FOR AGENDA

SM/83/74

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INFORMATION

May 10, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: International Capital Markets - Developments and Prospects, 1983

Attached for consideration by the Executive Directors is a paper on developments and prospects in the international capital markets.

This paper is circulated in advance of the discussion of the review of enlarged access policy (EBS/83/79, 4/20/83, and Correction 1, 4/25/83) on Wednesday, May 18, but is scheduled for review of discussion by the Executive Board on Monday, June 20, 1983. A supplement containing background materials will be issued in time for the Board discussion.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Richard C. Williams, ext. 74996.

Att: (1)

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INTERNATIONAL MONETARY FUND

International Capital Markets: Developments and Prospects, 1983

Prepared by the Exchange and Trade Relations Department 1/

(In consultation with other departments)

Approved by C. David Finch

May 9, 1983

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1/ A staff team, comprising Mr. R.C. Williams, Mr. P. Keller, and Mr. J. Lipsky (all ETR), Mr. D. Mathieson (RES), and Mrs. L. Duffield-Sorkowitz (ETR), held informal discussions with bankers, monetary/bank supervisory authorities, and staff of international organizations (BIS and OECD) in Paris, Luxembourg, Zurich, Bern, Basle, Amsterdam, Frankfurt, Berlin, and London. Some members of the team also benefited from similar discussions in Washington and New York (February 22-24), and Ottawa and Toronto (March 30-31). Other staff members who participated in some of the latter meetings included Mr. R. Abrams (ETR), and Mr. L. DeMilner (WHD). A staff team comprising Mr. G.G. Johnson, Ms. S. Eken, and Mr. E. Maciejewski (all ETR) visited Tokyo for similar discussions (April 10-12).

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I. Introduction

The last general review of international capital markets by the Executive Board was the discussion of SM/82/105 (EBM/82/190-191, 6/30/82). However, important aspects of this general subject were discussed in the context of several subsequent Board papers. First, EBS/82/194 (10/22/82) 1/ contained a section on "The Financing Role of International Banks." Second, the Executive Board, as part of the of World Economic Outlook discussion, considered a staff paper (ID/83/2, 1/19/83) surveying trends and prospects in international capital markets and recent external debt developments. 2/ Third, the Executive Board has discussed most recently SM/83/45 (3/8/83) 3/ dealing with "Fund Policies and External Debt Servicing Problems"; moreover, one of the background papers (SM/83/47, 3/9/83) dealt specifically with payments difficulties involving debt to commercial banks. Finally, the general subject of the market's role and prospects as a source of finance for the developing countries has been touched on in Executive Board discussions of several specific country situations.

Given these circumstances, the present staff report is shorter than those which have been prepared in recent years. Section II briefly reviews capital market developments in 1982 and early 1983; section III discusses a number of issues facing the market; and section IV takes up the question of prospects for market financing flows in 1983 and 1984. The final section (V) presents some concluding observations which may help focus the Executive Board's discussion of the subject.

The present paper will be accompanied by a background paper which provides factual information and analysis on capital market developments in 1982, macroeconomic factors underlying those developments and, in general, a discussion of how such factors may have a bearing on broad market developments in the current year and the period just beyond.

II. Developments During 1982 and Early 1983

1. Overview

During 1982 real GNP in industrial countries declined, as did the value of world trade (Table 1). With inflation subsiding in many countries, real interest rates (calculated on an ex post basis) remained high, even though nominal interest rates declined in international markets. While this decline in nominal interest rates

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1/ "The Adequacy of Existing Arrangements to Deal With Major Strains in the International Financial System" (discussed at EBM/82/150-151, 11/19/82).

2/ Discussed at EBM/83/22-23 (1/31/83) and EBM/83/24 (2/2/83).

3/ EBM/83/37-38 (4/6/83).

Table 1. Growth in International Lending and Selected Economic Indicators, 1973-82

(In billions of U.S. dollars; and in per cent)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
International lending										
Net new international lending through banks and bond markets	40	59	58	96	95	114	149	179	195	143
Bank lending 1/	33	50	40	70	68	90	125	160	165	95
Growth in the stock of bank claims (in per cent)	(24)	(29)	(18)	(27)	(20)	(20)	(23)	(25)	(21)	(10)
Bond markets 2/	7	9	18	26	27	24	24	19	30	48
Share of net external claims in total bank claims in 14 industrial countries (in per cent) 3/	8.7	9.8	10.9	12.0	12.7	12.6	14.2	15.6	17.4	...
International payments										
Total of identified current account deficits 4/	-21	-75	-70	-67	-75	-86	-94	-156	-165	-147
Seven largest industrial countries	(-3)	(-25)	(-8)	(-9)	(-15)	(-16)	(-13)	(-31)	(-15)	(-18)
Other countries	(-18)	(-50)	(-62)	(-58)	(-60)	(-70)	(-81)	(-125)	(-150)	(-129)
Oil exporting countries' current account balance	7	68	35	40	30	2	69	114	65	-2
Non-oil developing countries' current account balance	-15	-38	-47	-33	-29	-41	-61	-89	-108	-87
Change in bank deposits of oil exporting developing countries 1/										
Gross	...	30	14	12	11	3	37	41	5	-19
Net of new borrowing	...	6	3	2	2	-12	30	35	3	-27
Reserve accumulation of non-oil developing countries 5/ (accumulation +)	11	3	-1	14	12	17	13	5	2	-7
Growth in value of world trade (in per cent)	37.8	46.0	4.2	12.7	13.9	16.1	26.2	22.4	-0.1	-6.4
Production and investment in industrial countries										
Percentage growth of real GNP	6.1	0.5	-0.6	5.0	4.0	4.1	3.4	1.3	1.2	-0.3
Percentage growth in real gross fixed investment	...	...	...	...	6.3	5.7	4.0	-1.2	-0.1	-3.3
Percentage change in GNP deflators	7.5	11.5	11.1	7.6	7.5	7.6	8.0	9.0	8.6	7.2
Monetary developments										
Monetary expansion in seven major industrial countries (in per cent) 5/	11.9	9.3	12.5	12.7	10.7	10.2	9.6	8.3	7.8	10.6
Interest rates (six-month Eurodollar deposit rate, in per cent)	9.3	11.2	7.6	6.1	6.4	9.4	12.0	14.4	16.5	13.1

Sources: Bank for International Settlements; Organization for Economic Cooperation and Development; World Economic Outlook, IMF Occasional Paper No. 9 (April 1982); and Fund staff estimates.

1/ Data on bank lending and deposit taking are net of redepositing among banks within the BIS reporting area and, for the years after 1976, adjusted for the valuation effects of exchange rate movements on end of period stocks.
2/ Net of double counting due to bank purchases of bonds.
3/ Group of Ten countries plus Austria, Denmark, Ireland, and Switzerland.
4/ Goods, services, and private transfers.
5/ These reserve accumulation figures are based on balance of payments definitions.
6/ Weighted average (1979 GNP weights) of rate of growth of money plus quasi-money.

produced a sharp increase in the funds raised through the bond markets during 1982, this was primarily of relevance to borrowers from industrial countries, as the access of non-oil developing countries to international bond markets remained extremely limited in 1982.

By mid-1982, the continuation of relatively high real interest rates, coupled with adverse developments in export markets, had contributed to the emergence of severe balance of payments difficulties for the largest market borrowing countries. Some of these countries had become vulnerable to disruptions in normal bank lending not only because of their large dependence on banking flows in financing their current account imbalances, but also because of the significant increase in the proportion of bank debt which needed to be refinanced every year. Following vigorous lending to non-oil developing countries during the first half of the year, the emergence of large-scale debt servicing problems brought new bank lending to these countries to a virtual standstill in the third quarter of 1982 (Table 2). Although some lending resumed in the fourth quarter as the crisis atmosphere subsided, the 1982 total of net new bank lending to the non-oil developing countries amounted to less than one half of the 1981 total.

During 1982, the total of identified current account deficits declined in absolute terms for the first time since 1976 (Table 1). For some countries, particularly in the group of non-oil developing countries, the reduction in their current account deficits was at least in part due to financing constraints. These developments were reflected in a decline in total net new international lending through banks and bond markets.

While the current account deficit for the group of non-oil developing countries declined to $87 billion in 1982, compared with $108 billion in 1981, their net borrowing from international capital markets was equivalent to only 31 per cent of their current account deficit plus accumulation of reserves. This compares with 46 per cent in 1981, and 52 per cent during 1980. Relative to long-term borrowing from official sources, use of Fund credit, and short-term borrowing of monetary authorities from other monetary institutions, bank borrowing assumed a smaller role in providing external finance to these countries than has been the case previously. Moreover, for this group of countries as a whole there was a substantial drawdown of foreign exchange reserves by some $7 billion in 1982.

Weakness in global economic activity during 1982 resulted in both a relative and an absolute decline in oil prices, and a progressive deterioration in the current account position of the oil-exporting developing countries. In the second half of 1981, these countries, as a group, began to withdraw funds from international banks to finance their growing current deficits. By the third quarter of 1982, these

Table 2. External Lending and Deposit Taking 1/ of Banks in the BIS Reporting Area, 2/ 1978-82

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982	1982 1st Qtr.	1982 2nd Qtr.	1982 3rd Qtr.	1982 4th Qtr.
Destination of lending 3/	90	125	160	165	95	20	30	25	20
Industrial countries	38	69	96	99	57	15	10	19	13
Oil exporting developing countries	15	7	6	2	8	1	3	3	1
Non-oil developing countries	24	40	49	51	25	5	14	--	6
Centrally planned economies 4/	7	6	5	5	-4	-2	-1	-1	--
International organizations and unallocated	6	3	4	8	9	1	4	4	--
Sources of funds 3/	90	125	160	165	95	20	30	25	20
Industrial countries	68	66	103	141	102	22	30	26	24
Oil exporting developing countries	3	37	41	5	-19	-1	-6	-3	-9
Non-oil developing countries	14	13	8	9	5	-2	4	-1	4
Centrally planned economies 4/	2	5	1	--	2	-3	1	1	3
International organizations and unallocated	3	4	7	10	5	4	1	2	-2
Change in net claims 5/	--	--	--	--	--	--	--	--	--
On industrial countries	-30	3	-7	-42	-45	-7	-20	-7	-11
On oil exporting developing countries	12	-30	-35	-3	27	2	9	6	10
On non-oil developing countries	10	26	41	42	20	7	10	1	2
On centrally planned economies 4/	5	1	4	5	-6	1	-2	-2	-3
International organizations and unallocated	3	--	-3	-2	4	-3	3	2	2

Sources: Bank for International Settlements; and Fund staff estimates.

1/ The data on lending and deposit taking are derived from stock data on banks' claims and liabilities (net of redepositing among banks in the BIS reporting area) including an adjustment for valuation changes due to exchange rate movements. Data on adjusted flows are provided by the BIS, but the distribution of those adjusted flows among the major groups of countries according to Fund classifications is a staff estimate.

2/ The BIS reporting area comprises all banks in the Group of Ten countries, Austria, Denmark, Ireland, and Switzerland and the branches of U.S. banks in the Bahamas, Cayman Islands, Hong Kong, Panama, and Singapore.

3/ The breakdown by major groups of borrowers (depositors) was derived from BIS data in the following manner. For industrial countries, gross claims (liabilities) were reduced by redepositing among banks in the reporting area but increased by claims on (liabilities to) offshore centers. The latter thus were assumed, in the absence of the availability of a country breakdown of the onlending from (deposit taking by) offshore centers, to represent lending to (deposit taking from) industrial countries. For the other groups of borrowers and depositors, net claims (liabilities) were taken to be equivalent to gross claims (liabilities).

4/ Excludes Fund member countries.

5/ Lending minus sources of funds.

countries had become the largest net user of funds from international banks (Table 2), whereas as recently as 1980 the oil exporting developing countries had been the largest net suppliers of funds to the banks.

2. International banking

a. Overview

The rate of growth in international bank claims 1/ declined sharply to 10 per cent in 1982, as compared with a rate of growth of 21 per cent in 1981, and an average rate of 23 per cent per year recorded during 1976-80. In absolute amounts the 1982 net bank lending totaled $95 billion, compared with $165 billion in 1981 (Table 2, and Chart 1). This slowdown in lending was also accompanied by an important shift in the composition of the borrowing countries. Most seriously affected were the centrally planned economies, as the absolute level of bank claims on these countries actually declined by $6 billion during 1982 (Appendix Table 1). 2/ This decline was concentrated in the first half of the year, as the debt payments difficulties which had emerged during 1981, principally involving Poland, appeared to have diminished the market's willingness to undertake significant new lending to countries in Eastern Europe. There was net new lending to all other country categories. While claims on industrial countries accounted for about 60 per cent of the increase in total claims in both 1981 and 1982, the relative share of claims on non-oil developing countries declined slightly in 1982 (Chart 2). Net lending to the non-oil developing countries which had continued at a rapid pace through the first half of 1982, came to an abrupt halt during the third quarter as the market was severely affected by the sudden emergence of debt servicing difficulties in Mexico, Argentina, and Brazil. Only in the fourth quarter of 1982 did some lending to non-oil developing countries resume, and then only on a moderate scale and primarily to countries such as those in Asia and Europe which had not been directly affected by the perceived regionalization of risk in Eastern Europe and Latin America.

Reflecting the slowdown in the growth of banks' international assets, the flow of net new deposits from almost all country groupings declined during 1982 (Table 2). Most striking was the turnaround in the position of the oil exporting developing countries. In 1979 and 1980

1/ As measured by the Bank for International Settlements (BIS) for banks in the BIS reporting area, which includes the Group of Ten countries, Austria, Denmark, Ireland, and Switzerland, and the branches of U.S. banks in the Bahamas, the Cayman Islands, Hong Kong, Panama, and Singapore. The figures cited here are net of interbank redepositing and have been adjusted to remove valuation effects associated with exchange rate changes.

2/ Hungary, which became a Fund member in mid-1982, is classified as a non-oil developing country.

these countries' deposits increased by about $40 billion in each year, with a high proportion of their external assets being placed with banks in the BIS reporting area. The subsequent weakening in the current account position of oil exporting countries had resulted in a slowdown in new deposits of the entire group to only $5 billion in 1981, and in a $19 billion decline in their deposits in 1982. Nearly half of the 1982 decline occurred in the fourth quarter of the year, as both the volume and price of oil exports fell. Thus, in relative terms the industrial countries became increasingly important as a source of funds during 1982, even though in absolute terms net new deposits of the industrial countries fell to $102 billion in 1982, compared with $141 billion in 1981.

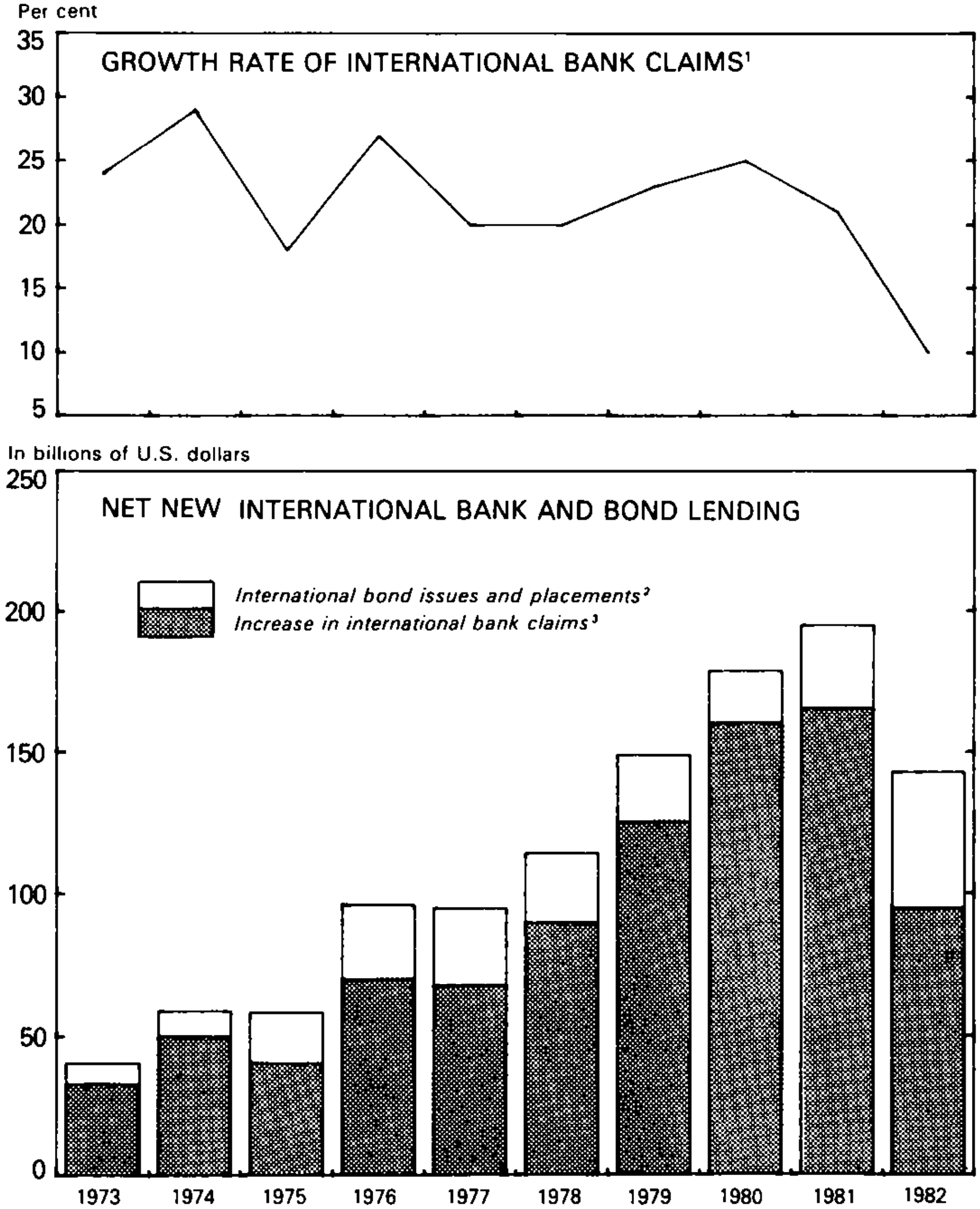
As a result of these developments in lending and deposit taking, the net flow of funds from the industrial countries to the rest of the world through the international banks increased marginally to $45 billion in 1982, compared with $42 billion in 1981 and only $7 billion in 1980 (Table 2). In addition, the $6 billion decline in bank claims on the centrally planned economies meant that these countries as a group were also net providers of funds to the banks during 1982. The oil-exporting developing countries, which had been important net providers of funds to the international banking system in recent years, became the largest net borrowers during 1982. The net flow of funds to the non-oil developing countries remained high through the first half of 1982, totaling $17 billion. However, with the emergence of payments difficulties for the largest borrowers in the group during the second half of the year, the net flow of funds to these countries slowed to $6 billion during these six months.

Data on medium-term publicized international bank credit commitments indicate a decline to $99 billion in 1982, compared with $146 billion in 1981 (Table 3). However, the 1981 figure includes an estimated $50 billion in extraordinary commitments to U.S. corporations in connection with takeover bids. When the data are adjusted for this anomaly, total commitments were virtually unchanged during the two years, while at the same time there was a sharp decline in actual lending. Adequate data for the analysis of this divergence are not yet available. The average terms of new commitments during 1982 showed only a moderate increase in lending spreads and a small decline in the average maturity compared with 1981, despite a widespread perception of increased risk in international lending during 1982 (Table 3 and Chart 3). This may be explained by the reduction in syndications for many of the countries experiencing the most severe debt servicing problems. However, lending spreads on commitments to developing countries increased significantly over the course of 1982 (Table 3). Data on spreads must be interpreted with caution as they do not reflect fees and charges; reliable and complete information on the latter are not readily available.

Data on new commitments now available for the first quarter of 1983 indicate only a slight reduction in total commitments to $19.3 billion, compared with $22.1 billion during the same period of

CHART 1

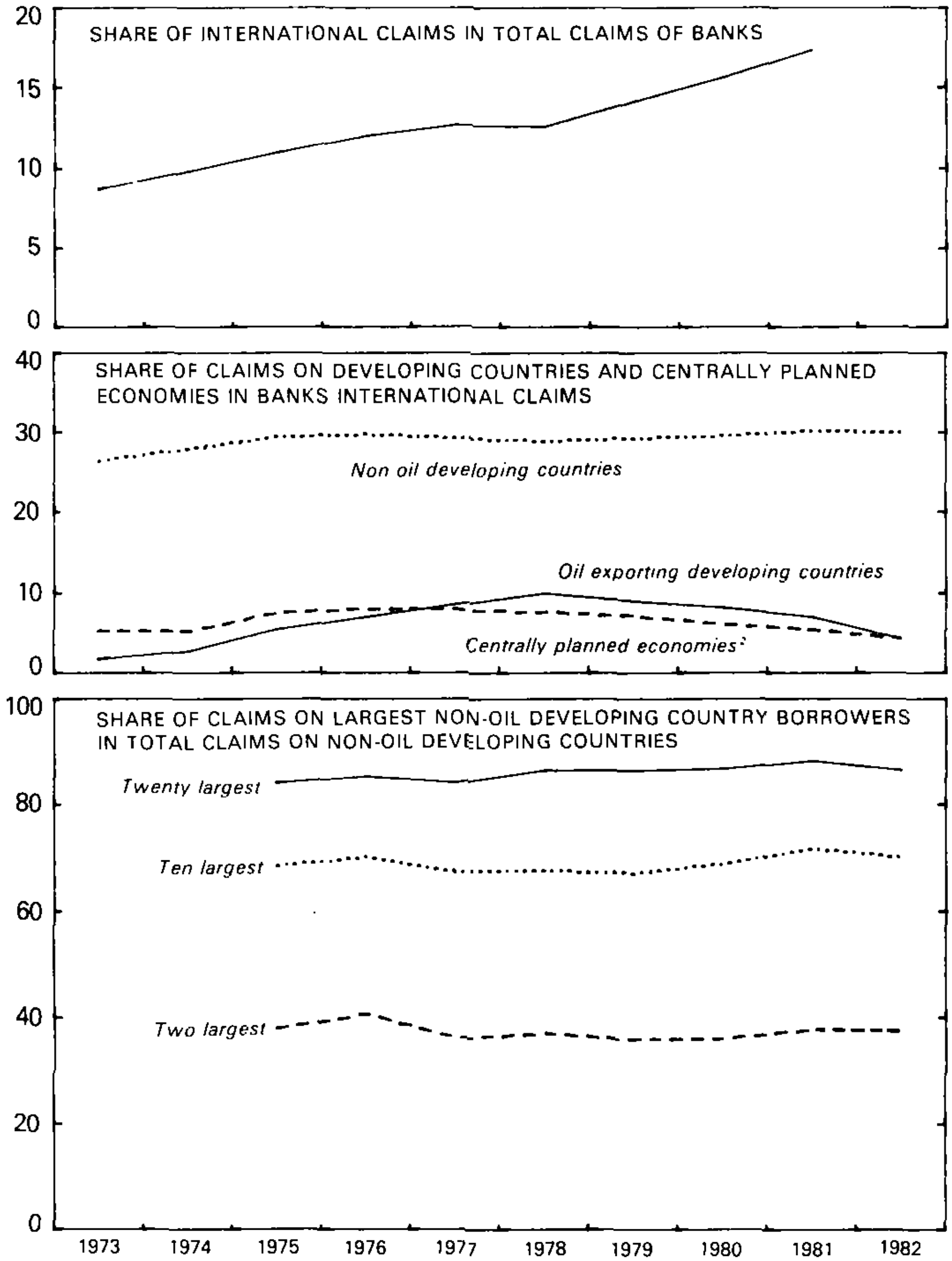
NET LENDING THROUGH INTERNATIONAL CAPITAL MARKETS, 1973-82



[1]Measured in U S dollars, for the years after 1976, adjusted for valuation effects of exchange rate changes
[2]Net of repayments, excludes double counting due to banks' issuing and holding of bonds
[3]Net of interbank transactions

CHART 2

CONCENTRATION OF INTERNATIONAL BANK CLAIMS[1], 1973-82

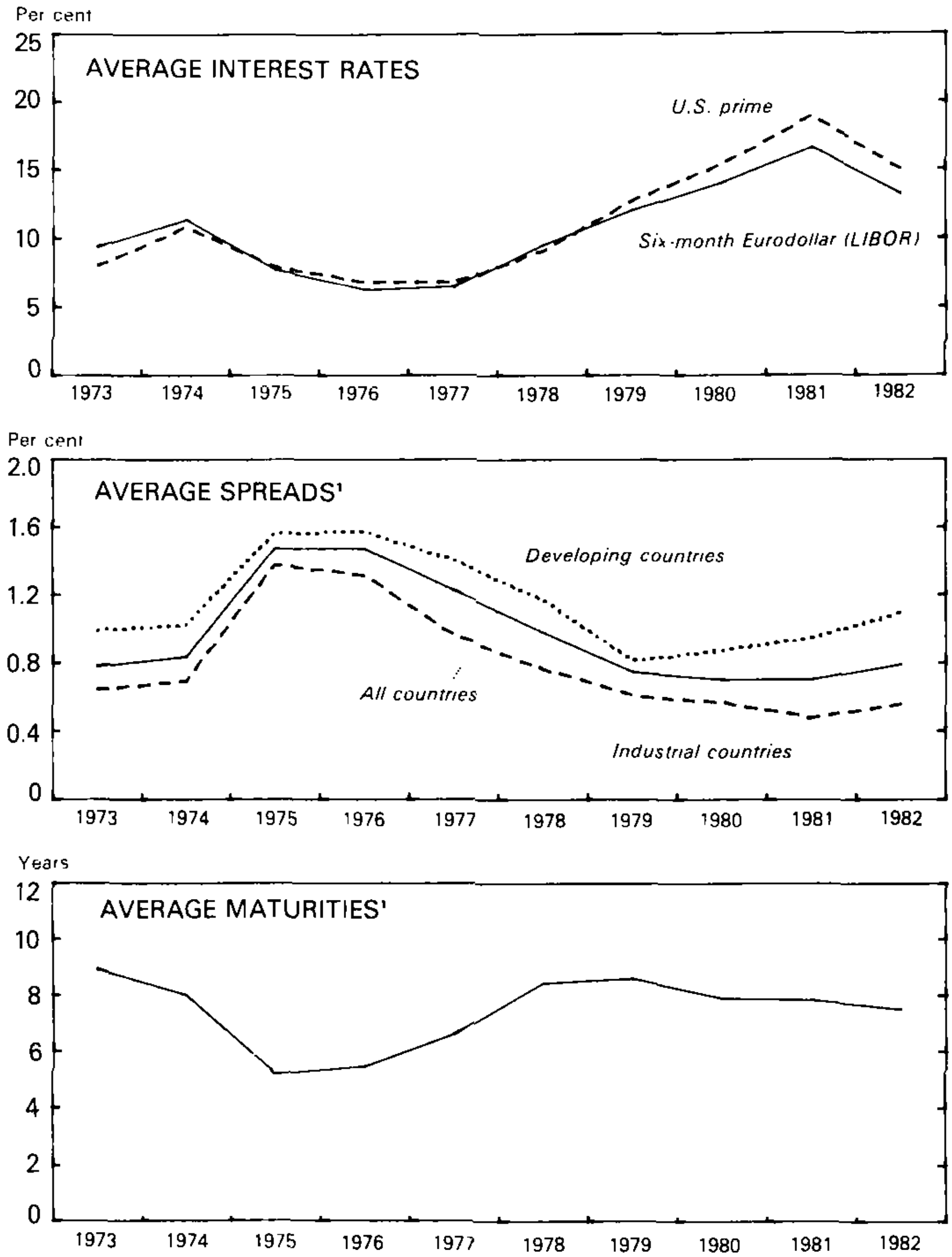


[1] Excludes interbank transactions within the BIS reporting area

[2] Excludes Fund member countries

CHART 3

TERMS ON INTERNATIONAL BANK LENDING, 1973-82



[1]Medium-term publicized international bank credit commitments

Table 3. Medium-Term International Bank Credit Commitments, 1978-1983

(In billions of U.S. dollars; and in per cent)

	1978	1979	1980	1981	1982	1982 Qtr. 1	1982 Qtr. 2	1982 Qtr. 3	1982 Qtr. 4	1983 Qtr. 1
Industrial countries	34.3	24.1	39.3	94.7	52.5	11.2	14.3	15.4	11.6	5.4
Oil exporting developing countries	9.8	7.7	5.4	5.4	8.7	2.6	2.1	1.3	2.7	2.0
Non-oil developing countries	26.6	43.2	32.9	45.0	37.0	7.7	14.3	7.4	7.6	11.9 1/
Net oil exporters	(6.5)	(12.5)	(9.0)	(13.5)	(11.5)	(1.9)	(6.5)	(2.3)	(0.8)	(5.3)
Major exporters of manufactures	(10.8)	(16.0)	(15.4)	(19.4)	(17.7)	(3.1)	(5.9)	(3.5)	(5.2)	(5.8)
Low-income countries	(0.3)	(3.8)	(0.8)	(2.0)	(0.8)	(0.1)	(0.3)	(0.3)	(0.1)	(0.1)
Other net oil importers	(6.9)	(10.9)	(7.7)	(10.1)	(7.0)	(2.6)	(1.7)	(1.3)	(1.4)	(0.7)
Centrally planned economies 2/	3.1	3.6	1.7	0.7	0.2	0.2	--	--	--	--
International organizations and unallocated	0.4	0.4	0.7	0.1	0.5	0.4	0.1	--	--	--
Total	74.2	79.0	80.0	145.9	98.9	22.1	30.8	24.1	21.9	19.3
Terms on medium-term loan commitments										
Average six-month Eurodollar interbank rate (in per cent)	9.4	12.0	14.2	16.5	13.2	15.2	15.1	12.6	9.9	9.5 3/
Average maturity (in years)	8.5	8.6	7.9	7.8	7.5	7.9	6.8	7.8	7.3	7.4 3/
Average spread (in per cent)	0.98	0.74	0.70	0.70	0.79	0.68	0.81	0.81	0.84	...
OECD countries	0.75	0.60	0.56	0.47	0.55	0.56	0.54	0.57	0.55	...
Developing countries	1.16	0.81	0.87	0.94	1.09	0.85	1.10	1.19	1.26	...
Memorandum items:										
Share of non-oil developing countries in new commitments	35.8	54.7	41.1	30.8	37.4	34.8	46.4	30.7	34.7	61.7
Ratio of new commitments to net bank lending	82.4	63.2	50.0	88.4	104.1	110.5	102.7	96.4	109.5	...

Sources: Organization for Economic Cooperation and Development; and Morgan Guaranty Trust Company, World Financial Markets (for Eurodollar rate).

1/ Includes US$4.4 billion to Brazil and US$5.0 billion to Mexico as a result of rescheduling agreements.
2/ Excluding Fund member countries.
3/ January and February only.

1982 (Table 3). However, nearly half of the commitments during the first quarter of 1983 were extended to Mexico ($5 billion) and Brazil ($4.4 billion) as part of debt restructuring arrangements with commercial banks in conjunction with Fund-supported programs. Moreover, commitments to these two countries account for about 80 per cent of new commitments to non-oil developing countries in the first quarter of 1983. Excluding new commitments to Brazil and Mexico, there was a substantial decline in the pace of total new lending commitments, particularly to non-oil developing countries. This result would be consistent with the expressed preference of the international banks to substantially curtail their participation in medium-term syndicated sovereign lending operations in favor of project- and trade-related finance and loans organized through private placements. While it appears that the average maturity of new commitments did not change substantially during the first quarter of 1983, there are indications that lending spreads have increased in the first quarter of 1983, and are widening even for many industrial countries.

During recent years outstanding debt to banks had grown rapidly for some of the larger developing countries which had relied heavily on market finance to cover their current account imbalances (Appendix Table 1). Over the same period, there was also a general increase in the share of bank debt maturing within one year (Table 4). While this was an important trend for some of the large non-oil developing countries, it was even more pronounced for the group of oil exporting countries. The maturity of outstanding bank debt of industrial countries outside the BIS reporting area also shortened. While BIS data on bank debt maturity are only available through June 1982, they indicate that there was a significant decline in the share of short-term debt outstanding for centrally planned economies in the first half of 1982.

Regarding the effects of recent developments on the capital position of the international banks, an examination of the aggregate capital-asset ratios (and other observation ratios) of banks in major capital market countries reveals no uniform trend (Table 5). Moreover, differences in the national definitions of bank capital, the treatment of prudential reserves, and valuation of banks' assets precludes inter-country comparisons of developments. More specifically, greater emphasis has been placed recently on write-offs and provisioning for nonperforming loans in some countries. To the extent that retained earnings or capital are redesignated as specific provisions, the capital asset ratio will be reduced, reflecting that the deterioration in the quality of bank assets has weakened the banks. However, the creation of write-offs and provisions once such deterioration had occurred does not imply that banks are in a weaker position than if they still carried their nonperforming loans at full value. The data presented here would imply that problems of capital adequacy were not a generalized formal constraint to international lending during 1982. However, uncertainties in evaluating the riskiness of many external assets has heightened the market's awareness of potential problems of capital adequacy, and contributed to a more cautious lending posture of banks. The relevant capital ratio for banks in such countries as Canada, Germany, the Netherlands,

Table 4. Short-Term Claims 1/ in Per Cent of Outstanding Bank Claims, 1978-82

(In per cent)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	June 1982
Industrial countries (other than Group of Ten, Austria, Denmark, Ireland, and Switzerland)	41.5	41.4	43.0	44.0	44.2
Oil exporting countries	47.6	50.8	53.1	56.9	55.9
Nigeria	34.8	28.6	31.1	33.3	32.8
Venezuela	54.3	61.1	58.8	61.5	59.9
Other	45.8	47.1	52.0	57.6	57.2
Non-oil developing countries	44.7	43.2	45.5	46.1	46.8
Six largest borrowers 2/	34.6	37.5	44.4	44.5	45.5
Argentina	(51.4)	(51.5)	(52.3)	(46.8)	(51.8)
Brazil	(28.3)	(29.3)	(35.4)	(34.7)	(33.8)
Korea	(57.3)	(55.8)	(62.3)	(57.8)	(57.0)
Mexico	(31.8)	(34.6)	(44.2)	(48.7)	(50.0)
Philippines	(50.0)	(52.7)	(58.1)	(56.9)	(60.5)
Yugoslavia	(19.4)	(23.2)	(27.9)	(28.0)	(26.0)
Other	54.2	49.2	46.9	48.2	48.5
Centrally planned economies 3/	41.9	41.0	38.4	43.1	40.9
All countries	44.4	43.8	45.6	47.1	47.2

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

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

Table 5. Capital-Asset Ratios of Banks in Major Capital Market Countries, 1977-82 1/

(In per cent)

	1977	1978	1979	1980	1981	1982
Canada 2/	3.40	3.27	3.16	2.98	3.46 3/	3.65
France 4/	2.36	2.08	2.43	2.22	1.99	1.87
Germany, Federal Republic of 5/	3.41	3.32	3.31	3.27	3.26	3.31
Japan 6/	5.28	5.12	5.13	5.28	5.25	5.03
The Netherlands 7/	4.41	3.86	4.29	4.20	4.33	4.60
Switzerland 8/						
Largest 5 banks	6.09	6.20	6.11	6.18	5.78	5.52
All banks	5.59	5.68	5.63	5.66	5.36	5.19
United Kingdom						
Largest 4 banks 9/	5.90	6.30	6.10	5.80	5.20	4.80
All banks 10/	5.20	5.20	5.10	5.00	4.47	4.14
United States						
Largest 10 banks 11/	4.17	4.06	3.93	4.01	4.19	4.93
Largest 25 banks 11/	4.52	4.41	4.29	4.36	4.53	5.09
Large banks with foreign offices 12/	...	4.58	4.47	4.49	4.54	4.62

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

1/ Given the problems of consistency across banks and over time in the accounting of bank assets and capital, aggregate figures such as the ones in this table must be interpreted with caution.

2/ Ratio of equity plus accumulated appropriations for losses (beginning with 1981, appropriations for contingencies) to total assets (Bank of Canada Review).

3/ The changeover to consolidated reporting from November 1, 1981 had the statistical effect of increasing the aggregate capital-asset ratio by about 7 per cent.

4/ Ratio of reserves plus capital to total assets excludes cooperative and mutual banks (Commission de Controle des Banques, Rapport).

5/ Ratio of capital including published reserves, to total assets (Deutsche Bundesbank, Monthly Report).

6/ Ratio of reserves for possible loan losses, specified reserves, share capital, legal reserves plus surplus and profits and losses for the term to total assets (Bank of Japan, Economics Statistics Monthly).

7/ Ratio of capital, disclosed free reserves and subordinated loans to total assets. Eligible liabilities of business members of the agricultural credit institutions are not included (De Nederlandsche Bank N.V., Annual Report).

8/ Ratio of capital plus reserves to total assets (Swiss National Bank, Monthly Report).

9/ Ratio of share capital and reserves, plus minority interests, to total assets (Bank of England).

10/ Ratio of capital and other funds (sterling and other currency liabilities) to total assets (Bank of England). Note that these figures exclude U.K. branches of foreign banks, which normally have little capital in the United Kingdom.

11/ Ratio of primary capital to total assets (Comptroller of the Currency).

12/ Banks with assets of $100 million or over--in 1981 there were 190 such banks (Board of Governors of Federal Reserve System, Federal Reserve Bulletin).

and the United States increased during 1982, while for France, Japan, Switzerland, and the United Kingdom the ratio decreased. It appears that banks domiciled in countries whose currency depreciated against the dollar during 1982 tended to suffer deterioration in their capital-asset ratios, as the domestic currency value of their international portfolio was inflated by exchange rate movements, but was not offset by similar valuation effects on bank capital. It is possible that valuation effects could have caused banks to exceed their internal country exposure limits in some specific cases, thus precluding new loans to certain borrowers.

b. Interbank markets

The international interbank market is a short-term market which operates in a rapid and informal manner, often through brokers, with a minimum of documentation. 1/ The customary role of international interbank markets has been to free individual banks from the need to match deposits and loans to nonbanks on their own balance sheets, as the market allowed rapid intermediation between banks with excess funds and those with unfunded lending opportunities. Banks also have been able to utilize the interbank market to adjust quickly the maturity structure and currency composition of their portfolios in response to market developments. Banks participating in this market usually are well known to each other and, even though it has been customary that certain banks tended to be net takers of funds while others were net placers, it is expected that over time a bank utilizing the interbank market as a tool of liquidity management will participate in both lending and borrowing operations. Differentiation between the perceived quality of borrowers has been expressed in terms of credit limits more than through price discrimination ("tiering"), as access to the market was generally limited to banks of the first rank. As the international operations of commercial banks expanded during recent years, foreign branches and subsidiaries of banks domiciled in some non-oil developing countries began to participate in this market, joining the major banks from industrial countries.

Although data on interbank operations remain fragmentary, it is known that a substantial proportion of gross international bank claims, perhaps two thirds to three fourths of the total, are actually interbank credits. It is also known that a large percentage of these interbank credits, perhaps as high as one half for banks in certain countries, are between different offices of the same bank. Although there is no necessary linkage between interbank operations and final lending, it appears that increased access to funding opportunities in the interbank market in recent years greatly aided the entry of many banks--particularly nondollar-based banks 2/--into international operations, and especially the syndicated credit market.

1/ Transactions are agreed over the telephone, and confirmed by telex.

2/ Banks headquartered outside the United States, whose capital is denominated in currencies other than the U.S. dollar. Such banks typically have limited access to direct deposits from nonbanks in dollars.

During 1982, the interbank market was disturbed by two different developments. Continued economic weakness in the industrial countries adversely affected the general quality of the domestic assets held by banks in major industrial countries. By mid-1982, there was a shortening of maturities in interbank markets, and some of the banks in major industrial countries with problematic domestic assets became subject to adverse tiering (i.e., differential pricing) in the market and limitations on their access. At about the same time, it became apparent in the course of debt restructuring negotiations that foreign branches and subsidiaries of certain banks headquartered in non-oil developing countries had been utilizing short-term funds obtained in interbank markets to fund medium-term domestic lending in the country of domicile. Moreover, it became evident that many of the traditional participants in the international interbank market had not been aware of the degree of maturity mismatching engaged in by some of the more recent participants, nor of the concentration of sovereign and transfer risk 1/ the loan portfolios of these banks contained.

It also seems that many banks had not adequately monitored their actual interbank exposure to other participants in the market once their internal lending limits were established. Moreover, in some instances banks did not include interbank exposure under their overall country lending limits as they did not consider such operations as subject to sovereign risk. There were several instances where, as payments difficulties emerged, banks headquartered in that country rapidly increased their international interbank borrowing. Although the rapid utilization of lending limits should have provided a danger signal to banks from other countries participating in the interbank market, relevant information often was either not readily available or not regularly scrutinized. As the true dimensions of this problem became apparent during 1982, many banks from developing countries found their access to increased interbank borrowing severely curtailed or eliminated. Except in certain specific cases, it appears that many traditional market participants were cutting back unused portions of their lending limits, rather than reducing their actual interbank exposure, thus precluding further rapid increases in such exposure without explicit review of lending limits.

In a number of cases, however, most notably in Brazil, difficulties in maintaining interbank exposure were an important factor contributing to the emergence of external payments difficulties during 1982. Moreover, access to interbank markets proved to be a central element in the negotiations of various debt rescheduling arrangements in late 1982 and early 1983. Also, the turbulence in interbank markets during mid- to late 1982 probably added to the widely noted reluctance of many smaller and nondollar-based banks to continue

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1/ Transfer risk refers to the possibility that an otherwise solvent nonsovereign debtor will be prevented from meeting international obligations due to denial of access to foreign exchange.

to increase their international exposure, due to a heightened perception of funding risk. The absence of these banks in new lending was particularly felt in the syndicated credit market where it made the task of selling down of large credits considerably more difficult for the lead banks.

c. Commercial bank debt restructuring

The prolonged global stagnation of recent years, together with high real interest rates in international markets, aggravated the external payments situation particularly of the non-oil developing countries, and an unprecedented number of countries have experienced severe external debt servicing difficulties. More recently, declining oil prices have also weakened the balance of payments situation of some of the oil producing countries. 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. In certain other cases, the deterioration of the perceived creditworthiness of a country in large part was due to the "contagion" effect of the debt servicing difficulties of other countries in the same region, rather than any explicit change in the economic situation of the country itself. The generally observed shortening of the average maturity of outstanding bank debt over recent years made a number of borrowers more susceptible to confidence problems. During 1982 and early 1983, some 25 developing countries completed or were engaged in negotiations for some form of multilateral commercial bank debt restructuring. As of mid-1982, this group included the largest borrowers in international capital markets (Table 6). By end-1982, the total external claims of banks in the BIS reporting area on these 24 countries (excluding Liberia, which is an offshore financial center) totaled $209 billion, fully 20 per cent of the total external claims of these banks (net of interbank redepositing). For those major borrowers engaged in negotiating restructuring arrangements during the second half of 1982, new lending generally appears to have ceased, or bank exposure even had declined, at least until the conclusion of negotiations and the implementation of the restructuring arrangement.

The number of bank debt restructuring arrangements either under negotiation or completed since the end of 1981 is unprecedented; as is the amount of debt subject to these arrangements. In many ways the negotiations resemble earlier cases of commercial bank debt restructuring. 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, some of the recent reschedulings differ from previous cases in that banks have been willing to commit themselves to increase their net lending as part of a restructuring arrangement. Moreover, typically this new lending was closely linked to a program supported by the Fund. At present the total of such commitments is estimated to amount to over $12 billion. In certain

Table 6. Developing Countries Ranked by Debt to Banks, June 1982 1/

(In millions of U.S. dollars)

1.	Mexico 2/	64,395	40.	Dominican Republic 2/	881
2.	Brazil 2/	55,300	41.	Pakistan	869
3.	Venezuela 2/	27,249	42.	Kenya	830
4.	Argentina 2/	25,305	43.	Libya	830
5.	Korea	19,994	44.	Nicaragua 2/	796
6.	South Africa	14,125	45.	Trinidad and Tobago	753
7.	Chile 2/	11,757	46.	Zimbabwe	719
8.	Philippines	11,365	47.	Gabon	685
9.	Yugoslavia 2/	9,967	48.	Syrian Arab Republic	644
10.	Greece	9,720	49.	Zambia 2/	608
11.	Portugal	8,881	50.	Paraguay	574
12.	Indonesia	8,155	51.	Jordan	555
13.	Algeria	7,728	52.	Honduras 2/	547
14.	Nigeria 2/	6,714	53.	Congo	542
15.	Hungary	6,418	54.	Cyprus	489
16.	Kuwait	6,274	55.	Jamaica	475
17.	Israel	6,126	56.	Sri Lanka	470
18.	Colombia	5,473	57.	Papua New Guinea	412
19.	Egypt	5,350	58.	Niger	394
20.	Malaysia	5,309	59.	Qatar	382
21.	Saudi Arabia	5,268	60.	Oman	365
22.	Peru 2/	5,216	61.	Guatemala	354
23.	Thailand	4,796	62.	Senegal 2/	351
24.	Ecuador 2/	4,674	63.	El Salvador 3/	348
25.	Romania 2/	4,469	64.	Viet Nam	346
26.	United Arab Emirates	4,449	65.	Madagascar 2/	317
27.	Turkey 2/	3,956	66.	Iraq	310
28.	Morocco	3,712	67.	Ghana	267
29.	Ivory Coast	3,161	68.	Tanzania	251
30.	Iran	2,142	69.	Togo 2/	249
31.	India	1,577	70.	Malawi 2/	208
32.	China	1,295	71.	Mauritius	169
33.	Costa Rica 2/	1,238	72.	Burma	167
34.	Sudan 2/	1,146	73.	Yemen Arab Republic	141
35.	Uruguay 2/	1,119	74.	Guyana 2/	137
36.	Bolivia 2/	1,053	75.	Guinea	136
37.	Tunisia	1,014	76.	Bangladesh	126
38.	Zaire	991	77.	Benin	121
39.	Cameroon	937	78.	Botswana/Lesotho	104

Sources: Bank for International Settlements, The Maturity Distribution of International Bank Lending; and Fund staff estimates.

1/ Besides the Fund member countries listed in this table, some 39 other developing countries are either classified as offshore banking centers or their outstanding debts to BIS reporting banks amount to less than US$100 million.

2/ Currently in the process of formal multilateral debt restructuring with commercial banks or has completed such a process since January 1982. Liberia also completed such a renegotiation in 1982, however, it is not included in the above table because of its status as an offshore financial center.

3/ Currently in the process of a formal bilateral debt renegotiation.

cases, commitments were also made by the banks to maintain a given level of short-term exposure (including interbank operations) to a country in the context of a restructuring agreement.

3. Bond markets

During 1982, international bond markets continued to expand at the rapid rate first evident in the fourth quarter of 1981 (Table 7). While foreign bond issues grew from $21.3 billion to $25.1 billion between 1981 and 1982, Eurobond issues expanded even more rapidly, rising from $26.5 billion to $46.4 billion (a 75 per cent increase). This surge of bond issues reflected a number of factors. From the point of view of investors, the most important ones were the prospect of substantial capital gains as nominal interest rates declined (especially for longer term issues), the emergence of a positively sloped yield curve in most of the major financial markets, and a continuance of high real yields on bonds. During some recent periods, issues denominated in certain currencies (such as the U.S. dollar) also proved attractive to bond purchasers when there was the prospect that the currency would appreciate relative to other major currencies.

Industrial country borrowers dominated both the foreign and Eurobond markets. The largest foreign bond market issuers in 1982 were the industrial country borrowers ($17.0 billion) and international organizations ($7.4 billion). Taken together, these two groups accounted for 97 per cent of all foreign bonds offered (versus 94 per cent in 1981). Developing countries saw their share of foreign bond issues fall from 6 per cent in 1981 to only 3 per cent in 1982. With an increased perception of risk, issuance of developing country bonds has fallen particularly sharply since the second quarter of 1982. During the July 1982-February 1983 period, developing countries issued only $169 million of foreign bonds out of total issuance of $18 billion.

In the Eurobond markets, industrial country entities increased their borrowing from $21.7 billion in 1981 to $30.2 billion in 1982. As a result of this high level of issuance, industrial country Eurobonds rose to 87 per cent of total Eurobonds in 1982 from 82 per cent in 1981. Even though total Eurobond issuance by international organizations grew from $2.5 billion in 1981 to $3.3 billion in 1982, their share of total Eurobond issues actually declined from 9 to 7 per cent. Eurobonds issued by developing countries rose from $2.2 billion in 1981 to $3.0 billion in 1982. During the second half of 1982, the position of developing countries was somewhat stronger in the Eurobond markets than in foreign bond markets. In the Eurobond markets, developing countries were able to issue a little over $1 billion during the July-December 1982 period. During January and February 1983, however, there was a sharp fall-off in Eurobond issues by developing countries, with only $42 million being marketed. In light of the financial market disturbances experienced in 1982, lenders showed a strong preference for low-risk investments. In the bond markets,

Table 7. Developments in International Bond Markets, 1978-82

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982
Net bond market lending	30	33	28	37	58
By category of borrower					
Industrial countries	19	22	20	27	46
Developing countries	4	3	2	3	3
Other (including international organizations)	7	8	6	7	9
	(In per cent of total)				
By currency of denomination					
U.S. dollar	37	39	42	60	62
Deutsche mark	22	20	22	5	8
Swiss franc	20	24	20	17	16
Japanese yen	13	8	6	7	5
Other	8	9	10	11	9
	(In per cent per year)				
Interest rate developments					
Eurodollar deposits 1/	8.7	12.0	14.4	16.5	13.1
Dollar Eurobonds 2/	8.8	10.1	12.5	14.4	14.5
Deutsche mark international bonds 2/	6.1	7.2	8.8	10.2	9.1

Source: Organization for Economic Cooperation and Development; and IMF, International Financial Statistics.

1/ Three-month deposits.
2/ Bonds with remaining maturity of 7-15 years.

these portfolio preferences led investors to concentrate on instruments issued by entities in the industrial countries and by international organizations.

Although a variety of new instruments were introduced in international bond markets during 1982, there was also a resurgence of interest in the use of the traditional straight debt issues, since these offered prospects for significant capital gains based on expectations of declining interest rates. On the other hand, borrowers sought to replace some short-term debt by issuing longer term bonds. In the Eurodollar bond market, for example, straight debt issues rose from 57 to 68 per cent of total issues between 1981 and 1982. At the same time, convertible bond issues fell from 10 to 3 per cent of the total market, and floating rate notes continued to account for approximately 30 per cent of the issues in the Eurodollar bond market. One major new instrument introduced during 1982 was the "partially paid" bond which allowed purchasers to defer payments on bond purchases. These bonds attracted investors who anticipated declining interest rates. In addition, there was extensive use of interest rate swaps that involved the exchange of fixed rate debt for floating rate debt.

Despite the sharp upturn in the level of bond issuance, there was no major lengthening of maturities in the international bond market, due to an apparent lack of investor demand for longer maturity issues. In many major financial markets, there was a shift of funds out of both shorter (less than 5-year maturities) and longer term instruments toward medium-term (6-10 year maturities) instruments. The average maturities of the instruments used in the Eurobond markets remained in roughly the 7-9 year range that has prevailed during the last few years.

III. Issues Concerning the Markets

In general, banks in industrial countries appear to perceive the present situation as a time for a careful stocktaking and perhaps reassessment of their domestic and international growth and lending strategies. On balance, this attitude of banks is not entirely or perhaps even primarily a reflection of the emergence of international debt problems, although this is certainly one of the important factors. While banks--and bank supervisors--have perceived a decline in the quality of banks' international assets, there is also widespread concern that the economic problems of industrial countries and the yet uncertain prospects for a sustained recovery have impaired the quality of banks' domestic assets as well. Indeed, in a number of countries, banks and their supervisors have felt a need for substantial write-offs and provisioning against domestic lending risks. Banks' behavior in this regard is largely dependent on the tax treatment such actions are afforded. Preliminary indications are that banks in a number of countries have added substantially to loan loss provisions against both domestic and international lending. Such provisioning was aided by the banks' improved earnings.

Adding to the concern of banks and supervisors about the quality of assets is the relatively high concentration of sovereign and transfer risks among some of the large money center banks. For example, the individual exposure of some of the largest U.S. banks to one or more of the three largest sovereign borrowers currently engaged in debt restructuring is well in excess of 50 per cent of each bank's capital. Quite aside from the prudential concerns of banks' managements and their shareholders there are indications that, in some countries, bank supervisors intend to press for an increase in capital of banks with strong exposure concentration.

The rapid asset growth of international banks over the past few years, and the need for increased provisioning against both domestic and international risks, has increased concern about capital adequacy among the banks themselves, even in countries where no formal supervisory capital asset ratios exist. Moreover--as already mentioned above--for banks whose international assets are largely denominated in dollars, but whose capital is denominated in the national currency of the bank's domicile, the rise of the dollar in 1982 against many national currencies has resulted in an increase in the balance sheet value of dollar-denominated assets relative to banks' capital funds. Despite some recent strengthening, the bank equity market has remained generally weak and this has made it difficult and expensive for banks to increase their capital base through share issues. At present few banks are formally constrained in their domestic and international lending activities by considerations of capital adequacy. However, the generally perceived decline in the quality of bank assets raises concern about capital adequacy and contributes to the banks' current cautious attitude toward further asset growth, particularly of less profitable loans. This attitude is reinforced by concerns that new sources of bank capital will not become readily available during the next few years. Against this background, bank supervisors in many countries have encouraged banks to strengthen their capital asset ratios by increasing retained earnings as bank profitability improves. In some countries, however, banks were able to improve their capital positions through the issuance of subordinated debt.

The perceived funding risk has increased for many banks, primarily reflecting developments in the interbank market, which was seriously disturbed toward the end of 1982, in part because of domestic difficulties of some U.S. banks and partly because of debt rescheduling issues. Funding risk refers to the possibility that the market perception of the financial stability of a bank deteriorates to such an extent that it may no longer attract liabilities sufficient to match its assets, or that it may do so only at a loss. For major participants in the market, tiering and access questions appear to be largely resolved by now. However, growth of this market has slowed, as banks which have been net placers in the market are finding the margins no longer commensurate with the sovereign and transfer risk involved. It appears that banks from most developing countries will continue to find their access to this market limited, and even major nondollar banks remain concerned about possible future disturbances in the interbank market. Moreover, some of the banks' international short-term assets were converted into medium- and longer term loans as part of such rescheduling operations and they are trying to adjust their funding with a view to reducing the increased maturity mismatch.

Banks in some countries have proceeded--in part encouraged by their supervisors--to reduce their own funding risk, particularly in foreign currencies, by issuing medium-term floating rate debt. As interest rates began to decline in 1982, some banks were able to obtain medium-term floating rate funding by issuing fixed rate obligations and swapping the proceeds with a nonbank borrower which had issued floating rate debt. Many of these so-called interest rate swap operations were also combined with currency swaps. Banks whose fixed rate debt instruments were well accepted in the market have been able to use this technique to obtain floating rate funding until recently, at very favorable rates. Even though these operations are innovative, and have assumed some importance as a source of medium-term funding for a number of international banks, it is expected that their role will be limited in amount and duration.

The sharply increased number of countries experiencing debt servicing difficulties since mid-1982 has forced banks to make difficult decisions regarding their participation in debt restructurings, often involving formal multilateral rescheduling of debt from official and/or private sources. Recent exercises which have been carried out in conjunction with the implementation of Fund-supported adjustment programs have often required the commitment of substantial flows of new lending and thus will increase the banks' exposure to problem cases. Money center banks with very large exposure and with a long-standing involvement in the countries experiencing difficulties are particularly aware of the need for banks to support the adjustment efforts which are being undertaken. In most countries, supervisors as well perceive that continued net banking flows to countries with Fund-supported programs will improve the quality of existing bank assets. In general supervisors see no contradiction in encouraging such flows while at the same time requiring the establishment of special loan loss provisions for sovereign risks.

Considerable uncertainty exists in the market however about the behavior of smaller, regional banks or banks with relatively small international exposure and often limited international experience. In the aggregate, such banks already hold substantial international assets, so that any reduction in their exposure or even net lending to a country could seriously aggravate the balance of payments situation. To the extent that this occurs, the situation of banks with very large exposure to a particular country will become increasingly difficult as they are either forced to compensate for the withdrawal of other banks by further increasing their own exposure or else face a serious impairment of the quality of their assets.

As part of the rescheduling efforts in a number of major borrower countries, a very large number of banks have linked their new lending decisions, often quite explicitly, to the existence of (and adherence to) a program supported by the Fund. This has brought Fund-supported programs under closer scrutiny by the financial community and, at the same time, has made the successful implementation of these programs of greater importance to both the lenders and the borrowing countries. Any perceived failure of programs with major borrowers could mean that net banking flows in 1983 to those countries, and in aggregate, may be substantially reduced.

The rescheduling operations already agreed or which are close to conclusion generally have been welcomed by banks, as they have removed a degree of uncertainty from the market by regularizing the balance of payments and debt service situation of the countries involved. On the other hand, a number of banks are concerned that in many of these cases they may be approached repeatedly to further increase their exposure if countries are not able to make adequate progress in adjusting. In considering their future actions, banks are taking into account not only the likely course of events in the borrowing country, but also the likely reaction of their own stockholders and their supervisors to continued lending to problem cases. Banks also are worried about the likely reaction of other banks to further requests for new lending, as a "breaking of ranks" would endanger the quality of their own assets and/or require even larger increases in their own exposure.

Uncertainties about behavior of other banks adds a new layer of risk for the banks' assessment of lending to countries which are not themselves affected by debt servicing problems, but which would be vulnerable to any sharp curtailment of bank lending flows. Following the events in Eastern Europe and in the Western Hemisphere, the banks' perception of regional risk in crisis situations has sharpened. Increased awareness of sovereign risk and the possibility of the emergence of regional debt problems in other parts of the world make it unlikely that a revised lending strategy would involve an acceleration of flows to areas of the world not directly involved in present debt rescheduling exercises.

One effect of recent events was, that as part of the reschedulings for major countries, banks became much more aware of other banks' lending strategies and exposure to various sovereign borrowers. Moreover, in some countries banks were required to disclose their exposure also to their shareholders. In addition, international debt issues have also gained the attention of the international press and even of national legislatures. All this has resulted in a wide dissemination of information previously available only to supervisors. Moreover, supervisors in some countries have asked for more detailed submission of information on banks' exposure, generally on a consolidated basis--i.e., including lending by branches and subsidiaries. It is difficult to assess what result increased reporting requirements and heightened public concern with issues of international lending will have on banks' lending posture. It is likely, however, that closer scrutiny of international bank lending by supervisors, shareholders, and policymakers will add a further note of caution to the international lending plans of banks.

IV. Prospects for 1983

1. International bank lending

The assessment of prospects for international lending in present circumstances is particularly difficult and subject to more than the usual uncertainties. Banks are primarily concerned about the high degree of uncertainty regarding the strength and timing of the expected economic recovery in the industrial countries as this affects directly the quality of their domestic assets. Moreover, the pace of the recovery is also crucial for resumption in the growth of export markets and thus for the performance of banks' international assets as well. Continuing large fiscal imbalances in certain industrial countries have also given rise to concerns regarding prospective interest rate developments. At the same time, much will depend upon the success of the major debt rescheduling exercises, almost all of which form an essential element of a Fund-supported stabilization program. As already mentioned, banks are currently committed to some $12 billion in new medium-term lending to a group of developing countries which are engaged in debt reschedulings. This compares with net bank lending to this particular group of countries of $10 billion in 1982 and $28 billion in 1981. Therefore, successful implementation of the rescheduling programs will have a very large impact on the banks' international lending over the near term.

It appears that banks have been undertaking a basic re-examination of their international operations, especially regarding their participation in syndicated lending to non-oil developing countries. This is particularly true of smaller and nondollar-based banks which had been increasing their international exposure at a very rapid pace in recent years, in part as these banks have become concerned over funding risks in the interbank market. More generally, banks recently have come under increased public scrutiny, while bank supervisors have placed renewed emphasis on issues such as the adequacy of bank capital, and provisioning against sovereign risk. Against this background, it appears likely that for the near term banks will continue to take a cautious approach to cross-border lending in general. Banks which do not consider international lending to be an integral part of their operations may even wish to end their involvement.

Banks appear to perceive that there has been an excessive use of general purpose syndicated credits on market terms to finance the current account deficits of developing countries. There are also growing concerns regarding the amount of syndicated borrowing which has been undertaken by some of the smaller industrial countries. These perceptions have been strengthened by the widespread expectation that interest rates in international capital markets will remain positive in real terms for the foreseeable future. There has also been a reassessment of the riskiness of short-term cross-border lending. Banks traditionally viewed short-term lending, especially interbank lending, as subject to less risk than longer maturities. However, it is now recognized that a rapid increase in short-term borrowing by a specific country should be seen by lenders as a danger signal, and that high levels of short-term debt make the viability of a borrower's external payments situation more vulnerable to even a short-term shift in market sentiment.

In the present environment, continental European banks in particular have expressed their intention to concentrate their new international lending activities to developing countries on trade- and project-related finance. Even though such lending is subject to some of the same risks as general purpose syndicated lending, much trade finance serves to support the export activities of the banks' domestic clients. In some cases, financing projects creates the possibility of directly pledging the project's revenue to meet related debt service. In present circumstances most banks do not wish to increase the ratio of foreign assets relative to domestic assets or capital and there may even be a tendency for banks to target a relative reduction in the share of claims on developing countries.

On the other hand, the global demand for banking flows to non-oil developing countries is likely to diminish in the period ahead because the current account imbalances of this country group, which have already been reduced, are projected to decline further. These expectations are based on an assumed recovery of demand in the industrial countries, the successful pursuit of adjustment policies by principal borrower countries, as well as reductions in oil prices and interest rates. With the increased adoption of adjustment programs, it is expected that lending by international institutions, especially the Fund, will increase.

These considerations underscore the crucial importance of Fund-supported economic stabilization programs in the major borrowing countries; these programs constitute the foundations of the debt rescheduling exercises now under way and, as noted earlier, a large amount of new medium-term lending is directly linked to their successful implementation. Should any of these programs be seen by the market to be failing, it would greatly heighten the perceived riskiness of cross-border lending. It would also probably increase the inclination to withdraw from international lending altogether which is already in evidence among those smaller banks with a relatively recent and limited commitment to international lending.

In 1983, net bank lending to non-oil developing countries is likely to recover from the very low levels recorded for the second half of 1982. Despite this projected recovery, bank lending to these countries in 1983 may not reach the levels recorded for 1982 as a whole. Lending flows over the next few months will depend mainly on the success of the major debt rescheduling exercises. There is little prospect for a recovery of medium-term syndicated lending to this group of countries aside from amounts committed in conjunction with bank debt restructurings. This conclusion is supported by the data on new commitments recorded for the first quarter of 1983 and the expressed preference of banks to place greater emphasis on trade- and project-related finance. However, in light of the latest World Economic Outlook exercise, which projects only about a 1 per cent increase in the U.S. dollar value of world trade in 1983, growth in trade finance is not likely to compensate completely for developments in the syndicated credit market. Therefore, bank lending to non-oil developing countries in 1983 is likely to fall short of the $25 billion recorded in 1982 and thus stay well below the 1981 volume of $51 billion.

The projected moderate improvement in activity levels in the industrial countries points toward some increase in bank lending to this group of countries. However, their demand for syndicated lending will depend to some degree on developments in bond markets, which could represent an increasingly attractive alternative source of funding for these countries depending on interest rate expectations. The outlook for new lending to oil exporting developing countries will depend primarily upon developments in the petroleum market. In the present circumstances, however, it is not likely that banks will be willing to significantly increase their lending to some members of this group, and therefore these countries are likely to again rely mainly on their reserves to finance their current account deficits. Against this background, it is likely that the pace of global net new bank lending in 1983 will be similar to that recorded in the second half of 1982. This would result in a marginal decline in global bank lending in 1983, as a whole, compared with the 1982 result, which was itself the lowest amount since 1978.

A number of major banks have reacted to recent developments by strengthening their own internal analytical capabilities and management procedures for sovereign lending. Moreover, in October 1982 a group of senior officials from major international banks agreed to organize an international institute to provide its members with improved economic and financial information concerning major borrower countries in international markets. The primary goals of the institute will include improving the process of sovereign lending and the long-term efficiency of international credit markets. In January 1983, this "Institute of International Finance" was legally incorporated in Washington, D.C. and a large number of banks have been invited to join. The declared purpose of the Institute will be to gather country economic information; to discuss with borrower countries on a strictly voluntary basis their economic plans, assumptions, and financing needs; and to serve as a focal point for dialogue between the international banking community and multilateral institutions, central banks, and supervisory agencies in the developed countries. The Institute intends to furnish members with country reports of an informational nature, but will avoid making credit judgments, a responsibility which will be left strictly to each member bank. It is still far too early to judge whether this initiative will have any significant impact on the form or amount of international bank lending.

2. International bond markets

Turning to the international bond markets, the rates of issuance should remain well above those of the late 1970s, but could fall below those of 1982 unless further significant declines in nominal interest rates emerge. Sharply lower inflation, normal (positive) sloped yield curves and a continuance of high real rates of return on bonds in most major financial markets will stimulate investor interest in bonds. However, there is considerable uncertainty regarding the future course of interest rates, especially if a significant upturn in economic activity should occur at the same time that there are large fiscal imbalances in a number of major industrial countries. The importance of interest rate expectations was made quite clear in January 1983 in the Eurodollar bond markets. In that month more than $5.6 billion of bonds were issued, but many of these bonds were taken up by underwriters as market participants changed their evaluation of the likelihood of further declines in market interest rates. Even if there is considerable interest rate uncertainty, the continuing attempts of corporate and sovereign borrowers to lengthen the maturity of their debt will undoubtedly help sustain the level of bond issuance during 1983.

Industrial country borrowers will remain the dominant bond market issuers during 1983. The combination of industrial country and international organization borrowers will most likely continue to account for roughly 95 per cent of all international bond issues. Any recovery of developing country issuance may take some time. During the upswing of bond market issuance in 1981 and 1982, investors focused their purchases on the bonds of what were regarded as the most creditworthy corporate and sovereign borrowers. Such portfolio preferences are likely to be exhibited again in 1983 despite the fact that almost all developing countries have continued to meet interest and principal payments on their bonds and in most instances bond issues were kept outside of any rescheduling agreements pertaining to other debts. This cautious attitude on the part of bond investors also makes it unlikely that the developing countries will be able to significantly utilize the issuance of floating rate notes as a ready substitute for international bank borrowing.

V. Concluding Observations

Since 1980, the focus of attention has shifted away from the issue of "recyling" of funds between the major oil exporters and the net oil importers, particularly those among the developing countries, to the more general question of the ability and willingness of the international banks to continue lending to the non-oil developing countries on a scale compatible with orderly adjustment efforts. In 1980, for example, the increase in deposits with banks in the BIS reporting system by the oil exporting developing countries ($41 billion), together with those of the non-oil developing countries ($8 billion) was just equivalent to net bank lending to the non-oil developing countries. In contrast, in 1982 bank deposits of the oil exporting developing countries (in the aggregate) declined by $19 billion, while net bank lending to the non-oil developing countries ($25 billion) was about one half the average level recorded for 1980-81.

Some observers have drawn a direct link between the reduction of the OPEC surplus--and the portion deposited with the major international banks--and the willingness and ability of the banks to intermediate internationally (particularly with the non-oil developing countries). In the staff view these shifts are much more coincidental than causal, as in general the "availability" of funds does not derive directly from the structure of payments imbalances. Several intervening events--particularly the increasing incidence of restructuring of bank debt on a major scale and the recognition that significant additional increases in exposure are required in a few developing debtor countries--have heightened risk perceptions. It was the increased perception of risk, rather than the availability of funds, which in the second half of 1982 slowed markedly the net flow of finance to the developing countries.

Nevertheless, the increased funding risk of nondollar-based banks cannot be ignored as a factor influencing the international lending activity of several of these banks. In these circumstances, a significant number of such banks have attempted to ensure the adequacy of their interbank lines and have attempted to increase their longer term U.S. dollar liabilities. This suggests a reduction of the degree of maturity mismatch, and an increase in the effective cost of funds for these banks. Moreover, banks in general are taking a more conservative stance in their international lending policies because of increased perceptions of risk, and concerns about potential problems of capital adequacy. Banks are likely to take a new look at lending spreads for the most creditworthy borrowers among the smaller industrial countries. This also suggests that when additional provisions against possible loan losses on international lending are taken into account, there will be further upward pressure on lending spreads even for some of the major industrial countries.

This view runs counter to the notion that because of payments difficulties in Eastern Europe and Latin America, there will be a "rush to quality" which will result in reduced spreads for certain countries in Asia and for the smaller industrial countries. At the same time, it is recognized that, even among some of the major commercial banks, there is no desire at present to increase the proportion of their external assets relative to domestic assets or capital. Another factor, already mentioned, is that internal lending limits as denominated in local currency by nondollar-based banks have been utilized more rapidly in some countries than might have been expected due to the depreciation of the local currency.

In essence, the prospects for future bank lending will depend more on the willingness of the banking system to intermediate internationally rather than its ability to do so. But ability and willingness are far less separable than a year ago. The magnitude of the amounts involved in the bank debt reschedulings recently completed or contemplated has attracted the attention of the financial press and has made bank shareholders, depositors, and others much more aware of the potential risk of cross-border bank lending. Thus, bank management--especially, but not exclusively, among the smaller and regional banks--has adopted a defensive position on lending to a large number of developing countries.

It would appear that these "external" constraints on bank management, which include the possibility of sharper actions over time by regulatory authorities, will continue to slow new net lending to the developing countries and move the market toward higher lending spreads for a number of other countries. It also suggests that the rate of increase in international interbank transactions will continue to slow, in large part because of the relative decline of the return on such transactions, at a time when spreads on domestic lending in the industrial countries have increased.

The health and stability of the international banking system has improved somewhat in the last several months. In many countries reported profits (even after additional provisions for loan losses) have increased notably, bank share prices have risen sharply, albeit from very low levels, and the volatility in the international interbank market has subsided considerably. Moreover, the degree of concentration of international loans, including those to developing countries, in relation to capital has stabilized or even declined. However, there continues to be an important question regarding the extent to which the banks will continue international lending, in particular to the developing countries, and the implications this could have for the countries concerned and for the Fund. As noted in the prospects section above, the pace of global bank lending recorded in the second half of 1982 is likely to continue through 1983. This would result in a marginal decline of bank lending in 1983 compared with 1982 as a whole. On the other hand, net bank lending to the non-oil developing countries is likely to recover compared with the low volume recorded in the second half of 1982, and a range of $15-20 billion (as mentioned in the World Economic Outlook) appears plausible for the current year. The implicit increase in bank exposure (5-7 per cent) might well be repeated in the following year.

There are important assumptions underlying these conclusions. One major assumption is that the world economy continues to improve. Another is that there is adequate progress in the adjustment programs of major borrowing countries which have approached, or are in the process of approaching, the markets for debt restructuring and new borrowing. Of course, a significant amount of net banking funds ($12 billion) is already tied directly to Fund-supported adjustment programs. The major banks are likely to be alert to possible changes in the financing requirements of these programs, and seem prepared to reach their own judgments on the extent to which they will accommodate any increases. While there is considerable support in key banking circles for the coordinating role of the Fund in these "exceptional" cases, there is still some uncertainty as to the scale of financing the banks will provide on the next round.

Finally, the outlook for international bank lending for the period ahead will reflect the prudential concerns expressed by major bankers and bank regulatory authorities, and the reluctance of regional banks in the United States, smaller banks in other countries, and possibly some major continental European banks to increase their international exposure. Banks will focus their new international lending plans on increased trade- and project-related finance, in preference to large syndicated credits, particularly to the non-oil developing countries.

Table 1. External Claims of Banks in the BIS Reporting Area by Country of Borrower, 1978-82 1/

(In billions of U.S. dollars)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982
Reporting area 2/	232.3	299.8	381.3	454.7	495.5
Reporting area (gross)	466.9	588.3	704.5	821.1	893.8
Offshore centers	123.5	157.5	188.7	238.1	268.4
Less: Interbank deposits	-358.1	-446.0	-511.9	-604.5	-666.7
Other industrial countries	40.0	45.9	53.0	59.0	67.1
Australia	4.4	4.8	6.0	8.0	11.8
Finland	5.1	5.7	6.7	7.1	8.8
Norway	8.5	9.3	10.5	10.4	10.9
Spain	12.7	15.5	18.2	21.9	23.1
Other	9.3	10.6	11.6	11.6	12.5
Centrally planned economies 3/	40.9	47.0	49.3	50.3	44.3
Czechoslovakia	2.0	2.8	3.5	3.2	2.7
German Democratic Republic	6.2	7.7	9.5	10.1	8.5
Poland	11.7	15.0	15.1	14.7	13.4
U.S.S.R.	12.8	12.9	13.4	15.9	14.2
Other	8.2	8.6	7.8	6.4	5.5
Oil exporting countries	53.0	60.0	65.3	66.7	73.2
Algeria	5.7	7.1	7.4	6.9	6.5
Indonesia	4.5	4.2	4.3	4.6	6.2
Nigeria	1.8	2.5	3.4	4.7	7.0
Venezuela	12.8	18.6	21.3	22.3	22.7
Middle East	22.1	22.5	23.6	23.4	24.6
High absorbers	(15.3)	(14.2)	(14.8)	(14.1)	(15.2)
Low absorbers	(6.8)	(8.3)	(8.8)	(9.3)	(9.4)
Other	6.1	5.1	5.3	4.8	6.2
Non-oil developing countries	155.0	195.4	241.3	285.6	306.1
Western Hemisphere	80.8	103.9	131.5	161.6	172.8
Argentina	(6.7)	(13.1)	(18.9)	(22.9)	(22.7)
Brazil	(31.7)	(36.9)	(43.3)	(49.6)	(56.0)
Chile	(2.7)	(4.5)	(6.7)	(9.6)	(10.5)
Colombia	(2.1)	(3.5)	(4.3)	(4.9)	(5.5)
Ecuador	(2.4)	(3.0)	(3.6)	(4.2)	(4.1)
Mexico	(23.2)	(30.7)	(41.0)	(55.5)	(58.9)
Peru	(3.4)	(3.6)	(3.9)	(4.3)	(5.2)
Other	(8.6)	(8.6)	(9.8)	(10.6)	(10.4)
Middle East	6.5	8.1	9.8	11.5	12.9
Egypt	(1.6)	(2.0)	(3.1)	(3.9)	(4.3)
Israel	(3.8)	(4.6)	(4.7)	(5.7)	(6.4)
Other	(1.1)	(1.5)	(2.0)	(1.9)	(2.2)

Table 1 (concluded). External Claims of Banks in the BIS Reporting Area by Country of Borrower, 1978-82 1/

(In billions of U.S. dollars)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982
Asia	(22.5)	30.4	37.9	42.5	46.6
China	(0.9)	(2.1)	(2.2)	(1.8)	(1.2)
India	(0.7)	(0.9)	(0.9)	(1.1)	(2.0)
Korea	(6.9)	(10.3)	(14.0)	(16.9)	(18.8)
Malaysia	(1.5)	(1.9)	(2.3)	(3.3)	(4.6)
Philippines	(4.0)	(5.4)	(7.0)	(7.2)	(8.3)
Thailand	(2.7)	(3.0)	(3.2)	(3.3)	(3.0)
Other	(5.8)	(6.8)	(8.3)	(8.9)	(8.7)
Africa	19.6	21.5	23.5	27.5	31.6
Ivory Coast	(1.4)	(2.1)	(2.7)	(2.8)	(2.9)
Morocco	(2.2)	(2.8)	(3.0)	(3.3)	(3.6)
South Africa	(7.2)	(6.4)	(6.8)	(9.9)	(13.1)
Other	(8.8)	(10.2)	(11.0)	(11.5)	(12.0)
Europe	25.6	31.5	38.6	42.5	42.2
Greece	(4.9)	(5.4)	(7.3)	(9.0)	(9.4)
Hungary	(6.4)	(7.4)	(7.4)	(7.5)	(6.4)
Portugal	(3.0)	(3.9)	(5.2)	(7.4)	(9.6)
Romania	(2.5)	(4.0)	(5.3)	(4.8)	(4.0)
Turkey	(3.0)	(2.9)	(3.3)	(3.1)	(2.9)
Yugoslavia	(5.6)	(7.5)	(9.6)	(9.9)	(9.3)
Other	(0.2)	(0.4)	(0.5)	(0.8)	(0.6)
Unallocated and international organizations	13.8	16.9	19.8	28.7	33.8
Total	535.0	665.0	810.0	945.0	1,020.0
Memorandum items:					
Total gross claims, BIS	893.1	1,110.7	1,323.1	1,549.5	1,686.7
Gross claims of nonreporting banks in certain offshore centers 4/	107.0	135.0	175.0	236.0	248.0 5/
Total gross claims, IFS	1,136.4	1,437.6	1,749.6	2,111.5	2,236.7

Source: Bank for International Settlements.

1/ The BIS reporting area comprises the Group of Ten countries; Austria, Denmark, Ireland, and Switzerland, and the offshore branches of U.S. banks in the Bahamas, Cayman Islands, Hong Kong, Panama, and Singapore.

2/ Net of double counting due to redepositing among reporting banks.

3/ Excluding Fund member countries.

4/ Claims of non-U.S. banks in the Bahamas, Cayman Islands, Hong Kong, Lebanon, Panama, and Singapore and claims of all banks in Bahrain and Netherlands Antilles.

5/ As of June 1982.

Table 2. External Liabilities of Banks in the BIS Reporting Area by Country of Depositor, 1978-82 1/

(In billions of U.S. dollars)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982
Reporting area 2/	309.1	372.2	465.4	585.3	675.9
Reporting area (gross)	533.5	686.4	824.0	951.1	1026.7
Offshore centers	96.9	140.2	165.9	220.0	249.6
Less: Interbank deposits	-321.3	-454.4	-524.5	-585.8	-600.4
Other industrial countries	25.8	33.0	34.1	36.3	34.4
Australia	1.1	1.3	1.3	1.1	1.3
Finland	1.6	2.1	2.7	2.9	3.4
Norway	3.0	4.0	5.0	6.1	6.2
Spain	13.1	17.5	17.6	17.5	15.1
Other	7.0	8.1	7.5	8.7	8.4
Centrally planned economies 3/	10.1	14.4	14.3	14.3	15.7
Czechoslovakia	0.6	1.0	1.3	1.0	0.7
German Democratic Republic	1.2	1.9	2.0	2.2	1.9
Poland	0.8	1.1	0.6	0.8	1.0
U.S.S.R.	5.9	8.6	8.6	8.5	10.0
Other	1.6	1.8	1.8	1.8	2.1
Oil exporting countries	80.3	117.6	156.3	153.7	131.6
Algeria	2.7	3.4	4.6	4.2	2.4
Indonesia	2.7	4.3	6.7	6.1	5.2
Nigeria	0.7	2.2	5.6	1.7	1.5
Venezuela	9.5	13.4	15.8	18.5	12.9
Middle East	57.1	81.3	108.9	111.5	99.1
High absorbers	(23.1)	(36.7)	(52.0)	(38.6)	(29.3)
Low absorbers	(34.0)	(44.6)	(56.9)	(72.9)	(69.8)
Other	7.6	13.0	14.7	11.7	10.5
Non-oil developing countries	91.6	105.4	112.5	117.9	120.2
Western Hemisphere	34.6	39.6	38.1	41.8	38.9
Argentina	(4.7)	(7.8)	(6.6)	(6.6)	(5.7)
Brazil	(10.7)	(8.1)	(4.7)	(4.8)	(4.2)
Chile	(1.4)	(2.2)	(3.4)	(3.6)	(2.5)
Colombia	(2.0)	(3.1)	(3.0)	(3.6)	(3.7)
Ecuador	(0.7)	(0.7)	(0.9)	(0.8)	(0.7)
Mexico	(6.4)	(8.2)	(9.4)	(12.1)	(10.4)
Peru	(0.8)	(1.4)	(2.1)	(1.5)	(1.9)
Other	(7.9)	(8.1)	(8.0)	(8.8)	(9.8)

Table 2 (concluded). External Liabilities of Banks in the BIS Reporting Area by Country of Depositor, 1978-82 1/

(In billions of U.S. dollars)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982
Middle East	13.8	15.4	18.4	19.3	20.8
Egypt	(3.4)	(3.8)	(5.1)	(5.0)	(6.1)
Israel	(6.0)	(6.9)	(8.2)	(9.0)	(9.2)
Other	(4.4)	(4.7)	(5.1)	(5.3)	(5.5)
Asia	22.3	26.2	28.1	30.8	35.6
China	(2.4)	(2.7)	(2.5)	(5.0)	(7.9)
India	(3.1)	(3.7)	(3.5)	(2.7)	(2.6)
Korea	(2.5)	(3.1)	(3.3)	(3.2)	(3.7)
Malaysia	(2.1)	(3.2)	(3.6)	(3.1)	(3.7)
Philippines	(2.2)	(2.7)	(3.5)	(3.0)	(2.9)
Thailand	(1.1)	(1.4)	(1.1)	(1.5)	(1.7)
Other	(8.9)	(9.4)	(10.6)	(12.3)	(13.1)
Africa	8.5	11.0	12.0	11.6	10.6
Ivory Coast	(0.6)	(0.8)	(0.7)	(0.7)	(0.6)
Morocco	(0.9)	(1.0)	(0.7)	(0.6)	(0.6)
South Africa	(1.0)	(1.4)	(2.0)	(1.5)	(1.6)
Other	(6.0)	(7.8)	(8.6)	(8.8)	(7.8)
Europe	12.4	13.3	15.9	14.4	14.3
Greece	(4.6)	(4.7)	(5.9)	(5.3)	(5.4)
Hungary	(0.9)	(1.2)	(1.4)	(0.9)	(0.7)
Portugal	(1.7)	(2.4)	(2.5)	(1.8)	(2.1)
Romania	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Turkey	(0.8)	(0.9)	(1.2)	(1.5)	(1.6)
Yugoslavia	(2.8)	(2.0)	(2.7)	(2.6)	(2.0)
Other	(1.4)	(1.8)	(2.1)	(2.0)	(2.2)
Unallocated and international organizations	18.1	22.4	27.4	37.5	42.2
Total	535.0	665.0	810.0	945.0	1020.0

Source: Bank for International Settlements.

1/ The BIS reporting area comprises the Group of Ten countries; Austria, Denmark, Ireland, and Switzerland; and the offshore branches of U.S. banks in the Bahamas, Cayman Islands, Hong Kong, Panama, and Singapore.
2/ Net of double counting owing to redepositing among reporting banks.
3/ Excluding Fund member countries except Hungary, which became a member in mid-1982.

Table 3. Net External Position of Banks in the BIS Reporting Area by Country of Borrower or Depositor, 1978-82 1/

(In billions of U.S. dollars)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982
Reporting area 2/	-76.8	-72.4	-84.1	-130.6	-180.4
Reporting area (gross)	-66.6	-98.1	-119.5	-130.0	-132.9
Offshore centers	26.6	17.3	22.8	18.1	18.8
Less: Interbank deposits	36.8	-8.4	-12.6	18.7	-66.3
Other industrial countries	14.2	12.9	18.9	22.7	32.7
Australia	3.3	3.5	4.7	6.9	10.5
Finland	3.5	3.6	4.0	4.2	5.4
Norway	5.5	5.3	5.5	4.3	4.8
Spain	-0.4	-2.0	0.6	4.4	8.0
Other	2.3	2.5	4.1	2.9	4.0
Centrally planned economies 3/	30.8	32.6	35.0	36.0	28.6
Czechoslovakia	1.4	1.8	2.2	2.2	2.0
German Democratic Republic	5.0	5.8	7.5	7.9	6.6
Poland	10.9	13.9	14.5	13.9	12.4
U.S.S.R.	6.9	4.3	4.8	7.4	4.2
Other	6.6	6.8	6.0	4.6	3.4
Oil exporting countries	-27.3	-57.6	-91.0	-87.0	-58.4
Algeria	3.0	3.7	2.8	2.7	4.0
Indonesia	1.8	-0.1	-2.4	-1.5	1.0
Nigeria	1.1	0.3	-2.2	3.0	5.5
Venezuela	3.3	5.2	5.5	3.8	9.8
Middle East	-35.0	-58.8	-85.3	-88.1	-74.4
High absorbers	(-7.8)	(-22.5)	(-37.2)	(-24.5)	(-14.0)
Low absorbers	(-27.2)	(-36.3)	(-48.1)	(-63.6)	(-60.4)
Other	-1.5	-7.9	-9.4	-6.9	-4.3
Non-oil developing countries	63.4	90.0	128.8	167.7	185.9
Western Hemisphere	46.2	64.3	93.4	119.8	133.9
Argentina	(2.0)	(5.3)	(12.3)	(16.3)	(16.4)
Brazil	(21.0)	(28.8)	(38.6)	(44.8)	(51.8)
Chile	(1.3)	(2.3)	(3.3)	(6.0)	(8.0)
Colombia	(0.1)	(0.4)	(1.3)	(1.3)	(1.8)
Ecuador	(1.7)	(2.3)	(2.7)	(3.4)	(3.3)
Mexico	(16.8)	(22.5)	(31.6)	(43.4)	(48.5)
Peru	(2.6)	(2.2)	(1.8)	(2.8)	(3.3)
Other	(0.7)	(0.5)	(1.8)	(1.8)	(0.8)

Table 3 (concluded). Net External Position of Banks in the BIS Reporting Area by Country of Borrower or Depositor, 1978-82 1/

(In billions of U.S. dollars)

	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982
Middle East	-7.3	-7.3	-8.6	-7.8	-7.9
Egypt	(-1.8)	(-1.8)	(-2.0)	(-1.1)	(-1.8)
Israel	(-2.2)	(-2.3)	(-3.5)	(-3.3)	(-2.8)
Other	(-3.3)	(-3.2)	(-3.1)	(-3.4)	(-3.3)
Asia	0.2	4.2	9.8	11.7	11.0
China	(-1.5)	(-0.6)	(-0.3)	(-3.2)	(-6.6)
India	(-2.4)	(-2.8)	(-2.6)	(-1.6)	(-0.6)
Korea	(4.4)	(7.2)	(10.7)	(13.7)	(15.1)
Malaysia	(-0.6)	(-1.3)	(-1.3)	(0.2)	(0.8)
Philippines	(1.8)	(2.7)	(3.5)	(4.2)	(5.4)
Thailand	(1.6)	(1.6)	(2.1)	(1.8)	(1.3)
Other	(-3.1)	(-2.6)	(-2.3)	(-3.4)	(-4.4)
Africa	11.1	10.5	11.5	15.9	21.0
Ivory Coast	(0.8)	(1.3)	(2.0)	(2.1)	(2.3)
Morocco	(1.3)	(1.8)	(2.3)	(2.7)	(2.9)
South Africa	(6.2)	(5.0)	(4.8)	(8.4)	(11.5)
Other	(2.8)	(2.4)	(2.4)	(2.7)	(4.3)
Europe	13.7	18.1	22.7	28.1	27.9
Greece	(0.3)	(0.7)	(1.4)	(3.7)	(4.0)
Hungary	(5.5)	(6.2)	(6.0)	(6.6)	(5.7)
Portugal	(1.3)	(1.5)	(2.7)	(5.6)	(7.5)
Romania	(2.3)	(3.7)	(5.0)	(4.5)	(3.7)
Turkey	(2.2)	(2.0)	(2.1)	(1.6)	(1.4)
Yugoslavia	(2.8)	(5.5)	(7.1)	(7.3)	(7.3)
Other	(-1.2)	(-1.4)	(-1.6)	(-1.2)	(-1.7)
Unallocated and international organizations	-4.3	-5.5	-7.6	-8.8	-8.4

Source: Bank for International Settlements.

1/ The BIS reporting area comprises the Group of Ten countries; Austria, Denmark, Ireland, and Switzerland; and the offshore branches of U.S. banks in the Bahamas, Cayman Islands, Hong Kong, Panama, and Singapore.

2/ Net of double counting due to redepositing among reporting banks.

3/ Excluding Fund member countries.