheduling was initially estimated at about US$103 million; however, in the event, the actual amount was about US$89 million, of which US$48 million were maturities due in 1981/82 and US$41 million were maturities due in 1982/83. The November 1978 arrangement with the banks, rescheduling the 1979/80 and 1980/81 maturities, remained in force. Before the signing of the new arrangement with banks, Jamaica paid the unrescheduled part of principal payments rolled over during 1980, i.e., one eighth of principal payments falling due after January 1980, and the full amounts falling due under the 1978/79 refinancing after September 1980.

3. Relations with banks

New commitments and net flows of medium- and long-term funds from banks dropped precipitously in 1976. In 1977, the net flow of financing from banks was negative and the stock of debt outstanding to commercial banks declined somewhat. During the period 1976-80, Jamaica's medium- and long-term indebtedness toward commercial banks remained virtually unchanged, while obligations to official creditors other than the Fund rose sharply from US$300 million at the end of 1976 to US$715 million at the end of 1980. After the negotiation of the 1981 EFF and the bank debt rescheduling, Jamaica again had access to medium- and long-term bank financing. In July 1981, the Government raised US$71 million in new money through a syndicated loan; the loan was for seven years with three years' grace, and at a margin of 2 1/4 per cent over six-month LIBOR. In 1982, two public entities raised US$23.5 million in loans carrying government guarantees. One of the loans (contracted in March 1982) had a seven-year maturity and carried a 2 1/2 per cent spread over LIBOR; the second one (contracted at end-July 1982) had a four-year maturity, with one year of grace and a 1 3/4 per cent margin over LIBOR. The Government of Jamaica is presently negotiating a US$50 million syndicated loan. In addition, Air Jamaica negotiated a US$84 million agreement with a bank syndicate for the purchase of two wide-bodied aircraft.

Although reliable data are not available, it is likely that Jamaica has been able to increase its short-term trade-related exposure since 1981, as normal trade-related financing was again provided by the banks. Overall, in 1981 and 1982, private inflows were greater than expected, as indicated by a larger-than-expected positive swing in the errors and omissions item of the balance of payments.

The refinancing arrangements will result in lower amortization payments to banks until 1983. From 1983 to 1987, the period in which all rescheduled amounts will be repaid, repayments to banks will average US$50 million a year.

4. Relations with official creditors

The Jamaican authorities did not seek a multilateral rescheduling from official creditors; even so, selected foreign debt to official institutions has been refinanced. During the years 1978/79 and 1979/80, Jamaica received two special assistance loans from foreign governments operating within the context of the Caribbean Group for Cooperation and Development. The assistance under this arrangement was curtailed in 1980, after Jamaica interrupted its negotiations with the Fund. In March 1981, at a special meeting of the Caribbean Group chaired by a representative of the World Bank, Jamaica gathered commitments from various donor countries and international institutions totaling US$350 million for the fiscal year 1981/82. Disbursements by these entities amounted to US$277 million in 1981/82 and US$297 million in 1982/83.

5. Role of the Fund

As described in detail in SM/80/275, the staff was actively involved during the first refinancing negotiations. In the following negotiations, the staff played a less active role, while remaining in frequent contact with the banks.

As noted above, the debt restructurings were made conditional upon Jamaica's performance under the extended arrangement. After each purchase, the Fund provides the Jamaican authorities and the steering committee with a written communication stating that the purchase has been effected.

Liberia

1. The role of banks

Between 1976 and 1979, official debt to foreign financial institutions rose from US$10.5 million to US$133.4 million. 1/ Over the same period, commercial banks' share of outstanding official external debt rose from a negligible proportion to 29 per cent of the total.

Following the internal unrest in 1979 and 1980, business confidence waned and there was substantial transfer of funds abroad. At the same time, a number of foreign banks froze or reduced their credit lines to Liberian clients, including the Government. Attempts at controlling capital flight proved ineffective, and a severe liquidity squeeze ensued. Arrears developed in late 1980, and rose to US$10 million in June 1981. Barring US$1.6 million of arrears which were included in the private December debt renegotiation, all arrears were eliminated in FY 1981/82. However, during the second half of 1982 new arrears were accumulated, mainly on payments to financial institutions which had participated in refinancing of petroleum imports.

2. Restructuring negotiations

Debt renegotiation talks began with official creditors in December 1980 and with banks in May 1981. At the meeting with banks the Liberian authorities, who were advised by UNDP-financed consultants, proposed that all outstanding principal and accrued interest be restructured into a new loan with a 4 1/2 year grace period and a maturity of 12 1/2 years. They also sought a new loan of US$50 million.

The banks insisted that interest payments could not be rescheduled and preferred that future principal due be rescheduled on a year-by-year basis. On November 27, 1981, the bank Steering Committee formally offered to reschedule 90 per cent of principal falling due between July 1, 1981 and June 30, 1982, with a grace period of three years and a maturity of five years at LIBOR plus 2 1/4 per cent. Before signing, Liberia was required to pay all interest in arrears, all arrears on principal incurred before July 1, 1981, and 10 per cent of principal due since July 1, 1981. While this proposal was not acceptable to the Liberians, an agreement was finally reached on July 28, 1982, covering 95 per cent of all principal through July 31, 1983. The final maturity was extended to six years and the interest rate was lowered to LIBOR plus 1 3/4 per cent. The bank which was owed most of the arrears (US$1.2 million of a total of US$1.6 million) also informally agreed to allow Liberia to repay the arrears in 12 monthly installments.

1/ BIS figures for liabilities to foreign banks are substantially higher because of Liberia's status as an offshore banking center. The financial activities of offshore banking centers, however, have no direct impact on the country's financial status.

3. Financial impact of the restructuring

The commercial bank debt restructuring will provide about US$13 million in debt relief in 1982/83. This will lower projected debt service from 17 per cent of projected exports to about 13 per cent.

Liberia has concluded two reschedulings with its Paris Club creditors, the first in December 1980 and the second in December 1981. The first covered 90 per cent of principal and interest due between July 1, 1980 and December 31, 1981, and the second 90 per cent of principal and interest falling due between January 1, 1982 and June 30, 1983. The first loan had a four and a half-year grace period and a nine-year final maturity, while the second had four years' grace and a nine-year final maturity. Both required comparability in treatment for private bank debt reschedulings.

4. Role of the Fund

Fund programs have played an important role in negotiations with both the Paris Club and the banks. The first Paris Club agreement was expedited by the fact that a Fund program was already in place, while the second required that the Government enter into an upper tranche arrangement with the Fund by no later than September 30, 1982. The final agreement with banks required that Liberia implement and comply with all the terms and conditions of the existing Fund program.

Fund staff were present as observers in negotiations with both the Paris Club and the private banks. While they have not participated directly in the negotiations, at times they have given presentations relating to Liberia's economic conditions, as well as answered questions on Fund policies and relations with Liberia. They have also helped analyze the balance of payments impact of various rescheduling proposals.

Madagascar

1. Background

In 1979-80, as a result of an excessively expansionary investment policy and a lack of effective control over public sector activities, there was a dramatic increase in external borrowing. Between end-1979 and end-1981, outstanding external debt increased two and a half times in U.S. dollar terms to US$1.43 billion. At end-1981, outstanding external debt was equivalent to more than 53 per cent of GDP. At the same time, outstanding payments arrears amounted to about US$120 million, equivalent to 4.4 per cent of GDP and 33 per cent of exports of goods and services. An unidentified portion of these arrears related to medium- and long-term debt service payments, including about US$10.5 million on previously rescheduled debt. Madagascar's debt service ratio rose from 6 per cent in 1978 to 14.5 per cent in 1980 and to 32 per cent in 1981 (after debt rescheduling but excluding arrears in respect of debt services). In 1981, Madagascar's foreign exchange position deteriorated sharply; by the end of 1982, gross international reserves totaled an estimated US$16 million, equivalent to about one and a half weeks of imports.

Outstanding disbursed debt at the end of 1982 was estimated at US$1.62 billion and the debt service ratio for 1982 (after debt rescheduling but excluding arrears on debt service payments) at 34 per cent.

2. Evolution of the role of banks

The steep rise in Madagascar's foreign borrowing was accompanied by a sharp deterioration in the external debt profile. In particular, the maturity structure and interest rate of new loans contracted worsened significantly between 1977 and 1980, mainly because of a gradual shift from borrowing mostly on concessional terms to increased borrowing at commercial terms. However, the available data on new commitments indicate that the share of commitments from financial institutions increased from over 2 per cent in 1977 to 27 per cent in 1979 and to about 41 per cent in 1980. This share fell to less than 10 per cent in 1981, mainly as a result of Madagascar's adherence in that year to the limits on new foreign borrowing established under the 1981 stand-by arrangement with the Fund.

3. Restructuring negotiations

The dramatic deterioration in Madagascar's external foreign position resulted, in 1981, in the renegotiation of external debt service payments, not only to Madagascar's public creditors but also to a number of private creditors, including several commercial banks.

Several bilateral private bank rescheduling operations were completed in 1981; they reportedly covered mainly outstanding short-term debt (about US$147 million), and the terms granted were generally less favorable than those of the April 1981 official debt rescheduling agreed with official creditors under the auspices of the Paris Club.

In June 1982, the Malagasy authorities initiated talks under the London Club on the rescheduling of Madagascar's debt service obligations (including outstanding arrears) to commercial banks in 1982. A steering committee was established to coordinate the negotiations, assisted by two informal working groups, with one covering the medium-term debt and the second the short-term debt. There have been several meetings between the Malagasy representatives and the steering committee through January 1983. At their meeting in mid-November 1982, the banks took the position that agreement on "feasible" rescheduling terms would have to await the completion of the authorities' negotiations with the Fund on an economic and financial program for 1983. A further meeting was held on January 25, 1983, at which some progress was made.

According to banking sources, the steering committee's approach, which has not yet been approved by a number of banks, is expected to provide for a global rescheduling of the total stock of US$195 million in short-, medium-, and long-term debt, including principal repayments in arrears but excluding any interest payments in arrears. The proposed global consolidation is also expected to include debt obligations (including arrears on short-term liabilities) that are already subject to bilateral reschedulings. Short-term debt as of end-1982 is currently estimated at US$117 million, including arrears of US$52 million. Medium-term debt as of end-1982 is estimated at US$79 million, including arrears of US$18 million. The terms of a final agreement are presently under negotiation, pending a further meeting between the Malagasy authorities and the London Club commercial banks scheduled for March 11, 1983.

The July 1982 Agreed Minute of the official debt rescheduling requires that the Malagasy Government seeks to secure from private creditors, including commercial banks, rescheduling, financing or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity.

According to banking sources, the original terms proposed by the banks were more stringent than those obtained from the Paris Club and some banks are still holding out for even harder terms. The proposal, however, aims at a global rescheduling of all debt, not just debt service obligations in arrears or falling due through mid-1983.

4. Relationship to rescheduling by official creditors

Madagascar renegotiated its foreign debt obligations to public creditors within the framework of the Paris Club in June 1981 and July 1982. The June 1981 official debt rescheduling provided for the rescheduling of 95 per cent of principal and interest due between January 1, 1981 and June 30, 1982. For 85 per cent of the obligations, the grace period was 5.3 years and the repayment period 9.8 years. Shorter grace and repayment periods were applied to the remaining 10 per cent of obligations. In addition, arrears (including short-term arrears) in respect of debt service payments on January 1, 1981 were rescheduled. The total debt relief provided by the agreement was US$81 million for 1981, including rescheduled arrears of US$29 million. During the first half of 1982, the amount of net debt relief (i.e., after taking into account the moratorium interest) obtained under the 1981 Paris Club renegotiation was about US$34 million, or 17 per cent of total 1982 debt service payments, and 10 per cent of exports of goods and services.

In the July 13, 1982 Agreed Minute on the 1982 official debt restructuring, the representatives of the 11 creditor countries agreed on recommendations to be made to their governments or appropriate government agencies regarding loans to Madagascar with original maturities of more than one year and contracted prior to January 1, 1982. The creditors agreed on a consolidation period from July 1, 1982 to June 30, 1983, i.e., broadly until the end of the present stand-by arrangement. Eighty-five per cent of the principal and interest payments falling due during this period will be consolidated and repaid in 10 equal semi-annual installments beginning March 31, 1987, i.e., after the end of a grace period of approximately four years. The remaining 15 per cent of principal and interest will be paid as follows: 5 per cent as originally scheduled, 5 per cent on June 30, 1984, and 5 per cent on June 30, 1985. In addition, the creditors agreed to provide debt relief with regard to arrears (interest and principal outstanding as of June 30, 1982), including arrears on short-term credits. With respect to the arrears on short-term debt, however, the creditor countries indicated that it was against the principles of the Paris Club to reschedule such arrears and that it was the last time that such an inclusion would be considered for Madagascar. Repayments related to the rescheduled arrears were as follows: 30 per cent of the total amount before December 31, 1982, and 70 per cent in six equal and successive semiannual payments between March 31, 1983 and September 30, 1985. There was a slight hardening in the terms of the 1982 official debt rescheduling compared with corresponding terms in the 1981 official rescheduling agreement. The rate and conditions of interest to be paid in respect of these financial arrangements are to be determined bilaterally between the Malagasy authorities and the governments of each participating creditor country.

6. Role of the Fund

The rescheduling of debt obligations to both official and private creditors, including arrears, is an important element of the financial program presented by the Malagasy authorities in support of a one-year stand-by arrangement approved on July 9, 1982. In the 1982 official debt rescheduling agreement, it is clearly stated that foreign creditors will consider rescheduling of debt service obligations falling due after June 30, 1983, provided that Madagascar continues to have a stand-by arrangement with the Fund involving the use of Fund resources subject to upper credit tranche conditionality, and reaches effective arrangements with banks (and other creditors) meeting the condition of equal treatment.

Because of the relatively large outstanding stock of commercial bank debt, the terms of rescheduling with the commercial banks will have a major impact on the viability of an economic and financial program for 1983. The Malagasy authorities requested that the Fund staff contact the banks involved in the steering committee of the London Club.

Malawi

1. Economic background

Up to the late 1970s, Malawi had sustained high rates of growth in real GDP, which averaged 6 per cent per annum without major internal or external imbalances. However, large imbalances have emerged since 1978, due to several factors: crop failure, deterioration in terms of trade, and the undertaking of large investment projects by the Government.

2. Evolution of the role of banks

Malawi's medium- and long-term public debt to foreign private financial institutions rose rapidly during the late 1970s in terms of both the absolute amount and its relative importance as a source of external financing; Malawi's public debt to foreign private banks increased from US$5 million at the end of 1976 to the current level of almost US$200 million, and its share in total external public debt from less than 2 per cent at the end of 1976 to the current level of about 25 per cent. This increase was largely due to the Government's reliance on external commercial financing in carrying out major investment projects, including the construction of the new capital. Originally, the debt to private banks was almost entirely concentrated on a small number of banks in the United Kingdom and the United States.

3. The restructuring of bank debt

In June 1982, the authorities formally requested a meeting with their commercial bank creditors to negotiate a rescheduling of Malawi's external debt obligations for the period 1982-83. Consequently, during the period July 20-27, meetings were held in London with 16 banks. Unknown to the authorities, many of the original creditors had sold part of their Malawi exposure, and there were at least 10 other creditor banks which were not represented. A representative from the Fund was present at these meetings as an observer.

The initial attitude of creditor banks was mixed. Although many welcomed the fact that Malawi had approached its creditors and the Fund at an early stage, some doubted the need for Malawi to enter into a debt rescheduling, especially as the country was not yet in arrears on debt service payments, and banks expressed concern over setting a precedent. One bank favored refinancing rather than rescheduling during subsequent negotiations.

Details regarding subsequent negotiations are scanty because of the lack of direct Fund involvement in these negotiations. However, a tentative agreement was apparently reached in November 1982. The proposed rescheduling agreement covers 85 per cent of the amortization payments on external public debt to foreign banks with maturities of one year or more and falling due between September 1982 and August 1983. The proposed rescheduling agreement calls for a three-year grace period and amortization payments to be divided into seven equal semiannual installments.

The interest rate to be charged is 1 7/8 per cent above LIBOR. Although details are unavailable, it is known that the rescheduling is conditional upon the existence of both a Fund program and a World Bank structural adjustment loan. The issue of whether to include in the rescheduling the short-term debt of the central bank that has been rolled over for a number of years is still unresolved.

4. Financial impact

The commercial debt rescheduling is expected to result in a foreign exchange relief of US$7.5 million in 1982 and US$34 million in 1983. Combined with the Paris Club rescheduling, debt relief would thus total US$17 million in 1982 and US$54 million in 1983. Without debt rescheduling, the total debt service ratio was projected to reach 42 per cent in 1982 and more than 40 per cent in 1983. With the rescheduling of debt to public and commercial creditors, the current financial program supported by a stand-by arrangement envisages debt service ratios of 31 per cent in 1982 and 21 per cent in 1983.

5. Relationship to rescheduling by official creditors

At a Paris Club meeting on September 22, 1982, an agreement was reached between the Malawian Government and the Governments of France, Germany, Japan, Sweden, the United Kingdom, the United States and, for the first time in a Paris Club meeting, South Africa. The agreement covers 85 per cent of debt service obligations for the period July 1, 1982-June 30, 1983, and calls for a three-year grace period and a maturity of eight years. The rescheduling includes debt guaranteed by creditor governments to private sector institutions in Malawi which was not guaranteed by the Malawian Government. The period for which the rescheduling was granted was shorter than originally requested by the Malawian Government; however, the Paris Club indicated its goodwill to review Malawi's situation further with a view to providing additional debt relief as long as Malawi adhered to the current stand-by arrangement.

6. Role of the Fund

The two-year stand-by arrangement with the Fund expired on March 31, 1982. Discussions on a new stand-by program began in early 1982, and a one-year stand-by arrangement was approved by the Board in early August 1982. Early on in the stand-by arrangement negotiations, external debt rescheduling was recognized as an integral part of the financial program, which included assumptions about the debt relief that would result from the rescheduling; however, the ceilings on net credit to government were to be set during the mid-term review in October 1982, pending the outcome of the rescheduling negotiations.

A Fund representative was present at the initial meetings with commercial banks in July. His participation included a review of recent economic developments and a discussion of the importance of the proposed debt relief for the one-year stand-by arrangement approved in early August. The Fund has not been represented in subsequent meetings of the steering committee.

Nicaragua

1. Evolution of the role of banks

Private banks became an important source of medium-term funds after 1972, partly for reconstruction following the earthquake, but also for financing general budgetary outlays. Beginning in 1976, a tighter debt management policy and increased commitments from official creditors reduced the demand for bank credit. However, for the period 1973-77, banks accounted for 50 per cent of net medium- and long-term capital inflows. As the political and economic situation deteriorated in 1978, banks became unwilling to commit funds and net outflows occurred. This continued until early 1982, when discussions on a new syndicated loan took place; this agreement, however, is yet to be concluded. Nicaragua's medium- and long-term debt outstanding is currently estimated to be US$2.5 billion.

2. The restructuring of bank debt

In December 1980, almost 18 months after the new government had taken power, Nicaragua reached an agreement with its bank creditors for the rescheduling of US$582 million in public sector obligations, including US$90 million of arrears on interest payments. The terms of the agreement were substantially more generous than those secured in any other rescheduling of bank debt to date. In September 1981, Nicaragua rescheduled an additional US$180 million in debt contracted by the nationalized domestic banks, which had not been included in the previous agreement. The third and final rescheduling was concluded in March 1982, covering an estimated US$55 million in debt contracted by nationalized and commercial enterprises. The terms on the later two negotiations were similar to the first, including the coverage of arrears on both principal and interest. The generosity of the terms on these reschedulings apparently resulted from fears of an official debt repudiation. The questionable nature of some of the debts made many bankers fear that repudiation would not necessarily be adversely received by other members of the banking community.

The three agreements all contained several unusual features. First, ceilings were placed on the interest payments due during the first five years of each agreement (7 per cent in the first one and 6 per cent on the other two), with the difference between that rate and the LIBOR-based loan rate added to principal. Second, the reschedulings covered most arrears on interest; 75 per cent in the first agreement and 90 per cent in the second two. Past interest due was also recalculated at a below-market rate. All three of the agreements called for 10-year maturity periods, except part of the first, which allowed 12 years for repayment of future principal due. Grace periods varied from five years in the first agreement to one year in the second to none in the third.

3. The financial impact of the restructuring

While there was a substantial net withdrawal of bank funds in the first nine months of 1978, the fact that few payments of principal or interest occurred over the next three years meant there was little net withdrawal during the period of the rescheduling discussions. However, no significant new medium-term loans have been contracted since the reschedulings began and trade financing relationships are yet to be normalized. Although its external position remains extremely fragile, so far Nicaragua has upheld the terms of the rescheduling arrangements. However, recently some arrears have developed on some nonrescheduled payments due. The debt service burden is also projected to rise over the next few years, and without further debt reschedulings it is unlikely the country will be able to meet its external debt service obligations.

4. Relationship to rescheduling by official creditors

While the Paris Club meeting in October 1980 did not conclude successfully because of the lack of a Fund program, Nicaragua has successfully renegotiated debt with most of its official creditors on a bilateral basis. So far, Nicaragua has successfully concluded bilateral negotiations with Japan, Mexico, Spain, the Federal Republic of Germany, and Venezuela. However, it has not yet renegotiated its debt with the major creditor, i.e., the United States.

5. The role of the Fund

The banks originally asked that a Fund-supported stabilization program be in place prior to the completion of any rescheduling agreement. However, the absence of a Fund program throughout the negotiation period did not prevent the signing of the three agreements. The Government did not request Fund participation in any of these rescheduling agreements.

Peru

1. The rescheduling process: a summary

During 1978 Peru concluded rescheduling agreements with both the commercial banks and the Paris Club, as well as with certain other official creditors. The events leading to the rescheduling of the debt to commercial banks and the process of rescheduling were described in detail in SM/80/275 (12/31/80) and are only summarized here. The reschedulings followed a deterioration in Peru's balance of payments in 1977 and 1978, after the failure of a stabilization program agreed with commercial banks at the beginning of 1977. By mid-1978, Peru was unable to meet amortization payments falling due, and creditor banks agreed to roll over these payments until January 1979, at which date they were scheduled to be converted into a new loan if, among the other conditions, Peru entered into a stand-by program with the Fund. Negotiations for a rescheduling began in April 1978 and were rapidly concluded. Soon afterward--in July of that year--Peru and the Fund staff reached agreement on a two-year stand-by arrangement, and in December the rescheduling agreement was signed. According to the agreement, 90 per cent of the maturities falling due in 1979 were to be rolled over until March 3, 1980 when, provided Peru had made all the purchases to which it was potentially entitled under the stand-by arrangement with the Fund, these amounts would be converted into a medium-term loan. The banks also agreed in principle to a similar restructuring of the 1980 maturities, provided that Peru was in full compliance with the stand-by arrangement at the end of 1979. As for the amounts rolled over during 1978, 50 per cent was repaid on January 3, 1979, and the balance was converted into a one-year loan repayable in four quarterly installments.

2. Developments after the rescheduling

Peru's balance of payments performance improved dramatically in 1979 as export earnings rose by 79 per cent. In view of this, the Peruvian authorities decided to forego the 1980 reschedulings with official creditors and with the banks which they had previously agreed to undertake, and to seek a renegotiation of the terms of the 1979 agreement. The banks, however, were unwilling to renegotiate the 1979 terms; therefore, it was agreed that in January 1980 Peru would repay in full the amounts rescheduled with respect to 1979, and that the banks would roll over, until early 1981, 90 per cent of the maturities due in 1980 at a spread over LIBOR lower than that agreed originally. Final consolidation into a medium-term loan was again conditional upon Peru's continued compliance with the stand-by arrangement with the Fund. During 1980, Peru's balance of payments again registered a large surplus, mainly reflecting a further increase in exports and large capital inflows. In early 1981, the Peruvian authorities decided to forego the rescheduling of the amounts rolled over during 1980 and repaid in full.

3. *Financial impact of the rescheduling*

According to the initial schedule, the rescheduled debt should have been repaid between 1981 and 1986. The debt relief due to the postponement of the principal payments was to be about US$185 million in 1978, corresponding to the amortization payments rolled over, about US$200 million in 1979 and about US$340 million in 1980. Interest payments on the rescheduled amounts would have climbed to about US$85 million a year by 1981. Due to the anticipated repayments of rescheduled amounts, actual debt relief from the net postponement of amortization payments amounted to US$185 million in 1978, and US$200 million in 1979. In 1980 and 1981, debt relief was negative by about US$70 million and US$320 million, respectively. Between 1978 and 1981, interest on rescheduled amounts averaged about US$30 million a year.

The commercial banks' contribution to the financing of Peru's balance of payments after 1979 was more substantial than indicated by the figures of the reschedulings. Since 1979, Peru has received large net flows of commercial bank financing, amounting to about US$230 million in 1979, and to US$285 million in 1980 and 1981; in 1982, Peru received US$450 million in the form of net medium-term commercial bank financing and about US$500 million in short-term loans. Spreads on new bank credit to Peru declined from 1 7/8 per cent at the beginning of 1979 to 7/8 per cent in late 1980, but have been rising since late 1981.

Poland

1. Background

Poland's external debt difficulties are linked to the development strategy which was adopted in the early 1970s and the weakness of economic management that prevailed throughout the 1970s. Large imports of capital goods and turnkey plants were expected to help modernize the industrial sector and broaden the export base. The latter was expected to help service the external debt that resulted from large foreign borrowing to finance the imports. It appears, however, that the expansion of investment was carried out on the basis of poorly conceived project evaluation criteria and distorted relative prices. In the event, exports were not generated in sufficient quantity and quality, while foreign demand for Polish exports remained weak and interest payments were increasing rapidly. Total debt service payments in convertible currencies amounted to US$8.1 billion in 1980, 1/ equivalent to about 91 per cent of exports of goods and services in convertible currencies. About 75 per cent of the Polish debt at end-1980 to both official and private Western creditors either fell due in 1981 (US$6.4 billion), in 1982 (US$5.5 billion), and due in 1983 (US$4.7 billion).

2. Evolution of the role of banks

At the end of 1973, Poland's medium- and long-term outstanding disbursed debt in convertible currencies totaled US$2.6 billion, including US$1.7 billion in "bank credits." 2/ At the end of 1980, the outstanding amount was US$22.1 billion, including US$20.3 billion in "bank credits" and US$8.5 billion in financial credits. New commitments of medium- and long-term loans were very high in the period to 1980, and included an increasingly large number of bank loans for general balance of payments support.

According to the official external debt data which were released by the Polish authorities to the Western commercial banks in November 1981, medium- and long-term disbursed debt in convertible currencies amounted to US$23.4 billion at end-August 1981, including US$18.6 billion owed to official and private entities in Western industrial countries and Japan. Of the total of US$23.4 billion, US$14.5 billion (or 62 per cent of the total debt) was owed to foreign governments or implicitly guaranteed by them. US$8.9 billion, not covered by an official guarantee in the creditor country, was debt to private creditors, which nearly exclusively are private banks; the only exception is Japan, where part of the debt is owed to trading companies. About 500 banks were reportedly involved. Banks in Germany (US$1.9 billion) and the United States (US$1.2 billion) have the largest unguaranteed exposure. At the end of June 1982, medium-

---

1/ Including US$0.4 billion in interest payments on the short-term debt.

2/ "Bank credits," according to the Polish terminology, includes financial as well as trade-related credits received from foreign banking and financial institutions.

and long-term debt disbursed in convertible currencies amounted to US$23.5 billion, while short-term credits amounted to US$1 billion, compared with US$1.1 billion at end-December 1981 and US$2.2 billion at end-December 1980.

Poland's short-, medium-, and long-term liabilities to banks reporting to the BIS totaled US$15.3 billion at the end of 1981, including US$5.5 billion in liabilities with maturities of up to and including one year, and US$1.9 billion in liabilities with maturities of over one year and up to and including two years.

Arrears on debt service in respect of medium- and long-term debt due to both official and private Western creditors (including commercial banks) started to accumulate in early 1981. Beginning in 1982, Poland also accumulated some arrears on account of principal payments on debt not covered by the 1981 official debt rescheduling. Since January 1982, Poland has not serviced its debt to official Western creditors.

3. Restructuring negotiations

Poland officially requested a rescheduling at a meeting with the banks in March 1981. Following this meeting, the banks established a "multinational task force" composed of 20 banks from 12 countries to represent some 500 banks involved and an international economic committee, which was expected to follow economic and financial developments and prospects in Poland. In September 1981, the task force met in Vienna to announce its recommendations. The agreement was to provide for the rescheduling of 95 per cent of principal due between March 26 and December 31, 1981. The proposed terms were seven years' maturity with four years' grace at LIBOR plus 1 3/4 per cent. Short-term facilities and interbank deposits were specifically excluded from the agreement, but the task force recommended that banks "maintain short-term facilities at realistic and workable levels." In turn, before the agreement could be signed, Poland was to pay all interest due in 1981, as well as any principal amounts in arrears prior to March 26, 1981.

In mid-December 1981, 22 of Poland's main bank creditors were informed that US$350 million of the US$500 million interest payment required before the end-December 1981 signing date was not available, and they were asked to provide a six-month bridging loan to finance this payment. Western governments were also approached regarding this bridging financing, but neither the banks nor the governments were willing to provide it. In the event, the end-December 1981 deadline could not be met and the agreement between Poland and the banks was finally signed on April 6, 1982. As had been agreed by the bank task force in September 1981, 95 per cent of the US$2.4 billion in principal payments that had fallen due during the last nine months of 1981 was rescheduled. The balance of 5 per cent of the US$2.4 billion was to be repaid in 1982. The terms included a grace period ending in December 1985 and repayment over the three years through December 1988 with a spread over LIBOR of 1 3/4 per cent. The agreement was to take effect on May 10, 1982, provided all the banks had formally accepted the agreement.

Negotiations on rescheduling principal and interest due in 1982 to private Western banks began shortly after the signing of the 1981 rescheduling agreement. The discussions focused on the rescheduling of (1) US$3.2 billion in debt obligations to private Western creditors due in 1982, including US$2.1 billion in principal repayments and US$1.1 billion in interest payments, and (2) US$0.3 billion of principal in arrears on the rescheduled 1981 agreement with private commercial banks.

After protracted negotiations, Poland and the Western commercial banks agreed in September 1982 on a draft for the 1982 rescheduling agreement with private Western bank creditors. Under this draft, 95 per cent of the principal repayments due in 1982 (including arrears on the 1981 agreement) were to be rescheduled over seven and a half years, including a four-year grace period, and be repaid in several equal installments, and 5 per cent of principal and all interest due had to be paid within half a year after signing the agreement. However, under a separate agreement, the creditor banks agreed to provide trade credits (to finance export-generating imports) up to 50 per cent of all interest payments falling due in 1982 on a six-month revolving basis up to three years. Interest rates to be paid on the rescheduled amounts were set at LIBOR or the U.S prime rate plus 1.75 per cent, and interest rates charged on the short-term credit facilities were set at LIBOR or U.S. prime rate plus 1.5 per cent. A 1 per cent flat commission had to be paid upon actual completion of this 1982 rescheduling agreement. Press reports indicate that the terms agreed in the September 1982 draft have been accepted by the parties concerned. Talks on rescheduling the 1983 maturities are under way.

4. Financial impact of the restructuring

The April 1982 rescheduling agreement with private commercial banks provided debt relief of US$2.3 billion in the form of deferred principal repayments. Together with the 1981 rescheduling agreement with official Western creditors, the debt relief amounted to US$4.5 billion, equivalent to 18 per cent of outstanding debt in convertible currencies with market economy countries at end-December 1981.

The November 1982 rescheduling agreement with private commercial banks provided a debt relief of US$2.3 billion on account of principal repayments due to banks in 1982, including US$0.3 billion of principal in arrears on the 1981 rescheduling agreement. In addition, Poland is expected to receive US$550 million, or half the estimated interest due to banks in 1982, in the form of short-term credit facilities to be rolled over through 1985.

5. Role of the Fund

Since September 1981, members of the Fund staff have been present as observers at a number of meetings with both official and private creditors. Poland applied for membership to the Fund on November 7, 1981.

Romania

1. Background

Despite an improvement in the current account of the balance of payments, by mid-1981 Romania began to encounter difficulties in meeting its obligations in convertible currencies. This liquidity squeeze was, at least in part, generated by a change in the payment method of some important customers of Romanian exporters from cash to delays of up to 180 days. Developments in other countries in the region, as well as adverse press reports on Romania, also helped precipitate the crisis. In August 1981, the Romanian Bank for Foreign Trade (RBFT) began delaying repayments of certain short-term deposits made by foreign banks with the RBFT. By the end of September 1981, the RBFT was in arrears on US$590 million in repayments of such inter-bank credits to over 50 foreign banks. The RBFT also encountered difficulties in honoring its letters of credit, making payments against documents presented on a collections basis, and paying transportation charges. By the end of October 1981, total payments delays had reached almost US$1.5 billion.

Once payments delays began to occur, banks not only became unwilling to place new deposits with the RBFT, but some banks reduced credit lines, and short- and medium-term capital inflows in convertible currencies were well below normal levels. As a result, the capital account in convertible currencies showed a deficit of US$570 million for 1981, compared with a surplus of US$1.7 billion projected at the time the three-year stand-by arrangement was approved on June 15, 1981. The convertible current account deficit, by contrast, was less than half of the US$1.9 billion deficit targeted in the stand-by program. At the end of 1981, external debt in convertible currencies totaled US$10.2 billion, including US$1.1 billion of short-term debt (excluding arrears). The total debt service ratio on debt in convertible currency, including debt to the Fund, amounted to 22 per cent in 1981.

2. Evolution of the role of banks

Of the US$10.2 billion of convertible currency debt at the end of 1981, an estimated US$5.2 billion was owed to commercial banks, including US$1.8 billion in liabilities with remaining maturities up to and including one year.

Scheduled repayments of principal in convertible currencies (excluding arrears outstanding at the end of 1981) due to foreign commercial banks amounted to US$2.3 billion in 1982, equivalent to about 34 per cent of exports of goods and services payments in convertible currencies. Total external payments arrears (including debt service-related arrears), which amounted to US$1.1 billion at the end of December 1981, increased to US$2.6 billion by the end of September 1982, of which US$1.3 billion were owed to commercial banks.

3. Restructuring negotiations

The Romanian authorities met several times during the course of 1982 with a group of banks; members of the Fund staff were frequently present as observers during these meetings. The general terms of rescheduling were agreed informally in spring 1982. The banks were willing to reschedule 80 per cent of all arrears on principal outstanding at the end of 1981, as well as 80 per cent of all principal falling due in 1982, including maturing short-term debt. The rescheduled payments, some US$1.6 billion in total, were to be repaid in six and a half years with three years' grace, and a spread of 1 3/4 per cent above LIBOR was agreed.

A difficult issue in the negotiations was the insistence by the banks on comparable treatment for Romania's other creditors. This implied that Romania had to obtain reschedulings on similar terms from Western official creditors as well as the International Bank for Economic Cooperation (IBEC) and the International Investment Bank in Moscow (IIB), some Middle Eastern central banks, and foreign suppliers. Accordingly, Romania officially requested a meeting of the Paris Club. The Romanian authorities also approached the other creditors, including the Moscow banks, OPEC central banks, and foreign suppliers. Many of the latter were reluctant to accept a rescheduling on terms similar to those agreed with the Western commercial banks.

Another difficult issue was the concern of some bankers about the equal treatment proposed by the Romanian authorities for medium- and long-term debts and short-term debt obligations. Moreover, some banks were concerned over the way in which the rescheduling negotiations had been confined to a group of nine major banks, as some banks outside this group had been denied access to decision making or information.

The agreement with commercial banks was formally signed by Romania and the steering committee of nine Western banks on December 7, 1982. Under the terms of this agreement, 80 per cent of arrears on the 1981 debt obligations and 1982 principal repayments on all debt (including short-term debt) was to be rescheduled over six and a half years, including a three-year grace period; some bank claims were, however, settled in full in 1982. Interest rates were set at LIBOR plus 1.75 per cent, with a restructuring fee of 1 per cent; the terms were similar to those included in the 1982 bank debt rescheduling with Poland. The remaining 20 per cent was to be repaid in two installments in January and March 1983. The Romanian authorities have also stated their intention to apply the same rescheduling terms agreed with commercial banks to arrears and the 1982 debt repayments in convertible currencies owed to the central banks of two oil-exporting countries, to IBEC and IIB in Moscow, and to foreign Western private suppliers. A major departure from Romania's original proposal was the refusal by banks to include debt obligations falling due in 1983 and 1984 in the restructuring.

The estimated debt relief provided by the 1982 commercial bank debt rescheduling was US$1.6 billion, equivalent to 16 per cent of total convertible debt outstanding at the end of December 1981 (including arrears) and 24 per cent of estimated 1982 exports of goods and services in convertible currencies.

At the time the 1982 agreement was signed, the Romanian authorities indicated that they intended to reapproach Romania's main creditors (including commercial banks) in early 1983, to discuss the rescheduling of medium- and long-term debt obligations falling due in 1983. Shortly thereafter, the Romanian authorities informed Romania's 200 bank creditors that they would not pay principal maturities falling due in 1983 until the 1983 rescheduling operation was successfully completed; however, Romania would continue to pay interest due in 1983. The Romanian authorities explained that this decision was taken to facilitate equality of treatment among Romania's creditors. This approach is similar to that used in early 1982. Nine commercial banks were reportedly invited to start negotiations.

6. Role of the Fund

Up to mid-1981, the limited contacts of Romanian authorities with banks were on a bilateral basis; Romania firmly maintained that it had no intention of seeking a formal rescheduling and feared that a multilateral meeting with the major banks would signal the contrary. As a result, banks were not well informed about Romania's evolving situation. The Fund staff urged the Romanian authorities to meet with the banks and to keep the lines of communication open. At the suggestion of the Romanian authorities, a staff team visited four of the major banks shortly after the 1981 Annual Meetings to discuss recent developments in the Romanian economy. In November 1981, staff met with banks in New York, Frankfurt, Paris, Geneva, and London to discuss the Eastern European situation in general. Also in November 1981, the Romanian authorities were informed that the arrears which had emerged were contrary to the performance clause under the stand-by arrangement and that no waiver would be considered until a solution had been reached with the banks.

The Romanian authorities invited banks from six countries to meet in Bucharest in January 1982; this meeting was timed to coincide with the Fund mission, and the staff team was invited to attend the meeting as observers. In September 1982, Fund staff again met with representatives of a number of commercial banks, export credit agencies, and Western government officials, in order to assess their attitudes vis-à-vis new financing for Romania.

Senegal

1. Background

Between 1961 and 1977, real GDP in Senegal increased at about the rate of population growth. Between 1977 and 1981, the situation deteriorated sharply, partly on account of the expansionary policies which followed the 1974 commodity boom, and partly on account of unfavorable weather conditions. In the FY year 1981-82 (July to June), this deteriorating economic situation was reversed through a combination of good weather conditions, sizable external assistance, and strong adjustment measures. However, in fiscal year 1982-83, an expansionary fiscal policy and falling commodity prices are erasing the gains of the previous year. Further adjustment is therefore necessary, but is to be undertaken only after the February 27, 1983 general elections. The outstanding disbursed external public debt of Senegal increased markedly in local currency in the early 1980s. Although the debt increased by only 17 per cent in terms of U.S. dollars between the end of 1980 and the end of 1982, it increased as a share of GDP from 52 per cent in 1980 to 70 per cent in 1982; it is further expected to increase to 74 per cent in 1983.

2. Evolution of the role of banks

Historical data on commercial bank debt is not available, but as of June 30, 1982, Senegal's nonguaranteed medium- and long-term bank debt totaled US$117.9 million, of which US$77.3 million represented the principal repayments due in FY 1981-82 and 1982-83; this amount was rescheduled in June 1982. After taking into account official and bank debt reschedulings, the service on commercial debt for FY 1982-83 will represent 44.3 per cent of total debt service, while the outstanding medium- and long-term commercial bank debt represented only 11.6 per cent of total outstanding medium- and long-term debt as of June 30, 1982.

3. Restructuring negotiations

In July 1981, Senegal stopped paying both the principal and interest on its debt to the banks and announced its intention to seek a restructuring of its bank debt. The first formal meeting between the Senegalese authorities and the banks was held in Paris in early December 1981. No Fund staff were present at that meeting. Senegal requested a restructuring of virtually all future maturities due on debt outstanding as of May 1, 1981, with the restructured amounts to have a grace period of five years and a maturity of ten years. Several proposals and counterproposals were exchanged subsequently between the negotiating parties. Eventually, on June 18, 1982, an agreement was reached covering principal repayments on uninsured medium- and long-term public debt to commercial banks of US$48.6 million due between May 1, 1981 and June 30, 1982 (Tranche A), and US$28.7 million due between July 1, 1982 and June 30, 1983 (Tranche B). According to banking sources, the agreement was conditional on an operative stand-by agreement with the Fund (which was not represented at the meeting) covering the fiscal year 1982-83. The rescheduled amount represents about 66 per cent of Senegal's total debt to foreign commercial banks.

The representatives of Senegal and the commercial banks agreed in principle on the following terms:

(1) Tranche A: five per cent payable at signature; 5 per cent payable six months after signature; 90 per cent payable in seven semi-annual installments, the first falling due 36 months after signature;

(2) Tranche B: ten per cent payable according to the contractual timetable of installments for 1982-83; 90 per cent payable in seven semi-annual installments, the first falling due 48 months after the signature; *and*

(3) margin of 2 per cent over LIBOR.

However, the formal completion of this agreement is contingent on a further agreement covering US$5.8 million in penalty interest payments and US$1.7 million in commissions to be paid in the first half of 1983, which is expected to be signed in February 1983.

4. Financial impact of the restructuring

Following reschedulings of public and commercial bank debts covering FY 1981-82 and FY 1982-83, the debt service ratio fell from 22.8 per cent in 1980 and 18.8 per cent in 1981 to 13.7 per cent in 1982; it is expected to increase to 23.6 per cent in 1983.

It could also be noted that, for FY 1982-83, taking into account the new interest payments on the rescheduled debt and the penalty interests and commissions for the 1981-82 and 1982-83 rescheduled amounts which should be paid in the first half of 1983, the net savings would be only US$8.2 million, representing 29 per cent of the initially rescheduled obligations.

5. Relationship to reschedulings by official creditors

Senegal renegotiated its foreign debt obligations to public creditors within the framework of the Paris Club in October 1981 and November 1982. These two reschedulings, referenced as Paris Club 1981 and Paris Club 1982, and described below, assumed that Senegal would seek to secure from external creditors, including banks, rescheduling or refinancing arrangements on terms comparable to those set forth below for credits of comparable maturity, "making sure to avoid inequity between different categories of creditors" (agreed minutes).

a. Paris Club 1981

Representatives of Senegal and 13 creditor countries 1/ met in Paris on October 12 and 13, 1981, under the auspices of the Paris Club, to consider Senegal's request for a rescheduling of its external government debt service obligations falling due in the period July 1, 1981-June 30, 1982.

They agreed on the following terms:

(1) For loans of over one-year maturity contracted before July 1, 1981, 85 per cent of the principal and interest falling due between July 1, 1981 and June 30, 1982 and not yet paid, will be repaid semiannually over a period of five years beginning June 30, 1986. Repayment by Senegal of the remaining 15 per cent will be made in three equal annual installments beginning June 30, 1983.

(2) The Government of Senegal undertook to pay all debt service not paid and owed to or guaranteed by participating creditor countries and not covered by the agreed minutes as soon as possible and, in any case, no later than June 30, 1982.

As of June 30, 1982, the outstanding debt covered by the Paris Club in 1981 amounted to US$66.2 million.

b. Paris Club 1982

Representatives of Senegal and 11 creditor countries 2/ met in Paris on November 29, 1982, under the auspices of the Paris Club, to consider Senegal's request for a rescheduling of external government debt service obligations amounting to US$68 million, falling due in the period July 1, 1982-June 30, 1983.

They agreed on the following terms:

For loans contracted before July 1, 1982, 85 per cent of the principal and interest falling due between July 1, 1982 and June 30, 1983 and not yet paid, will be repaid in ten equal and successive semiannual payments beginning on September 30, 1987. Repayment by Senegal of the remaining 15 per cent will be made in four installments: 2.5 per cent on December 31, 1983; 2.5 per cent on December 31, 1984; 5 per cent on December 31, 1985, and 5 per cent on December 31, 1986.

1/ The participating countries were: Belgium, Canada, Denmark, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States; observers were present from Japan.

2/ The participating countries were: Belgium, Canada, Denmark, France, West Germany, Italy, the Netherlands, Spain, Switzerland, the United Kingdom, and the United States.

6. Role of the Fund

Senegal has benefited from a series of Fund programs. An extended arrangement with the Fund, originally granted for three years starting with FY 1980-81, was followed by a stand-by arrangement covering FY 1981-82; on November 24, 1982, the Fund approved a new stand-by arrangement covering the period November 24, 1982-November 23, 1983, in an amount equivalent to SDR 47.25 million, or 75 per cent of quota.

While the agreement on the commercial bank rescheduling was conditional on an operative stand-by agreement with the Fund covering FY 1982-83, the Fund staff was not represented at any point in the negotiations. As is customary, the Fund staff was called on to assess the situation of the economy and adjustment measures taken by the Senegalese authorities at both official reschedulings which were contingent on a stand-by agreement with the Fund covering FY 1981-82 and FY 1982-83.

Sudan

1. Role of banks

Sudan markedly increased its medium-term project-related borrowing from commercial banks in 1974 and 1975. By late 1975, however, new commitments had slowed, and in 1977-78, disbursements and commitments approximately equaled debt service. Bank debt outstanding was estimated to have amounted to US$550 million at end-1978. Since that time, banks have been reluctant to make new commitments, and by end-1981 total medium- and long-term debts outstanding had fallen to an estimated US$450 million.

Arrears on medium- and long-term debt service first appeared in 1975, and in the ensuing years arrears on short-term credits also emerged. By end-June 1981, total arrears outstanding to commercial banks were US$776 million. Arrears on principal totaled about US$600 million, of which about one half was associated with advances, letters of credit, and other short-term borrowings.

2. Restructuring negotiations

The EFF arrangement approved in May 1979 included a commitment by Sudan to either repay or renegotiate its outstanding arrears. Problems with quantifying the total debt outstanding, however, delayed the start of negotiations until October 1979. Moreover, the initial proposals of the banks and the authorities differed sharply, especially with respect to the amount of new funding the banks would provide and the rescheduling of overdue interest. In December 1979, at the request of the Sudanese and with the approval of management, Fund staff attempted to mediate these discussions. Although the banks did make some changes in their proposals, no agreement was reached. The Sudanese later rejected two additional bank initiatives in February 1980.

In August 1980, to help break the impasse, the Sudanese retained an investment banking house as consultants in the negotiations. Working with the group of five leading banks, the consultants accepted a proposal to reschedule 60 per cent of arrears on interest on medium-term debt and all arrears on principal in respect of short- and medium-term debt in November 1980. The package was also to include a new loan in the range of US$50-100 million. This agreement was not finalized, however, and no further progress was made until September 1981.

In September 1981, there was a major breakthrough in the negotiations, and the bank debt rescheduling agreement was signed on December 30, 1981. Under the agreement, Sudan was to pay US$106 million of interest in arrears before March 26, 1982, with an additional US$98 million repayable over three years at LIBOR plus 1 3/4 per cent. The agreement also provided for the rescheduling of all arrears on the principal of loans outstanding as of December 31, 1979 (US$398 million). This debt was rescheduled with three years' grace, seven years' maturity, and interest of LIBOR plus 1 3/4 per cent. Coordination of the restructuring terms between various groups of official and private creditors was made through an external finance coordinator appointed with the full consent of all parties involved. When the agreement was signed, no firm commitment on new loans was received from the banks. Subsequently, Sudan was unable to make the March 26, 1982 payment in full, and the banks agreed to defer the unpaid portion for settlement in three equal installments three months apart, starting in September 1982. Subsequent payments on the arrears on interest have not been met and no new loan agreement has been signed with the banks.

3. Financial impact of the restructuring

Despite the agreement with banks and two Paris Club reschedulings, Sudan's debt service situation remains extremely difficult. Total external debt is currently estimated at around US$7.5 billion, including US$2.2 billion in arrears. Estimated debt service payments, including some arrears in liquidation, due in 1983 and 1984 amount to over US$1 billion per year and exceed total projected earnings from exports and nonfactor services. Renegotiations involving official and private creditors are now planned for the first half of 1983. 1/

4. Relationships to rescheduling by official creditors

The Paris Club agreement of November 1979 included a reference to the Government's intention to secure from private creditors, including banks, refinancing or rescheduling arrangements on similar conditions. While the 1979 Paris Club arrangement covered debt service due through June 30, 1981, the bank debt rescheduling agreement only covered debt through end-1979.

In March 1982, a second Paris Club agreement was reached covering principal repayments on nonrescheduled debt for the period from July 1, 1981 through December 31, 1982. Of this debt, 90 per cent is to be repaid over five and a half years following a four and a half year grace period. The rest is due in three annual installments ending December 31, 1984. The rescheduling was conditional on Sudanese observance of the stand-by arrangement in place at that time. Sudan has also entered into bilateral debt renegotiations and some debts have been canceled.

5. Role of the Fund

In the extended arrangement with the Fund program approved in May 1979, the Sudanese Government committed itself to either renegotiate or repay all existing arrears and to prevent the accumulation of further arrears. In preparation for the Paris Club negotiations, as well as the negotiations with the banks, a special Fund mission was sent in October 1979 to collect and arrange data on debt and arrears and to

---

1/ These took place in February 1983.

prepare documentation for the authorities. The Sudanese authorities also requested that Fund staff be present during the London meeting with commercial banks. With Executive Board approval, the Fund staff participated, but only as observers. 1/ After the discussions reached a stalemate, Fund staff, at the request of Sudan and with management approval, undertook to mediate between the parties. They were, however, unable to break the deadlock.

Between August 1980 and the signing of the renegotiation package with the commercial bankers, Fund staff worked with Sudan's consultants, but they were not asked to assist in the negotiations. However, in August 1982, a staff team did review with the authorities and their consultants the advisability of formulating new debt rescheduling proposals for presentation to the commercial banks.

1/ See EBD/79/229 (12/3/79).

Togo

1. Background

In the wake of the commodity boom of the mid-1970s, the Togolese authorities pursued expansionary fiscal policies and embarked on an ambitious public investment program, partly financed with large-scale borrowing from foreign banks. By the end of the 1970s, as a number of major investments undertaken during that period proved to be unproductive, the Government was faced with serious financial imbalances, reflected in sizable internal and external arrears, largely arising from rapidly mounting debt service obligations in respect of these investments.

Faced with a sharply rising external debt service in 1979 and 1980, a discernible decline in Togo's credit standing abroad, and prospects of a decline in the terms of trade over the medium term, the Togolese authorities decided in early 1979 to attempt to bring the financial situation under control through a stabilization program supported by the use of Fund resources. It was in this context that Togo envisaged the rescheduling of its external debt obligations with both official and commercial bank creditors.

2. Evolution of the role of banks

At the end of 1981, Togo's public medium- and long-term external debt totaled US$860 million; about US$214 million was owed to commercial banks. BIS data indicate that Togo's total liabilities to banks in the BIS reporting area amounted to US$321 million at end-December 1981, including US$63 million in liabilities with maturities of up to and including one year, and US$12 million in liabilities with maturities over one year and up to and including two years.

At the end of December 1981, arrears to commercial banks amounted to more than US$37 million, with US$70 million in total external arrears. At the end of September 1982, out of a total of external arrears of about US$135 million, arrears to commercial banks were about US$55 million, equivalent to 28 per cent of total merchandise exports (f.o.b.) and almost 7 per cent of GDP. Out of a total of debt service payments due in 1982 of US$154 million, debt service payments due to commercial banks are currently estimated to amount to US$31 million for 1982 as a whole, representing about 16 per cent of total merchandise exports (f.o.b.).

3. Restructuring negotiations

In compliance with the Togolese authorities' commitments in the 1979 official debt rescheduling agreement, representatives of the Togolese Government and commercial banks met on several occasions in late 1979 and early 1980 to negotiate a restructuring of Togo's external bank debt obligations either in arrears or falling due in 1980. The first meetings between the Togolese representatives and the commercial banks were held separately with groups of banks in various European financial centers.

Under the 1980 debt restructuring with commercial banks signed on March 18, 1/ all principal repayments and interest in arrears as of December 31, 1979 were rescheduled. Arrears on debt obligations owed to to banks totaled US$25.4 million at the end of 1979, including US$8 million in interest arrears. The settlement of interest in arrears was to be made in 1980 in three equal payments on March 31, April 30, and May 31. Ten per cent of the principal repayments in arrears was to be made on November 30, 1980, and 90 per cent in 1981 in four equal installments on February 28, May 31, August 31, and November 30. The basic interest rates to be applied were those indicated in the related original loan contracts. However, the spreads on Euroloans were to be reduced from 2 1/4-2 3/4 per cent to 1 1/2 per cent, though they would be increased by 1 per cent in case of late payments.

In addition, the 1980 debt restructuring agreement with commercial banks included provisions on principal debt obligations falling due in 1980 on a number of specific bank credits (list attached to the agreement). The settlement of these latter obligations was to be made in ten installments over three and a half years, including a grace period of almost one year. Interest charges similar to those on the rescheduled external arrears were to be applied. However, a number of adjustments on account of the three currencies used (U.S. dollar, French franc, and Swiss franc) were specified in the agreement.

The 1980 agreement with commercial banks contained a number of other provisions including specific reference to (1) the 1979 official debt rescheduling, (2) the stand-by arrangement approved by the Fund's Executive Board on June 11, 1979, and (3) a commitment on the part of the Togolese authorities to provide economic and financial information to the banks.

Negotiations on a second debt rescheduling with commercial banks were initiated in the spring of 1981 but have not yet been concluded. The Togolese Government asked in April 1981 for a new rescheduling of the debt obligations, including new principal arrears. Togo had remained generally current on its interest payments through October 1981, though some of the latter had been made with delays. In late November 1981, Togo stopped making interest payments, but it resumed making payments in late 1982 and by February 1983 had settled most of its 1982 interest arrears vis-à-vis the banks. Following a meeting between Togo's Minister of Finance and 38 commercial banks in early November 1981 on the occasion of the French-African Summit in Paris, a steering group of eight banks was formed (as many as 46 commercial banks were reported to have claims on Togo). This move was undertaken in part because the banks viewed the 1980 restructuring as incomplete and envisaged more formal and global negotiations; in this respect, the previous experiences with Zaire and Senegal were emphasized as useful precedents.

The initial meeting was inconclusive and terms were not agreed. The specifics of the banks' proposal are not known, but it reportedly included

1/ The agreement was signed by the German banks a few months later.

a request for the Minister of Finance to authorize the commercial banks to obtain directly from the Fund information on Togo's debt structure, as well as on Togo's economic and financial prospects. Little progress was made in 1982, as banks were awaiting the results of negotiations for a new program with the Fund.

4. Financial impact of restructuring

On the basis of the 1980 restructuring agreement with commercial banks, about US$25 million in arrears on external public debt were consolidated at the end of 1979. About US$44 million in debt service obligations due in 1980 were also rescheduled. However, debt service arrears related to the 1980 agreement soon started to reaccumulate in the course of 1980, and have continued to accumulate since then.

5. Relationship to rescheduling by official creditors

On June 15, 1979, the Togolese authorities agreed to reschedule debt service obligations in arrears on debt owed to Western official creditors organized in the Paris Club, as well as similar obligations falling due between April 1979 and December 31, 1980 (including unpaid obligations at the date of signature). The terms of the 1979 official debt rescheduling were, on the whole, more favorable than those of the 1980 private debt rescheduling with the commercial banks.

The Togolese authorities and Paris Club creditors agreed on a second official debt rescheduling on February 20, 1981, covering debt service obligations falling due in 1981 and 1982, but for obligations due between February 15, 1982 and December 31, 1982, the rescheduling was subject to Togo's reaching an agreement with the Fund by the end of January 1982 on performance criteria for 1982. In this second rescheduling agreement, the Togolese authorities indicated that they would seek a second rescheduling agreement with private creditors, including commercial banks.

At the March 1982 Paris Club meeting, Togo's official creditors expressed serious concern about the continuing accumulation of external debt service arrears, especially on obligations rescheduled under the previous agreements. They pointed out that any new agreement would be contingent on a prior agreement with the Fund, as the two-year stand-by arrangement had been inoperative since March 1981 due to considerable slippages in implementation.

6. The role of the Fund

The Fund staff has encouraged the Togolese authorities to seek a rescheduling both of their debt service obligations in arrears and part of their new debt service obligations, and the authorities have agreed explicitly to seek such rescheduling in their requests for Fund stand-by arrangements in 1979, 1981, and 1983.

A new 13-month stand-by arrangement for Togo in support of an economic and financial program for 1983 was approved by the Fund's Executive Board on March 4, 1983.

Turkey

1. Background

Turkey's external position deteriorated sharply during the mid-1970s, with the current account deficit reaching US$3.6 billion in 1977. While initially the growing deficits were financed primarily through the use of foreign exchange reserves, in 1975 and 1976 the major source of finance was short-term borrowing, largely from commercial banks. Arrears on import payments and on debt service emerged in 1976 and rose to US$1.7 billion in the following year. The resolution of Turkey's debt crisis involved the repeated restructuring of the external debt with official creditors, commercial banks, and private suppliers. As regards the indebtedness to commercial banks, the restructuring process was described in detail in Annex V of SM/80/275 (12/31/80). A description of official reschedulings and the reschedulings of private nonguaranteed debt, together with an update of the rescheduling of debt to commercial banks, was contained in Appendix III of SM/81/180 (8/27/81).

In June and August of 1979, US$2.2 billion in convertible Turkish lira deposits and US$428 million in bankers' credit had been rescheduled and at that time the banks had also agreed to provide a medium-term loan of US$407 million. Both the rescheduling and the new loan had carried a maturity of seven years with three years' grace and a spread of 1 3/4 per cent over LIBOR. Also, in August 1981 an agreement was reached on the rescheduling of US$130 million in third party reimbursement claims outstanding since before the 1979 agreement. Holders of such claims are mainly foreign banks which had not been reimbursed by Turkey for advices and confirmed letters of credit opened by Turkish banks. These were consolidated into a three-year loan with no grace period but graduated payments carrying a spread of LIBOR plus 1 1/2 per cent. As the Turkish balance of payments situation began to improve, the authorities, in early January 1981, approached the bank Steering Committee with a proposal to ameliorate the maturity profile of the rescheduling agreements. The Turkish initiative was for an extension of the terms of both the rescheduling agreement covering US$2.5 billion in debt (and a new loan of US$0.4 billion), giving a total grace period of five years and a maturity of ten years. The Turkish authorities also requested a reduction in the spread by 1/4 percentage point in light of the improved balance of payments position and the general progress made under the Fund's stand-by arrangement.

In March 1982, after lengthy discussion involving all the banks which had originally been involved in the rescheduling agreement, the banks agreed to the Turkish proposals, except for the requested reduction in spread. Under the new terms of the agreement the first repayments of the amounts originally rescheduled in 1979 will now come due in 1984.

The circumstances surrounding the 1982 restructuring of external debt to commercial banks differed significantly from those of the earlier reschedulings. Beginning with the second half of 1980, Turkey's exports had registered a dramatic and sustained increase and rose by 62 per cent (in U.S. dollar terms) in 1981 and by an estimated 23 per cent in 1982. Together with higher worker remittances and a relatively slow growth of imports, this resulted in a sharp reduction in the current account deficits. At the same time, there was a fundamental change in the capital account as the earlier reschedulings had regularized the payments position and special assistance had been forthcoming from OECD countries. The rising reserves and the elimination of arrears led to an improvement in relations with foreign banks. Notably, with regard to short-term trade finance as downpayment, requirements against letters of credit were first reduced and then largely eliminated. The continued normalization of Turkey's relationship with the commercial banks was further illustrated by the signing in early 1982 of the first medium-term syndicated credit since 1979.

Yugoslavia

1. Background

While developments in the current account of the balance of payments varied considerably during the period 1970-1979 in response to changes in the rate of economic activity and in the terms of trade, some underlying trends can be discerned. During the 1970s the balance of payments came under greater pressure as export performance deteriorated and as the high growth rate of the economy became increasingly based on rapid domestic demand growth. The financing of the large and recurrent current account deficits resulted in a rapid buildup in medium- and long-term external debt (excluding Fund) which rose from 15 per cent of GSP in 1970 to 20 per cent in 1979; between 1977-79, external debt outstanding rose at an annual average rate of 25 per cent with most of the increase in convertible currencies, mostly in U.S. dollars, and on commercial terms, with interest payments tied to LIBOR. By 1979, the ratio of external debt service to exports of goods and services to the convertible currency area had reached 19 per cent.

At the beginning of 1980, Yugoslavia entered into a three-year stand-by program with the Fund. The current account deficit vis-à-vis the convertible currency area was reduced from a peak of US$3.3 billion in 1979 to US$1.8 billion in 1981, while the current balance on nonconvertible accounts turned from a sizable deficit to a significant surplus in 1981. Up to 1980, net capital flows in excess of US$1.5 billion per annum were considered normal; however, in 1981, there was a sharp reduction in net capital inflows, with the second half of the year actually registering a small net capital outflow.

The performance of the economy in 1982 fell far short of the program objectives. The current account deficit with the convertible currency area in 1982 is estimated at US$1.4 billion, US$0.4 billion below that recorded in 1981 but nearly US$1 billion above target. The overall capital account was in deficit, primarily on account of short-term capital outflows. With the continuing deterioration in the external and internal performance, the Yugoslav authorities resorted to substantial new measures in October 1982. They severely restricted credit for investment purposes, raised interest rates, and devalued the dinar by 16.7 per cent. Other measures included limitations on withdrawals from domestic bank foreign exchange accounts, other tightening of the trade and payments system, as well as the introduction of gasoline rationing. Early in 1983, further adjustments of interest rates were made and the exchange rate and a new foreign exchange law has been put in place.

2. Relations with commercial banks and the role of the Fund

Through 1980, Yugoslavia had financed much of its current account deficit with debt on commercial terms, of which bank credits were an important element. Moreover, in 1979 and 1980 there was a sharp increase in short-term foreign borrowing, mainly taking the form of deposits with regional Yugoslav banks. The turning point came in the second half of 1981 as, despite the substantial narrowing of the convertible current account, financing difficulties began to emerge. The disbursement of new medium- and long-term credits was sharply down in the second half of 1981, and short-term capital flows reversed from large inflows in the first half of the year to substantial outflows in the second half. While part of the reduced disbursements is explained by a drop in suppliers' credits linked to the cutback of investment, Yugoslavia experienced difficulties in raising new financial credits from commercial banks abroad. Several factors were at work simultaneously; for one, commercial banks had become increasingly concerned with the overall debt situation of Eastern Europe and with the rapid growth of Yugoslavia's short-term debt and debt service. At the same time, insufficient progress had been made in adjusting the domestic economy.

The problem was aggravated by events in the first half of 1982, which highlighted the weaknesses of the Yugoslav exchange system and the lack of appropriate control over the activities of regional commercial banks which had been the main borrowing entities in Yugoslavia. A regional Yugoslav commercial bank, with one of the largest shares in foreign borrowing, started to experience difficulties in servicing its foreign debts when the rollover of short-term debt was no longer automatically forthcoming. This bank had, apparently under the instruction of the Government of that republic, used short-term deposits to finance longer term projects, which were not viable and also did not generate the necessary foreign exchange earnings to service the associated debt.

The lack of an organized foreign exchange market in Yugoslavia did not permit this bank to acquire the necessary foreign exchange from other regional banks, although some of them held a comfortable exchange position as their regions were experiencing balance of payments surpluses. 1/ Moreover, the National Bank of Yugoslavia (NBY) was hesitant at first to provide the foreign exchange as it did not in general guarantee or approve commercial bank borrowing and did not assume responsibility for what it regarded as a regional problem. However, eventually, after some initiative by Fund staff, and as it became clear that this particular problem had jeopardized the access to capital markets not only of this republic but of all of Yugoslavia, the NBY did intervene.

Nonetheless, a confidence problem had already emerged, delaying the signing of a syndicated credit and resulting in withdrawals of short-term credits from other Yugoslav banks. Subsequently, this confidence crisis was aggravated by the heavy reserve losses experienced by the NBY in attempting the rescue of its regional bank. The net outflow of short-term capital is estimated at US$3/4 billion from mid-1981 to the end of 1982, and there was a net outflow of longer term capital as well. Reserves of the NBY declined by US$850 million in 1982, and those of commercial banks by US$150 million. Although the syndicated credit of

---

1/ About half of the gross reserves, which are in fact short-term assets not readily available, are presently held by the commercial banks.

US$200 million was eventually signed toward the end of 1982, it has a maturity of only 18 months and some of the participating banks withdrew substantial short-term credits at the same time.

The Fund's staff had previously encouraged foreign commercial banks to make a distinction between the general debt situation in Eastern Europe and in Yugoslavia. To this end, the staff briefed banks on various occasions regarding the progress made under the Fund program with Yugoslavia. By mid-1982, it had become apparent that Yugoslavia's problem was primarily one of liquidity and confidence, as the current account deficit was already quite small and it continued to decline. However, the banks were disturbed by the resurgence of inflation, the lack of export growth, and the regional management problems referred to above.

Finally, during the negotiation for the third program year in December 1982, it became increasingly apparent that due to the low level of exchange reserves, the lack of new financial credits in the pipeline, and the continued withdrawal of short-term credits, the seasonably high foreign exchange needs in the first part of 1983 could not be met, even with a continuation of strong Fund support and very depressed import volume. With management approval, the staff encouraged the Yugoslavs to meet with the banks and official creditors as well as approach the BIS.

During a meeting in early January 1983, convened by the Fund, it was suggested to the banks that:

(1) short-term credits maturing in 1983 be rolled over for 18-24 months (amounts estimated at US$1 1/2 billion);

(2) medium-term loans maturing in 1983 be refinanced by a new US$1 billion loan, with 3-5 years' maturity, with the NBY guaranteeing the borrowing of the Yugoslav commercial banks;

(3) an additional US$1 billion in new net funds be made available on 3-5 years' maturity to the NBY, of which an estimated US$0.6 billion represents new funds; and

(4) all debt repayments due in the period January 18-March 31, 1983 be rolled over for 90 days.

At that meeting, the foreign banks formed a steering committee and took the initiative in informing the small banks which had not participated in the meeting. Their response at the end of January 1983 was still outstanding.

During the same week, again based on an initiative by the Fund, 15 Western governments agreed by referendum to make US$1.3 billion of medium-term credits, most of them nonfinancial, available to Yugoslavia. Efforts have also been advanced in arranging a US$500 million bridging loan by the BIS. While the banks sought assurances as to the planned actions of official creditors, the availability of the BIS bridging facility, and continued observance of the Fund stand-by, official creditors also insisted on the latter two items, and on action by the commercial banks.

Zaire

1. Evolution of the role of banks

Between 1972 and 1978, Zaire's bank debt increased at an annual rate of nearly 40 per cent, rising from US$200 million in 1972 to US$1.5 billion in 1978. This increase in bank debt was the consequence of rapid disbursements, primarily from syndicated loans with original maturities of between 5-15 years and some direct loans from individual banks; a large part of the latter category of loans was covered with guarantees from official creditor sources. New commitments were primarily syndicated loans with maturities of 5-15 years and bilateral bank loans, most with guarantees from the creditor country. Many of the loans were for projects with low financial rates of return.

Since the emergence of arrears in 1975, banks have been generally unwilling to make new commitments in Zaire. The exception was 1976, when, following the adoption of a first credit tranche stand-by arrangement with the Fund, Zaire received a number of bilateral bank loans, but these were largely guaranteed by creditor countries.

2. Restructuring negotiations

Informal discussions with banks regarding Zaire's syndicated credits began in April 1976. Formal meetings with the major bank creditors followed in September, and an agreement was signed in November. The principal features of the agreement were that past due interest was to be paid immediately and future interest payments would be kept current; that past due and future amortization payments would be deposited in a blocked account with the BIS; that negotiations with the Fund for a stand-by arrangement would be initiated immediately; and that a major bank would syndicate, on a best-efforts basis, medium-term credits or a total of up to US$250 million with a phased drawdown over twelve months.

While Zaire entered into the stand-by arrangement with the Fund, payments into the blocked account were delayed and the lead bank incurred difficulties in assembling the proposed medium-term loan. These difficulties were due in part to the hostilities in Shaba province, but more substantially to the desire on the part of some large banks to want to pull out of Zaire completely in view of the serious difficulties they had experienced in repayments during the past two years. Since in October 1977 the lead bank could only get firm commitments for US$180 million instead of the US$250 million originally discussed, Zaire rejected a revolving credit line (180-day trade credits) offered by the banks. In March 1978, a new draft agreement was presented to Zaire for a medium-term loan of US$218 million to be drawn down in three tranches of 60 per cent, 20 per cent, and 20 per cent, respectively, spread over a 15-month period. The proposed agreement contained numerous conditions, such as rigorous cross-default clauses, continued eligibility for use of Fund resources for the full five-year period of the loan, and loan disbursements to be tied to the imports of specific commodities on a list established by the banks. However, since the overall external situation of Zaire continued to deteriorate rapidly in 1978, it was felt that Zaire would not be able to respect the terms of the agreement and the proposal was dropped. Other proposals were subsequently considered and abandoned for various reasons in the following year. In August 1979, Zaire retained a consulting group comprised of three investment banks to provide technical assistance and to negotiate on Zaire's behalf with the private banks. This group also assisted in Paris Club negotiations.

An accord was reached in December 1979 and signed in April 1980. The agreement provided for a restructuring of 76 per cent of principal in arrears (US$287 million) and all future maturities due (US$115 million) into one loan with five years' grace and ten years' maturity with interest of LIBOR plus 1 7/8 per cent during the grace period and LIBOR plus 2 per cent thereafter. Zaire was to pay 14 per cent of the amount of arrears in 1980, 5 per cent in 1981, and 3 per cent in 1982, 1983, and 1984. The remaining arrears, plus all principal not yet due, was to be amortized in 11 equal semiannual installments starting in June 1985. Zaire was not in arrears on interest at the time the agreement was signed.

Zaire adhered strictly to the terms of the agreement until April 1982. This adherence, however, caused problems of inter-creditor equality, when in October 1981 Zaire met its US$31 million payment to banks, despite the fact that total arrears rose by US$90 million in the quarter. This action raised protests from official creditors.

In April 1982, Zaire only paid US$10 million of the US$44 million payment due under the accord with the banks, and only US$3 million of the US$31 million payment due in October. Total debt service due in 1982 was US$700 million, of which approximately US$75 million was falling due to banks without including the accumulation of arrears to banks on uninsured debt which are estimated at about US$5 million at end-1981.

3. Relationship to rescheduling by official creditors

The 1980 bank debt rescheduling was not dissimilar to the Paris Club agreements of November 1976 and July 1981 in either form or content. The principal differences from the Paris Club arrangement were that the banks did not reschedule interest payments and that the banks rescheduled all future principal in one single arrangement, while official creditors indicated a willingness to consider further rescheduling arrangements beyond the 12-18 month periods covered in the agreements. While banks have been reluctant to provide new funds, there is no information to confirm that "normal trade finance" i.e., import letters of credit or export prefinancing, is not currently available. However, the official creditors provided Zaire with aid in the context of the Brussels Conference of donor countries.

4. Role of the Fund

When the Executive Board approved Fund staff participation in Paris Club meetings involving Zaire, they also approved staff attendance in any meetings resulting from those talks. Thus, when the Bank of Zaire invited staff to attend the September 1976 meeting with bankers, management agreed. During the plenary sessions, the staff helped with technical discussions on the economy of Zaire and responded to questions on the Fund's policies regarding the use of its resources and the policies adopted by the Zairian authorities. They also advised Zairian officials on the balance of payments implications of the various proposals made by the banks. The negotiations leading to the agreement in April 1980 took place without participation of the staff, but the staff did hold technical meetings with Zaire's consultants.

The existence of Fund stand-by arrangements with Zaire was an important factor in the early negotiations on debt reschedulings, as well as in some of the agreements that were finally reached. The November 1976 Paris Club agreement was linked to Zaire's ability to draw under a Fund program, while the nonobservance of performance criteria reportedly contributed to the difficulties in syndicating the loan associated with the 1977 agreement with banks. The April 1980 agreement with banks, however, was not directly tied to existing or prospective Fund programs. The 1981 Paris Club rescheduling, on the other hand, was concluded because a Fund program was in place, and the 1982 rescheduling of official debt was contingent on Zaire's continued eligibility to purchase under the extended arrangement with the Fund (EFF). The cancellation, in June 1982, of the EFF program with Zaire caused the Paris Club agreement for that year to become inoperative and the maturities due to official creditors in 1982 were not rescheduled.