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Correction 1

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INFORMATION

August 28, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: International Capital Markets - Recent Developments, 1986

The following corrections have been made in SM/86/201 (8/14/86):

Page 41, para. 1, lines 3 and 4: for "Total lending...markets amounted"
read "Total net lending...bonds) amounted"

Page 42, lines 2 and 3: for "Lending to...\$5 billion"
read "Claims on...\$5 billion"

Page 43, Table 8: revised

Page 47, para. 1, line 5: for "banks which do not report"
read "banks. Certain banks did not report"

para. 2, last sentence: added

last para., last line: delete "Net"

Page 48, line 2: for "\$3.7 billion" read "\$2.1 billion"

line 3: for "\$2.5 billion...\$5.8 billion"
read "\$1.9 billion...and \$6.2 billion"

Page 53, first full para., line 1: delete "Net"

line 2: for "nearly \$11 billion"
read "\$11.9 billion"

line 4: for "\$4.8 billion" read "\$5.0 billion"

line 8: for "\$0.8 billion" read "\$0.5 billion"

Page 54, para. 1, line 2: for "\$4.5 billion" read "\$4.7 billion"

line 3: for "\$3.0 billion" read "\$3.2 billion"

para. 4, line 2: for "over \$2 billion" read "\$2.3 billion"

Corrected pages are attached.

Att: (7)

Other Distribution:
Department Heads

III. Financing for Developing Countries

1. Distribution and terms

a. Overview

The current account deficits of capital importing developing countries remained at a low level in 1985 and were covered by nondebt-creating flows and long-term borrowing from official creditors. Total net lending to these countries through bank and bond markets (net of redemptions and bank purchases of bonds) amounted to about \$13 billion in 1985, \$6 billion less than in 1984; a significant decline in bank lending was partly offset by slightly larger bond market finance (Table 1). Current account deficits of developing countries are estimated to have increased in 1986; however, information available for the first half of 1986 suggests that lending flows have declined further. During the first quarter, bank claims on developing countries fell, while data for the first six months indicate that new gross bond issues by these countries dropped sharply.

International bank lending to developing countries declined further in 1985 to \$9 billion from \$16 billion in 1984 ^{1/}; the growth in bank claims slowed to 2 percent in 1985 from 3 percent in 1984 (Chart 1 and Table 1). ^{2/} The continued slowdown in bank lending to developing countries since 1982, combined with the resurgence in lending to industrial countries, has diminished the share of lending to developing countries in total international lending to 4 percent in 1985 from 27 percent in 1982 (Table 2). The ratio of claims on developing countries in total

^{1/} In interpreting these flows, it is necessary to bear in mind that the Fund's International Banking Statistics series is based on a balance of payments approach to recording credit flows. Data is obtained from direct reports by a member country's banks and "derived" reports based on the geographical positions of banks located in major banking centers. Overcounting of bank claims in certain developing countries may occur when loan claims on nonbanks are transferred to banks (i.e., the central bank). Such transfers should result in an increase in interbank claims offset by a decline in claims on nonbanks. However, international banks that report their claims on banks and nonbanks may not properly reclassify their claims on nonbanks, which would result in overcounting of those claims and an overestimation of lending.

^{2/} As indicated in Table 1, data published by the BIS estimate bank lending to developing countries (adjusted to a Fund country classification) at \$14 billion in 1985. The difference between the IBS and BIS estimates is distributed over a wide range of developing countries. For the 15 heavily indebted developing countries, both sources show bank lending of less than \$1 billion, although within this group there are differences for individual countries. For a group of countries with significant bank debt, the IBS data has benefited from evaluation by Area Departments to assist in identifying reporting problems such as double counting or misclassification of interest arrears.

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international claims has dropped to 22 percent in 1985 from 25 percent in 1983 (Chart 7). Claims on the 15 heavily indebted developing countries were unchanged in 1985 compared to an increase of \$5 billion in 1984 (Table 8).

However, these data for bank lending to developing countries under-record actual flows. One reason for this underestimation is that official statistics record only partially banks' holdings of bonds, which may have increased by \$1-3 billion in 1985. Other factors, inter alia, are loan write-offs, which reduce recorded claims without a repayment, and the sale of claims by banks to nonbank investors. In light of these factors, actual bank lending to developing countries in 1985 is estimated to have been larger than \$9 billion, and was probably in a range of \$11-15 billion.

This adjusted flow of \$11-15 billion does not coincide with the change in banks' risk exposure to developing countries because a significant part of bank lending has been officially guaranteed. An OECD/BIS publication 1/ gives information on the stock of banks' officially guaranteed claims on developing countries relative to their nonguaranteed claims, although it does not give an exchange rate adjusted flow. 2/ Allowing for this factor, growth in banks' risk exposure to developing countries in 1985 is estimated at \$8-13 billion, or 1 1/2 to 2 1/2 percent (based on a stock of unguaranteed bank claims of about \$515 billion). Since reliable regional estimates are not available for all these factors, the discussion of bank lending that follows does not incorporate any estimate based on underrecording of claims or increases in official guarantees.

Spontaneous lending declined somewhat in 1985, decreasing to \$4 billion from \$6 billion in 1984. Bank lending to most developing countries in Asia and Europe remained spontaneous and, at \$8 billion, was equivalent to 85 percent of total lending to developing countries in 1985. There was a modest increase in bank claims on African countries, while developing countries in the Middle East made net repayments of international bank loans in 1985. There was virtually no new spontaneous lending to countries in the Western Hemisphere, and net bank

1/ Statistics on External Indebtedness: Bank and Trade-Related Non-Bank External Claims on Individual Borrowing Countries and Territories at End-December 1985, BIS/OECD, July 1986.

2/ Various assumptions can be made about the currency composition of officially guaranteed claims. If the currency composition was identical to the currency composition of bank claims, then guaranteed bank claims would have increased by \$4 billion in 1985. The currency composition of export guarantees may, however, include a higher share of domestic currency claims than in total bank claims, which would reduce the figure below \$4 billion.

Table 8. Bank Lending to Developing Countries, 1983-85 1/ 2/
(In billions of U.S. dollars)

	1983	1984	1985
Developing countries <u>2/</u> (Growth rate)	34.7 (7)	16.4 (3)	8.9 (2)
Africa	4.8	0.2	1.0
Of which:			
Algeria	0.3	0.7	1.6
Cote d'Ivoire	-0.1	-0.3	--
Morocco	0.2	0.1	0.1
Nigeria	1.3	-0.4	-0.7
South Africa	2.9	-1.5	-0.2
Asia	8.8	8.2	5.0
Of which:			
China	0.7	1.0	3.3
India	0.9	0.1	1.7
Indonesia	2.9	1.0	--
Korea	2.2	3.5	2.3
Malaysia	1.9	1.4	-1.4
Philippines	-1.4	0.1	-0.5
Europe	2.8	2.2	3.2
Of which:			
Greece	1.3	1.8	1.6
Hungary	0.9	0.2	1.8
Turkey	--	0.9	0.5
Yugoslavia	--	0.2	0.2
Middle East	3.5	-0.4	-2.1
Of which:			
Egypt	-0.7	0.6	-0.2
Israel	-0.4	-0.7	-0.8
Western Hemisphere	14.8	6.2	1.9
Of which:			
Argentina	2.3	0.3	0.6
Brazil	5.2	5.2	-1.0
Chile	0.3	1.2	0.3
Colombia	0.6	0.3	--
Ecuador	0.2	-0.1	0.2
Mexico	2.8	1.2	0.7
Venezuela	-1.3	-2.2	0.4
Memorandum items:			
15 heavily indebted developing countries	11.0	5.5	--
Total BIS-based	26.4	11.0	13.8
(Growth rate)	(7)	(2)	(3)
Gross bond issues	3.3	5.3	10.2

Note: Owing to rounding, components may not add.

Sources: Bank for International Settlements (BIS); Organization for Economic Cooperation and Development; International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ IMF-based data on cross-border lending by banks are derived from the Fund's International Banking Statistics (IBS) (cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower), excluding changes attributed to exchange rate movements. BIS-based data are derived from quarterly statistics contained in BIS's International Banking Developments; the figures shown are adjusted for the effects of exchange rate movements. Differences between the IMF data and the BIS data are mainly accounted for by the different coverages. The BIS data are derived from geographical analyses provided by banks in the BIS reporting area. The IMF data derive cross-border interbank positions from the regular money and banking data supplied by member countries, while the IMF analysis of transactions with nonbanks is based on data from geographical breakdowns provided by the BIS reporting countries and additional banking centers. Both IBS and BIS series are not fully comparable over time, owing to expanding coverage.

2/ Excluding the seven offshore centers which are: the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore.

claims rose by less than concerted lending. 1/ Bank lending to the U.S.S.R. and non-Fund members in Eastern Europe amounted to \$4 billion in 1985, about twice the volume recorded in 1984.

Disbursements under concerted lending packages were halved from the 1984 level to \$5 billion in 1985 (Table 9). Over 90 percent, or about \$4.9 billion of these disbursements, went to five countries in the Western Hemisphere (Argentina, Chile, Costa Rica, Ecuador, and Mexico); the remainder was directed to Cote d'Ivoire and the Philippines. During the first six months of 1986, disbursements of concerted bank finance totaled \$1.6 billion and went to Argentina, Chile, and the Philippines.

New long-term bank credit commitments 2/ dropped to \$18 billion in 1985 from \$31 billion in 1984 as a result of a decline in commitments for concerted lending (Table 10 and Chart 8). New concerted packages were arranged for six countries in 1985 (Chile, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, and Panama). Spontaneous commitments remained at about the same level in 1985 as in 1984 (\$14 billion). In the first half of 1986, new commitments were \$8 billion, all of which were contracted spontaneously, as no concerted lending packages were arranged. In late July 1986, Mexico requested from creditor banks a concerted financing package for the equivalent of \$6 billion net. This package would be linked to a mechanism for additional net bank financing if the price of oil falls below a certain price, or a reduction in net bank financing if the price of oil exceeds another specified level. Banks were also requested to participate in a contingency mechanism that would provide additional net financing if economic recovery fails to materialize.

Restructuring agreements were reached in principle with nine countries in 1985 covering their medium-term bank debt amounting to \$15 billion, and a further three new agreements were reached in the first half of 1986 covering \$9 billion of medium-term bank debt. Multiyear restructuring agreements (MYRAs) were agreed with five countries during the 18 months to June 1986 to restructure \$7 billion in medium-term debt falling due. The MYRAs in 1985 and the first half of 1986 included those for Chile, Cote d'Ivoire (the first for an African country), the Dominican Republic, Uruguay, and Yugoslavia. Historical data on bank debt restructurings, reclassified by date of signature, are contained in Statistical Appendix Tables 23 through 26.

1/ Concerted lending (or "new money") refers to equiproportional increases in exposure coordinated by a bank advisory committee.

2/ This analysis is based on data published by the Organization for Economic Cooperation and Development (OECD). The OECD data, however, understate gross bank commitments to developing countries because they do not include commitments corresponding to the restructuring of long-term maturities. These data are also not directly comparable to the data on lending previously referred to in the text, as OECD data are on a commitments basis and cover only new bank credits that are publicized and that have an original maturity of more than one year.

International bond issues by developing countries increased to a record \$10 billion in 1985 from \$5 billion in 1984 (Table 5 and Chart 2). Of the \$10 billion, \$6 billion was in the form of U.S. dollar floating rate notes and may, to a large extent, have been purchased by banks. Certain banks did not report them as part of their international banking claims, i.e., banks in the United Kingdom, the United States, and Switzerland. The number of developing countries with access to the international bond market increased from an average of 18 in 1983-84 to 21 in 1985. Developing countries from Asia and Europe continued to dominate this market, accounting for 83 percent of the total in 1985. The four largest issuers were all from Asia--Malaysia, Korea, China, and Hong Kong--and accounted for just over one half of all bond issues by developing countries.

During the first half of 1986, international bond issues by developing countries were about half the amount issued during the comparable period in 1985, or about the same level as in 1984. The number of developing countries utilizing this market declined sharply to 11 during the first half of 1986 from 17 countries. The principal borrowers were all in Asia; developing countries in that region accounted for 73 percent of the total. Algeria, Malaysia, South Africa, and Thailand, collectively, had issued \$2 1/2 billion in the first half of 1985, but issued only \$0.1 billion in bonds during the first half of 1986. The discussion below of the regional pattern of bond issuance is based on gross bond issues, and includes issues by borrowers in offshore centers.

Developing countries also arranged \$4 billion in other long-term external bank facilities in 1985, less than the \$7 billion of such facilities arranged in 1984 (Statistical Supplement Table 3). During the first half of 1986, developing countries arranged \$3 billion in bank facilities compared with \$2 billion during the same period in 1985. Only developing countries in Europe and Asia had such facilities during the first half of 1986. In 1985, 13 developing country borrowers arranged note issuance facilities amounting to \$3 billion compared with 10 developing countries in 1984, amounting to \$1 billion. During the first half of 1986, 12 developing countries arranged note issuance facilities for \$4 billion.

Depositing by developing countries with the international banking system was \$16 billion in 1985, or \$7 billion less than in 1984 (Statistical Supplement Table 22). There was a large shift in the composition of depositing in 1985. Interbank depositing was flat after rising by \$21 billion in 1984, reflecting the sharp slowdown in the accumulation of gross official reserves by these countries in 1985. Deposit-taking from nonbanks, however, rose from \$2 billion in 1984 to \$14 billion in 1985, and may signify some increase in capital flight.

b. Regional pattern of financing

The regional pattern of bank lending flows to developing countries became more pronounced during 1985. This development was evidenced on both the debtor and creditor side. International bank and bond mar-

ket lending to countries in the Western Hemisphere amounted to about \$2.1 billion in 1985. International bank lending to countries in the Western Hemisphere was \$1.9 billion in 1985, compared with \$6.2 billion in 1984 (Table 8). Disbursements under concerted lending packages were \$4.9 billion in 1985 (including \$0.5 billion in a trade deposit facility to Argentina), compared with \$10.2 billion in 1984. In Argentina, Chile, and Mexico, the increases in bank claims were less than the disbursements of concerted loans.

U.S. banks reduced their consolidated claims on countries in the Western Hemisphere by \$4.5 billion, or 4.7 percent, in 1985 (Table 11). ^{1/} Nearly half of this decline, however, represented the sale of international loans by one U.S. bank (see below). Large declines in U.S. bank claims were recorded on Brazil and Mexico, while Argentina was the only developing country for which U.S. banks increased significantly their claims. The consolidated claims of U.K. banks on developing countries in the Western Hemisphere fell by \$0.1 billion (1/2 percent) (Table 12).

New long-term international bank commitments to countries in the Western Hemisphere amounted to \$2.5 billion in 1985 of which \$2.4 billion was on a concerted basis (Chart 8). In the first half of 1986, new commitments amounted to only \$0.1 billion, reflecting a commitment to The Bahamas (Table 13).

Developing countries in the Western Hemisphere did not have significant access to the international bond market (Table 14). In 1985, bond issues totaling \$203 million were made by Trinidad and Tobago, Mexico, and Panama. The bond placement by Mexico (a foreign yen placement) was its first since the debt crisis of 1982. Mexico also arranged \$0.1 billion in a note issuance facility, reportedly the first of a series designed to transform interbank lines into marketable securities. During 1986, Brazilian banks were also arranging a note issuance facility for their interbank lines. There were bond issues of only \$0.1 million in the first half of 1986.

Residents from countries in the Western Hemisphere deposited \$4.9 billion abroad in 1985, compared with \$13.2 billion in 1984. Interbank deposits fell by \$3 billion in 1985, in line with a decline in

^{1/} Data on consolidated bank claims by nationality of banks are regularly published by the United States and the United Kingdom. The Bundesbank publishes some data on the geographical claims of domestic banks and their foreign branches and subsidiaries; consolidated information has been published once for a limited number of countries, but is not published on a regular basis. Data on the currency composition of claims, which can be used to correct the data for the movements in exchange rates in deriving lending flows, are not available for Germany, the United Kingdom, or the United States, and thus the changes in claims derived from these series have to be interpreted with caution.

gross reserves, with reductions in interbank deposits of residents in Brazil and Mexico being partly offset by an increase in interbank deposits of Venezuela (Statistical Supplement Table 27). On the other hand, nonbanks in the Western Hemisphere deposited \$7.7 billion in 1985, compared with \$3.3 billion in 1984. New deposits of nonbanks were particularly large for residents of Mexico, but less than their average depositing in the previous two years, and of Venezuela, where they were twice the level of 1984 (Statistical Supplement Table 28).

International lending through bank and bond markets to developing countries in Asia amounted to \$11.9 billion in 1985, about \$1 billion more than in 1984 because of larger funding in bond markets. Bank lending to developing countries in Asia declined to \$5.0 billion in 1985 from \$8.2 billion in 1984, partly because of a switch to borrowing in the bond market. The largest bank borrowers were China, Korea, and India. The Philippines experienced a net outflow on account of bank lending of \$0.5 billion in 1985, despite having received \$0.4 billion in concerted lending, partly because the branches of Philippine banks abroad (which were not covered in the restructuring agreements) reduced their claims on the Philippines. Malaysia repaid \$1.4 billion in bank debt, while issuing \$2.0 billion in international bonds, of which 65 percent were in the form of U.S. dollar floating rate notes. The consolidated claims of U.S. banks on developing countries in Asia fell by \$3.4 billion (12 percent) in 1985, while those of U.K. banks rose by \$0.2 billion (2 percent).

New long-term international bank commitments to developing countries in Asia were \$10.5 billion in 1985; all of these commitments were spontaneous. In 1985, the composition of commitments changed, with a decline in borrowing in the syndicated loan market to \$7.5 billion from \$10.2 billion in 1984 and a doubling of the use of other bank credit facilities to \$3 billion in 1985. The major borrower in the syndicated loan market continued to be Korea; however, credits of \$2.2 billion were arranged for China. Hong Kong was the most active user of other bank credit facilities, arranging commitments of \$1.2 billion. Korea also arranged \$0.6 billion in various other bank credit facilities in 1985. In the first half of 1986, new long-term commitments to developing countries in Asia were \$4.1 billion.

Asian countries relied more heavily on international bond markets in 1985 than in 1984; bond issues by these developing countries totaled almost \$7 billion in 1985 compared to \$3 billion in 1984. Malaysia borrowed \$2.0 billion, Korea \$1.7 billion, and China and Hong Kong almost \$1 billion each. In the first half of 1986, bond issues were slightly less than the level during the comparable period in 1985, with the main borrowers being Korea, China, and Indonesia.

Countries in Asia deposited \$7.2 billion in international banks in 1985 (mainly interbank transactions), somewhat less than in 1984. Deposits held by residents in China fell by about \$6 billion in 1985.

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International lending through bank and bond markets to developing countries in Europe amounted to about \$4.7 billion in 1985, somewhat more than in 1984. Bank lending was \$3.2 billion, about \$1 billion higher than in 1984 and was mostly to Greece, Hungary, and Turkey, while banks further reduced their claims on Romania.

New long-term international bank credit commitments to developing countries in Europe increased by \$5.3 billion in 1985, all of which was on a spontaneous basis, in comparison to \$4.2 billion in 1984. The major borrowers were Greece, Hungary, Portugal, and Turkey. In 1985, \$0.9 billion of new bank commitments were in the form of other facilities, including note issuance facilities for Hungary and Portugal. In the first half of 1986, developing countries in Europe obtained an additional \$1.9 billion in new bank commitments.

Developing countries in Europe issued \$1.5 billion in international bonds in 1985, compared with just over \$0.5 billion in 1984. Almost all of this increase was accounted for by Greece and Hungary; bond issues by Greece rose to \$745 million in 1985 from \$200 million in 1984, while Hungary issued over \$450 million in 1985 compared with \$40 million in 1984. In the first half of 1986, developing countries in Europe issued \$0.6 billion in international bonds, with Portugal the principal issuer. International bank depositing by developing countries in Europe dropped sharply to \$0.9 billion in 1985 from \$3.8 billion in 1984, largely attributable to a decrease in deposits by Romania and Turkey.

International lending through bank and bond markets to developing countries in Africa was \$2.3 billion in 1985, compared with lending of about \$1 billion in 1984. Banks lent US\$1.0 billion to African countries in 1985, an increase from \$0.2 billion in 1984. Loan repayments by Nigeria and South Africa were offset by bank lending to Algeria. New long-term international bank credit commitments to developing countries in Africa increased in 1985 to \$1.4 billion from \$0.7 billion in 1984. Bond issues by these countries totaled \$1.3 billion in 1985, compared with \$1 billion in 1984. South Africa and Algeria issued \$778 million and \$500 million in bonds, respectively, in 1985. In contrast, their issues of bonds were negligible in the first half of 1986. Depositing by residents in Algeria and South Africa accounted for more than half of the \$2.7 billion increase in bank deposits from the area in 1985.

Bank claims on developing countries in the Middle East dropped by \$2.1 billion in 1985, accounted for, inter alia, by reduced claims on Kuwait and Israel. New bank credit commitments amounted to \$0.4 billion, about the same as in 1984. Developing countries in the Middle East also issued \$200 million in international bonds in 1985, compared with \$275 million in 1984. Banks received \$0.5 billion in deposits from residents in the Middle East in 1985, compared with a fall of \$2.2 billion in deposits in 1984, as depositing by nonbanks in the region rose to \$2.7 billion in 1985 from virtually zero in 1984.