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SM/85/267  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

October 2, 1985

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: International Capital Markets - Developments and Prospects, 1985

The following corrections have been made in SM/85/267 (9/27/85):

Page 17, para. 2, line 13: for "but it may" read "but may"  
line 14: for "reticent toward" read "reticence toward"

Page 37, Table VIII, columns 5 and 6: figures for 1984 derived from  
the BIS semiannual banking data  
have been revised

Corrected pages are attached.

Att: (2)

Other Distribution:  
Department Heads

such action could adversely influence other domestic or international borrowers.

b. Banks' lending behavior

A major issue in the present phase of the debt situation is how to catalyze a resumption of significant spontaneous private flows to developing countries that are pursuing policies to correct imbalances in their economies and to resume sustainable growth. In this connection, it is important to assess the implications of recent developments in bank lending. This is not an easy task, however, since data-- particularly on the behavior of national groups of banks--is very limited. The trends that do emerge are complex.

The data suggest that some groups of banks may wish to restrain their exposure to many developing countries including, but not limited to, those that have recently restructured their external debt. Notwithstanding the return of Turkey to international capital markets and some spontaneous trade finance for Brazil and Mexico, it is notable that spontaneous lending has been slow to revive for countries that have recently restructured their debt. The reluctance of banks to resume spontaneous lending has been associated with uncertainties concerning those countries' policies and the external economic environment. Moreover, some banks have also cut back or strictly limited their exposure to countries that have not engaged in debt restructuring. Such actions may reflect banks' assessment of countries' economic policies and prospects, but may also reflect, in some cases, a more general reticence toward lending to developing countries. In particular, many smaller banks may not wish to continue general purpose lending to many developing countries at the present time.

At the same time, banks have continued to lend on very competitive terms to various countries outside the industrial group, including some developing countries in Asia and Europe. Certain centrally planned economies have regained substantial access to international capital markets in 1984 and 1985 after a period of constrained access. In some cases, banks' willingness to lend to countries reflects their assessment of economic policies being pursued, but this is not the case in all instances.

The distribution and terms of bank lending to developing countries in 1984-85 raise some concerns. Banks undertaking substantial loans on very fine terms to certain countries, have on occasion signaled inadequate attention to the implementation of appropriate adjustment policies. At the same time, in some cases, banks have been indicating an unwillingness to lend to countries pursuing adjustment programs. The absence of spontaneous lending to such countries renders the task of economic policy reform more difficult and may impair the quality of banks' existing claims on those countries.

In light of these developments in spontaneous lending to developing countries, attention has focused on the lending pattern of different groups of banks. Analysis of international lending to countries by nationality of banks is limited by the lack of consolidated claims data, especially for banks in Germany and Japan. For Germany, data on a fully consolidated basis with a geographical distribution have recently been published, but available statistics as yet cover claims on only some countries and only for end-1984. For Japan, no official data on the geographical distribution of bank claims on developing countries are published.

Available information for the United States suggests that consolidated claims of U.S. banks on developing countries declined by \$3 billion in 1984, or by about 2 percent (Appendix Table VIII). All size categories of U.S. banks reduced their claims on developing countries, with regional banks reducing their claims most sharply (8 percent). Increases in claims on countries in the Western Hemisphere, which were largely related to disbursements under concerted lending packages, were more than offset by the withdrawal of funds in all other regions, especially in Asia. Consolidated external claims of U.K. registered banks on developing countries were virtually unchanged, at least in U.S. dollar terms, in 1984. An increase in claims on developing countries in the Western Hemisphere was balanced by a decline in claims on developing countries in all other regions.

Similar concerns arise in connection with bank debt restructuring. To secure necessary net financing from banks, the restructuring process has often included agreements to maintain existing short-term exposure, while disbursing funds under concerted lending packages. Exchange rate adjusted claims data, however, suggest that disbursements under concerted lending packages in 1983-84 were greater than the increase in bank claims on certain countries with concerted lending packages. Although write-offs and risk transfers may account for a portion of this difference, analysis of available data indicates that some banks may have, nevertheless, succeeded in reducing their exposure. These leakages may diminish the effectiveness of the present restructuring process and weaken bank cohesion.

The developments described above may raise the question whether some groups of banks may be attempting to hold constant or reduce their overall exposure to many developing countries. At the same time, it is important to note that FRN holdings are excluded from the lending data available for some groups of banks. This exclusion may result in under-recording of bank flows to developing countries that issue FRNs because banks are holders of a high proportion of the FRNs issued by these countries. Also, judging by the overall rise in claims on Asia, it appears clear that national groups of banks for which data are not separately available, have continued to expand their business with countries in that region. Discussions with banks suggest that Japanese banks, in particular, have expanded their lending to Asia during the period under review.

Table VIII. Change in Bank Claims on Developing Countries from Different Data Sources, 1982-84 <sup>1/</sup>

(In billions of U.S. dollars and in percent)

	1982		1983		1984	
	Billions of U.S. dollars	Growth rate (In percent)	Billions of U.S. dollars	Growth rate (In percent)	Billions of U.S. dollars	Growth rate (In percent)
Developing countries						
BIS semiannual	38.7	10.1	26.0	6.2	2.0	0.4
U.S. claims data	12.7	9.9	6.4	4.5	-3.3	-2.2
U.K. claims data	6.1	10.9	2.5	4.0	-0.7	-1.2
Capital-importing						
BIS semiannual	37.6	10.4	21.7	5.4	4.7	1.1
U.S. claims data	12.7	10.3	5.9	4.3	-2.6	-1.8
U.K. claims data	5.9	11.5	2.1	3.6	--	--
Africa						
BIS semiannual	5.6	12.8	3.2	6.5	-1.0	-1.9
U.S. claims data	1.4	15.9	1.0	9.7	-0.9	-7.9
U.K. claims data	2.8	33.6	0.5	4.7	-0.1	-1.2
Asia						
BIS semiannual	10.6	17.5	8.7	12.2	3.7	4.6
U.S. claims data	3.5	13.2	1.6	5.2	-3.1	-10.0
U.K. claims data	1.4	16.5	0.4	3.6	-0.3	-3.0
Europe						
BIS semiannual	-0.3	-0.7	1.6	3.5	-0.5	-1.0
U.S. claims data	-0.8	-7.0	0.9	9.5	-0.4	-3.6
U.K. claims data	-0.2	-2.7	0.2	3.2	-0.2	-2.5
Middle East						
BIS semiannual	3.3	20.3	0.6	3.1	-0.2	-1.5
U.S. claims data	0.2	7.1	0.3	8.9	-0.3	-8.4
U.K. claims data	0.3	23.4	-0.1	-3.5	-0.2	-11.6
Western Hemisphere						
BIS semiannual	18.4	9.4	7.6	3.6	2.7	1.2
U.S. claims data	8.3	11.2	2.1	2.6	2.2	2.5
U.K. claims data	1.6	6.0	1.1	3.8	0.8	2.9

Sources: Bank for International Settlements, The Maturity Distribution of International Bank Lending; Federal Financial Institutions Examination Council, Country Exposure Lending Survey; and Bank of England, Bank of England Quarterly Bulletin.

<sup>1/</sup> This data is not adjusted for the impact of exchange rate movements, and is based on consolidated reports of banks.

Table IX. Capital-Asset Ratios of Banks in Selected Industrial Countries, 1977-84 <sup>1/</sup>

(In percent)

	1977	1978	1979	1980	1981	1982	1983	1984
Canada <sup>2/</sup>	3.40	3.27	3.16	2.98	3.46 <sup>3/</sup>	3.65	4.06	4.43
France <sup>4/</sup>	...	2.29	2.62	2.40	2.20	2.07	1.96	1.94
Germany, Federal Republic of <sup>5/</sup>	3.41	3.32	3.31	3.27	3.26	3.31	3.34	3.38
Japan <sup>6/</sup>	5.28	5.12	5.13	5.28	5.25	5.03	5.22	5.15
Luxembourg <sup>7/</sup>	...	...	...	3.52	3.45	3.50	3.59	3.83
Netherlands <sup>8/</sup>	4.41	3.86	4.29	4.20	4.33	4.60	4.68	4.72
Switzerland <sup>9/</sup>								
Largest 5 banks	6.09	6.20	6.11	6.18	5.78	5.58	5.44	5.29
All banks	5.59	5.68	5.63	5.66	5.36	5.25	5.16	5.05
United Kingdom								
Largest 4 banks <sup>10/</sup>	7.14	7.53	7.18	6.85	6.39	6.28	6.59	6.20
All banks <sup>11/</sup>	5.20	5.20	5.10	5.00	4.47	4.14	4.35	4.47
United States								
Nine money center banks <sup>12/</sup>	4.95	4.73	4.51	4.52	4.62	4.93	5.41	6.22
Next 15 banks <sup>12/</sup>	5.72	5.42	5.37	5.51	5.21	5.34	5.69	6.63
All country reporting banks <sup>12/13/</sup>	5.70	5.53	5.29	5.35	5.38	5.60	5.94	6.53

Sources: Data supplied by official sources; and Fund staff estimates.

<sup>1/</sup> 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.

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

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

<sup>4/</sup> Ratio of capital, reserves, and general provisions, to total assets. Data excludes cooperative and mutual banks (Commission de Controle des Banques, Rapport).

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

<sup>6/</sup> 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, Economic Statistics Monthly).

<sup>7/</sup> Ratio of capital resources (share capital, reserves excluding current-year profits, general provisions, and eligible subordinated loans) to total payables. Eligible subordinated loans are subject to prior authorization by the Institut Monetaire Luxembourgeois and may not exceed 50 percent of a bank's share capital and reserves. Data in the table are compiled on a nonconsolidated basis, and as a weighted average of all banks (excluding foreign bank branches). An arithmetic mean for 1984 would show a ratio of 6.98 percent. Inclusion of current-year profits in banks' capital resources would result in a weighted average of 4.03 percent for 1984. Provisions for country risks, which are excluded from capital resources, have been considerably increased in the last four years, with a tripling of the level of provisions between 1982 and 1984.

<sup>8/</sup> 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).

<sup>9/</sup> Ratio of capital plus reserves to total assets (Swiss National Bank, Monthly Report).

<sup>10/</sup> Ratio of share capital and reserves, plus minority interests and loan capital, to total assets (Bank of England).

<sup>11/</sup> Ratio of capital and other funds (sterling and other currency liabilities) to total assets (Bank of England). Note that these figures include U.K. branches of foreign banks, which normally have little capital in the United Kingdom.

<sup>12/</sup> Ratio of total capital includes equity, subordinated debentures, and reserves for loan losses, to total assets.

<sup>13/</sup> Reporting banks are all banks which report their country exposure for publication in the Country Exposure Lending Survey, Federal Financial Institutions Examination Council.