Private Market Financing for Developing Countries

By a Staff Team from the Exchange and
Trade Relations Department

DECEMBER 1991

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INTERNATIONAL MONETARY FUND
Washington, DC
DECEMBER 1991

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December 1991

ISBN 1-55775-195-1
ISSN 0258-7440

Price: US\$20.00
(US\$12.00 to full-time faculty members and
students at universities and colleges)

Please send orders to:
International Monetary Fund, Publication Services
700 19th Street, N.W., Washington, D.C. 20431, U.S.A.
Tel.: (202) 623-7430 Telefax: (202) 623-7201

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The following symbols have been used throughout this paper:

- ... to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 1991–92 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1991/92) to indicate a crop or fiscal (financial) year.

“Billion” means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term “country,” as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice. The term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

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Preface

This study was prepared in the Exchange and Trade Relations Department of the International Monetary Fund, under the direction of Alessandro Leipold, Chief of the Debt and Program Financing Issues Division. Its authors are Mohamed A. El-Erian, Deputy Chief of the Debt and Program Financing Issues Division, and Ajai Chopra, John Clark, and Paul Mylonas, economists in the division. The study updates information and analyses on private market financing for developing countries contained in *International Capital Markets: Developments and Prospects*, World Economic and Financial Surveys (Washington: International Monetary Fund, May 1991). The study was completed in September 1991 and reflects developments to that time.

The work benefited from comments by staff in other departments of the Fund and by members of the Executive Board. Opinions expressed, however, are those of the authors and do not necessarily represent the views of the Fund or its Executive Directors. Staff of the Statistics Department, particularly Richard Stillson and Dennis Jones, developed and compiled data for the study based on the Fund's international banking statistics. Louis Pauly prepared the text for publication. The authors are also grateful to Anne Jansen for excellent research assistance, and to Delrene Alvis and Ana Knowles for their valuable word processing services. David M. Cheney, of the External Relations Department, gave the manuscript a final edit and efficiently coordinated production.

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Introduction and Overview

This publication presents a survey by Fund staff of recent trends in private market financing for developing countries.¹ In addition to summarizing recent developments in capital flows to developing countries through banking and securities markets, it analyzes three issues of particular interest in the debt and financing outlook for developing countries. These are the restoration of access to voluntary market financing by some developing countries; the support that can be provided to this process by the repatriation of flight capital; and the status of the commercial bank debt of low-income countries.

The onset of debt-servicing problems in the early 1980s was associated with a virtual drying up of spontaneous (or voluntary) financing to most developing countries. Although some countries—particularly in Asia, Eastern Europe, and North Africa—succeeded in maintaining normal market relations owing largely to the pursuit of sound economic and financial policies, most developing countries were limited to “concerted” financing in the form of principal rescheduling and interest refinancing through “new money” packages. This type of financing was broadly effective in meeting the immediate cash flow requirements of several developing countries, and in providing commercial banks with time to strengthen their balance sheets. It required, however, protracted negotiations and was associated with a further increase in developing country debt, with potentially adverse implications for private investment and the restoration of external viability.

The underlying structure of market financing for several developing countries has undergone significant change in the recent past. The change has been prompted by a recognition of the adverse impact of continued uncertainty about debt refinancing terms and of a growing debt stock on countries’ development prospects, and by a concurrent reduction in banks’ financial vulnerability arising from their developing country portfolios. Chapter II, which also reviews developments in the magnitude and terms of spontaneous bank financing to developing countries,

documents that the importance of principal rescheduling and concerted new money loans has declined in favor of increased emphasis on comprehensive debt relief through market-based debt- and debt-service-reduction operations. These operations played a central role in a number of comprehensive bank financing packages, such as those for Mexico and Venezuela. They have also helped expand and deepen the secondary market for developing country bank claims in terms of volume, size of investor base, and product range.

Available evidence—albeit limited to a small group of countries—suggests that, when implemented in the context of a sustained medium-term economic reform program, the comprehensive debt relief operations that have taken place have significantly improved perceptions of country transfer and credit risks. This has been reflected in favorable movements in a range of financial indicators, including lower domestic real interest rates, narrower secondary market discounts on external bank claims, and declining yields on foreign bond issues. Such movements have been associated with large private capital inflows through foreign bond and equity issues, foreign direct investments, and the repatriation of flight capital. Despite progress in some developing countries, however, several others—particularly in the low-income group—continue to face formidable obstacles in establishing access to private sources of financing and in normalizing financial relations with their commercial bank creditors.

The restoration of access to voluntary market financing is discussed in Chapter III. Following an overview of the process of market re-entry, the chapter analyzes the main instruments and techniques of re-entry, and their impact on the availability and terms of external financing for the group of developing countries concerned. The analysis highlights the sharp improvements these countries have experienced in both the volume and terms of financing received, as well as the rapidity with which market sentiments can change. While certain re-entry techniques can extend the investor base and improve financing terms, the analysis shows that in an ultimately successful debt management strategy, these techniques are likely to play a marginal role, as has been the case for countries that have successfully retained spontaneous market access.

¹ It updates previous surveys contained in the annual editions of *International Capital Markets: Developments and Prospects*, also published in the IMF’s World Economic and Financial Surveys series.

Chapter IV examines some of the measures that countries have used to encourage the repatriation of flight capital. The analysis focuses on the extent to which capital repatriation may be influenced by such specific actions as amnesties, capital account liberalization, the availability of foreign-currency-denominated instruments, and debt conversion schemes. The review indicates that these actions have in some cases facilitated the return of flight capital, but that they cannot substitute for sound economic and financial policies.

Chapter V discusses the status of the commercial bank debt of low-income developing countries, against the background of debt relief initiatives undertaken or being considered by official bilateral

creditors in support of these countries. While commercial bank debt accounts for a relatively small portion of the total external indebtedness of these countries, it often represents a sizable share of their contractual debt-servicing obligations, given its non-concessional terms. Despite this, and notwithstanding considerable diversity among individual low-income countries, only a very small number of such countries have completed comprehensive restructuring agreements with their bank creditors. The chapter reviews the current financial relations of these countries, including the extent to which their external indebtedness has been affected by changes in the underlying structure of international financing.

Recent Developments in Private Market Financing for Developing Countries

Since the onset of debt-servicing problems in the early 1980s, *private market claims* (external bank loans and bonds) on developing countries (Table 1) have virtually stagnated. After increasing

somewhat in 1989 (by \$13 billion), total claims on all developing countries (excluding offshore centers) rose by only \$5 billion in 1990. The bulk of the movement was accounted for by *cross-border bank*

Table 1. International Lending, 1984–First Quarter 1991
(In billions of U.S. dollars)

	1984	1985	1986	1987	1988	1989	1990	First Quarter 1991
International lending through banks and bond markets								
Total ^{1,2}								
IMF-based	245	355	626	849	631	937	785	78
Bond issues (net) ^{3,4}	62	77	87	51	77	97	43	26
Change in bank claims ^{1,2}								
IMF-based	182	278	539	798	554	840	742	52
Growth rate (in percent)	7	10	17	20	11	15	12	...
International lending to industrial countries								
Total								
IMF-based	182	272	491	587	540	653	615	60
Bond issues (net) ^{3,4}	51	63	77	44	67	81	35	21
Change in bank claims ¹								
IMF-based	131	209	414	543	473	572	580	39
Growth rate (in percent)	8	13	21	21	14	15	13	...
International lending to developing countries⁵								
Total								
IMF-based	14	8	4	23	-3	13	5	13
Bond issues (net) ^{3,4}	3	4	2	1	2	2	1	—
Change in bank claims ¹								
IMF-based	11	4	2	22	-5	11	4	13
Growth rate (in percent)	2	1	—	4	-1	2	1	...
Memorandum items								
Total gross bond issues	110	168	227	181	227	256	229	80
Of which:								
Industrial countries	91	138	201	156	198	224	189	65
Developing countries ⁵	4	8	4	4	6	5	5	2

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

¹IMF-based data on cross-border changes in bank claims are derived from the IMF'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. The data derive cross-border interbank positions from the regular money and banking data supplied by member countries.

²Total changes in bank claims include offshore centers, international organizations, and other non-IMF members, as well as industrial and developing countries.

³Estimates based on BIS and OECD data.

⁴Net of redemption and repurchases, and of double counting, that is, bonds taken up by the reporting banks to the extent that they are included in the banking statistics as claims on nonresidents and bonds issued by the reporting banks mainly for underpinning their international lending activity.

⁵Excludes the seven offshore centers (The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore).

claims. The increase in such claims fell from almost \$11 billion in 1989 to \$3½ billion in 1990 (a growth rate of some 1 percent), as debt reduction operations by a number of developing countries largely offset both the accumulation of interest arrears by several others and continued voluntary lending to developing countries in Asia. A sharp slowdown in debt reduction activity in early 1991—combined with continued interest arrears and further strong lending to Asian countries—led to a relatively pronounced increase in bank claims on developing countries in the first quarter of the year; quarterly data often show sharp swings, however, and the underlying trend continues to be one of extreme caution in bank lending to developing countries.

Bond issues by developing countries, as reported by the Organization for Economic Cooperation and Development (OECD), amounted to \$1 billion in 1990. Market-based data with more comprehensive coverage (including fuller reporting of private placements) point, however, to a higher figure for total bond issuance—some \$3 billion—largely because of placements by Mexican borrowers (see Chapter III). Preliminary market-based data point to a further expansion of developing country bond placements during 1991. Over the last two years, these developments were accompanied by further changes in the underlying structure of developing country financing. These included a sharp reduction in the importance of principal rescheduling and concerted new money packages, more widespread use of market-based debt- and debt-service reduction operations, and the restoration of access to voluntary capital market flows by some countries with recent debt-servicing problems.

Bank Claims on Developing Countries²

International banking activity in developing countries during 1990 was dominated by a \$28 billion fall in claims on the 15 heavily indebted countries (Table 2 and Chart 1). The bulk of this decline was accounted for by Mexico and Venezuela, which finalized comprehensive restructuring packages incorporating bank debt reduction elements during the year (Table 3). At the same time, the build-up of interest arrears by Argentina was more than offset by the elimination of debt through debt-equity swaps implemented in connection with that coun-

²Based on data compiled for the Fund's international banking statistics. Reported changes in bank claims reflect, in some cases, adjustments to banks' balance sheets that are not directly related to flows. These include debt write-offs and conversions, capitalization of accumulated interest arrears, and exercises of official guarantees.

Chart 1. Change in International Bank Claims, 1983-First Quarter 1991¹
(In billions of U.S. dollars)

try's privatization program. A further reduction in bank claims resulted from ongoing debt conversion programs in Chile, the Philippines, and Yugoslavia (totaling \$2 billion); in contrast, bank claims on Brazil rose by \$3 billion as interest arrears continued to accumulate.

Most geographical regions—except Asia and, to a lesser extent, Europe—recorded a decline in bank claims on developing countries during 1990 (Tables 4, A1, and A2). Claims on *Western Hemisphere* developing countries fell by \$21 billion; in the *Middle East*, uncertainties associated with the military conflict contributed to a \$1½ billion decline in claims (compared with average annual increases of almost \$5 billion in the previous two years); and *African countries'* indebtedness to commercial banks fell by \$600 million, the fifth consecutive annual decline. By contrast, bank claims on developing countries in

Table 2. Change in Cross-Border Bank Claims and Liabilities, 1985–First Quarter 1991¹
(In billions of U.S. dollars)

	1985	1986	1987	1988	1989	1990	First Quarter 1991
Total change in claims²	278	539	798	554	840	742	52
Industrial countries	209	414	543	473	572	580	39
Of which:							
United States	55	93	106	108	93	65	-10
Japan	40	154	223	203	172	101	-53
Developing countries ³	4	2	22	-5	11	4	13
Offshore centers ⁴	28	86	164	85	181	128	-22
Other transactors ⁵	10	-7	17	7	34	-11	—
Unallocated (nonbanks) ⁶	26	43	51	-7	43	41	21
<i>Memorandum items</i>							
Capital importing developing countries ^{3,7}	5	3	21	-9	6	5	11
Non-oil developing countries ^{3,8}	3	3	22	-10	7	7	15
Fifteen heavily indebted countries	-6	-1	2	-15	-3	-28	1
Total change in liabilities⁹	301	584	760	540	812	645	-48
Industrial countries	194	424	492	377	571	499	14
Of which:							
United States	22	82	57	84	67	24	-13
Japan	42	114	146	148	138	55	-41
Developing countries ³	23	-7	48	37	74	72	-7
Offshore centers ⁴	46	130	144	100	148	43	-36
Other transactors ⁵	8	-6	18	6	13	-19	-2
Unallocated (nonbanks) ⁶	30	42	58	21	-6	50	-17
<i>Memorandum items</i>							
Capital importing developing countries ^{3,7}	21	8	36	25	59	70	-3
Non-oil developing countries ^{3,8}	16	16	36	25	53	60	-5
Fifteen heavily indebted countries	5	-4	10	5	17	21	-1
Change in total net claims¹⁰	-23	-45	38	14	28	96	100
Industrial countries	15	-11	51	96	1	81	25
Of which:							
United States	33	12	49	24	26	41	3
Japan	-2	40	77	55	34	46	-12
Developing countries ³	-19	9	-26	-41	-63	-68	20
Offshore centers ⁴	-17	-44	20	-16	32	85	15
Other transactors ⁵	2	-1	—	2	21	8	2
Unallocated (nonbanks) ⁶	-3	1	-7	-27	37	-9	38
<i>Memorandum items</i>							
Capital importing developing countries ^{3,7}	-16	-5	-15	-34	-53	-65	14
Non-oil developing countries ^{3,8}	-13	-13	-15	-35	-47	-53	20
Fifteen heavily indebted countries	-10	3	-7	-20	-20	-49	2

Sources: International Monetary Fund, *International Financial Statistics (IFS)*; and IMF staff estimates.

¹Data on changes in bank claims and liabilities are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.

²As measured by differences in the outstanding liabilities of borrowing countries, defined as cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower.

³Excluding offshore centers.

⁴The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore.

⁵Transactors included in *IFS* measures for the world, to enhance global symmetry, but excluded from *IFS* measures for "All Countries." The data comprise changes in identified cross-border bank accounts of European developing economies (excluding IMF members) and of international organizations.

⁶The difference between the amount that countries report as their banks' positions with nonresident nonbanks in their monetary statistics and the amounts that banks in major financial centers report as their positions with nonbanks in each country.

⁷All developing countries except the eight Middle Eastern oil exporters (the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) for which external debt statistics are not available or are small in relation to external assets.

⁸All developing countries except the eight Middle Eastern oil exporters (listed in footnote 7), Algeria, Indonesia, Nigeria, and Venezuela.

⁹As measured by differences in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending bank plus international bank deposits of nonbanks by residence of depositor.

¹⁰Difference between changes in bank claims and liabilities.

Table 3. Change in Cross-Border Bank Claims on Developing Countries and Areas, 1985–First Quarter 1991^{1,2}
(In billions of U.S. dollars)

	1985	1986	1987	1988	1989	1990	First Quarter 1991
Developing countries and areas	3.8	2.5	22.0	-4.6	10.9	3.6	13.0
Growth rate (in percent)	1	—	4	-1	2	1	...
Africa	1.0	-1.1	-1.4	-0.6	-1.8	-0.6	-1.5
Of which:							
Algeria	1.9	1.0	-0.4	0.2	-0.8	-1.0	-0.9
Côte d'Ivoire	0.1	0.1	-0.1	-0.1	-0.2	-0.4	-0.4
Morocco	0.1	—	—	-0.3	0.1	-0.1	-0.1
Nigeria	-1.3	0.4	-0.7	-0.5	-0.9	-0.8	—
South Africa	-0.3	-2.1	-0.1	-1.2	-0.9	-0.4	0.8
Asia	6.7	4.9	15.0	3.8	4.4	23.1	9.4
Of which:							
China	4.9	0.7	4.8	7.1	-0.5	7.5	0.7
India	1.7	0.3	2.6	1.0	1.0	-0.5	0.6
Indonesia	—	0.6	0.9	0.8	1.7	7.8	1.7
Korea	2.3	-2.3	-5.6	-1.8	1.2	4.1	2.8
Malaysia	-1.4	-0.5	-1.9	-1.5	-0.3	-0.3	-0.4
Philippines	-0.5	-0.1	0.1	-1.1	-1.5	-1.0	0.3
Taiwan Province of China	—	7.1	13.3	-1.7	0.2	0.7	1.4
Europe	1.3	1.9	1.8	—	-0.1	4.1	3.0
Of which:							
Hungary	2.3	2.0	0.7	0.7	0.2	-1.0	1.4
Poland	-1.4	-0.9	-0.5	-0.7	-0.4	1.0	0.4
Turkey	0.5	1.5	1.5	-0.1	0.2	3.3	1.3
Yugoslavia	0.2	-0.9	-0.9	-0.7	-1.4	-0.9	-0.5
Middle East	-1.9	-2.3	0.7	5.2	4.4	-1.5	-0.3
Of which:							
Egypt	-0.3	-0.1	-0.6	0.8	0.8	0.2	-1.9
Israel	-0.5	-1.2	-0.7	-0.1	-1.3	—	0.2
Western Hemisphere	-3.3	-1.0	6.0	-13.1	4.0	-21.4	2.4
Of which:							
Argentina	0.6	1.3	0.8	0.4	1.8	-1.3	0.6
Brazil	-4.5	—	3.9	-5.5	2.6	3.0	0.8
Chile	0.2	-1.0	-1.4	-1.8	-2.2	-0.1	-0.2
Colombia	—	0.4	-0.5	0.7	-0.2	0.1	-0.1
Ecuador	0.2	0.3	0.2	-0.2	-0.3	-0.6	-0.1
Mexico	-0.8	-0.8	1.3	-6.3	-0.2	-18.5	1.2
Venezuela	0.5	-1.1	-0.3	0.6	0.2	-7.4	-1.0
Memorandum items							
Fifteen heavily indebted countries	-5.5	-1.4	2.4	-14.6	-2.9	-28.0	0.8
Countries experiencing debt-servicing problems	-7.5	-6.4	0.9	-16.5	-4.6	-22.7	0.1
Gross concerted lending disbursements ³	5.4	3.3	5.7	6.0	0.6	1.8	—
Gross bond issues	8.1	4.2	3.7	6.0	4.5	5.1	1.5

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

¹IMF-based data on cross-border lending by banks are derived from the IMF'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. 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.

²Excluding the seven offshore centers (The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore).

³Excluding bridge loans.

Table 4. Change in Cross-Border Bank Claims on and Liabilities to Developing Countries, by Region, 1985–First Quarter 1991
(In billions of U.S. dollars)

	1985	1986	1987	1988	1989	1990	First Quarter 1991
Total change in claims on developing countries²	3.8	2.5	22.0	-4.6	10.9	3.6	13.0
Africa	1.0	-1.1	-1.4	-0.6	-1.8	-0.6	-1.5
Asia	6.7	4.9	15.0	3.8	4.4	23.1	9.4
Europe	1.3	1.9	1.8	—	-0.1	4.1	3.0
Middle East	-1.9	-2.3	0.7	5.2	4.4	-1.5	-0.3
Western Hemisphere	-3.3	-1.0	6.0	-13.1	4.0	-21.4	2.4
Total change in liabilities to developing countries²	22.9	-6.8	47.6	36.8	74.2	72.1	-6.7
Africa	4.0	-0.7	3.6	4.3	8.1	5.7	-1.4
Asia	9.4	10.9	18.2	11.6	26.4	33.8	0.7
Europe	0.8	-0.1	-0.6	5.2	8.4	3.2	-5.3
Middle East	2.4	-15.3	14.2	12.9	18.6	9.3	-2.3
Western Hemisphere	6.4	-1.6	12.2	2.9	12.8	20.1	1.5

Source: International Monetary Fund, *International Financial Statistics (IFS)*.

¹Data on bank claims and liabilities are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.

²Excluding offshore centers.

Europe increased by approximately \$4 billion. This growth reflected, among other things, increased net borrowings by Turkey (over \$3 billion) and the accumulation of interest arrears by Poland (approximately \$1 billion), which more than offset the impact of debt conversions in Yugoslavia and continued bank reluctance to lend to countries in Eastern Europe. Asia accounted for the largest rise in bank claims (\$23 billion). This reflected, in part, larger net lending to Indonesia (\$8 billion), China (\$7½ billion), and Korea (\$4 billion). Claims on the Philippines and India declined by \$1½ billion.

These changes in bank claims were accompanied by a further evolution in the *structure of new gross lending* to developing countries. This was most apparent in the data reported by banks on their long-term loan commitments. While the magnitude of total international bank credit commitments to developing countries in 1989 and 1990 was broadly similar—at about \$19 billion (Table 5)—the share of concerted new money loans fell further (from a peak of 33 percent in 1987 to 7 percent in 1990). This trend continued in the first quarter of 1991, with spontaneous credit accounting for all new long-term commitments by banks (Tables A3 and A4).

In terms of overall *bank balance sheets*, available data point to a further fall in exposure to developing countries.³ Banks reporting to the Bank for Interna-

tional Settlements (BIS) experienced a 5 percent reduction in total nominal exposure on developing countries between the end of December 1989 and the end of June 1990, the latest period for which comprehensive data are available (Table A5). In the case of U.S. banks, reported claims fell by 13 percent in 1990 (Table A6). This was reflected in a further decline in the importance of developing country claims relative to other balance sheet items. Specifically, the ratio of capital to claims on developing countries continued to increase, reaching 232 percent at the end of 1990—almost twice the end-1987 level (Table A7 and Chart 2). Moreover, the share of external claims on developing countries in total bank assets declined further to an estimated 3.7 percent.

Terms on Long-Term Bank Credit Commitments

Average *spreads* on all bank loan commitments to developing countries (spontaneous and concerted facilities) have declined substantially since 1983, reaching 68 basis points over LIBOR in 1989 and falling to 60 basis points in 1990 (Table A8 and Chart 3). This tendency was reversed in the first four months of 1991 as a result of the absence of concerted new money commitments (which have carried relatively lower spreads), combined with higher spreads on spontaneous credits to several countries that have not restructured their debt and a change in

³After taking into account claims held by banks but guaranteed by other agencies.

Table 5. Long-Term Bank Credit Commitments, 1984–First Quarter 1991
(In billions of U.S. dollars)

	1984	1985	1986	1987	1988	1989	1990	First Quarter	
								1990	1991
<i>(Long-term external credit commitments)</i>									
Industrial countries	32.0	32.4	40.5	54.3	95.7	97.6	90.2	18.2	11.6
Seven major	18.2	21.2	24.3	41.3	78.5	75.5	66.7	10.0	6.9
Other	13.8	11.2	16.2	13.0	17.2	22.1	23.5	8.2	4.7
Developing countries ¹	29.2	16.0	22.8	16.4	17.5	18.2	17.8	3.4	2.6
Capital importing ¹	28.1	14.4	21.4	16.3	17.2	16.8	17.8	3.4	2.6
Africa	0.6	1.5	1.8	0.7	0.6	0.5	0.6	0.1	—
Asia	9.4	7.5	8.2	8.5	7.8	8.9	10.7	1.9	2.6
Europe	1.6	2.8	2.8	4.1	2.2	2.7	1.7	—	—
Middle East	0.4	0.3	0.1	0.3	0.2	0.7	0.1	—	—
Western Hemisphere	16.1	2.4	8.5	2.7	6.4	4.1	4.8	1.4	—
Offshore banking centers	0.9	0.4	0.7	0.3	0.4	2.4	3.0	0.2	0.7
Other countries n.i.e.	1.9	3.5	2.1	1.5	2.5	1.5	3.0	—	—
International organizations and unallocated	3.5	4.0	5.2	11.7	10.0	3.3	7.3	0.5	0.9
Total	67.5	56.3	71.3	84.3	126.1	123.0	121.3	22.3	15.8
<i>(Other international long-term bank facilities)</i>									
Industrial countries	48.1	44.5	25.8	27.6	14.8	7.0	4.6	1.3	1.0
Seven major	33.9	33.6	14.4	20.0	11.3	3.7	0.6	0.1	—
Other	14.2	10.9	11.4	7.6	3.4	3.3	4.0	1.2	1.0
Developing countries ¹	6.2	2.1	3.1	1.3	1.4	0.7	1.4	0.3	0.2
Capital importing ¹	5.9	1.8	3.1	1.3	1.4	0.7	1.4	0.3	0.2
Africa	0.2	—	—	—	0.2	—	0.2	0.1	—
Asia	1.1	1.3	2.0	0.9	0.8	0.4	1.2	0.2	0.2
Europe	0.4	0.3	0.9	0.3	0.4	0.1	—	—	—
Middle East	—	—	—	—	—	—	—	—	—
Western Hemisphere	4.3	0.1	0.1	—	—	0.2	—	—	—
Offshore banking centers	0.4	0.2	0.2	0.3	0.2	0.3	0.3	—	0.1
Other countries n.i.e.	—	—	0.5	0.2	0.2	0.1	—	—	—
International organizations and unallocated	0.6	2.1	0.3	1.7	—	0.2	—	—	—
Total	55.3	48.9	30.0	31.2	16.6	8.4	6.3	1.6	1.3
<i>(Total international commitments)</i>									
Industrial countries	80.1	76.9	66.3	81.9	110.5	104.6	94.8	19.5	12.6
Seven major	52.1	54.8	38.7	61.3	89.8	79.2	67.3	10.1	6.9
Other	28.0	22.1	27.6	20.6	20.7	25.4	27.5	9.4	5.7
Developing countries ¹	35.4	18.1	25.9	17.7	18.9	18.9	19.2	3.7	2.8
Capital importing ¹	34.0	16.2	24.5	17.6	18.6	17.5	19.2	3.7	2.8
Africa	0.8	1.5	1.8	0.7	0.8	0.5	0.8	0.2	—
Asia	10.5	8.8	10.2	9.4	8.6	9.3	11.9	2.1	2.8
Europe	2.0	3.1	3.7	4.4	2.3	2.8	1.7	—	—
Middle East	0.4	0.3	0.1	0.3	0.2	0.7	0.1	—	—
Western Hemisphere	20.4	2.4	8.6	2.7	6.4	4.3	4.8	1.4	—
Offshore banking centers	1.4	0.6	0.9	0.6	0.6	2.7	3.3	0.2	0.8
Other countries n.i.e.	1.9	3.5	2.6	1.7	2.7	1.6	3.0	—	—
International organizations and unallocated	4.1	6.2	5.5	13.4	10.0	3.5	7.3	0.5	0.9
Total	122.7	105.1	101.3	115.5	142.7	131.4	127.6	23.9	17.1

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

Note: n.i.e. = not included elsewhere.

¹Excludes offshore banking centers.

the composition of borrowers. The spreads on both *concerted new money commitments* and *rescheduled principal obligations* fell substantially in the mid-1980s and have since then remained in a range between 80 and 95 basis points (Table A9). Average

spreads on *spontaneous commitments* amounted to 60 basis points in 1990, broadly the level that prevailed in the mid-1980s. Annual fluctuations in spreads have tended to reflect, to a large extent, changes in the composition of borrowers, as well as

Chart 2. Selected Balance Sheet Data for U.S. Banks, 1977-1990
(In percent)

in the structure of loans (particularly the degree of securitization). Preliminary indications are that several developing countries, including those that have regularly serviced their debts and not resorted to commercial bank debt restructurings, experienced an increase in spreads early in 1991 (Table A10).

The average overall *maturity* of long-term bank credit commitments to developing countries rose from 7.3 years in 1989 to 8.6 years in 1990. A further increase to 8.8 years was recorded for the first four months of 1991. These developments were the result of changes in maturity terms on spontaneous lending; the terms on concerted financing remained broadly unchanged, with the largest portion of rescheduled principal carrying a 15-year term.

Bank Debt Restructurings

Apart from the agreements with Niger and Uruguay,⁴ no comprehensive debt restructuring agreements were finalized in the first three quarters of

⁴Described in IMF (1991).

1991 (Tables 6 and A11–A15 provide details on commercial bank debt restructuring agreements). Two preliminary agreements, however, were concluded with Nigeria⁵ and the Philippines.⁶ Several other developing countries are in the process of negotiating packages with their commercial bank creditors. These include, but are not limited to, Argentina, Bolivia, Brazil, Bulgaria, Cameroon, Côte d'Ivoire, the Dominican Republic, Ecuador, Gabon, Guyana, Honduras, Jordan, Mozambique, and Poland. In some of these countries—particularly the low-income and smaller middle-income economies—progress has been relatively slow in reaching understandings on restructuring terms.

While the group of countries negotiating bank packages is relatively heterogeneous in terms of commercial bank relations (even if an income-based focus is adopted, as illustrated in Chapter V), three main trends may be highlighted:

(1) Banks appear to be insisting more firmly on addressing interest arrears problems, particularly of middle-income developing countries, prior to negotiation on comprehensive debt restructuring. In the case of *Brazil*, this was reflected in an agreement reached in May 1991, which included a partial payment of accumulated interest arrears and conversion of the remaining portion into bonds. The agreement provides for cash payment of 25 percent of the arrears accumulated by the end of 1990, with a cap of \$2 billion on such cash payments. A portion of the cash payment was made up front at the time of agreement in principle on the term sheet. The remaining cash payment is to be made through

⁵In March 1991, Nigeria reached preliminary agreement with its bank creditors on a financing package incorporating debt and debt-service reduction through a cash buy-back and a collateralized bond exchange. Finalization of this agreement had been delayed by differences over the form of principal collateral for the bond exchange. These differences were resolved in late September. The agreement includes three financing options affecting \$5.8 billion of eligible debt: (1) a buy-back at a price to be announced by the authorities (subsequently set at 40 cents); (2) an exchange of debt for registered bonds carrying a fixed interest rate of 5½ percent for the first three years and 6¼ percent thereafter, repayable in one installment in November 2020, with fully collateralized principal and a 12-month interest guarantee; and (3) a new money option involving the exchange of existing debt for bonds carrying an interest rate of LIBOR plus 13/16 percent and a 20-year maturity (including 10-years grace).

⁶On August 30, 1991, the Philippines reached a preliminary agreement with its bank creditors on a financing package incorporating new money facilities and two reduced interest par bond conversions. The “temporary interest reduction bonds” would carry a 15-year maturity (including a 7-year grace period) and interest rates rising from 4 percent in the first year to 6 percent in the sixth year, and LIBOR plus 13/16 percent thereafter. One year's interest would be collateralized during the first five years of the bonds. The second bond exchange involves 25-year instruments with a bullet maturity and carrying interest rates that increase from 5 percent in the first year to 6.5 percent in the sixth year, and remain at that level until maturity. Principal would be fully collateralized along with a rolling one-year interest collateral.

Chart 3. Terms on International Bank Lending Commitments, 1973-1990

monthly installments, which began in July 1991, or in full at the time of agreement on the term sheet for the restructuring of medium-term debt. Agreement on this second term sheet will also allow for the conversion of the remaining portion of the interest arrears into 10-year bonds (with 3 years grace).

(2) There are some indications of a lessening of banks' reluctance to agree to high-discount debt reduction operations for low-income countries. While such countries account for a small portion of bank portfolios, banks had earlier appeared to be concerned that such agreements would create precedents for other countries. The *Niger* debt reduction package, completed earlier this year, is expected to be followed by one for *Mozambique* centered on a buy-back of the bulk of eligible debt. As in the case of *Niger*, debt reduction operations are to be financed partially through the Debt Reduction Facil-

ity of the World Bank's International Development Association (IDA) and grants from bilateral donors.

(3) The ability of some countries to negotiate comprehensive "one-shot" restructuring packages continues to be hindered by high and mounting interest arrears, low international reserves, and limited access to funding for debt- and debt-service reduction operations. In some of these cases, the situation has been complicated by records of weak policy implementation. Against this background, a number of countries have attempted to adopt a phased approach, with the initial focus on banks' implicit or explicit acquiescence to interest arrears. This has been combined, in some cases, with partial cash payments and a degree of debt reduction through debt conversion schemes. Country experiences in this area have varied; they include the negotiation by *Bulgaria* of quarterly payments deferral agreements, a "goodwill payment" (of \$95 million) by *Poland* on accumulated interest arrears, and debt-equity operations by *Argentina* in the context of a privatization program, accompanied by partial interest payments.

Recent adaptations in procedures of the Inter-American Development Bank (IDB) have expanded the sources of multilateral financing available to support bank debt- and debt-service reduction operations. New guidelines specify that, over a three-year period ending December 31, 1993: (1) up to 25 percent of the IDB's fast-disbursing sector lending program to a member country may be set aside to finance debt reduction, or, when the IDB is concentrating its support on project lending, about 10 percent of the bank's overall lending program to that country may be set aside to finance debt reduction; and (2) funds of up to 15 percent of the IDB's overall lending program to a country may be used to provide interest support. In order to qualify for financing under this facility, a borrower must have an adequate medium-term economic policy framework or structural adjustment program. It must also have a viable medium-term external financing plan, including debt and debt-service reduction, that represents an efficient use of IDB resources and offers reasonable prospects that the reduction will enhance the country's growth and development outlook.

Debt Conversion Programs

The estimated face value of commercial bank debt converted under the main official conversion schemes (excluding the discount and par bond exchanges undertaken in the context of comprehensive bank packages) rose from \$7.2 billion in 1989 to \$10.5 billion in 1990 (Table 7). The increase reflected \$7 billion retired by *Argentina*, in connection with

Table 6. Chronology of Bank Debt Restructurings and Bank Financial Packages, 1984–August 1991

Agreement classified by month of signature¹

1984

Brazil: January²
Chile: January, June, and November
Sierra Leone: January
Guyana: January, July (deferment)
Nicaragua: February (deferment)
Peru: February³
Senegal: February
Niger: March
Mexico: April (new financing only)
Sudan: April (modification of 1981 agreement)
Yugoslavia: May
Jamaica: June
Zaire: June (deferment)
Poland: July²
Madagascar: October
Liberia: December³
Zambia: December³

1985

Côte d'Ivoire: March²
Mexico: March, August
Costa Rica: May²
Senegal: May
Philippines: May²
Zaire: May (deferment)
Guyana: July (deferment)
Argentina: August²
Jamaica: September
Panama: October²
Sudan: October (modification of 1981 agreement)
Chile: November²
Colombia: December⁴
Ecuador: December²
Madagascar: December (modification of 1984 agreement)
Yugoslavia: December

1986

Dominican Republic: February
Morocco: February
Venezuela: February
South Africa: March (standstill)
Niger: April
Zaire: May (deferment)
Brazil: July
Uruguay: July
Poland: September²
Romania: September
Congo: October^{2,3}
Côte d'Ivoire: December

1987

South Africa: March
Mexico: March (public sector debt)²,
August (private sector debt)
Jamaica: May

Mozambique: May³
Zaire: May (deferment)
Chile: June
Honduras: June³
Madagascar: June (modification of 1985 agreement)
Argentina: August²
Morocco: September
Romania: September (modification of 1986 agreement)
Bolivia: November (amendment to 1981 agreement)
Ecuador: November (modification of 1985 agreement)^{2,3}
Nigeria: November^{2,3}
Venezuela: November
Gabon: December⁵
Philippines: December

1988

Gambia, The: February
Chile: August (amendment to 1987 agreement)³
Uruguay: March (modification of 1986 agreement)
Côte d'Ivoire: April^{2,3}
Guinea: April
Togo: May
Poland: July
Yugoslavia: September²
Malawi: October
Brazil: November²

1989

Nigeria: April
Zaire: June (deferment)
Poland: June (deferment)³
Honduras: August³
Jordan: September^{2,3}
Niger: October³
Poland: July (deferment)³
Trinidad and Tobago: December

1990

Philippines: February
Mexico: February²
Madagascar: April
Bulgaria: April (standstill)³
Costa Rica: May
Jamaica: June
Morocco: September
Senegal: September
Colombia: December⁴
Chile: December (amendments to previous agreements)
Venezuela: December

1991

Niger: January
Uruguay: January
Nigeria: March³
Brazil: May⁶
Philippines: August³

Under negotiation

Argentina	Brazil	Cameroon	Dominican Republic	Gabon	Honduras	Mozambique
Bolivia	Bulgaria	Côte d'Ivoire	Ecuador	Guyana	Jordan	Poland

Sources: Restructuring agreements.

Note: "Restructuring" covers rescheduling and also certain refinancing operations.

¹Agreement either signed or reached in principle (if signature has not yet taken place); not all signed agreements have become effective.

²The restructuring agreement includes new financing.

³Agreed in principle or tentative agreement with banks' Steering Committees.

⁴Refinancing agreement.

⁵A separate club deal for new financing was arranged at the same time.

⁶Preliminary agreement on interest arrears.

Table 7. Debt Conversions, 1986–First Quarter 1991¹

(In millions of U.S. dollars)

	1986	1987	1988	1989	First Quarter	
					1990	1991
Argentina	—	—	764	1,180	7,038	—
Brazil	176	336	2,095	942	483	52
Chile	974	1,997	2,927	2,767	1,096	161
Costa Rica	7	89	44	124	17	...
Ecuador	—	127	261	31	42	...
Honduras	—	9	14	47	32	...
Jamaica	—	4	5	16	23	—
Mexico	413	1,680	1,056 ²	532	435	...
Nigeria	—	—	70	304	217	30
Philippines	81	451	931	630	378	118 ³
Uruguay	—	—	104	53	—	—
Venezuela	—	45	49	544	716	—
Total	1,651	4,738	8,320	7,170	10,477	...

Sources: Central Bank of Argentina; Central Bank of Brazil; Central Bank of Chile; Mexico, Ministry of Finance; Central Bank of Philippines; Bank of Jamaica; Central Bank of Venezuela; and IMF staff estimates.

¹Face value of debt converted under official ongoing schemes. Figures do not include large-scale, one-off cash buy-backs and debt exchanges.

²Does not include an estimated \$6–\$8 billion related to prepayment at a discount of private-sector debt since August 1987 signing of an agreement to restructure foreign exchange risk coverage trust fund debt.

³As of April 30, 1991.

the privatization of Entel (the telephone company) and Aerolineas Argentinas (the national airline), which offset reduced activities in several other countries. As in previous years, *Chile* continued to account for an important share of the conversions, although at a declining rate consistent with a reduction in available bank claims and an increase in secondary market prices. Partial data for the first quarter of 1991 point to a slowdown in the rate of debt conversions, most noticeably in Argentina and Chile, but an increase was recorded for the *Philippines* as a result of more frequent auctions under its debt-equity program. Finally, there are growing indications of a forthcoming increase in debt conversion activities, mainly as a result of privatization-linked debt-equity swaps, but also owing to various other debt conversion programs (for example, debt-for-nature, debt-for-education, and so on).

Developments in Selected Countries

In April 1991, the Chilean authorities relaxed the repatriation regulations governing the sale of investments acquired through debt conversion programs covered by Chapter XIX of the country's foreign exchange regulations (Table A16).⁷ Specifically, the

new rules allow investors to repatriate capital after three years—instead of the previous ten years—thereby aligning the minimum holding period with that required for foreign direct investment.⁸ This change, which effectively increases the liquidity of investments obtained through the Chapter XIX debt conversion route, offsets to some extent the impact of a growing scarcity of Chilean debt paper and a narrowing of secondary market discounts.

Further auctions have been held under the debt conversion program of the Philippines. The second-quarter auction, held in April 1991, retired \$75 million in claims (face value), after \$138 million was tendered. Successful bids carried discounts ranging from 52 percent to 53.75 percent. In the previous auction, held in February 1991, the authorities reported tenders of \$420 million, with successful bids having discounts of 51.75 percent to 54.75 percent. A third auction was held in August 1991.

In Mexico, it appears that only a small portion of the “conversion rights” awarded in the two auctions held last year have been exercised to date. These auctions affected \$3.5 billion (original face value) of bank claims and resulted in \$1.7 billion of swap

XVIII, which allows exchanges on the basis of the repatriation of foreign assets of Chilean residents and foreign exchange acquired on the parallel market.

⁸Investors will be required, however, to pay compensation to the central bank on a sliding scale linked to the time the investment is held and the discount obtained through the debt conversion.

⁷Official debt-equity conversions with remittance rights are covered by Chapter XIX, which allows investors to convert debt into domestic currency to finance equity purchases. Other conversions without remittance rights are carried out under Chapter

rights being awarded at an average discount of 52 percent. Successful bidders were required to deposit claims equivalent to 5 percent of the rights acquired, with the remainder to be paid within 18 months. Other recent debt conversion activities include an April 1991 \$3 million "debt-for-scholarship" swap signed with Harvard University, and a debt-for-nature program of up to \$300 million annually to be partially financed by the Inter-American Development Bank.

In Venezuela, the authorities have approved aluminum projects of \$1.2 billion to be funded up to 30 percent through debt conversion operations. This follows the December 1990 approval of nine petrochemical projects involving a total investment of \$2.6 billion, of which \$0.6 billion may be funded through debt swaps. Major debt conversion programs currently in the pipeline include debt-for-share swaps in Brazilian companies being privatized and a new debt-for-equity scheme in Uruguay.

Other Developments

The recent period has also witnessed a growth in debt conversions initiated by international agencies and relief organizations, a development covered more fully in Chapter V in the context of low-income countries. Although still relatively small in magnitude, such conversions are becoming more widespread. Agencies typically obtain secondary market bank claims and convert them into local currency to finance a particular activity. In the case of UNICEF, for example, debt is obtained from banks and retired on the condition that the beneficiary debtor government contributes an agreed amount in local currency (involving a discount from the face value of the debt) to be used for a UNICEF development program for children. UNICEF acquires the debt through direct donations by banks or through purchases financed by grants from industrial countries.

A broadly similar mechanism is also being used by environmental agencies in the context of debt-for-nature swaps. Earlier in the year, for example, the World Wildlife Fund and Conservation International obtained commitments for up to \$6 million of debt (face value) from a U.S. bank to fund conservation activities in Mexico and Ecuador. Similar operations have taken place in several other countries including Bolivia, Costa Rica, the Dominican Republic, Madagascar, Nigeria, Panama, the Philippines, Paraguay, Sudan, and Zambia. A comparable scheme, although involving the use of official bilateral debt, is being formulated in Poland.⁹ The impact of these operations varies according to program

⁹This would involve converting up to 10 percent of outstanding official bilateral debt to Paris Club creditors into local currency proceeds. The proceeds would be placed in a \$3 billion fund to finance environmental projects.

designs and implementation procedures. The net benefits depend on the cost-effectiveness of the debt conversions, total nature-related budgetary spending, and consistency with overall macroeconomic policies.

Secondary Market for Bank Claims

Price Developments

During the second half of 1990 and early 1991, secondary market prices for bank claims on developing countries were strongly influenced by a number of market shocks that affected the financial position of claim holders. These included Iraq's invasion of Kuwait in August 1990 and subsequent "distress sales" by some Middle Eastern banks of developing country claims; attempts by traders to reduce trading portfolios in anticipation of further sales by some banks as the Middle East crisis deepened; and rationalization by some Japanese banks of loan portfolios in light of tightening capital-asset constraints and falling equity prices in Japan.

In contrast, since early 1991, the debt situation has not been marked by any major changes in the financial conditions of the main institutional participants in the secondary market. Accordingly, price developments have tended to reflect primarily changing circumstances in debtor countries. Most evident is the sharp narrowing in discounts on bank claims on countries that have regained access to voluntary capital market financing.

Discounts on claims on Chile, Mexico, and Venezuela have narrowed substantially during 1991, accounting for a significant improvement in average discounts for the group of 15 heavily indebted countries (Chart 4). The average price for bank claims on these 15 countries has increased by some 34 percent since the start of the year, with the end-September level being the highest since July 1987. Chilean claims are now trading at a price of about 90 cents on the dollar, in line with that observed for a number of developing countries that have avoided debt-servicing problems. The average discount on Mexican claims ("stripped," so as to reflect the Mexican country risk element)¹⁰ has narrowed by about

¹⁰The reported market prices for bank claims on Mexico and Venezuela have been adjusted, or stripped, to exclude the collateralization of principal and interest on the discount and the reduced interest bonds acquired in exchange for the old debt. Movements in such stripped prices thus reflect changes in the underlying market perceptions of country risk. The increases in these measures of country risk are more pronounced than for the composite instruments, since the latter incorporate the relatively stable value of the principal and interest collaterals. With regard to absolute price levels, the stripped Mexican and Venezuelan prices have been rebased to ensure, among other things, continuity with price developments for the (totally uncollateralized) bank debt instruments that preceded U.S. Treasury Secretary Nicholas Brady's debt initiative.

Chart 4. Secondary Market Prices for Developing Country Loans
(In percent of face value)

17 percentage points, with a particularly strong rise in the price for fixed interest par bonds as a result of the reduction in LIBOR rates. The discount on Ven-

ezuelan instruments, also adjusted to reflect country risk, has recorded a similar movement. Specifically, the discount narrowed by some 20 percentage points through September 1991, with comparable changes in the relative prices of the bond instruments.

Other highly indebted countries experiencing substantial narrowing in discounts in the first three quarters of 1991—largely in response to market perceptions of improved economic and financial prospects—include Argentina (also aided by expectations of further privatization-linked debt-equity conversions), Brazil (reflecting as well the agreement on arrears), Colombia, the Dominican Republic, Morocco, Panama, Peru, and the Philippines.

Institutional Market Developments

The secondary market for bank claims has grown steadily in recent years. The nominal value of debt traded is estimated to have increased from less than \$5 billion in 1985 to \$70 billion in 1990. Several market participants are projecting a further rise to about \$200 billion for 1991 as a whole. At the same time, market instruments have expanded, with the major impetus provided by recent bank financing packages that involved various collateralized bond conversion options. These developments have been accompanied by institutional changes, including the formation in December 1990 of an "LDC Traders Association," aimed at increasing market efficiency through standardizing documentation and trading practices.

In August 1991, a new "global index" of developing country debt instruments was launched by the F.P. Consult Company of France, as the prelude to standardized futures and options trading. Contracts for the standardized derivative products are to be cleared by a Swedish Exchange and Clearing House (OM Clearing) and are expected to provide greater depth to the underlying market.

Restoration of Access to Voluntary Capital Market Financing

This chapter reviews the recent experience of selected developing countries in borrowing on international capital markets, particularly through bond and equity placements. It focuses on the experience of a number of Latin American borrowers, especially Mexico, Venezuela, and Chile, which have shown signs of regaining access to voluntary financing on international capital markets.¹¹ This contrasts sharply with the years following the onset of the debt crisis in 1982, when most financing took the form of principal rescheduling and concerted new money agreements.

For some re-entrants to the capital markets, yields have been declining both on primary and secondary markets—first on shorter-term instruments and then on longer-term obligations—and resources mobilized have been growing. Recent experiences of these and other borrowers demonstrate the sensitivity of yields and market access to changes in the external environment (such as the events in the Middle East in the second half of 1990) and to slippages in policy implementation. In contrast to the early years of the debt crisis, most new medium- and long-term financing raised by re-entrants has been mobilized through bond issues (initially of short maturity and occasionally enhanced through collateralization and other techniques), as well as equity placements. This shift in instruments has important implications for the division of risks among borrowers and creditors, as some techniques involve a stronger pre-commitment to repay regardless of outcomes unfavorable to the borrowing country, whereas others entail linkages between changes in the borrower's circumstances and returns to creditors.

Recent Developments

A number of formerly credit-constrained borrowers from Latin America have recently succeeded in placing voluntary debt issues on the international capital markets. The process of market re-entry has been accelerating, led by Mexico. Venezuela, which had an earlier but unsustainable episode of revived access in 1988–89, has also been able to mobilize increasing flows over the last year and a half. For

both countries, secondary market yields on existing bonds have fallen sharply, especially since early 1991. This has facilitated efforts to extend maturities and obtain better terms for new issues (Table 8). Chile, which has also seen a sharp improvement in its credit standing, has experienced inflows mainly through direct and portfolio equity investment. In recent months, Argentine and Brazilian borrowers have also begun a limited re-entry, largely with short-dated obligations at relatively high yield spreads.

Mexico's success in attracting significant new inflows through international capital markets follows a sustained period of adjustment and structural reform, complemented by debt management policies designed to place the country's external indebtedness on a sustainable basis.¹² The most notable feature of Mexico's market re-entry has been the raising of medium-term capital through the issuance of bonds on U.S. and European markets, largely by public-sector entities with established international reputations. Significant flows have also been mobilized through equity placements, issues of short-term certificates of deposit, and voluntary bank lending. Information compiled from various market reports indicates that Mexican entities launched some \$5.2 billion in *bond issues* between June 1989 and September 1991 (Table A17). After peaking at nearly \$1 billion in the third quarter of 1990, the pace of issues slowed during the fourth quarter of the year, when new placements fell to \$300 million in the wake of unsettled conditions in international bond markets occasioned by the crisis in the Middle East. With the general improvement in bond market conditions in 1991, activity accelerated once again, with total issues of approximately \$2½ billion in the first nine months of the year.

A range of financial techniques, including collateralization, has facilitated the return of Mexican borrowers to the international credit markets. In 1987, Teléfonos de Mexico (Telmex), the national telephone company privatized in 1990, launched the first of several private placements backed by pledges of long-distance receivables. By mid-1991, Telmex had

¹¹See also El-Erian (1991a) and IMF (1991).

¹²For a further discussion of Mexico's external debt management policies since 1982, and the country's return to voluntary capital market financing, see El-Erian (1991b).

Table 8. Average Terms on International Bond Issues
By Selected Developing Country Borrowers

	1989						1990						1991								
	First Half			Second Half			Year			First Half			Second Half			Year			January-September		
	P	M		P	M		P	M		P	M		P	M		P	M		P	M	
I. New Entrants																					
Argentina (private sector/unsecured)	...	...	...	...	...	...	...	...	...	...	...	...	730	5	...	...	...	...	510	2	
Brazil (public sector/unsecured)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	524	3.7	
Mexico	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Secured issues	...	...	...	165	5	...	...	...	...	316	4.4	...	277	4.6	...	...	...	...	150	5.0	
Unsecured issues	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Public sector	820	5	...	...	...	...	820	5	...	397	7	...	370	3.8	...	...	...	...	246	4.2	
Private sector	...	...	...	800	2	...	800	2	...	760	2	...	583	3.9	...	...	...	...	542	4.4	
Venezuela	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Secured issues	...	...	...	...	...	...	...	...	...	...	...	...	250	5.5	...	...	...	...	...	...	
Unsecured issues	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Public sector	185	7	...	...	...	...	185	7	...	...	...	...	260	5	...	...	...	...	235	5	
Private sector	...	...	...	...	...	...	...	...	...	730	5	...	650	5	...	...	...	...	362	3.6	
II. Other Selected Borrowers																					
Algeria (public sector/unsecured)	120	5	...	180	5	...	149	5	...	100	5	...	...	...	...	100	5	...	...	...	
Hungary (public sector)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Secured issues	...	...	...	...	...	...	...	...	...	...	...	...	190	10	...	...	...	...	...	...	
Unsecured issues	87	8.9	...	151	7	...	105	8.4	...	140	6.6	...	134	5.3	...	137	6	...	225	6	
India (public sector/unsecured)	109	8.8	...	90	5	...	100	7.1	...	127	7	...	...	...	...	127	7	...	140	10	
Turkey	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Unsecured issues	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Public sector	175	10.3	...	193	7.3	...	186	8.4	...	152	7	...	184	5	...	165	6.2	...	240	5	
Private sector	160	4	...	...	...	...	160	4	...	...	...	...	...	...	...	...	...	...	...	...	

Source: Table A17.

Notes: P = premium in basis points, defined as the difference between the bond yield at issue and the prevailing yield for industrial country government bonds in the same currency and of comparable maturity.

M = Maturity in years.

raised over \$2 billion through five such borrowings, as well as \$150 million through a two-year unsecured private placement issued under Rule 144a of the U.S. Securities and Exchange Commission (SEC).¹³ Over the last two years, collateral-backed offerings, such as those by Telmex—including two issues by Mexican banks backed by credit card receivables and one secured by receivables arising from electricity sales in the United States—accounted for an important portion of total Mexican bond placements. More recently, however, a growing number of unsecured bond issues have also been placed, and on progressively better terms. The range of participants has broadened during 1991, with the Mexican Government placing two issues in European markets. The first, a five-year DM300 million offering in February 1991, carried an initial yield of about 200 basis points over comparable German government securities. The second, denominated in pesetas and issued in Spain in July, had a five-year maturity and an initial yield of 175 basis points over yields on comparable Spanish government bonds.

In addition to medium- and long-term flows raised through bond issues, since early 1990 Mexican financial corporations have also succeeded in raising significant amounts of capital through the placement of short-term *Euro-certificates of deposit* (typically 90 to 180 days) through their London and, to a lesser extent, New York and Cayman Island branches. The proceeds have been on-lent to Mexican corporate borrowers, with the banks earning an intermediation spread. Such placements are thought to account for a significant proportion of the \$4.3 billion in private capital inflows received by Mexican banks during 1990; as of mid-1991, an estimated \$5 billion of Mexican Euro-CDs were outstanding. The issues, typically in bearer form, have reportedly been placed mainly with European investment houses, London branches of U.S. banks, private banking units of commercial banks, fixed-income funds, emerging market funds, and European and Latin American money managers. Mexican corporations have also had some success in raising short-term funds through overseas placements of *commercial paper*. Following the first issue by a private-sector steel company (Hylsa) in April 1991 at a yield of 12 percent, five other corporations had launched issues by September and others were reported to be preparing to enter the market. In August 1991, the Mexican authorities imposed reserve requirements against funds raised through Euro-CD offerings, leading market observers to expect a wider use of Euro-commercial paper by Mexican corporations in the future.

Improved perceptions of Mexican risk have been reflected not only in a relaxation in quantity rationing but also in a gradual *decline in bond yields*. In June 1989, the public placement by Bancomext—a public bank specializing in foreign trade—carried an initial yield of some 820 basis points above comparable U.S. Treasury bonds. This placement represented the first unsecured public-sector issue since 1982 and was launched in the midst of negotiations on a bank debt restructuring package. Since then, the weighted average yield spread on new unsecured issues has declined to approximately 550 basis points for private-sector issues and about 250 basis points for public-sector issues (Table 8). While even lower yields have been obtained on collateral-backed issues, these additional yield reductions appear to reflect more perceptions of the quality of the collateral than assessments of Mexican risk. Developments in initial yields on new issues have been accompanied by improvements in the yield spreads implied by reported movements in secondary market prices of publicly traded bonds (Chart 5). Yield spreads have narrowed dramatically in recent months, particularly on longer-dated instruments (including par and discount bonds), as the demand for Mexican risk appears to have outpaced a general increase in demand for higher-risk assets. As of August 1991, the stripped yield on Mexican par and discount bonds stood at about 530 basis points over the 30-year U.S. Treasury bond rate, a yield spread about half that of so-called “junk” bonds. *Yields on Mexican Euro-CDs* have also declined substantially. In early 1990, yields at the time of issue were on the order of 15–16 percent; by July 1991 they had fallen to $8\frac{3}{4}$ – $9\frac{3}{4}$ percent, depending on the issuer.

In 1988 and 1989, *Venezuela* was able to raise approximately \$519 million by placing several sovereign bond issues. In addition, in December 1988, bonds with a face value of \$500 million were exchanged for \$400 million in existing bank claims and \$100 million in new money commitments. Initial yield spreads on the new issues narrowed over this period, from approximately 350 basis points over the yield on comparable U.S. Treasury bonds to about 200 basis points. These yield spreads were considerably lower than those on commercial bank debt restructured under the 1984 multi-year rescheduling agreement, which ranged between 9.5 percent and 11.5 percent during the first nine months of 1988. Secondary market yields on new bond issues subsequently widened sharply, reaching 19 percent in July 1989. This reflected concerns about Venezuela's balance of payments, which also led to a near doubling of the yield on Venezuela's commercial bank debt between May 1988 and early March 1989 (Chart 6). As a result, Venezuelan borrowers ceased to be active in the market. Following the adoption of a comprehensive medium-term adjustment program

¹³Rule 144a was introduced by the SEC in 1990 and governs secondary market trading in privately placed securities in the United States. For further details, see IMF (1991), Chapter V.

Chart 5. Mexico: Yield Spreads on Selected Debt Instruments¹
(In percent)

Sources: *Latin Finance*; Salomon Brothers; Merrill-Lynch; and IMF staff estimates.

¹Premia over yields on U.S. Treasury obligations of similar maturity.

²After January 1990, rebased on stripped yields for par and discount bonds.

³Average yield on unsecured issues by Bancomext, Somex, and Banca Internacional.

⁴Merrill-Lynch index of high-yield corporate bonds (BB and CCC grade).

Chart 6. Yields on Selected Venezuelan Debt Instruments

Sources: *Latin Finance*, *International Financing Review*; Salomon Brothers; and IMF staff estimates.

¹After October 1990, rebased stripped yields on par and discount bonds.

²Merrill-Lynch index of high-yield corporate bonds (BB and CCC grade).

³Weighted average reported yield on floating-rate notes issued in 1988-89 and maturing in 1993, 1994, 1995, and (from September 1990) 1998.

in mid-1989, however, and as prospects for finalizing a debt restructuring agreement with commercial bank creditors improved, yield spreads again narrowed considerably. Thus, in 1990, three private corporations and an offshore subsidiary of Petroleos de Venezuela (PDVSA), the state-owned oil company, were able to issue new securities. Unsecured issues by Sivena, a private steel company, and Corimon, a private chemicals producer, carried initial yields of 16 percent and 15 percent, respectively; these subsequently traded down, for example, in the Sivena case, to 14 percent seven months after issue. Reflecting enhancement through the collateralization of re-

ceivables from a long-term supply contract in the case of the other private sector issue (Sidetur), as well as the underlying strength of PDVSA, yields on these two issues were considerably lower. Yield spreads declined markedly further during 1991, and in August the Republic of Venezuela returned to the Euromarkets with a \$150 million five-year bond issue. The issue was increased from \$100 million in the face of higher-than-expected demand and, reflecting the recent upgrades in the rating of Venezuelan debt by Standard and Poor's and Moody's Investors Service (from Ba3 to Ba1 in the latter case), the new issue was placed with a yield spread of 235 basis points over U.S. Treasury issues. Also in August 1991, Vencemos, a private cement company,

launched a two-tranche offering of two-year and five-year bonds totaling \$75 million, with an average yield spread of 360 basis points.

Chile has also recently experienced a significant improvement in its standing on international capital markets, with capital inflows largely taking the form of direct and portfolio equity investments rather than bond issues. In 1990 Chile secured a loan of \$20 million from NMB Bank (Netherlands), the first fully voluntary general purpose bank loan received by a Latin American sovereign borrower since 1982. In addition, in March 1991, the Republic of Chile issued \$200 million in bonds at 1.5 percent over LIBOR; a second tranche for \$120 million is scheduled for issue in March 1992. The bond issue was initially placed with creditor banks and was not tied pro-rata to their existing exposure.

Access by other Latin American countries has remained limited during recent years, although some activity is reported in cases of collateral-backed borrowings. For example, an Argentine oil and gas company (Bridas) is reported to have raised \$80 million through a three-tranche transaction involving collateralization. In a more widely publicized transaction, in December 1990, a private company, Molinos Rio de la Plata, placed a five-year \$21 million Eurobond issue (reportedly largely with Argentine investors) with an initial yield of 15 percent. In June 1991, Molinos returned to the market with an 18-month \$15 million issue priced to yield 10.7 percent. Finally, in September 1991, the Republic of Argentina raised \$300 million in a two-year bond issue (with a put option after one year), with an initial yield to maturity of 11 percent (510 basis points over comparable U.S. Treasuries). In July 1991, Petroleo Brasileiro (Petrobras), the state-owned oil company of Brazil, issued a \$250 million two-year note with a yield to maturity of 13.5 percent, equivalent to a spread of some 625 basis points. This was followed in August and September 1991 by four other issues by Brazilian entities (two by Telebras, including one denominated in ECU; one by Petrobras; and one by Companhia Vale do Rio Doce (CVRD), an iron ore producer).

The Case of an Earlier Re-Entrant

The experience of recent re-entrants may be compared with that of Turkey, which emerged in the second half of the 1980s as a leading developing country borrower on the international capital markets. Turkey had lost access to private balance of payments financing in the latter part of the 1970s. Prolonged fiscal imbalances, together with an overvalued exchange rate, resulted in a balance of payments crisis and a need to seek recourse to debt restructuring with private creditors. Turkey's subsequent implementation of comprehensive adjustment

measures, complemented by generous official financing, resulted in sustained growth and a significant structural transformation of the Turkish economy. In 1982, Turkey resumed syndicated borrowing internationally, some four years after its initial repayment difficulties. Initial flows were largely short term or project related, and from 1983 to 1987 Turkey's short-term indebtedness grew by some \$5.1 billion. The country was also able to attract capital through nonresident deposits, chiefly from Turkish workers in Germany.

Unlike the more recent re-entrants, Turkey's return to voluntary financing initially came through syndicated credits and only later through significant bond issues. During 1984–85, Turkey received approximately \$760 million in syndicated credits from commercial banks. Medium- and long-term inflows rose to \$0.9 billion in 1986 as Turkish banks placed about \$145 million in bond issues in Japan. Initial efforts to raise nonproject-related balance of payments financing were facilitated by cofinancing arrangements with the World Bank. In 1986–87, Turkey raised \$580 million from private sources through World Bank-sponsored B-loans.¹⁴ In 1987–88, public-sector bond issues increased sharply as Turkish borrowers placed an increasing number of issues in Germany. In late 1988, Turkey also began to tap the dollar market, both in the United States and offshore.

The terms on Turkish bond offerings improved steadily from 1987 through late 1989, as investors in the deutsche mark and then dollar markets became more familiar with Turkish risk. Following the onset of the Middle East crisis in the second half of 1990, however, yield spreads widened on Turkish bonds in the secondary market. In response to worsening market conditions, both public- and private-sector borrowers scaled back their activities in the second half of 1990 (when only one public-sector bond was placed) and in the first half of 1991. For the year 1990, Turkish bond issues totaled some \$0.6 billion, compared with a peak of some \$1.5 billion in 1989, although syndicated credits remained strong. By May 1991, secondary market yields had begun to decline, and the Turkish Government returned to the markets with a DM350 million fixed-rate issue carrying an initial yield of 10.9 percent, or 240 basis points over the five-year rate for comparable German issues.

Instruments and Techniques

The success of developing country borrowers in regaining access to international capital markets is

¹⁴ Additional amounts were raised from private-sector creditors through cofinancing operations in which other creditors (for example, export credit guarantee agencies) guaranteed the exposure of the lending banks.

related to their ability to address investor concerns about the risk of default (counterparty credit risk) and the risk that foreign exchange will not be available to meet debt-servicing obligations (country transfer risk). Credit terms are also affected by the extent to which lenders are confident that, if necessary, they will be able to trade debt instruments without unduly affecting the price before maturity (liquidity risk). In addition, developing country borrowers often face specific constraints imposed by informational deficiencies. While fundamental concerns about credit and transfer risks are clearly best resolved by efforts to improve the financial strength of the borrowing entity or country, the actual structuring of a transaction may play a complementary role. Various techniques used by market re-entrants to obtain funds are discussed below, and their efficacy is assessed in light of their contribution to addressing investor concerns. In addition, attention is given to the implications of the various techniques for future access and for sharing risk between lenders and borrowers.

Bonds versus Syndicated Loans

As discussed, the recent experience of Latin American borrowers in regaining access to the international capital markets has largely involved bonds rather than syndicated bank loans. This development is closely related to market perceptions of the seniority of bond instruments, which, in turn, reflect the continuing full servicing of these instruments by the major debtor countries even in the face of protracted difficulties in meeting contractual obligations on other debts. Several other developing country borrowers have recently made more extensive use of bond markets. This contrasts with the experience during 1976–82 leading up to the international debt crisis, when publicized bond issues by developing countries totaled only \$27 billion, compared with \$225 billion in medium- and long-term publicized bank credit commitments.

A principal advantage of bond issues over syndicated loans is that they provide borrowers with access to a potentially *broader range of investors*. For borrowers that have maintained market access, this would appear to be a primary motive for bond issuance, since their bond yields have not differed greatly from yields on syndicated loans. In addition to raising funds from banks, which may still purchase an important portion of the bonds, bond issues enable developing countries to tap the interest of other financial institutions—such as insurance companies and investment funds—and of retail investors. Broadening the investor pool may have taken on added importance lately as tightening capital standards and provisioning requirements have re-

duced incentives for banks to intermediate between lenders and riskier borrowers.¹⁵

Available information on the actual investor pool tapped by the bond issues of recent re-entrants is largely anecdotal. Some indications may be gleaned, however, from denomination sizes. Latin American Euro-CDs typically have denominations on the order of \$100,000 and registered bonds of around \$250,000, reflecting the fact that they are largely placed with institutional investors. Many of the recent bearer securities issued by Latin American borrowers, however, have had denominations in the range of \$10,000 to \$50,000 or even less, indicating the targeting of retail investors. The deutsche mark placements by Mexican borrowers in Germany have included denominations as small as DM1,000. Reportedly, a significant proportion of recent bond issues by Latin American borrowers, particularly initial offerings, were sold to investors from the region. For example, nearly half of the unsecured Sivenza issue is believed to have been purchased initially by Venezuelan investors.¹⁶ Nonetheless, the success of Mexican borrowers in achieving declining yields while raising increasing amounts of capital has occurred by tapping a progressively broader pool of investors. More recently, fund managers may have assumed a more important role in this effort. The broadening of the investor base in Mexican securities has also been facilitated by efforts to bring to market issues in a range of currencies.

One of the major constraints facing an entrant to the capital markets is a lack of familiarity with its prospects on the part of investors. If existing bonds are traded in the secondary market, subsequent movements in their yields—or in the yields of comparable issues—can be taken as a benchmark, thus facilitating future placements. For example, after being issued at an initial premium of 820 basis points in June 1989, the yield spread on Bancomext's 17 percent dollar bonds declined to around 400 basis points by mid-1990, at which time Bancomext was able to issue a deutsche mark-denominated bond at about 230 basis points over the German government bond rate. Thus, for some borrowers, including pri-

¹⁵In many cases (for example, Belgium, Japan, the Netherlands, and Switzerland), provisioning requirements are specifically triggered by debt-servicing difficulties as reflected in payments arrears or debt reschedulings, and regulations typically specify that provisions must be maintained for at least five years after the most recent rescheduling agreement. In other cases (for example, the United Kingdom and the United States), a recent rescheduling or episode of arrears would be a factor underlying possible provisioning requirements. While specific provisioning levels vary from country to country, average bank provisioning levels against problem country exposure exceed 50 percent in most of the main banking center countries. Further information on national regulatory frameworks is contained in IMF (1990a), Chapter V.

¹⁶The factors affecting the attractiveness of such offshore securities to holders of flight capital are discussed in Chapter IV.

vate borrowers, high yields paid on initial placements may be viewed as a kind of entry cost that paves the way to future issues on more advantageous terms when investors become more comfortable with the borrower's performance and prospects.¹⁷ In this regard, the significant participation of flight capital in new investment pools may be of value to other investors. Since residents may potentially be able to monitor developments in the borrowing country more closely than nonresidents, such reinvestment could constitute a particularly important signal for nonresident lenders considering further increases in their exposure in response to new developments.

Increased interest among international investors in bond issues by re-entering Latin American countries has led to, and been reinforced by, the establishment of credit ratings, which has reduced some of the costs investors face in compiling and purchasing information (Table 9). In December 1990, a ceiling rating for Mexican debt was issued for the first time and was set at Ba2—just below investment grade.¹⁸ In July 1991, Venezuela's rating was upgraded from Ba3 to Ba1. Continued pursuit of policies aimed at stability and sustained growth can lead to the eventual attainment of investment grade status. Such status would, other things being equal, open to re-entrants new market segments, involving, for example, industrial country pension funds and other institutional investors subject to risk-level cut-offs. The opposite is, of course, also true. Some recent experiences demonstrate how rapidly the emergence of concerns about a country's prospects may be translated into a downgrading of a country's ratings and a concomitant increase in financing costs.¹⁹

¹⁷The success of such a strategy depends on the continued implementation—both at the entity-specific and countrywide level—of policies that raise perceptions of creditworthiness. Paying higher premia is not without its risks. Investors' willingness to acquire new debt claims may in fact decline in response to high-premium offers, partly because such offers may reasonably be interpreted as a sign of financial weakness that could undermine the soundness of the borrower. Such considerations would argue in favor of delaying efforts at re-entry until the establishment of policy credibility makes feasible the attainment of initial yields below some acceptable threshold. See Stiglitz and Weiss (1981) for a theoretical discussion of some of these issues.

¹⁸For certain countries (for example, Mexico), Moody's Investors Service issues ratings in accordance with a "sovereign ceiling rule," whereby no bond issuer can be rated above the sovereign rating given to the country in which it operates. Moody's believes that, although a nonsovereign entity may be better able to honor its obligations than its government over a given period, it is in general not possible to insulate a borrower consistently and over a long period from the sovereign risk of its home country.

¹⁹Examples of such shifts can be found in Hungary and India. Against the backdrop of a generalized flight to quality associated with developments in the Middle East and the assignment of a below investment grade rating by Moody's in mid-1990, secondary market yield spreads on Hungarian bonds increased sharply in the second half of 1990 and early part of 1991, peaking at around 300 basis points, compared with an average of about 70 basis points in the first quarter of 1990. In recent months, sentiment

The attractiveness of international bond issues as a vehicle for developing country borrowers has been further enhanced by recent regulatory changes designed to reduce transaction costs and improve liquidity. The most important changes have occurred in U.S. markets, with the 1990 promulgation of "Regulation S" and "Rule 144a" by the Securities and Exchange Commission.²⁰ In addition, regulators in Spain and Japan have taken measures to improve the access of developing countries to domestic bond markets. A decision by the Spanish authorities to permit Mexico to issue bonds on the "Matador" market led to the first issue of non-investment grade paper in that market. In June 1991, the Japanese authorities lowered the minimum bond rating required for an issuer to make a placement on the "Samurai" market—from A to triple-B in the case of sovereign (or sovereign-guaranteed) borrowers. This broader range opens the possibility of issues by some market re-entrants, as well as by borrowers that have retained access but have recently seen their ratings decline to below investment grade.

In addition to allowing borrowers to target a broader range of lenders, bond issues may also be advantageous in that they may be perceived as having seniority over existing obligations. Hence, despite concerns about a debtor's capacity to service all of its obligations, creditors may perceive that particular obligations are likely to be honored. Well-established, fully enforceable seniority arrangements do not exist for international contracts involving sovereign risk. Thus, prioritizing debt service on certain types of claims, either at the initiative of debtors or by voluntary agreement among creditors, is essentially an informal exercise not likely to provide full credibility among market participants.²¹ However,

toward Hungary has improved and yield spreads have declined to approximately 170 basis points as of June 1991. During the latter part of the 1980s, India expanded its presence in the Eurobond markets. Reflecting the country's investment quality A2 rating, Indian borrowers in the Euromarkets enjoyed some of the lowest spreads offered to developing country borrowers. But concerns about macroeconomic imbalances and events in the Middle East led to a series of downgrades by rating agencies starting in October 1990. Most recently, in May and June 1991, Indian long-term bonds were downgraded to BB+ by Standard and Poor's and Ba2 by Moody's, below investment grade. Secondary market yield spreads on bond issues by state-owned enterprises rose significantly.

²⁰Regulation S facilitates the marketing of Euro-securities in the United States by clarifying registration requirements; Rule 144a relaxes the waiting period requirement for secondary market trading in privately placed securities. For further information, see IMF (1991), Chapter V.

²¹It has been argued that the lack of seniority serves to destabilize sovereign loan markets. Unlike domestic bond covenants, where a clear hierarchy of debt claims can be established (leading to a steadily rising cost of funds), in the field of sovereign lending later creditors and earlier creditors are generally treated equally. Thus, lenders need to project not just the country's capacity to service existing debts, but also any new debts that might be incurred. This might, of course, encourage them to lend on a shorter-term basis. See Kletznar (1984) for a discussion of some of these issues.

Table 9. Credit Ratings of Selected Developing Country Borrowers¹

	Rating	Recent Changes
Argentina	B3	
Brazil	B2	
China	Baa1	
Hungary	Ba1	Downgraded from Baa2 in July 1990.
India	Ba2	Downgraded from Baa3 in June 1991. ²
Korea	A1	
Malaysia	A3	
Mexico	Ba2	First time rating in December 1990.
(United Mexican States DM Bonds)	Ba2	
(Discount and Par Bonds)	Ba3	
(Pemex)	Ba2	
Thailand	A2	
Venezuela	Ba1	Upgraded from Ba3 in July 1991.
(Discount and Par Bonds)	Ba2	
(Conversion Bonds)	Ba1	
(Floating Rate Notes)	Ba1	

¹Ratings by Moody's Investors Service, ceiling ratings on long-term debt except where otherwise noted. The ratings are ranked from highest to lowest as follows:
Investment grade: Aaa, Aa, A, Baa
Non-Investment grade: Ba, B
Default grade: Caa, Ca, C, D
In addition, numbers from 1 (highest) to 3 are often attached to differentiate borrowers within a given grade.
²India's long-term debt rating was downgraded from BBB- (the equivalent of Baa3) to BB+ by Standard and Poor's in May 1991. India's long-term rating has been lowered by Moody's on two subsequent occasions since October 1990, when it was lowered from A2 to Baa1.

despite constraints on giving seniority to new flows over old in a credible manner through differential payments policies, secondary market prices for various types of developing country debt have generally reflected perceptions of payment priorities, especially in the case of major debtors. In particular, for countries that have encountered recent debt-servicing difficulties, sovereign bonds have traded in the secondary market at significantly lower yields than those implied by quoted prices on commercial bank debt, a reflection of their small share of total indebtedness and superior servicing record (Table 10).

Some observers have noted that the large-scale securitization of some developing countries' bank debts under comprehensive debt- and debt-service reduction packages could undermine the perceived superior quality of bonds over old bank debt and, as a result, slow the process of re-entry to international bond markets. This possibility may, however, not be significant if the restructuring of old bank claims is perceived to align more closely a country's overall indebtedness with its capacity to pay. In fact, restructuring agreements involving debt and debt-service reduction by Mexico and Venezuela have been cited by rating agencies as an important influence in assigning more favorable ratings to these borrowers

than those given to some other Latin American debtors. Moreover, in the cases of Mexico and Venezuela, most of the bonds issued as part of the debt- and debt-service reduction package were registered instruments. The rating agencies have cited this, as well as their link to previous syndicated credits, as considerations that make it more likely that holders of these bonds may bear a more than proportionate share of any resulting financial burden in the event of future debt-servicing difficulties. In both cases, therefore, bonds issued under the restructuring agreements have received lower credit ratings than the countries' overall ratings. Nonetheless, so long as a significant yield spread exists on a country's restructured debt, creditors may be cautious about extending financing that does not appear to have effective seniority over the bulk of existing claims. This would make it difficult to raise capital through syndicated loans, registered bonds, or bonds of long maturity.

Use of Enhancements

The recent success of developing country borrowers in re-entering international capital markets on favorable terms has in some cases been helped by

Table 10. Secondary Market Yields on Restructured Bank Debt and Benchmark Sovereign Bonds
(in percent)

	Argentina		Brazil		Mexico		Venezuela		Memorandum Items			
	Restructured Bank Debt	Bonex	Restructured Bank Debt	New Money Bonds	Restructured Bank Debt	Pemex Bonds	Restructured Bank Debt	Floating-Rate Notes	5-year U.S. Treasuries	30-year U.S. Treasuries	Junk Bonds	
July 1989	48.0	27.0	27.2	25.0	20.4	13.8	22.2	19.0	7.83	8.08	13.7	
August 1989	62.2	30.0	29.7	22.6	22.2	13.0	24.3	18.3	8.09	8.12	13.8	
September 1989	50.6	27.5	33.7	22.9	23.1	14.5	23.3	18.2	8.17	8.15	14.3	
October 1989	55.9	18.0	36.9	20.7	24.5	13.7	23.1	18.1	7.97	8.00	15.1	
November 1989	69.1	16.0	41.6	20.7	25.6	12.9	25.6	17.5	7.81	7.90	15.1	
December 1989	67.2	20.0	40.2	21.5	25.3	13.0	26.4	17.1	7.75	7.90	16.3	
January 1990	77.7	24.0	34.4	21.2	23.2	12.4	27.0	17.1	8.12	8.26	16.9	
February 1990	91.4	33.0	31.7	21.2	20.9	12.4	26.9	16.7	8.42	8.50	16.9	
March 1990	86.5	40.5	41.0	22.0	21.2	12.6	24.6	16.4	8.60	8.56	16.8	
April 1990	81.3	42.7	39.1	21.5	19.8	12.8	24.2	15.1	8.77	8.76	17.1	
May 1990	63.9	33.5	37.1	19.2	18.2	12.8	21.7	14.9	8.74	8.73	16.9	
June 1990	67.1	32.2	39.7	19.8	17.9	12.8	21.3	14.5	8.43	8.46	16.8	
July 1990	66.6	27.6	40.3	19.3	18.5	12.6	20.6	14.2	8.33	8.50	16.6	
August 1990	67.8	21.1	52.1	20.6	20.3	12.4	21.7	14.1	8.44	8.86	18.1	
September 1990	73.7	22.5	45.5	20.6	19.7	12.3	22.0	14.0	8.51	9.03	10.2	
October 1990	70.4	24.5	42.7	19.7	19.3	12.2	20.1	14.1	8.33	8.86	20.5	
November 1990	61.1	26.1	35.9	19.3	19.2	12.3	18.8	13.4	8.02	8.54	20.2	
December 1990	45.8	24.9	38.1	17.9	17.8	12.1	16.8	12.8	7.73	8.24	20.2	
January 1991	49.5	25.1	43.2	17.7	19.6	12.0	17.3	12.3	7.70	8.27	19.5	
February 1991	48.9	26.5	38.0	17.0	16.6	11.8	15.3	11.6	7.47	8.03	18.1	
March 1991	53.1	25.8	34.9	16.1	15.7	11.8	15.0	11.2	7.77	8.29	17.3	
April 1991	44.5	19.6	32.8	15.3	14.0	11.6	13.8	10.8	7.70	8.21	15.8	
May 1991	37.3	17.3	32.2	15.2	14.5	11.3	14.4	10.5	7.70	8.27	16.4	
June 1991	40.0	16.7	30.0	16.2	14.8	10.4	13.9	10.5	7.94	8.47	17.6	
July 1991	33.7	17.9	27.6	14.8	13.5	10.1	12.7	10.5	7.91	8.45	...	

Sources: *Latin Finance*; *International Financing Review*; Merrill-Lynch; Salomon Brothers; and IMF staff estimates.

efforts to tailor instruments by using collateralization and other enhancement techniques. Such techniques can have important implications for the distribution of risk between developing country borrowers and their creditors. While some techniques, such as collateralization, shift risk from the creditor onto the borrower (and possibly the borrower's other creditors) by making the commitment to pay under all circumstances more credible, others allow the borrower to pay less under certain outcomes in return for a commitment to pay more when payments capacity improves. Several enhancement techniques used in recent borrowings are discussed below, including collateralization, the attachment of early redemption and equity conversion rights, and commodity price hedges.

Collateralization

One of the more widespread techniques used by borrowers to address typical investor concerns, and thereby to reduce financing costs, has been collateralization. For example, the Telmex-receivables-backed issue in 1990 carried a spread of some 2 percentage points over LIBOR, compared with the July 1990 unsecured issue by the same company, which carried an initial yield of more than 450 basis points over U.S. government paper. Overall, the average initial yield on these secured borrowings is estimated at about 300 basis points lower than yields on unsecured private-sector issues for Mexican borrowers during 1990, and approximately 400 basis points lower for Venezuelan borrowers.

Recent collateralized borrowings such as these have involved the creation of a trust or special purpose vehicle (SPV), to which a secure income stream (such as receipts from a long-term supply contract) is assigned by the borrower. Against these future receipts, the SPV is able to issue securities, with the proceeds transferred to the borrower.²² In the case of the Telmex issues, the assigned income stream took the form of long-distance receivables from American Telephone and Telegraph (AT&T). Instead of paying Telmex, AT&T was directed to pay into the SPV, which then serviced the bonds. Other types of transactions have involved variations on such long-term supply contracts, in some cases involving commitments regarding price as well as volume.

Collateralization has succeeded in lowering borrowing costs, and in some cases may have paved the way for future access by promoting familiarity with

new borrowers under conditions of reduced risk. Such borrowings nonetheless have the potential fundamentally to impair rather than improve a country's ability to borrow on an unsecured basis. To the extent that creditors are confident that pledged assets or receipts will be used to honor newly created obligations, they are also assured that pledged assets will not be available to service other debt obligations or to finance imports. Moreover, as lenders may have concerns about the value of collateral they may have to realize on their claims, incentives exist for lenders to seek to have the loan overcollateralized, with implications for future borrowing. Depending on the structure of a transaction, collateral-backed borrowings can thus also reduce a borrower's financial flexibility. In short, unless inflows mobilized through collateralized borrowings are used in a manner that contributes to a country's overall creditworthiness, they may actually worsen prospects for later secured or unsecured borrowings. Nevertheless, the appropriateness of collateralization techniques should not be viewed narrowly or strictly on a transaction-by-transaction basis. The use of other financing techniques—for example, hedging operations and equity placements—can contribute to the cross-border diversification of risks, offsetting to some extent the loss of flexibility arising from the use of collateral. Fundamentally, however, it is the appropriateness of a country's overall macroeconomic policies—in particular, the extent to which interest and exchange rates give appropriate signals to market participants, as well as the sustainability of the country's savings-investment balance—that will determine whether future inflows will be available on less expensive terms.

Early Redemption and Conversion Options

Many recent bond issues by market re-entrants have been enhanced by *early redemption options*, which allow either the creditor or borrower to seek early repayment, or by *conversion rights*, which provide for conversion into equity in the borrowing enterprise at a prespecified price. *Put options* provide the holder the discretion to resell (put) the bond to the borrower at specified times (or, in some cases, following the realization of specified contingencies) at a predetermined price. Turkey made extensive use of put options in borrowings during late 1988 and 1989, with most of its major medium-term borrowings containing such a feature. In one of the more innovative transactions, the Central Bank of Turkey raised \$200 million through a seven-year exchangeable loan facility (ELF) under which creditors could request conversion to a 6-month note after 18, 30, or 54 months. The ELF was intended to replace the Bank's short-term commercial paper borrowings. Several recent bond offerings by Mexican banks have also contained put options.

²²Other types of collateralization structures have included the pledging of assets, including real estate, gold, and shares in companies. To some extent, these can be viewed as functionally equivalent to sales and repurchases of already-owned assets; the collateral-backed loan may be attractive in cases where it saves on transaction costs as compared with an actual sale and repurchase.

A bond or a loan with a put option may be viewed as a combination of two loans. The first loan, which covers the period from issuance to the date the put can be exercised, is unconditional; while the second loan, covering the period from the exercise date to the maturity of the bond, is only extended if at that time creditors expect to earn a higher return than implied by the exercise price. For example, if the put price is equal to the issue price, lenders may wish to exercise the put because, relative to conditions at the time of issuance, the perceived risk of default has worsened or because market interest rates have increased. Since the second loan offers lenders a one-way bet, a lower interest rate can be offered on the first loan, proportional to the lenders' expected return on the second loan. Thus, the borrower, by committing to pay higher than its marginal cost of funds in the event payments prospects improve (or interest rates decline) beyond the level implied by the exercise price, is able to reduce borrowing costs during the pre-exercise period.

The use of put options naturally involves costs, not least because borrowers may be obliged to pay a higher yield after the exercise date than what lenders might require on a new placement. This may be mitigated, however, by savings on transaction costs. Borrowers might also hedge against the possibility of put options being exercised as a result of generalized interest rate movements by purchasing a put on a risk-free bond. Because of the risk of exercise, which could require raising additional capital on terms more costly than those implied by put prices (or might even lead to quantity rationing), the presence of put options should be taken into account in evaluating the maturity profile of a country's external debt. To the extent that they are significant, maturing put options need to be accounted for in projecting a country's debt-service ratios, along with a measure of the required average yield needed to avoid early repayment.

Call options allow borrowers to repurchase their bonds at a predetermined price and are essentially the mirror image of put options. They have been included in a number of bond issues by Mexican private-sector borrowers and in the recent issues by Petrobras of Brazil and Vencemos of Venezuela. In the event that a borrower's marginal cost of funds declines, the exercise of a call option allows expensive debt to be redeemed. The presence of such options can be expected to raise required yields on debt instruments to which they are attached as creditors seek compensation for their effective exclusion from upside gain. Call options may be particularly attractive to borrowers who consider that their prospects are set to improve at a time when the market substantially discounts such a possibility. Call options combined with put options effectively allow borrowers and creditors to specify a range of terms for extending the life of particular loans.

The attachment of *equity conversion rights* offers another means by which corporate borrowers can effectively lower their interest costs. Conversion rights can also be an attractive means of placing an equity issue where the appropriateness of current market prices may be difficult for investors to judge. Rather than specify a market-clearing price at the outset, the borrower sets a price it considers attractive from its viewpoint, and creditors are then given an incentive to evaluate the firm. Conversion rights have been attached to borrowings by two Mexican corporations: Tamsa, which has had an ADR²³ listing in the United States since 1964, and Cemex, the largest cement company in Mexico and the third largest in the world. In addition to Mexico, other developing countries have also shown an interest in placing convertible issues. During the first five months of 1991, Asian developing countries reportedly issued more than \$500 million in convertible securities, compared with \$80 million in new issues during the same period in 1990. In March 1991, Malaysia issued \$190 million in bonds that are convertible into shares of the state-owned telecommunications company; the issue reportedly marked the first placement of a sovereign bond exchangeable for equity in a state-owned enterprise.

Hedging Techniques

The emergence of debt-servicing difficulties in a number of countries in the early 1980s reflected the implementation of inappropriate domestic policies, compounded by unfavorable movements in commodity prices and real interest rates and by a sharp contraction in access to private external financing. To regain access, developing country borrowers need first to convince lenders that their policy stance is adequate. But sustained adjustment efforts, even when complemented by debt- and debt-service reduction operations that bring debt-service obligations into line with payments capacity, may still not be sufficient to allay lenders' concerns about the impact of exogenous risks. Re-entrants may therefore still face high spreads and quantity rationing, particularly in the longer maturities. To counter this problem, a limited number of borrowings have recently incorporated market-based hedging techniques.²⁴ Such

²³ADRs (American Depositary Receipts) are U.S. dollar denominated equity-based instruments issued in the United States. ADRs are backed by a trust containing stocks of non-U.S. companies and set up with a U.S. bank by an intermediary who buys stocks in foreign markets. Trade in ADRs may take place directly among investors through custodian banks in the United States, thereby avoiding possibly expensive or risky clearance and settlement in foreign markets.

²⁴For a detailed discussion of market-related hedging instruments of potential use to indebted developing countries seeking to manage financial risks created by price variability, see Mathieson, and others (1989).

techniques offer the possibility of reducing or eliminating the risk of nonpayment owing to factors beyond the control of the borrower, such as fluctuations in export prices or world interest rates. They may be welfare-improving not only because of their insurance value, but also because they may reduce the expected cost of funds and improve market access by reducing the possibility of default.

Two loans for Mexicana de Cobre, a copper exporter, demonstrate the potential uses of price hedges. Under terms of the borrowings—the first in 1989 for \$210 million and the second in March 1991 for \$165 million—Mexicana de Cobre was essentially able to borrow in dollars and repay with a predetermined volume of copper. To mitigate transfer risk, the loans rested on long-term purchase contracts from a leading European mineral trading company. Through commodity swaps, the arranger in such cases hedges any mismatches between the dollar value of the commodity exported and the payments due to creditors. Participating lenders can thus receive payments with a fixed interest rate that they can swap into floating-rate obligations if they wish. Another example is that of Sonatrech, the Algerian oil company, which in 1990 signed a seven-year \$100 million loan contract that included similar mechanisms. Sonatrech secured a favorable interest spread of 1 percent over LIBOR by entering into a series of options transactions that committed it to increase its payments if the price of oil exceeded a threshold level. Other examples of built-in hedges are the value recovery instruments included in the recent debt exchanges of Costa Rica, Mexico, Venezuela, and Uruguay. The instruments issued by Mexico and Venezuela were linked to the price of oil. Costa Rica linked its instruments to its rate of growth, and Uruguay, to changes in the price of a basket of key export and import commodities. These commitments were included in debt reduction packages to offer creditors the possibility of higher payments should debt-servicing capacities improve. To date, however, it has not been possible to secure lenders' agreement on downward contingency clauses, which would lower debt-servicing obligations in the event of adverse developments.

To some extent, the shift toward bond financing offers the possibility of hedging against interest rate risk through the flotation of fixed-rate bonds.²⁵ The importance of the recent high percentage of fixed-rate bonds is, however, somewhat illusory, since the maturity of the issues has tended to be short, particularly when the put options (which are more likely to be exercised if interest rates rise) are taken into

account. As the bonds are rolled over, any new issues will take place at a spread over then-prevailing interest rates. Hence, borrowers will still have incentives to hedge against longer-term movements in interest rates.

Borrowers need not explicitly incorporate price hedges into debt contracts to insulate their debt-servicing capacity from fluctuations induced by price swings.²⁶ Alternatively, they can independently engage in hedging operations to ensure that, should commodity prices move against them, the return on their position in the futures or forward markets will compensate them for the reduced value of their output in spot markets. For example, the Central Bank of Chile has made use of interest rate options to hedge against shifts in its cost of funds. Similarly, in late 1990 and early 1991, the Mexican Government reportedly purchased oil price puts, sold futures contracts, and used short-dated oil swaps to hedge its oil price risk. Announcement of operations of this type can give investors confidence in government paper, and in the country's obligations in general, by signaling that the probability of transfer problems arising in the near term from exogenous developments is significantly reduced.

The attractiveness of market-based hedges—which may, however, be limited in some cases in terms of coverage and duration—should be especially high for credit-constrained borrowers such as market re-entrants that have limited capabilities for smoothing unfavorable terms-of-trade shocks through additional borrowing. The same concerns about performance and transfer risk that limit their access to conventional credit markets, however, can also prevent them from using certain types of hedging contracts. This may be somewhat mitigated when the hedge position is covered, for example, in the case of an oil company selling oil forward. In the case of Mexicana de Cobre, transfer risk concerns were partially addressed by the pledging of receivables through a long-term supply contract. An alternative is to use put options that guarantee a mini-

²⁵The recent restructurings of Mexico and Venezuela involved the conversion of a significant proportion of existing debts into fixed-rate obligations, thereby reducing the countries' exposure to interest rate changes.

²⁶Creditors to borrowers vulnerable to price movements can also use commodity price hedges to protect against adverse movements in the value of their loans. However, to the extent that the lender's exposure is part of a diversified portfolio, the insurance value of hedging may be small. Moreover, even if lenders were to hedge, difficulties would still arise in the event of an adverse price movement in that the borrower's contractual obligations might exceed its payments capacity. While the lender may have already covered its capital loss on the expected receipts from the loan contract, it still does not have an incentive to write down the loan consistent with the borrower's reduced debt-servicing capacity. Hence, complex negotiations between the borrower and lender may still be needed to arrive at an accommodation between the borrower's payment capacity and its legal obligations. From the point of view of transaction cost efficiency, it would appear preferable that borrowers rather than lenders seek price hedges, if they are not to be part of the loan agreement itself.

mum price and involve only a one-time up-front outlay by the borrower.

Equity Issues

In addition to the increasing importance of bond issues as a source of funds for some developing countries, the role of equity flows has also expanded recently. Gross foreign portfolio equity flows into emerging stock markets are estimated to have averaged about \$1 billion a year during 1987 through 1990, with most of the inflows concentrated in developing countries in Asia. Apart from these traditional recipients, portfolio flows have also picked up in recent years in certain Latin American countries (particularly Chile and Mexico) and in Eastern Europe (particularly Hungary). One of the most important vehicles for mobilizing such flows has been *country funds*. Indeed, in many developing countries such funds provide the only channel for foreigners to invest in local equities. Typically, these are closed-end funds, initially capitalized at about \$50–\$150 million and specializing in private-sector companies.²⁷ During late 1989 and early 1990, the number of country funds grew especially rapidly. It is estimated that \$1.5–\$2 billion was raised in 1990. Much of this amount, however, including nearly \$1 billion raised for investment in Eastern Europe, was not fully employed because of time lags in finding sufficiently attractive investment opportunities.

In Chile, country funds began operating in late 1989; since then, \$1.2 billion in investments has been authorized, of which about \$0.5 billion was invested as of the end of July 1991.²⁸ In addition, in July 1990 the privately owned telephone company of Chile, *Compania de Telefonos de Chile*, raised \$98 million (\$90 million net of commissions and other costs) by issuing ADRs on the New York Stock Exchange. The CTC issue was the first international equity offering by a Latin American borrower in over 25 years. Significant equity portfolio inflows have also been registered in Mexico, where the value of foreign equity holdings is reported to have risen from less than \$1 billion at the end of 1989 to approximately \$4.5 billion by the end of 1990, and close to \$14 billion by August 1991—reflecting both new inflows and an appreciation in share prices. While the foreign share accounts for only one fifth of total market capitalization, the foreign share of actively traded stocks is much higher, on the order of

50–60 percent. In addition to owning stock through ADRs and country funds (accounting for some \$0.5–\$0.6 billion), foreign investors also hold a significant portion of Mexican equities directly, normally through the purchase of nonvoting (class B) shares.²⁹ Foreign purchases of voting shares are permitted in cases where there are no nonvoting shares, but they must be held in trust in a fund administered by the state-owned financial holding company, *Nacional Financiera*. Since the beginning of 1990, such shares have risen by more than \$1 billion.

The telephone company, *Telmex*, has accounted for much of the increased portfolio flows to Mexico; as of May 1991, some two thirds of the total foreign investment in Mexican equities was reportedly accounted for by foreign holdings in *Telmex*. The firm was privatized in December 1990, when the Government sold a controlling stake of 20 percent for \$1.76 billion to a consortium headed by the Mexican conglomerate *Grupo Carso* and including France's *Telecom* and *Southwestern Bell* of the United States. In May 1991, the Government sold an additional 15 percent share for \$2.18 billion in an international ADR offering; half of the shares were sold in the United States, with the remainder sold in Mexico and internationally. Reflecting considerable international interest, in June 1991 *Bankers Trust* issued covered warrants on *Telmex* stock, reportedly the first such transaction on a Mexican stock. The instrument allows investors to take a position on a possible upswing in the value of *Telmex* shares and is reported to be targeted mainly at U.S. investors.

In 1990, the number of Mexican companies with ADRs in circulation increased from three (*Telmex*, *Tamsa*, and *Cifra B*) to eight, with new issues by *Interceramica*, *Sanluis*, *Sidek*, *EPN*, and *Tolmex*, a subsidiary of *Cemex*. In addition, seven other ADR issues were reported during 1991 for leading Mexican companies with established domestic listings, which raised a combined \$2.9 billion (including \$2.2 billion by *Telmex*). The *Femsa* and *Vitro* issues were marketed through private placements in the United States under Rule 144a. In a transaction coled by the World Bank's International Finance Corporation, *Apasco*, Mexico's second largest cement company, also raised funds offshore by placing \$50 million in convertible subordinated debentures. Finally, in July 1991, *Grupo Gigante*, Mexico's second largest supermarket chain, became the first Mexican company to make an initial public offering with an international tranche. The offering involved \$100 million of shares marketed to investors in Mexico and \$50 million in ADRs sold in the United States and Europe, mainly to institutional investors.

²⁷In a closed-end fund, the fund's resources are limited to a pre-set maximum and may be invested in a specific range of assets. After being fully invested, the size of the fund is held fixed until it is liquidated after a given time period.

²⁸This includes about \$0.1 billion mobilized through three country funds that brought capital into Chile under the auspices of Chapter XIX of the country's debt conversion program.

²⁹*Cemex* raised \$190 million through domestic issues of class B shares in two tranches in May and July 1991. A large proportion of these shares was reportedly purchased by foreign investors.

Summary and Conclusions

The recent experience of re-entrants to international capital markets highlights the sharp improvements in both the volume of flows and the terms received. They also illustrate how rapidly market sentiment can change. To a certain extent, volatility in this regard is to be expected, given that a lender's assessment of repayment prospects encompasses not only perceptions about a borrower's policies, but also expectations about the intentions of other current and prospective lenders. The ability to borrow requires the availability of willing creditors. "Bandwagon" effects are therefore common, that is, a borrower becomes more (or less) creditworthy because an increasing (decreasing) number of lenders consider it to be so. But a virtuous cycle in this regard ultimately hinges on market views of the adequacy of underlying policies: if lenders view current or prospective policies as inadequate, not only will they fear a borrower default, but also a retreat of other lenders, compounding changes in expected returns on potential new loans.

Techniques currently used to mobilize foreign capital differ from those that re-entering borrowers have used on earlier occasions in a number of ways. Mobilizing capital through portfolio flows has allowed re-entrants to broaden the base of potential investors. This development is perhaps more important to re-entrants than for borrowers that retained market access because of the higher provisioning requirements that banks face in lending to them. The reliance on bond financing provides lenders and borrowers with continuous indicators of market expectations—through secondary market prices—and paves the way to lower yields on subsequent borrowings as perceptions of creditworthiness improve. To some extent, countries have been able to gain additional access, or more favorable terms, by using techniques that give lenders confidence that they will not have to bear the burden of future debt-servicing difficulties. In an ultimately successful debt

management strategy, however, such techniques can probably play only a marginal role. Efforts to obtain inflows by privileging certain claims may actually impair unsecured access over the longer term. Similarly, excessive reliance on short-term credits in the face of mounting longer-run uncertainties can limit access to longer-term credit, and ultimately even lead to a rundown in short-term credit as existing lenders perceive threats to their seniority. As with short-term borrowing, a primary motivation for techniques such as collateralization is to economize on risk premia; if borrowers succeed in reducing the overall level of risk, the frequency of such secured borrowings may be expected to decline.

The move toward techniques that entail greater risk sharing between borrowers and lenders, such as equity related instruments, may be more enduring if access to capital market flows is maintained and deepened. As lenders develop confidence in the overall adequacy of policies in borrower countries—that is, as they become less concerned about downside risks owing to policy slippages and more convinced that upside benefits may be realized—these sorts of financings should become more feasible. Also of interest in this regard has been the limited experience of some countries with market-based hedging operations, both within and outside the context of specific debt contracts. Under certain circumstances, such techniques can offer efficient alternatives to borrowing and saving for purposes of income smoothing and can encourage higher overall capital inflows. Despite limitations imposed by concerns over transfer risk, significant scope appears to exist for wider use of market-based hedging techniques. Moreover, a virtuous cycle may exist, in that the more borrowers engage in hedging operations—in conjunction with other policies to improve their creditworthiness—the more creditors will come to view these borrowers as less risky and, hence, as credible counterparties for more extensive and complex operations.

Repatriation of Flight Capital

The flight of resident capital from developing countries during the 1980s reflected and contributed to their economic and financial problems. Conversely, the recent repatriation of flight capital in some of these countries, following the sustained implementation of comprehensive adjustment programs and appropriate debt restructuring, has reinforced the restoration of economic growth. This chapter discusses conceptual issues related to capital flight, policy conditions conducive to repatriation, and some techniques employed to this end in specific cases.

The main influence on most private capital movements is the expectation of returns in a comparative context. Specifically, in cases where repatriation has occurred, stabilization policies have altered expected relative returns (that is, interest rate differentials between domestic investments and investments in so-called "safe haven" countries adjusted for exchange rate expectations) and improved the comparative attractiveness of domestic assets. In some cases, such policies have been supplemented by specific measures directed at promoting capital reflows, such as tax amnesties, liberalization of domestic capital markets, issuance of offshore securities and foreign-currency-denominated assets, and the establishment of debt conversion programs. When implemented in a stable economic and financial environment, these measures have facilitated the return of flight capital, particularly at the beginning of a reform process. Such techniques have had little success in promoting capital repatriation, however, in the absence of accompanying financial and structural reforms.

Definition and Estimation Problems

The analysis of capital flight has been complicated by definitional and measurement problems. The first issue arises over disagreement as to whether capital flight should be defined in terms of its motivation or its consequences, and whether there is any clear-cut way of distinguishing capital "flight" from "normal" capital outflows.³⁰ The most broadly accepted crite-

rion based on motivation identifies flight capital as the component of private capital outflows resulting from attempts to avoid "exceptional sacrifices" on rates of return at home. Factors affecting expected rates of return include risks of expropriation and debt repudiation, the introduction or strengthening of capital controls, taxation, financial repression, and perceptions of the likelihood of inflation and exchange rate depreciation. These factors typically emerge under conditions of macroeconomic imbalance and structural distortion. An alternative view, which defines capital flight on the basis of its consequences, focuses on the national disutility of capital outflows. Such a notion encompasses all components of private capital outflows, on the premise that capital in developing countries is a scarce commodity whose loss will constrain economic development. Because of its breadth, however, "normal" capital outflows are also captured in this definition, for example, trade credits and normal flows associated with portfolio diversification. The usefulness of this broader concept arises in empirical applications where data are limited and deviations from trend levels of flows may be interpreted as indications of capital flight or repatriation.

Data problems often complicate measurement of the scope of capital flight. Difficulties are encountered at both source and destination. The very nature of capital flight movements complicates measurement from the vantage point of the source country.³¹ In addition, limited record-keeping and accounting resources in some developing countries have adversely affected the quality of nonbank and nongovernment accounts. Measurements based on "haven" country data also have limitations—arising primarily from a paucity of detailed data on the foreign asset holdings of nonresidents. Moreover, capital may follow circuitous routes, often passing through offshore centers with tight secrecy requirements. The most comparable source of inter-country data comes from bank data, which, however, capture only a small part of the phenomenon. In particular,

³⁰For background, see Deppler and Williamson (1987), Dooley (1988), Dornbusch (1991), and Kahn and Ul Haque (1985).

³¹Vehicles for the outflow of private capital include the use of parallel markets for foreign exchange, financing involved in the smuggling of precious metals or objects, improperly invoicing exports or imports, and various forms of parallel lending between residents and nonresidents.

bank data do not cover portfolio reallocation in favor of nonbank stores of value, such as real estate, equity, and other private- and public-sector securities.³² In view of such limitations, estimates of capital flight are usually derived from flows contained in national payments balances, which usually present aggregate statistics on private-sector flows.

Numerous empirical studies have attempted to analyze capital flight using the two definitions described above.³³ Using the second definition, which does not attribute motivation to capital outflows, capital flight is estimated by measuring short-term private capital outflows or total private capital outflows, including errors and omissions. The adequacy of the choice depends on the country-specific set of transactions that are the most likely vehicle for capital flight; for example, in countries without capital controls, medium- and long-term outflows may be significant conduits for capital outflows. Conversely, empirical studies based on the first or "motivational" definition must generally make ad hoc adjustments to balance of payments data by ascribing "flight" motives to certain components of private capital outflows. An exception is the "derived approach," which, in an attempt to formulate a consistent methodology, assumes that capital fleeing from exceptional risk will not lead to repatriated investment income. The stock of flight capital is thus calculated by subtracting from the total stock of external claims those imputed from data on investment income receipts. This methodology represents a lower bound to capital flight estimates, while the broader definition would represent an upper bound.³⁴ Notwithstanding their limitations, studies covering the broadest set of countries indicate flight capital ranging from \$200 billion to \$300 billion during 1974–85 for capital-importing developing countries as a group.³⁵ For the 13 most highly indebted countries,

the derived approach estimates net capital flight at \$184 billion by the end of 1988.³⁶

In view of these conceptual and measurement problems, relatively timely indicators of capital flight or repatriation have had to be based on shifts in several measures of resident private capital flows. A primary indicator is the sum of errors and omissions and private-sector portfolio flows in balance of payments data. Other indicators, which may reflect conditions conducive to or conduits for capital flight/repatriation, include the following:

- the interest-rate differential between domestic and foreign assets adjusted for expectations of movements in the exchange rate, given that empirical analysis finds an association between overvalued exchange rates, high inflation, negative real rates of return on domestic assets, and capital flight;³⁷
- movements in the level of resident holdings in foreign banks, since foreign-held bank deposits are especially liquid;
- changes in the level of foreign currency deposits held domestically, the interpretation of which depends on assumptions about asset holders' confidence in the safety and risk-adjusted returns on domestic assets;
- domestic stock market activity, since price indexes may reflect shifts into or out of equity instruments; and
- the secondary market price for foreign-held indebtedness, which may indicate a generalized rise or fall in confidence in domestic economic and financial policies.

³²An exception to the unavailability of nonbank data is the U.S. Treasury Bulletin, which contains breakdowns of holdings of U.S. securities by country of origin.

³³These include Chartered West LB Ltd. (1991), Cuddington (1986), Cumby and Levich (1987), Deppler and Williamson (1987), Dooley (1988), Dornbusch (1991), Kahn and Ul Haque (1985), Lessard and Williamson (1987), Morgan Guaranty (1986), Rojas-Suárez (1991), and World Bank (1985).

³⁴The shortcomings of these estimation methods have been amply discussed in the literature on capital flight. In brief, the criticisms of the broader measurements relate to (1) the inadequate estimates of capital flight arising from misinvoicing in the trade account; (2) the attribution of all errors and omissions to capital flight; (3) the omission of nonrepatriated investment income and other foreign exchange receipts; and (4) the overall inadequacies of many developing countries' debt and capital account statistics, including adjustments for exchange rate valuation effects. Estimates obtained from the "derived measure" are also sensitive to the accuracy of investment income data and assumptions regarding interest rates used to capitalize investment income. Moreover, they neglect capital outflows for which repatriation/reporting of investment income does occur.

³⁵See World Bank (1985) and Deppler and Williamson (1987).

In a number of developing countries, the implementation of unsound economic and financial policies in the late 1970s and early 1980s was compounded by adverse external shocks. Capital flight often resulted from consequent deteriorations in domestic rates of return—adjusted for expectations of exchange rate changes and other risk factors—relative to the returns available abroad. Tax policies at times compounded capital flight to the extent that domestic tax rates were relatively high, withholding taxes were not imposed by haven countries, or bilateral tax treaties between source and haven countries did not exist. In addition, movements to markets

³⁶The 13 countries are Argentina, Bolivia, Chile, Colombia, Ecuador, Gabon, Jamaica, Mexico, Nigeria, Peru, the Philippines, Venezuela, and Yugoslavia. See Rojas-Suárez (1991).

³⁷See Conesa (1986), Cuddington (1986), Dooley (1988), and Meyer and Bastos-Márques (1989).

with broader selections of financial instruments were also encouraged by the limited availability of domestic alternatives. Finally, incentives for enterprises and individuals to maintain foreign exchange working balances abroad were sometimes created by restrictions on the purchase of foreign exchange in source countries.

The curtailment of external bank lending that began in 1982 obviously affected many heavily indebted developing countries. Capital flight worsened this situation in a number of ways.³⁸ Resulting capital outflows created inflationary pressures by expanding fiscal imbalances as tax bases were eroded and debt-servicing costs rose. Inflationary pressures were also aggravated by the depreciation of exchange rates that followed capital outflows. In response to these difficulties, several countries implemented policies designed to attain macroeconomic stability and eliminate structural distortions, with a view to re-establishing confidence in the domestic economy, re-opening international capital markets, and encouraging the return of flight capital. As discussed previously, Chile, Mexico, and Venezuela, in particular, have in recent years recorded notable progress in this regard. Countries that have moved toward re-establishing confidence have (1) implemented adjustment policies aimed at reducing financial imbalances and inflation through better monetary and fiscal policy mixes; (2) sought to establish well-functioning markets for labor, goods, money, and foreign exchange, with wages, prices, interest rates, and an exchange rate generally in line with underlying demand and supply conditions; (3) pursued other structural reforms, such as trade liberalization and deregulation of domestic financial markets; and (4) restructured their external debt with a view to eliminating its potential disincentive effects on investment.

While the implementation of stabilization policies has been necessary to reverse capital flight, other measures or techniques have proven useful in accelerating or supporting the process. These have ranged from changes in tax policies to the reform of rules governing foreign direct investment.³⁹ The following discussion reviews some of these mechanisms used to reverse capital flight.

Measures to Reverse Capital Flight

Amnesties

Amnesties attempt to repatriate flight capital that has remained abroad in order to avoid specific legal

consequences. By excusing, for example, past violations of exchange control regulations and taxes on investment income, inflows of foreign exchange have been stimulated and, to a lesser degree, future tax bases have been broadened.⁴⁰ To be successful, amnesties aimed at repatriating private capital must be implemented in conjunction with reducing or eliminating the original incentives for capital flight. Note that a 1982 amnesty in *France* failed, in part owing to the continued existence of a wealth tax. A second attempt in 1986—considered a success because it led to the repatriation of an estimated \$1.6 billion—was implemented in conjunction with a repeal of the wealth tax, a reduction of the tax rate on repatriated capital, and the elimination of remaining capital controls. Experience has also shown that the success of amnesties is sensitive to any disincentives arising from their combination with other schemes. The 1987 *Argentine* amnesty, in conjunction with a debt-equity program, exempted from taxes all previously unreported income to be used for domestic investment purposes. But it required matching converted debt with new money. The unattractiveness of this one-to-one rule outweighed the benefits of the program and failed to induce repatriation, notwithstanding the tax exemption.

An amnesty may be of limited or extended duration. For developing countries, amnesties of limited duration are unlikely to have an enduring impact. Amnesties of longer duration generally appear to have had a greater effect and are the logical policy accompaniment to the liberalization of capital accounts. The Government of *Mexico* has had a standing amnesty since 1989. A stamp tax of 2 percent is assessed on repatriated capital in conjunction with an exemption for past tax evasion on interest income. *Chile* has an implicit standing amnesty since no questions are asked concerning the source of the repatriated foreign exchange used under Chapter XVIII of the country's foreign exchange regulations. Similarly, *Costa Rica* encourages the repatriation of flight capital by permitting domestic foreign-currency-denominated deposits or local-currency-denominated certificates of deposits to be redeemed in foreign currency at maturity.

Capital Account Liberalization

The elimination of capital controls on outflows may induce capital repatriation to the extent that it reassures residents of their ability to "re-export" their financial holdings in the event of worsening

³⁸This view implicitly assumes that the bulk of capital flight resources, if retained domestically, would have been used for growth-inducing domestic investment. For a criticism of this view, see Gordon and Levine (1989).

³⁹These issues have been developed further in Brewer (1991), Cockcroft and Riddell (1991), Inotai (1991), and Wallace (1990).

⁴⁰Tax amnesties have also been used for purposes of collecting domestic corporate and income tax revenue from delinquent enterprises and individuals. See Internal Revenue Service (1987), Leonard and Zeckhauser (1986), Stella (1989), and Uchitelle (1989).

economic conditions. Repatriation would also be encouraged to the extent that capital account liberalization is viewed by the market as a positive signal as to the underlying improvement in the economic situation and the authorities' commitment to maintain appropriate policies. In the case of *Chile*, which has experienced significant capital repatriation, a parallel market for foreign exchange was transformed into a legal informal exchange market in 1990, when new regulations permitted all foreign exchange transactions other than those explicitly restricted by the Central Bank. In *Peru*, the liberalization of the capital account initiated in mid-1990 and followed up in early 1991—in conjunction with a comprehensive stabilization program—has been associated with private capital inflows exceeding \$1 billion. *Argentina* has experienced several reversals in private-sector capital flows in the recent past, in line with changing expectations concerning the durability of stabilization policies; the fluidity of these capital movements is largely a result of relatively liberal capital and exchange control regimes. Similarly, in *Uruguay*, limited capital controls have attracted significant private capital flows.

Foreign-Currency-Denominated Domestic Instruments

Since exchange risk can provide an incentive for capital flight, some countries have allowed domestic assets, especially bank deposits and bonds, to be denominated in foreign currency. In addition to protecting residents' holdings from unanticipated devaluations, such assets may also provide greater liquidity than assets held abroad. Foreign currency deposits have been prevalent in countries that have experienced episodes either of high inflation or currency overvaluation (for example, Egypt, Israel, Turkey, Yugoslavia, and most Latin American countries). Foreign-currency-denominated bonds have been issued in recent years in Argentina, Colombia, Mexico, Pakistan, and Uruguay.

Foreign currency assets may, however, have costly side-effects resulting from currency substitution. Such assets legalize and, other things being equal, encourage such substitution by decreasing the costs of obtaining foreign-currency-denominated assets outside the country. The negative implications of currency substitution are well documented; they involve weakened effectiveness of monetary policy, larger public-sector deficits because of reduced seigniorage, and higher central bank or commercial bank losses.⁴¹ These potential complications suggest

that the use of foreign currency deposits be limited, either through preferential yields on domestic-currency-denominated assets or restraints on their share of total domestic financial liabilities. To the extent that capital flight has already occurred, foreign-currency-denominated instruments may lead to the repatriation of flight capital only if additional incentives are present, usually in the form of an interest rate premium with respect to the haven country.

Offshore Securities

Foreign-currency-denominated instruments placed in the international capital markets by developing countries, such as those that have recently reentered those markets, can tap the offshore holdings of residents hesitant to repatriate their savings because of transfer risk considerations. Such securities have a number of attractions for residents holding flight capital. First, the foreign currency denomination eliminates exchange rate risk relative to the domestic currency. Second, the assets provide anonymity and eliminate confiscation risk. This is accomplished by means of issuing bearer, rather than registered, bonds through foreign intermediaries. For equities, country funds can serve a similar purpose. Third, the tendering of securities in foreign markets limits the threat of discrimination against investors who are residents. Fourth, in the event that the countries in which the offshore security is placed tax on source rather than residency principles, the returns on such investments would not be subject to taxation back home. Similarly, the existence of bilateral tax treaties may limit the possibility of double taxation of interest income.

Debt Conversions

Debt conversion schemes may also promote the repatriation of flight capital to the extent that they provide attractive vehicles for acquiring domestic equity.⁴² The most common schemes involve exchange of debt for equity and debt for other domestic currency assets. For debt-equity conversions to provide vehicles for the repatriation of flight capital, residents must be permitted to participate through, for example, implicit or explicit amnesties, since they will be purchasing a registered instrument through an official intermediary. Alternatively, external intermediaries may be used, such as specific country funds. The attractiveness of such exchanges may be enhanced if the conversion is part of a program to

⁴¹The two effects on the public-sector deficit depend, respectively, on the rate of inflation and the extent to which exchange rates are depreciated in real terms and interest rates are forced to a level below the inflation rate. See Dodsworth, El-Erian, and Hamman (1987) and Fischer (1987) on currency substitution and

foreign currency deposits, respectively, and El-Erian (1988), Ortiz (1983), and Ramírez-Rojas (1985) for case studies.

⁴²The attractiveness of such schemes will depend primarily on the conversion terms relative to those faced in obtaining the debt on the secondary market.

privatize viable public enterprises.⁴³ Several recent examples of debt-equity conversions associated with privatization programs may be found in Argentina, Mexico, Nigeria, and the Philippines. In Argentina, a Private Development Trust fund—whose objective is the privatization of 13 public enterprises—has been designed to permit residents to repatriate flight capital through the anonymous intermediation of foreign commercial banks. Similar funds are being

⁴³Such a combination also provides authorities with the added advantage that the conversion will not lead to additional domestic liquidity creation since the counterpart of the new investments will accrue to the governments.

developed in other countries, for example, the off-shore South Andean Investment Fund in Chile and the Plan for Privatization and Development in Brazil. Residents have been allowed to participate in many such debt-equity conversions without discrimination. In Chile, however, residents participate in a separate program, under Chapter XVIII of current foreign exchange regulations. The Central Bank auctions the right to repurchase discounted debt bought in the secondary market with foreign exchange acquired either on the parallel market or from abroad. Despite intentional limitations on this program for monetary control reasons, it has nevertheless facilitated the repatriation of more than \$3 billion since its inception in 1986.

Commercial Bank Debt of Low-Income Countries

This chapter examines recent developments in external commercial bank financing for low-income countries in light of the considerable attention recently focused on official bilateral support for heavily indebted low-income rescheduling countries.⁴⁴ In late 1988, for example, the Paris Club introduced concessional reschedulings using an options approach ("Toronto terms") for low-income countries. More recently, the communiqué of the July 1991 Group of Seven economic summit recognized that there is a need on a case-by-case basis for additional debt relief measures for low-income countries going well beyond the relief already granted under Toronto terms. A comprehensive resolution of the debt problems of heavily indebted low-income countries, however, will need to focus on the appropriate restructuring of not only official bilateral debt but also of debt to commercial creditors. In this connection, this chapter reviews the status of relations between low-income debtors and their commercial creditors.

Background

Commercial banks have played a relatively small and declining role in the external financing of low-income countries. At the end of 1990, commercial banks held an estimated \$12.7 billion in claims on low-income countries, equivalent to about 10 percent of their total debt (excluding liabilities to the IMF).⁴⁵ This proportion represents a decline of more than 4 percentage points since 1983, owing in part to the gradual transfer of claims guaranteed by

export credit agencies from the books of commercial banks to the books of the official guarantee agencies in creditor countries. More fundamentally, new commercial bank lending to low-income countries, at all maturities, has been stagnant since the mid-1980s. Commercial bank claims on these countries has in fact risen by only \$1.5 billion between 1985 and 1989, and most of this amount is associated with increasing interest arrears. Data on scheduled debt-service payments to banks are only partially available. Indications are, however, that although this debt constitutes a relatively small portion of the total external debt of low-income countries, it may nevertheless account for a sizable portion of interest due in many countries because of its nonconcessional terms. In 1989, the latest year for which aggregate information is available, actual cash debt-service payments (principal and interest) on commercial bank claims is estimated at about \$0.6 billion, or some 13 percent of total debt service paid.

Situations of individual low-income countries vary widely, and the origins and effects of current debt problems are not uniform. For example, although several low-income countries have had repeated reschedulings with official and/or commercial bank creditors over the last decade, others have been able to service their debts in full by pursuing prudent economic and debt management policies and receiving certain types of assistance. In addition, some countries are indebted almost exclusively to official creditors and their debt is mainly on concessional terms, whereas others have substantial debts to commercial creditors. Moreover, despite concluding rescheduling agreements with commercial banks, some countries have been unable to make full payments on a regular basis; as a result, arrears on various categories of debt have accumulated. Although commercial bank claims make up only a small share of these countries' total debt, the impact is magnified not only by their nonconcessional nature but also because arrears on these claims can adversely affect access to, or the terms of, short-term trade credits. In addition, it may be difficult to attract domestic or foreign investment in countries where bank debt is quoted on the secondary market at a deep discount. To resolve the debt problems of these countries, it is therefore not sufficient to focus only on the appropriate restructuring of official bilateral claims;

⁴⁴In this chapter, the term "low-income countries" refers to the group of small low-income economies in the IMF's May 1991 *World Economic Outlook* classification of countries, and thus excludes China and India. Although Bolivia is not classified in this category in the *World Economic Outlook* classification, it is included in this analysis because it is eligible for financing from the International Development Agency's debt reduction facility. Aggregate data presented for this group are taken from the *World Economic Outlook*, supplemented where necessary by data from the World Bank's *World Debt Tables, 1990-91*.

⁴⁵Although the discussion in this chapter focuses mainly on low-income countries' commercial bank debt, these countries' commercial debt also includes debts to private nonguaranteed suppliers. In many low-income countries, however, a lack of data makes it difficult to distinguish among various categories of private creditors.

debts to private creditors must also be suitably restructured.

To assist in resolving the debt problems of heavily indebted low-income countries, the International Development Agency of the World Bank established a debt reduction facility in 1989 with a transfer of \$100 million from World Bank income. The facility can make grants of up to \$10 million to countries that satisfy certain requirements. The proceeds, along with any cofinancing from other donors, can be used to buy back or exchange debt at a market-related discount. To obtain support from the facility, the operational guidelines require countries to adopt appropriate adjustment programs and overall debt strategies that offer the prospect of materially enhancing growth and development prospects. In addition, the country's debt strategy is required to include a program for comprehensively resolving commercial debt problems.

Country Circumstances

Although considerable diversity is evident in the relations of low-income countries and their commercial bank creditors, three broad groups of countries may be identified. These illustrative groups highlight some common features regarding commercial bank debt, although within each group the countries remain heterogeneous, especially with regard to their economic performance and prospects.

A first group of countries (including, for example, *Bangladesh, Ethiopia, Ghana, Kenya, Pakistan, and Sri Lanka*) have serviced their commercial bank debts in full and have avoided rescheduling. These countries have maintained access to spontaneous long-term credits from commercial banks as well as to short-term trade and interbank credits. In 1990, for example, Bangladesh, Ethiopia, Ghana, Kenya, and Pakistan received an estimated \$0.6 billion in spontaneous long-term bank loan commitments. Loans to the state-owned international airlines in Bangladesh and Ethiopia account for more than half of the total amount committed in 1990. (Available information suggests that the spreads over LIBOR were in the range of $\frac{3}{4}$ to $1\frac{1}{2}$ percent, with maturities of between 10 and 15 years.)

Despite such significant spontaneous bank loan commitments in 1990, total long-term bank claims on Bangladesh, Ethiopia, Ghana, and Pakistan fell between 1988 and 1990. During the same period, the short-term claims of commercial banks on Bangladesh, Kenya, and Pakistan rose sharply, from \$1.5 billion in 1988 to \$2.5 billion in 1990. After heavy short-term bank borrowing in 1987–88, Sri Lanka largely repaid these debts over the next two years as its balance of payments situation improved. Such patterns of short-term versus long-term lending to nonrescheduling countries would seem to suggest

that banks consider short-term loans to be more senior, in part because they are generally excluded from rescheduling agreements. Asset-based long-term lending is, however, relatively common as banks have shown a willingness to finance high-value moveable assets, on which liens can be attached.

A second group of countries—including, for example, *The Gambia, Madagascar, Malawi, Senegal, and Togo*—have had temporary difficulties servicing their bank debts and have needed to reschedule. Following restructurings, these countries have generally kept current on interest payments. Indeed, some of the countries in this group have already graduated from debt rescheduling to normal debtor-creditor relations. Nevertheless, for several the discount on commercial bank claims in the secondary market remains at approximately 50–60 percent and they have not been able to attract spontaneous long-term bank loans.⁴⁶

Finally, a third group comprises countries that face extremely difficult financing situations in the face of protracted arrears problems. The countries in this category include *Bolivia, Guinea, Guyana, Mozambique, Sierra Leone, Somalia, Sudan, Tanzania, Viet Nam, Zaïre, and Zambia*. Some of these countries have rescheduled their bank debts in the past but have fallen into arrears since then. Secondary market discounts for bank claims on these countries are generally 80 percent or higher. Several countries in this group are also in arrears to the Fund, and progress toward a resolution of the commercial bank debt problem is pending a clearance of overdue obligations to the Fund and other official creditors. For these countries, interest arrears on long-term debt to commercial banks (excluding those on claims guaranteed by official export credit agencies) are estimated to have risen from \$1 billion at the end of 1988 to about \$1.5 billion at present. Apart from a small increase in short-term trade credit, commercial banks have not provided new credit to these countries on a net basis since the mid-1980s.

Countries in the second and third groups have generally been able to maintain some access to short-term loans, but systematic data on the terms of such borrowings are not available. Partial data suggest that in some countries banks have moved away from unsecured lending and now require some form of offshore security to mitigate transfer risk. For example, export-secured lending, using a variety of mechanisms, is particularly prevalent in countries that have experienced debt-servicing difficulties. A common form of export-secured lending is pre-export finance, and banks have provided substantial facilities, which have essentially provided balance of

⁴⁶The secondary market for bank claims on low-income countries is reportedly very thin, with few and infrequent transactions and relatively wide spreads between bid and offer prices.

payments support, to several low-income countries, including Tanzania, Uganda, and Sudan.⁴⁷ Of the countries in the second and third groups, Guinea, Guyana, Senegal, Sudan, and Zambia have had an increase in short-term debt to banks—mostly secured facilities—between 1988 and 1990, averaging about \$130 million a year for all of these countries. In others—including Madagascar, Malawi, Mozambique, Sierra Leone, Tanzania, Togo, Uganda, and Zaïre—commercial bank short-term claims have been maintained or declined modestly during the same period.

Bank Debt Restructurings by Low-Income Countries

Since 1983, 13 low-income countries have reached either restructuring or deferment agreements with commercial banks: The Gambia, Guinea, Guyana, Madagascar, Malawi, Mozambique, Niger, Senegal, Sierra Leone, Sudan, Togo, Zaïre, and Zambia. Some of these countries (Guyana, Madagascar, Niger, Senegal, Sudan, and Zaïre) have had more than one restructuring or deferment agreement during this period. The debt covered by these agreements amounts to \$2 billion, of which about half is accounted for by the 1984–85 Sudan restructurings. In recent years, however, there has been only limited progress in the restructuring of low-income countries' bank debt, and, as noted earlier, many of these countries have accumulated arrears on commercial bank claims. The small number of bank financing packages contrasts with the active rescheduling of these countries' official bilateral debt under Paris Club auspices.⁴⁸ Specifically, during the last two years, Madagascar and Senegal have signed rescheduling agreements with commercial banks, Zaïre signed a deferment agreement, and Niger concluded a bank debt reduction operation. Claims covered by all of these agreements amount to \$230 million. In some other cases, such as Bolivia and Mozambique, progress toward regularization has occurred through negotiations on buy-backs and other debt reduction instruments.

In general, the terms for bank debt restructurings for low-income countries have been less favorable than those obtained by middle-income countries. Specifically, the spread over LIBOR of renegotiated debt during 1987–89 ranged from $1\frac{1}{8}$ to $1\frac{7}{8}$ percent,

with maturities typically less than ten years. In contrast, spreads on middle-income country bank debt restructurings (other than trade facilities) during this same period were typically $\frac{13}{16}$ to $\frac{7}{8}$ percent over LIBOR, with maturities generally over 12 years. Note, however, that two middle-income countries in Africa—Côte d'Ivoire and Gabon—rescheduled at spreads of $1\frac{1}{4}$ to $1\frac{3}{8}$ percent, while Nigeria obtained a spread of $\frac{13}{16}$ percent in 1989.⁴⁹ In the 1990 restructuring agreements for Madagascar and Senegal, for example, the spreads were $\frac{7}{8}$ percent, though the maturity was nine years.

In addition to these reschedulings, a distinct approach was that for *Bolivia*, where grants from bilateral donors were used to buy back \$253 million of commercial bank debt at face value in early 1988. The buy-back, which also eliminated associated interest arrears, took place at a preannounced price of 11 cents on the dollar. Since that initial transaction, Bolivia has eliminated a further \$227 million of its commercial bank debt through collateralized debt exchanges with principal reduction, thus eliminating about 70 percent of commercial bank debt and about 8 percent of total debt.

Niger was the first country to benefit from the IDA debt reduction facility when, in December 1990, the Executive Board of IDA approved a \$10 million grant to support a debt reduction operation. This amount was supplemented by a matching grant of \$10 million from France and an additional \$3 million from Switzerland. The funds were received by the Central Bank of West African States on behalf of Niger and were used in February 1991 to collateralize fully its guarantee of instruments issued by Niger in exchange for commercial bank debt. The implicit price of the transaction was 18 cents per dollar of the old debt at face value. The transaction effectively eliminated Niger's \$111 million of commercial bank debt and related interest arrears. Several other potential IDA-financed operations, including operations for *Bolivia* and *Mozambique*, are under preparation. In the case of Mozambique, approval by the IDA Board was obtained in mid-June 1991, and substantial progress has been made toward a buy-back of about \$323 million of debt arrears to commercial banks.

The agreement with Niger and progress in these other low-income cases may signal some abatement in the apparent reluctance of banks to agree to debt operations at relatively large discounts on country exposures that are heavily provisioned and represent a small portion of their loan portfolios. In addition

⁴⁷The mechanisms of export-secured lending include assignment of a title to exports, the issuance of irrevocable instructions to a buyer to make payments directly to a lending bank, or the establishment of foreign exchange escrow accounts.

⁴⁸Since the first Toronto terms rescheduling with Mali in late October 1988, 20 low-income countries have rescheduled \$6 billion of debt-service obligations in 28 agreements with Paris Club creditors. For several of these countries, debts to private creditors are negligible, and a restructuring of these debts was not being sought.

⁴⁹Spreads of $\frac{13}{16}$ percent over LIBOR became almost standard for most middle-income countries following the September 1986 agreement in principle (finalized in April 1987) between Mexico and its bank creditors. Smaller middle-income countries, such as Honduras and Jamaica, however, faced spreads of $1\frac{1}{8}$ and $1\frac{1}{4}$ percent, respectively, for their 1987 bank debt reschedulings.

to the apparent low priority placed by banks on reaching agreement with low-income countries—and because of concerns about creating undesired precedents—progress is often handicapped by debtor countries' inadequate information on the extent of commercial bank claims, especially after a period of protracted arrears; by human resource constraints in preparing appropriate debt strategies; and by legal issues.

Debt Swaps

As discussed earlier, international agencies and relief organizations have shown increasing interest in debt conversion programs as a means of reducing commercial bank claims on developing countries and channeling funds to certain causes. Beginning in 1987, debt-for-nature and debt-for-development swaps (primarily in the agricultural, health, and education sectors) have taken place in at least four low-income countries: Bolivia, Madagascar, Sudan, and Zambia. These swaps have reduced those countries' commercial bank debts by an estimated \$10 million. Such schemes have tended to involve the purchase of bank debt at a discount in the secondary market by a charitable organization, although in some instances banks have donated their claims to charitable groups. These debts are then converted into local currency instruments, generally at a smaller discount than prevailing in the secondary market; and even at par in some cases. A number of organizations are reportedly exploring the potential for expanding this approach by establishing debt conversion funds. For the debtor country's public sector, two expenditure

components are effectively involved: a conversion into local currency of the debt acquired by the charitable organization, and a contribution to the given project's financing. The differential between the discounts obtained by the charitable organization in the secondary market and that applied when the debt is converted into local currency determine the incremental cost faced by the public sector when compared to the alternative, if available, of purchasing the debt directly. In addition, the project financed may entail future recurrent expenditures for the debtor country's public sector. Integrating conversion approvals into the normal budgetary and monetary programming process could help, among other things, ensure the efficiency of the public sector's effective contribution to the project's financing.

The Bolivian debt-for-nature swap program, launched in July 1987, involved the exchange of commercial bank claims for local currency to fund the management of ecological resources and demarcate tropical forest land as a protected area. In 1988 and 1989, certain banks donated their claims on Sudan to UNICEF, and the proceeds from the conversion of these claims into local currency at a discount have been used to finance health care, water supply, and tree planting projects in central Sudan. Similar projects have been undertaken in Bolivia and Zambia, with resources from the official sector used to acquire claims on the secondary market for the purpose of making charitable donations. Other recent operations include nature and environmental projects in Madagascar (involving, in separate transactions, the World Wildlife Fund and Conservation International) and health projects in Sudan.

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Statistical Appendix

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Table A1. Change in Interbank Claims and Liabilities, 1985–First Quarter 1991¹
(In billions of U.S. dollars)

	1985	1986	1987	1988	1989	1990	First Quarter 1991
Total change in claims²	217	450	660	480	653	479	—
Industrial countries	184	376	465	393	452	377	14
Of which:							
United States	33	69	83	69	59	16	-12
Japan	40	148	192	185	136	47	-54
Developing countries ³	8	4	16	-2	—	9	5
Offshore centers ⁴	19	81	163	82	171	112	-18
Other transactors ⁵	7	-11	15	8	30	-20	-2
<i>Memorandum items</i>							
Capital-importing developing countries ^{3,6}	8	4	14	-6	-2	8	7
Non-oil developing countries ^{3,7}	6	4	14	-8	5	6	8
Fifteen heavily indebted countries	—	-1	2	-10	-3	-9	2
Total change in liabilities⁸	213	466	625	445	651	432	-60
Industrial countries	168	364	439	327	464	384	-23
Of which:							
United States	8	56	35	63	61	-1	-14
Japan	40	111	145	147	125	58	-41
Developing countries ³	1	-10	33	19	41	45	-1
Offshore centers ⁴	37	117	137	95	135	25	-33
Other transactors ⁵	8	-5	16	4	12	-21	-3
<i>Memorandum items</i>							
Capital-importing developing countries ^{3,6}	5	2	25	12	36	50	—
Non-oil developing countries ^{3,7}	2	9	25	13	33	41	-2
Fifteen heavily indebted countries	-3	-7	5	-1	7	13	—
Change in total net claims⁹	5	-16	35	35	2	47	59
Industrial countries	16	12	26	66	-12	-7	37
Of which:							
United States	25	13	48	6	-2	17	3
Japan	-1	37	47	39	12	-11	-14
Developing countries ³	7	14	-17	-20	-41	-35	6
Offshore centers ⁴	-18	-36	26	-14	36	87	15
Other transactions ⁵	-1	-5	-1	4	18	2	1
<i>Memorandum items</i>							
Capital-importing developing countries ^{3,6}	-3	2	-10	-18	-38	-42	7
Non-oil developing countries ^{3,7}	5	-5	-12	-22	-37	-34	10
Fifteen heavily indebted countries	3	6	-3	-9	-10	-22	2
Net errors and omissions ¹⁰	-5	16	-35	-35	-2	-47	-59

Sources: International Monetary Fund, *International Financial Statistics (IFS)*; and IMF staff estimates.

¹Data on changes in claims and liabilities are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.

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

³Excluding offshore centers.

⁴The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore.

⁵Transactors included in *IFS* measures for the world, to enhance global symmetry, but excluded from *IFS* measures for "All Countries." The data comprise changes in the accounts of the Bank for International Settlements with banks other than central banks and changes in identified cross-border interbank accounts of European developing economies (excluding IMF members).

⁶All developing countries except the eight Middle Eastern oil exporters (the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) for which external debt statistics are either not available or are small in relation to external assets.

⁷All developing countries except the eight Middle Eastern oil exporters (listed in footnote 6), Algeria, Indonesia, Nigeria, and Venezuela.

⁸As measured by differences in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending banks.

⁹Difference between changes in claims and liabilities.

¹⁰The difference between global measures of cross-border changes in interbank claims and liabilities.

**Table A2. Change in Claims on Nonbanks
and Liabilities to Nonbanks, 1985–First Quarter 1991¹**
(In billions of U.S. dollars)

	1985	1986	1987	1988	1989	1990	First Quarter 1991
Total change in claims²	60	88	139	74	187	263	52
Industrial countries	25	38	79	81	120	204	25
Of which:							
United States	21	25	23	39	35	49	2
Japan	—	5	31	18	36	54	1
Developing countries ³	-4	-2	6	-3	11	-6	7
Offshore centers ⁴	10	5	1	3	10	16	-4
Other transactors ⁵	3	4	2	—	3	9	2
Unidentified borrowers ⁶	26	43	51	-7	43	41	21
Memorandum items							
Capital-importing developing countries ^{3,7}	-3	-1	7	-3	8	-3	4
Non-oil developing countries ^{3,8}	-3	-1	8	-1	10	—	8
Fifteen heavily indebted countries	-5	-1	1	-5	—	-19	-1
Total change in liabilities⁹	88	118	135	95	161	213	12
Industrial countries	27	60	53	50	107	116	37
Of which:							
United States	14	26	23	21	6	25	1
Japan	1	2	1	2	13	-3	—
Developing countries ³	22	3	15	18	34	27	-6
Offshore centers ⁴	9	13	7	5	13	18	-4
Other transactors ⁵	1	-1	1	2	1	2	2
Unidentified depositors ⁶	30	42	58	20	6	50	-17
Memorandum items							
Capital-importing developing countries ^{3,7}	16	6	11	13	23	21	-3
Non-oil developing countries ^{3,8}	14	7	11	12	20	20	-3
Fifteen heavily indebted countries	8	2	5	6	10	8	-1
Change in total net claims on¹⁰	-27	-29	3	-22	26	50	40
Industrial countries	-1	-22	25	31	13	88	-12
Of which:							
United States	8	-1	1	19	28	24	1
Japan	-1	3	30	16	22	57	1
Developing countries ³	-26	-5	-9	-21	-23	-33	13
Offshore centers ⁴	—	-8	-6	-2	-4	-2	—
Other transactors ⁵	2	5	1	-2	3	7	1
Unidentified (net) ⁶	-3	1	-7	-27	37	-9	38
Memorandum items							
Capital-importing developing countries ^{3,7}	-19	-7	-5	-16	-15	-23	7
Non-oil developing countries ^{3,8}	-16	-8	-3	-13	-10	-19	10
Fifteen heavily indebted countries	-13	-3	-4	-11	-10	-27	—

Sources: International Monetary Fund, *International Financial Statistics (IFS)*; and IMF staff estimates.

¹Data on changes in claims and liabilities are derived from stock data on the reporting countries' liabilities and assets, excluding changes attributed to exchange rate movements.

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

³Excluding offshore centers.

⁴The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore.

⁵Transactors included in *IFS* measures for the world, to enhance global symmetry, but excluded from *IFS* measures for "All Countries." The data comprise changes in the accounts of international organizations (other than the Bank for International Settlements) with banks; and changes in identified cross-border bank accounts of nonbanks in European developing economies (excluding Fund members).

⁶The difference between the amount that countries report as their banks' positions with nonresident nonbanks in their monetary statistics and the amounts that banks in major financial centers report as their positions with nonbanks in each country.

⁷All developing countries except the eight Middle Eastern oil exporters (the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) for which external debt statistics are either not available or are small in relation to external assets.

⁸All developing countries except the eight Middle Eastern oil exporters (listed in footnote 7), Algeria, Indonesia, Nigeria, and Venezuela.

⁹As measured by differences in the outstanding assets of depositing countries defined as international bank deposits by nonbanks by residence of depositor.

¹⁰Difference between changes in claims and liabilities.

Table A3. Long-Term Bank Credit Commitments to Developing Countries, 1984–First Quarter 1991¹
(In billions of U.S. dollars)

	1984 ²	1985 ³	1986 ⁴	1987 ⁵	1988 ⁶	1989 ⁷	1990 ⁸	First Quarter 1990	1991
Developing countries⁹	29.2	16.0	22.8	16.4	17.5	18.2	17.8	3.4	2.6
Spontaneous lending	12.7	13.8	14.7	14.1	11.8	15.9	16.6	2.2	2.6
Concerted lending ¹⁰	16.5	2.2	8.1	2.3	5.7	2.3	1.3	1.2	—
Capital importing countries⁹	28.1	14.4	21.4	16.3	17.2	16.8	17.8	3.4	2.6
Spontaneous lending	11.6	12.2	13.3	14.0	11.5	14.5	16.6	2.2	2.6
Concerted lending ¹⁰	16.5	2.2	8.1	2.3	5.7	2.3	1.3	1.2	—
Africa	0.6	1.5	1.8	0.7	0.6	0.5	0.6	0.1	—
Spontaneous lending	0.5	—	1.4	0.7	0.4	0.5	0.6	0.1	—
Concerted lending ¹⁰	0.1	—	0.4	—	0.2	—	—	—	—
Asia	9.4	7.5	8.2	8.5	7.8	8.9	10.7	1.9	2.6
Spontaneous lending	8.5	7.5	8.2	8.5	7.8	8.3	10.7	1.9	2.6
Concerted lending ¹⁰	0.9	—	—	—	—	0.6	—	—	—
Europe	1.6	2.8	2.8	4.1	2.2	2.7	1.7	—	—
Spontaneous lending	1.6	2.8	2.8	4.1	1.9	2.7	1.7	—	—
Concerted lending ¹⁰	—	—	—	—	0.3	—	—	—	—
Middle East	0.4	0.3	0.1	0.3	0.2	0.7	0.1	—	—
Spontaneous lending	0.4	0.3	0.1	0.3	0.2	0.6	0.1	—	—
Concerted lending ¹⁰	—	—	—	—	—	0.1	—	—	—
Western Hemisphere	16.1	2.4	8.5	2.7	6.4	4.1	4.8	1.4	—
Spontaneous lending	0.6	0.2	0.8	0.4	1.2	3.0 ¹¹	2.7 ¹¹	0.2	—
Concerted lending ¹⁰	15.5	2.2	7.7	2.3	5.2	1.1	2.1	1.2	—
Memorandum items									
Other countries n.i.e.	1.9	3.5	2.1	1.5	2.5	1.5	3.0	—	—
Offshore banking centers	0.9	0.4 ¹²	0.7	0.3	0.4	2.4	3.0	0.2	0.7

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

¹Owing to rounding, components may not add.

²Includes agreements in principle with Argentina, Côte d'Ivoire, Ecuador, and the Philippines.

³Includes a \$0.1 billion revolving trade facility for Costa Rica.

⁴Includes agreements in principle with the Congo, Mexico, and Nigeria.

⁵Includes agreement in principle with Ecuador.

⁶Includes agreements in principle with Côte d'Ivoire and Yugoslavia.

⁷Includes agreement in principle with Jordan and finalized agreements with Mexico and the Philippines.

⁸Includes agreements in principle with Venezuela and Uruguay.

⁹Excludes offshore banking centers.

¹⁰Concerted lending refers to bank credit commitments coordinated by a bank advisory committee.

¹¹Includes bank loans obtained by Colombia (\$1.6 billion in 1989 and \$1.8 billion in 1990) on a "semi-concerted" basis to refinance principal payments.

¹²Includes a \$0.1 billion concerted lending commitment to Panama.

**Table A4. Bank Credit Commitments by
Country of Destination, 1984–First Quarter 1991¹**
(In billions of U.S. dollars)

	1984	1985	1986	1987	1988	1989	1990	First Quarter 1990	1991
Industrial countries	32.0	32.4	40.5	54.3	95.7	97.6	90.2	18.2	11.6
Australia	2.4	2.6	5.0	3.1	3.8	8.2	2.6	1.1	1.6
Belgium	0.9	0.7	0.8	0.3	0.9	0.5	1.1	0.9	—
Canada	2.7	7.0	6.2	2.1	3.9	5.9	8.3	1.3	0.5
Denmark	0.7	0.3	0.5	0.8	0.9	0.5	1.0	0.3	0.1
France	2.0	4.1	3.7	3.0	7.5	5.9	6.7	0.9	1.8
Italy	4.7	5.1	6.0	5.4	4.3	7.6	13.2	2.1	1.6
Spain	3.5	2.6	4.5	1.1	1.7	1.7	1.8	0.7	0.3
Sweden	0.4	1.0	0.1	0.5	2.3	0.7	2.7	0.8	1.1
United Kingdom	3.3	1.5	2.2	12.9	32.1	19.8	22.4	2.8	0.3
United States	5.3	3.5	5.2	15.7	28.3	32.9	11.7	2.9	2.7
Other	6.1	4.0	6.3	9.4	10.0	13.9	18.7	4.4	1.6
Developing countries²	29.2	16.0	22.8	16.4	17.5	18.2	17.8	3.4	2.6
Capital-importing developing countries ²	28.1	14.4	21.4	16.3	17.2	16.8	17.8	3.4	2.6
Africa	0.6	1.5	1.8	0.7	0.6	0.5	0.6	0.1	—
Côte d'Ivoire	0.1	0.1	—	—	0.2	—	—	—	—
Morocco	—	0.1	—	—	0.1	—	0.1	—	—
Nigeria	—	—	0.3	—	—	—	—	—	—
South Africa	0.2	—	—	—	—	—	—	—	—
Other	0.3	1.3	1.5	0.7	0.3	0.5	0.5	0.1	—
Asia	9.4	7.5	8.2	8.5	7.8	8.9	10.7	1.9	2.6
China	0.2	2.3	1.9	3.3	2.7	1.6	1.3	0.8	1.0
India	0.6	0.2	1.2	1.8	1.6	1.4	0.7	0.3	0.1
Indonesia	1.6	0.1	1.0	1.6	0.5	2.3	3.9	0.3	0.7
Korea	3.7	3.7	1.5	0.9	1.2	0.7	1.9	0.2	0.4
Malaysia	1.0	0.2	1.2	0.3	0.8	0.1	0.5	—	—
Philippines	0.9	—	—	—	—	0.7	—	—	—
Thailand	0.8	0.7	1.1	0.3	0.8	0.8	1.2	0.3	0.3
Other	0.6	0.3	0.3	0.3	0.2	1.3	1.2	—	0.1
Europe	1.6	2.8	2.8	4.1	2.2	2.1	1.7	—	—
Hungary	0.8	0.9	0.8	1.4	0.2	0.8	—	—	—
Turkey	0.4	1.6	2.0	2.6	1.7	1.7	1.6	—	—
Yugoslavia	—	—	—	—	0.3	—	—	—	—
Other	0.4	0.3	—	0.1	—	0.2	0.1	—	—
Middle East	0.4	0.3	0.1	0.3	0.2	0.7	0.1	—	—
Egypt	—	0.1	—	—	—	0.5	—	—	—
Jordan	0.3	0.2	—	0.2	0.2	0.1	—	—	—
Other	—	—	0.1	0.1	—	0.1	0.1	—	—
Western Hemisphere	16.1	2.4	8.5	2.7	6.4	4.6	4.8	1.4	—
Argentina	4.2	—	—	2.1	—	—	—	—	—
Brazil	6.5	—	—	—	5.2	0.1	—	—	—
Chile	0.8	1.1	—	—	0.2	—	0.3	—	—
Colombia	0.4	1.1	0.2	0.1	1.0	1.6	1.8	—	—
Ecuador	0.2	—	0.2	0.4	—	—	—	—	—
Mexico	3.8	—	7.7	—	—	1.3	0.5	—	—
Peru	—	—	—	—	—	—	—	—	—
Venezuela	—	—	—	—	—	—	1.4	1.4	—
Other	0.2	0.2	0.4	0.1	—	1.1	0.8	—	—

Table A4 (concluded).

	1984	1985	1986	1987	1988	1989	1990	First Quarter 1990	1991
Other countries n.i.e.³	1.9	3.5	2.1	1.5	2.5	1.5	3.0	—	—
Bulgaria	—	0.5	—	0.3	0.1	0.3	—	—	—
Czechoslovakia	—	0.1	0.3	0.2	0.2	0.3	—	—	—
U.S.S.R.	0.9	1.5	1.3	0.8	2.2	0.9	3.0	—	—
Other	1.0	1.5	0.5	0.2	0.1	0.1	—	—	—
Offshore banking centers	0.9	0.4	0.7	0.3	0.4	2.4	3.0	0.2	0.7
International organizations and unallocated	3.5	4.0	5.2	11.7	10.0	3.3	7.3	0.5	0.9
Total	67.5	56.3	71.3	84.3	126.1	123.0	121.3	22.3	15.8

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

¹OECD data on developing countries have been adjusted to include new money commitments under bank agreements in principle, as follows (amounts in billions of U.S. dollars):

1984: Argentina (3.7); Côte d'Ivoire (0.1); Ecuador (0.2); the Philippines (0.9).

1985: Costa Rica (0.1 revolving trade facility)

1986: Congo (0.1); Mexico (7.7); Nigeria (0.3)

1987: Ecuador (0.4)

1988: Côte d'Ivoire (0.2); Yugoslavia (0.3)

1989: Jordan (0.1); Mexico (1.1); the Philippines (0.7)

1990: Colombia (1.8); Uruguay (0.1); Venezuela (1.2)

²Excludes offshore banking centers.

³Includes former German Democratic Republic through 1989.

Table A5. External Assets of BIS Reporting Banks by Maturity and Undisbursed Credit Commitments, December 1986–June 1990
(In billions of U.S. dollars)

	December 1986			December 1987			December 1988			December 1989			June 1990		
	External assets			External assets			External assets			External assets			External assets		
	Up to and including one year	Undisbursed credit commitments	Total	Up to and including one year	Undisbursed credit commitments	Total	Up to and including one year	Undisbursed credit commitments	Total	Up to and including one year	Undisbursed credit commitments	Total	Up to and including one year	Undisbursed credit commitments	Total
Claims on industrial countries outside the BIS reporting area	91.5	40.4	131.9	106.5	49.5	156.0	107.7	49.9	157.6	112.9	54.2	167.1	117.3	58.7	176.0
Australia	34.4	15.8	50.2	39.4	18.2	57.6	42.3	19.5	61.8	45.5	21.9	67.4	47.9	23.4	71.3
Norway	17.5	10.0	27.5	23.2	14.3	37.5	21.5	13.0	34.5	22.8	14.2	37.0	24.3	15.8	40.1
Other	39.6	14.6	54.2	43.9	17.0	60.9	43.9	17.4	61.3	44.6	18.1	62.7	45.1	19.5	64.6
Developing countries	493.8	202.5	696.3	522.3	214.2	736.5	492.5	199.4	691.9	479.2	200.6	679.8	455.3	197.7	877.0
Capital-importing developing countries	467.0	182.0	649.0	493.3	192.1	685.4	464.0	178.0	642.0	447.3	176.5	623.8	423.9	174.9	598.8
Africa	66.6	31.7	98.3	73.2	33.4	106.6	66.9	29.1	96.0	64.4	30.2	94.6	64.9	29.4	94.3
Côte d'Ivoire	3.3	0.9	4.2	3.6	1.5	5.1	3.3	1.7	5.0	3.3	2.1	5.4	3.0	2.0	5.0
Morocco	4.9	2.3	7.2	5.2	2.3	7.5	4.6	1.3	5.9	4.6	1.5	6.1	4.6	1.7	6.3
Nigeria	9.9	5.1	15.0	10.8	4.5	15.3	9.0	3.8	12.8	7.3	2.4	9.7	7.0	2.3	9.3
South Africa	15.6	11.0	26.6	16.0	9.4	25.4	14.6	7.2	21.8	13.9	9.0	22.9	14.1	7.4	21.5
Zaire	0.8	0.3	1.1	1.0	0.4	1.4	1.1	0.5	1.6	1.0	0.5	1.5	1.1	0.6	1.7
Other	32.1	12.1	44.2	36.6	15.3	51.9	34.3	14.6	48.9	34.3	14.7	49.0	35.1	15.4	50.5
Asia	99.9	43.2	143.1	113.1	52.2	165.3	113.6	53.5	167.1	115.8	57.4	173.2	115.7	59.3	175.0
China	6.6	3.1	9.7	12.0	4.7	16.7	16.7	6.5	23.2	18.0	5.8	23.8	18.8	6.1	24.9
India	6.7	2.7	9.4	8.4	2.8	11.2	9.3	2.7	12.0	10.6	3.0	13.6	10.8	3.3	14.1
Indonesia	15.9	6.4	22.3	17.7	6.5	24.2	17.9	7.4	25.3	18.8	8.3	27.1	20.1	10.4	30.5
Korea	27.2	12.4	39.6	23.8	13.0	36.8	21.5	12.5	34.0	23.3	15.6	38.9	23.4	15.5	38.9
Malaysia	10.8	2.3	13.1	10.0	1.8	11.8	8.4	1.7	10.1	7.8	1.8	9.6	6.9	1.8	8.7
Philippines	13.9	5.5	19.4	13.1	4.1	17.2	11.6	2.8	14.4	9.6	2.9	12.5	9.1	3.0	12.1
Thailand	6.7	2.5	9.2	7.5	2.4	9.9	8.3	3.5	11.8	10.6	5.8	16.4	11.7	7.0	18.7
Other	12.1	8.3	20.4	20.6	16.9	37.5	19.3	16.4	35.7	17.1	14.2	31.3	14.9	12.2	27.1

Table A5 (concluded).

	December 1986			December 1987			December 1988			December 1989			June 1990		
	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments
	Up to and including one year	Total		Up to and including one year	Total		Up to and including one year	Total		Up to and including one year	Total		Up to and including one year	Total	
Europe	43.5	15.3	4.8	49.8	16.5	6.3	44.7	14.8	6.3	44.2	13.6	5.7	45.4	15.0	5.8
Hungary	10.0	3.4	1.2	12.4	3.2	1.5	11.7	3.0	1.3	12.9	3.1	1.3	11.2	2.7	1.1
Poland	10.7	2.4	0.3	11.9	3.3	0.5	10.3	3.1	0.4	10.0	2.8	0.4	10.1	2.5	0.7
Romania	2.8	1.0	0.2	2.4	...	...	0.7	0.4	0.3	0.2	0.2	0.3	0.2	0.2	0.2
Turkey	8.3	4.3	2.2	11.2	...	3.1	10.7	4.8	2.9	10.9	4.8	2.7	12.6	6.0	2.6
Yugoslavia	10.3	3.7	0.6	9.9	3.1	0.5	8.8	2.1	0.7	7.7	1.5	0.5	7.0	1.3	0.6
Other	1.4	0.5	0.3	2.1	6.9	0.7	2.5	1.4	0.7	3.4	1.7	0.5	4.3	2.3	0.6
Middle East	15.7	9.8	3.4	16.2	9.5	4.2	15.2	8.0	4.3	14.1	7.8	3.8	13.6	7.7	2.9
Egypt	6.5	3.3	1.9	6.8	3.4	2.1	6.1	2.8	1.9	6.1	3.0	1.6	5.9	2.8	1.5
Israel	5.2	3.4	0.5	5.0	2.9	0.8	4.3	2.3	1.3	3.5	2.1	1.1	3.4	2.2	0.7
Other	4.0	3.1	1.0	4.4	3.2	1.3	4.8	2.9	1.1	4.5	2.7	1.1	4.3	2.7	0.7
Western Hemisphere	241.2	81.9	21.2	241.0	80.5	22.1	223.5	72.6	22.7	208.7	67.5	21.8	184.2	63.6	21.4
Argentina	31.1	10.3	1.4	33.2	10.8	2.1	32.4	8.5	1.5	27.1	6.0	1.4	25.1	6.2	1.2
Brazil	69.4	25.6	4.9	69.2	28.6	4.8	63.9	26.1	5.0	61.0	23.3	4.7	55.0	20.7	4.0
Chile	14.2	5.5	0.7	12.8	4.6	1.2	11.0	3.9	0.8	9.3	4.1	0.8	8.6	3.9	0.9
Colombia	6.7	2.4	1.2	6.3	2.0	1.2	6.6	2.4	1.1	6.3	2.4	1.1	6.1	2.1	1.0
Ecuador	5.3	1.8	0.7	5.3	1.9	0.6	4.5	2.1	0.3	4.1	1.9	0.5	3.6	1.6	0.4
Mexico	70.9	16.5	4.3	69.9	15.7	4.3	62.8	13.9	2.6	59.7	14.6	2.3	46.9	14.6	3.7
Peru	4.5	2.6	0.4	4.2	2.5	0.2	3.7	2.3	0.1	3.1	1.9	0.2	3.0	1.7	0.1
Venezuela	25.9	11.3	1.4	25.2	6.7	1.7	25.0	6.8	3.4	23.1	5.9	1.5	21.2	5.6	1.5
Other	13.2	5.9	6.2	14.9	7.7	6.6	13.6	6.6	7.9	15.0	7.4	9.3	14.7	7.2	8.6
Other countries	51.4	22.5	6.6	60.1	25.5	9.1	66.3	28.5	11.6	76.5	35.3	12.3	73.6	31.3	11.9
n.i.e.															
Czechoslovakia	3.1	1.7	0.8	4.2	2.3	1.1	4.5	2.4	1.1	5.4	5.7	1.1	5.1	2.4	1.2
German Democratic Republic	12.2	4.7	1.7	15.0	5.8	2.3	16.0	5.2	3.0	17.1	2.6	2.4	17.2	5.7	2.4
U.S.S.R.	28.7	12.4	3.2	32.2	13.3	4.2	36.1	16.4	6.1	43.4	21.3	7.3	40.6	17.0	7.2
Other	7.4	3.7	0.9	8.7	4.1	1.5	9.7	4.5	1.4	10.6	5.7	1.5	10.7	6.2	1.1
Total	636.7	265.4	95.9	688.9	289.1	110.8	666.4	277.8	120.4	668.6	290.1	122.2	646.2	287.7	119.4

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

Table A6. Change in Claims of U.S. Banks on Developing Countries, 1985–90¹
(In billions of U.S. dollars, and in percent)

	1985		1986		1987		1988		1989 ²		1990 ²	
	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate
Developing countries³												
All banks	-13.0	-8.5	-12.5	-9.0	-7.1	-5.6	-15.0	-12.6	-14.3	-13.7	-11.4	-12.6
Nine banks	-7.1	-7.5	-7.7	-8.7	-4.3	-5.4	-7.5	-9.9	-7.0	-10.2	-5.9	-9.6
Fifteen banks	-5.0	-16.5	-2.8	-10.9	-1.4	-6.3	-3.4	-16.1	-3.9	-22.1	-3.4	-24.2
Others	-0.8	-3.2	-2.1	-8.1	-1.3	-5.7	-4.1	-18.5	-3.4	-18.8	-2.1	-14.3
Capital-importing developing countries³												
All banks	-11.6	-7.9	-11.7	-8.6	-6.1	-4.9	-14.8	-12.6	-14.6	-14.2	-11.3	-12.9
Nine banks	-6.3	-6.9	-7.0	-8.2	-3.6	-4.6	-7.1	-9.6	-7.3	-10.9	-5.9	-9.9
Fifteen banks	-4.6	-15.5	-2.8	-11.2	-1.2	-5.6	-3.5	-16.5	-3.9	-22.4	-3.3	-24.5
Others	-0.8	-2.9	-1.9	-7.7	-1.3	-5.4	-4.2	-19.0	-3.4	-19.0	-2.1	-14.4
Africa												
All banks	-2.8	-22.4	-2.0	-20.1	-0.3	-4.0	-1.3	-17.0	-0.5	-7.8	-0.9	-16.4
Nine banks	-1.6	-18.3	-1.4	-19.4	-0.1	-2.5	-1.0	-17.4	-0.3	-7.0	-0.7	-15.9
Fifteen banks	-0.9	-38.2	-0.3	-23.1	-0.1	-8.6	-0.1	-13.6	—	2.7	-0.2	-21.5
Others	-0.3	-23.9	-0.2	-20.9	-0.1	-10.1	-0.1	-18.8	-0.2	-32.1	—	-8.7
Asia												
All banks	-3.4	-11.9	-4.9	-19.3	-2.2	-10.7	-3.2	-17.6	-0.6	-3.8	-0.6	-4.1
Nine banks	-2.6	-13.5	-2.9	-17.7	-1.6	-11.6	-2.7	-22.5	-0.1	-1.2	0.3	2.9
Fifteen banks	-0.9	-14.9	-1.1	-21.4	-0.9	-21.3	—	-0.3	—	1.2	-0.8	-24.6
Others	0.1	4.3	-0.8	-23.9	0.3	11.7	-0.5	-17.0	-0.5	-21.9	—	-2.4
Indonesia												
All banks	-0.6	-18.8	-0.6	-21.6	-0.6	-29.4	-0.4	-25.6	-0.1	-4.2	0.2	20.5
Nine banks	-0.5	-16.7	-0.5	-22.4	-0.6	-30.9	-0.3	-26.4	-0.1	-7.9	0.1	16.8
Fifteen banks	-0.2	-36.9	—	-14.3	-0.1	-27.6	—	-24.3	—	-16.8	—	6.0
Others	—	3.0	—	-24.3	—	-9.3	—	-17.4	—	—	0.1	87.7
Korea												
All banks	-0.8	-7.9	-3.2	-34.6	-2.1	-35.8	—	0.2	0.1	3.0	0.3	8.1
Nine banks	-0.5	-9.7	-1.6	-31.1	-0.8	-24.2	-0.4	-14.6	0.3	12.8	0.3	10.6
Fifteen banks	-0.5	-17.0	-0.9	-41.3	-0.8	-59.4	0.4	71.4	—	-3.6	-0.3	-29.6
Others	0.2	13.3	-0.7	-35.8	-0.5	-43.9	—	1.5	-0.1	-21.1	0.3	59.4
Philippines												
All banks	—	-0.7	-0.3	-5.8	-0.4	-8.5	-0.7	-14.6	-0.8	-19.0	—	-1.1
Nine banks	—	0.9	-0.1	-2.3	-0.4	-11.6	-0.4	-11.5	-0.4	-12.6	0.1	5.9
Fifteen banks	-0.1	-6.8	-0.1	-13.2	-0.1	-9.8	-0.1	-16.8	-0.2	-34.1	-0.1	-20.9
Others	—	2.1	-0.1	-14.9	0.1	20.6	-0.2	-29.9	-0.1	-40.3	-0.1	-38.5
Europe												
All banks	-0.3	-4.4	-0.8	-12.8	-0.2	-4.4	-0.8	-15.8	-0.7	-17.1	-0.2	-6.6
Nine banks	-0.1	-1.6	-0.5	-13.0	-0.2	-6.1	-0.6	-17.0	-0.3	-10.6	—	-0.8
Fifteen banks	-0.1	-11.3	-0.1	-10.1	-0.1	-9.6	-0.1	-6.5	-0.2	-30.1	—	-7.0
Others	-0.1	-7.6	-0.1	-15.1	0.1	10.8	-0.2	-20.7	-0.2	-28.9	-0.2	-38.0
Middle East												
All banks	-0.7	-18.8	-0.6	-20.3	-0.7	-29.2	-0.4	-20.5	-0.3	-22.8	-0.1	-8.2
Nine banks	-0.5	-20.6	-0.5	-23.4	-0.5	-31.6	-0.2	-23.3	-0.3	-32.5	-0.1	-18.2
Fifteen banks	-0.2	-24.7	-0.1	-17.7	-0.1	-29.0	-0.1	-13.6	—	-10.7	—	23.4
Others	-0.1	-7.3	-0.1	-12.9	-0.1	-22.7	—	-9.7	—	-9.5	—	-9.1
Western Hemisphere												
All banks	-4.5	-4.7	-3.5	-3.9	-2.7	-3.0	-9.1	-10.7	-12.6	-16.5	-9.6	-15.2
Nine banks	-1.5	-2.7	-1.6	-3.0	-1.2	-2.2	-2.6	-5.0	-6.3	-12.7	-5.5	-12.6
Fifteen banks	-2.5	-13.0	-1.1	-6.8	-0.1	-0.4	-3.1	-20.0	-3.8	-30.4	-2.3	-27.1
Others	-0.5	-2.5	-0.8	-3.9	-1.4	-7.6	-3.4	-19.5	-2.5	-17.8	-1.8	-15.8

Table A6 (concluded).

	1985		1986		1987		1988		1989 ²		1990 ²	
	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate	Billion U.S. dollars	Growth rate
Argentina												
All banks	0.4	5.5	0.1	1.4	0.3	3.4	-0.9	-10.6	-3.4	-42.9	-1.0	-22.3
Nine banks	0.8	15.1	0.1	0.9	0.4	6.2	-0.3	-4.5	-2.6	-42.6	-0.7	-21.2
Fifteen banks	-0.2	-13.3	—	1.4	—	1.2	-0.4	-24.4	-0.6	-45.4	—	-6.0
Others	-0.1	-8.6	—	4.2	-0.1	-10.3	-0.3	-28.9	-0.2	-40.2	-0.2	-62.5
Brazil												
All banks	-1.1	-4.5	-0.4	-1.7	-1.1	-5.0	-1.9	-8.9	-3.1	-16.0	-4.8	-29.7
Nine banks	-0.3	-1.6	-0.2	-1.2	-0.4	-2.3	-0.1	-0.4	-1.7	-11.2	-3.3	-24.6
Fifteen banks	-0.8	-16.6	-0.2	-4.7	-0.3	-7.7	-0.7	-21.1	-1.0	-37.6	-0.8	-45.4
Others	—	-1.2	—	-0.5	-0.5	-14.9	-1.1	-39.3	-0.4	-24.2	-0.8	-61.7
Mexico												
All banks	-1.6	-6.0	-1.3	-5.1	-0.9	-3.9	-4.8	-21.3	-1.8	-10.2	-0.8	-5.3
Nine banks	-0.6	-4.1	-0.7	-5.2	—	—	-1.6	-11.7	-0.3	-2.1	-0.2	-2.1
Fifteen banks	-0.6	-12.0	-0.1	-1.1	-0.3	-6.8	-1.7	-39.4	-0.8	-30.5	—	0.8
Others	-0.3	-5.3	-0.5	-8.1	-0.6	-10.9	-1.6	-31.2	-0.8	-22.4	-0.6	-23.2
Venezuela												
All banks	-0.7	-6.7	-1.0	-9.7	-0.8	-8.7	-0.3	-3.8	-0.9	-10.7	-0.7	-9.9
Nine banks	-0.3	-4.1	-0.6	-8.7	-0.7	-10.5	-0.2	-3.0	0.1	1.4	-0.1	-1.3
Fifteen banks	-0.3	-15.9	-0.2	-9.2	—	1.2	-0.2	-15.2	-0.7	-50.5	-0.3	-49.5
Others	-0.1	-6.8	-0.2	-15.9	-0.1	-11.9	0.1	10.7	-0.3	-25.7	-0.3	-40.5

Source: Federal Financial Institutions Examination Council, *Country Exposure Lending Survey*.¹Data are based on consolidated reports of banks; owing to rounding, components may not add.²Data for 1989–90 are based on the 12 major banks.³Excludes offshore banking centers.

Table A7. U.S. Banks: Developing Country Claims Relative to Capital, 1984–90

	1984	1985	1986	1987	1988	1989	1990
	<i>(In billions of U.S. dollars)</i>						
External claims on developing countries ¹	140.8	128.8	118.6	108.8	93.2	78.8	65.9
Total assets	1,413.0	1,529.0	1,613.0	1,633.0	1,670.3	1,770.0	1,764.1
Capital	92.2	105.4	116.1	129.2	135.6	145.2	152.9
<i>Memorandum items</i>	<i>(In percent)</i>						
Capital to total assets	6.5	6.9	7.2	7.9	8.1	8.2	8.7
External claims on developing countries to total assets	10.0	8.4	7.4	6.7	5.6	4.5	3.7
Capital to external claims on developing countries	65.5	81.8	97.9	118.8	145.5	184.3	232.0

Sources: Federal Financial Institutions Examination Council, *Country Exposure Lending Survey*; and International Monetary Fund, *International Financial Statistics*.

¹Data are based on exposure, that is, claims are adjusted for guarantees and other risk transfers.

Table A8. Terms of Long-Term Bank Credit Commitments, 1985–April 1991¹

	1985	1986	1987	1988	1989	1990	Jan.–Apr. 1991
<i>Average maturity (in years)</i>							
OECD countries	7.8	6.7	8.3	5.7	6.2	6.5	5.3
Eastern Europe	7.4	6.3	7.5	5.1	5.8	5.8	4.9
Developing countries	7.4	7.8	8.1	8.4	8.3	11.9	—
Other	8.4	8.2	10.7	9.0	7.3	8.6	8.8
	7.3	6.8	6.1	6.5	8.8	6.6	2.0
<i>Average spread (basis points)</i>							
OECD countries	62	41	42	35	56	52	87
Eastern Europe	47	37	34	31	54	51	83
Developing countries	55	26	24	30	49	50	—
Other	92	61	68	65	68	60	100
	56	33	48	42	32	47	188
<i>Memorandum items (in percent)</i>							
Six-month Eurodollar interbank rate (average)	8.64	6.85	7.30	8.13	9.27	8.35	6.38
U.S. prime rate (average)	9.93	8.35	8.21	9.32	10.92	10.01	9.00

Sources: Organization for Economic Cooperation and Development, *Financial Market Trends*; and International Monetary Fund, *International Financial Statistics* (for Eurodollar and prime rates).

¹The country classification and loan coverage are those used by the OECD.

**Table A9. Average Spreads on Bank Credit Commitments
for Developing Countries, 1984–90**
(In basis points over London interbank offered rate)

	1984	1985	1986	1987	1988	1989 ¹	1990 ¹
Spontaneous commitments ²	72	64	61	56	57	68	60
Concerted commitments ³							
All	185	179	84	89	83	81	95
Three largest debtors	186	...	81	88	81	81	...
Others	174	179	140	100	108	81	95
Restructuring of existing debt ³							
All	131	138	95	80	83	81	82
Three largest debtors ⁴	128	...	85	81	81	81	...
Others	136	138	140	80	88	81	82
<i>Memorandum items</i>							
Difference between spreads							
Concerted/spontaneous	113	115	23	33	26	13	35
Restructuring/spontaneous	59	74	34	24	26	13	22
Concerted/restructuring	54	41	-11	9	—	—	13
Largest/others							
Concerted	12	...	-59	-12	-27	—	...
Restructurings	-8	...	-55	1	-7	—	...

Sources: Organization for Economic Cooperation and Development, *Financial Market Trends*; and IMF staff estimates.

¹Excludes restructurings of claims involving debt and debt-service reduction.

²Weighted average of nonconcerted bank commitments to "Developing Countries" as defined by the OECD.

³Based on term sheets agreed in principle.

⁴Argentina, Brazil, and Mexico.

**Table A10. Selected Developing Countries: Terms on
Syndicated Bank Credits, 1989–May 1991¹**

	1989		1990		Jan.–May 1991	
	Maturity	Spread	Maturity	Spread	Maturity	Spread
	<i>(In years)</i>	<i>(In basis points)</i>	<i>(In years)</i>	<i>(In basis points)</i>	<i>(In years)</i>	<i>(In basis points)</i>
Bahrain	10.5	51	7.2	38	3.0	65
Bulgaria	7.0	40	—	—	—	—
China	9.3	63	9.8	61	11.3	142
Colombia	11.8	87	—	—	5.0	150
Hong Kong	4.6	31	4.4	62	8.5	72
Hungary	8.8	53	8.0	82	—	—
India	10.4	30	8.4	30	—	—
Indonesia	7.0	95	9.3	78	5.8	99
Korea	7.1	38	10.3	48	7.4	54
Malaysia	5.8	22	13.3	58	—	—
Mexico	3.2	300	7.0	175	—	—
Pakistan	2.2	92	—	—	1.0	90
Singapore	4.2	73	10.3	26	3.0	137
Thailand	7.0	51	7.8	56	7.7	89
Average for Eastern European countries	8.3	49	11.9	50	—	—
Of which:						
U.S.S.R.	6.2	49	12.0	50	—	—

Source: Organization for Economic Cooperation and Development (OECD).

¹Excludes concerted commitments. Country classifications are those of the OECD.

Table A11. Amounts of Medium- and Long-Term Bank Debt Restructured, 1985–June 1991¹
(In millions of U.S. dollars; by year of agreement in principle)

	1985	1986	1987	1988	1989	1990	1991 First Half
Argentina	—	—	29,500 ²	—	—	—	—
Bolivia	—	—	—	—	—	—	—
Brazil	—	6,671 ³	—	61,000 ²	—	—	—
Chile	6,007	—	5,902 ²	—	—	1,800 ⁴	—
Congo	—	217	—	—	—	—	—
Costa Rica	440	—	—	—	1,825 ⁵	—	—
Côte d'Ivoire	—	691 ²	—	2,211 ²	—	—	—
Dominican Republic	787 ²	—	—	—	—	—	—
Ecuador	—	—	—	4,683 ²	—	—	—
Gabon	—	—	39	—	—	—	—
Gambia, The	—	—	19	—	—	—	—
Guinea	—	—	43	—	—	—	—
Guyana	(47) ⁴	(57) ⁴	—	—	—	—	—
Honduras	—	—	248 ²	—	132 ²	—	—
Jamaica	195	—	285 ²	—	—	332	—
Jordan	—	—	—	—	580 ²	—	—
Madagascar	... ⁷	—	... ⁷	—	—	21	—
Malawi	—	—	—	35 ²	—	—	—
Mexico	(950) ⁸	43,700 ²	—	3,671 ⁵	48,089 ⁵	—	—
Morocco	538	2,174	—	—	—	3,150	—
Mozambique	—	—	253 ²	—	—	—	—
Nicaragua	—	—	—	—	—	—	—
Niger	—	52	—	—	—	—	110
Nigeria	—	4,250	—	5,824 ²	—	—	—
Panama	579	—	—	—	—	—	—
Peru	—	—	—	—	—	—	—
Philippines	—	—	9,010 ²	—	781	—	—
Poland	—	1,970	8,441 ²	—	(351) ⁶	—	—
Romania	—	800	—	—	—	—	—
Senegal	20	—	—	—	—	37	—
Sierra Leone	—	—	—	—	—	—	—
South Africa	—	(9,800) ⁶	10,900 ²	—	—	—	—
Sudan	920	—	—	—	—	—	—
Togo	—	—	—	49 ²	—	—	—
Trinidad and Tobago	—	—	—	470 ²	—	—	—
Uruguay	1,958 ²	—	1,770 ²	—	—	1,604 ⁹	—
Venezuela	—	—	20,338 ²	—	—	19,786 ⁹	—
Yugoslavia	4,012 ²	—	—	6,895 ²	—	—	—
Zaire	(61) ⁶	(65) ⁶	(61) ⁶	—	(61) ⁶	—	—
Zambia	—	—	—	—	—	—	—
Total¹⁰	15,456	60,525	91,431	80,155	51,552	26,730	110

Sources: Restructuring agreements; and IMF staff estimates.

¹Excluding cash buy-backs but including short-term debt converted into long-term debt and debt exchanges involving interest or principal reduction. Amounts represent face value of old claims restructured. Does not include the March 1991 preliminary agreement with Nigeria and the May 1991 arrears agreement with Brazil.

²Multiyear rescheduling agreement (MYRA) entailing the restructuring of all eligible debt outstanding as of a certain date.

³Excluding \$9.6 billion in deferments corresponding to maturities due in 1986.

⁴Amendments to previous restructuring agreements.

⁵Collateralized debt exchanges involving principal reduction.

⁶Deferment agreement.

⁷Agreements in 1985 and 1987 modified debt-service profiles on debt rescheduled under the 1984 agreements; the amounts involved, however, are not shown because repayments made during 1985–87 have not been identified.

⁸Agreement was reached with creditor banks in this year to amend certain terms of previous restructuring agreements. The amounts involved, however, were not modified in relation to those shown for the previous year.

⁹Financing packages involve debt and debt-service reduction.

¹⁰Totals exclude amounts deferred, which are given in parentheses.

Table A12. Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987–June 1991
(By year of agreement in principle)

Face Value of Debt to Commercial Banks	Resources Used		Terms	Enhancements for New Instruments	Special Features	
	Retired	Issued				
<i>(In millions of U.S. dollars)</i>						
Argentina (1987)						
Noncollateralized debt exchange with interest reduction	15	15	—	Old claims exchanged at par for new exit bonds with 25- year maturity (12 years' grace) and 4 percent fixed rate.	—	New bonds excluded from future new money base.
Bolivia (1987)						
Cash buy-back	253	—	28 (bilateral donations)	At pre-announced price of 11 cents on the dollar.	—	—
Collateralized debt exchange with principal reduction	204	22	7 (bilateral donations)	Old claims exchanged for new zero-coupon 25-year bond car- rying 9.25 percent yield at a pre-announced exchange ratio of 1:0.11.	Principal and interest fully collateralized.	—
Debt forgiveness	16 ¹	—	—	—	—	—
Brazil (1988)						
Noncollateralized debt exchange with interest reduction	1,100	1,100	—	Old claims exchanged at par for new exit bonds with 25- year maturity (10 years' grace) and 6 percent fixed rate.	—	New bonds excluded from future new money base. Eligible for debt- equity conversion program.
Chile (1988)						
Cash buy-backs	439	—	248 (own resources)	\$299 million bought back in November 1988 at average price of 56 cents on the dollar; \$140 bought back in November 1989 at average price of 58 cents on the dollar. Price deter- mined in Dutch auction.	—	Resources used for buy-backs sub- ject to aggregate limit of \$500 mil- lion; debt to be extinguished subject to aggregate ceiling of \$2 billion.
Mexico (1988)						
Collateralized debt exchange with principal reduction	3,671	2,556	555 (own resources)	Old claims exchanged for new bond with 20-year bullet matu- rity and LIBOR plus 1 5/8; av- erage exchange ratio 1:0.7 (determined in Dutch auction).	Principal fully collateralized.	New bonds excluded from future new money base.

Costa Rica (1989) Cash buy-back	991	—	At pre-announced price of 16 cents on the dollar.	—	—
	290	225 (from bilateral and multilateral sources and Costa Rica's own reserves)	(a) Old debt exchanged at par for new 20-year bond (10 years' grace) carrying 6.25 percent fixed, negotiated rate.	(a) Eighteen-month interest guarantee (excess enhancement funds to be applied to increase coverage up to 18 months).	(a) Available only to banks tendering at least 60 percent of their exposure to the buy-back option. Value recovery clause linked to GDP growth.
	289	—	(b) Past-due interest exchanged at par for a new claim with a 15-year maturity (no grace period) and LIBOR plus 13/16. (c) Old claims (including past-due interest) exchanged at par for a new 25-year bond (15 years' grace) carrying 6.25 percent fixed, negotiated rate.	(b) Thirty-six month interest guarantee. (c) —	(b) Available only to banks tendering at least 60 percent of their debt and past-due interest claims to the buy-back option. Value recovery clause linked to GDP growth. (c) Optional to banks tendering less than 60 percent of their exposure (including past-due interest) to the buy-back option. (a), (b), and (c): new bonds eligible for debt-equity conversion program.
Honduras (1989) Noncollateralized debt restructuring with interest reduction ²	132	132	Old claims (including interest arrears) restructured into new claims with 20-year maturity (7–10 years grace) and 6.25 percent fixed, negotiated rate. ³	—	Interest rate to be increased by up to 3 percentage points if GDP growth exceeds threshold rate. Voluntary amortization during grace period to be matched on 1:1 basis for debt forgiveness. Seventy percent of arrears before restructuring to be forgiven upon 20 percent downpayment; further forgiveness (of 5 percent of such arrears a year) if debtor remains current on interest in subsequent years.
Mexico (1989) Collateralized debt exchanges Principal reduction	20,581	13,372	Old claims exchanged for new bond with 30-year bullet maturity and LIBOR plus 13/16; exchange ratio 1:0.65 (negotiated).	Principal fully collateralized and 18-month rolling interest guarantee.	Recovery clause in case real oil prices exceed threshold real price of \$14 a barrel. New bonds excluded from future new money base and eligible for debt-equity conversion.
Interest reduction	22,427	22,427	Old claims exchanged at par for new bond with 30-year bullet maturity and 6.25 percent	Same as above	

Table A12 (concluded).

	Face Value of Debt to Commercial Banks		Resources Used	Terms	Enhancements for New Instruments	Special Features
	Retired	Issued				
Philippines (1989) Cash buy-back	1,339	—	670 (including resources from IMF and World Bank)	At pre-announced price of 50 cents on the dollar.	—	—
Venezuela (1990) Collateralized debt exchanges Principal reduction	1,411	647	2,580* (including resources from IMF and World Bank)	Old claims exchanged for new three-month notes with present value equal to 45 percent of face value of old claims.	Face value of notes fully collateralized by short-term U.S. Treasury securities.	
Principal reduction	1,794	1,256		Old claims exchanged for new bond with 30-year maturity and LIBOR plus 13/16 at pre-negotiated exchange ratio of 1:0.70.	Principal fully collateralized and 14-month rolling interest guarantee.	Eligible for debt-equity conversion. Includes warrants to be triggered in case oil prices exceed threshold price of \$26 a barrel in 1996, adjusted for inflation thereafter through 2020.
Interest reduction	7,415	7,415		Old claims exchanged at par for new bond with 30-year maturity and fixed interest rate of 6.75 percent.	Principal fully collateralized and 14-month rolling interest guarantee.	
Temporary interest reduction	2,918	2,918		Old claims exchanged for new bond with 17-year maturity and interest rate of 5 percent for the first and second years, 6 percent for the third and fourth years, 7 percent for the fifth year, and LIBOR plus 7/8 of 1 percent thereafter.	Twelve-month rolling interest guarantee for the first five years.	Eligible for debt-equity conversion.

Niger (1991)**Collateralized debt exchanges**
Principal reduction

...	...	...	...
20 (including resources from IDA debt reduction facility and French and Swiss grants)		Old claims exchanged for new 60-day notes with face value equivalent to 18 percent of outstanding value of principal.	Face value of notes fully collateralized by BCEAO.

Operation has been structured as a novation, that is the exchange of a new obligation for an old obligation.

Interest reduction

...	...	Old claims exchanged at par for 21-year non-interest-bearing notes.	Principal on these notes guaranteed by zero coupon bonds purchased by BCEAO.
-----	-----	---	--

Nigeria (1991)**Cash buy-back**

...	...	Price to be determined.
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Interest reduction

...	...	Old claims exchanged at par for new registered bonds with a 30-year bullet maturity and a fixed interest rate of 5.5 percent for 3 years and 6.25 percent thereafter.	Principal fully collateralized by U.S. Treasury bonds with a 12-month interest guarantee.
-----	-----	---	---

Uruguay (1991)
Cash buy-back

633	—	At pre-announced price of 56 cents on the dollar.
-----	---	---

Interest reduction

530	530	Old claims exchanged at par for new bonds with a 30-year bullet maturity and a fixed interest rate of 6.75 percent.	Principal fully collateralized and an 18-month rolling interest guarantee.
-----	-----	---	--

Value recovery clause allowing for larger payments in the event of a favorable performance of an index of Uruguay's terms of trade.

Sources: Debt restructuring agreements; and IMF staff estimates.

Note: BCEAO = Banque Centrale des Etats de L'Afrique de L'Ouest; IDA = International Development Association.

¹Includes \$0.6 million of debt-for-nature swap.²Reflects two separate bilateral agreements with Bank of America and Lloyds Bank.³A fixed rate of 4 percent applies to \$17 million of restructured interest arrears.⁴Including about \$210 million used to offer comparable collateral for bonds issued prior to 1990.

Table A13. Terms of Selected Bank Debt Restructurings and Financial Packages, 1984–June 1991¹

Country	Year of Agreement	Type of Transaction	Grace Period	Maturity	Interest Rate	Fees
			(In years)		(In percent spread over LIBOR/U.S. Prime)	(In percent)
Argentina	1984	Restructuring	3	10 to 12	1 ³ / ₈	—
		New financing	3	10	1 ⁵ / ₈ –1 ¹ / ₄	5/ ₈
	1987	New financing	5	12	7/ ₈	3/ ₈ ²
		New financing ³	—	4	7/ ₈	3/ ₈ ²
		Restructuring ^{4,5}	7	19	13/ ₁₆	—
Brazil	1984	Restructuring ^{4,5}	5	12	13/ ₁₆	—
		Restructuring	5	9	2–1 ³ / ₄	1
		New financing	5	9	2–1 ³ / ₄	1
	1986	Restructuring	5	7	1 ¹ / ₈	—
	1988	Restructuring ⁵	7	19	13/ ₁₆	—
		New financing ⁶	5	12	13/ ₁₆	3/ ₈ ²
Chile	1984	New financing ³	9	9	13/ ₁₆	3/ ₈ ²
		Restructuring	5	9	1 ³ / ₄ –1 ¹ / ₂	5/ ₈
	1985	Restructuring	6	12	1 ³ / ₈	1/ ₈
		New financing	5	10	1 ⁵ / ₈ –1 ¹ / ₄	1/ ₂
	1987	Restructuring ^{4,5}	3	5	1 ¹ / ₈	—
		Restructuring ⁵	5	15 ¹ / ₂	1	—
	1988	Restructuring ^{4,5}	5	15	13/ ₁₆	—
Côte d'Ivoire	1990	Restructuring ^{3,4}	3	5	7/ ₈	—
		Restructuring	4	8 to 12	Original rates	—
		Restructuring	2	7	17/ ₈ –1 ⁵ / ₈	1 ¹ / ₄
	1984	Restructuring	3	8	17/ ₈ –1 ⁵ / ₈	1 ¹ / ₄
		New financing	3	7	17/ ₈ –1 ⁵ / ₈	1 ¹ / ₄
		Restructuring ⁵	3	9	1 ⁵ / ₈ –1 ³ / ₈	—
	1988	Restructuring ⁵	5	14 ¹ / ₂	1 ¹ / ₄	1/ ₂ ²
Dominican Republic	1985	New financing	4	8	1 ¹ / ₂	3/ ₄ ²
		Restructuring ⁵	3	13	1 ³ / ₈	—
Ecuador	1985	Restructuring ⁵	3	12	1 ³ / ₈	—
		New financing	2	10	1 ⁵ / ₈ –1 ¹ / ₄	—
	1987	Restructuring ⁷	3	10	1	—
		Restructuring ⁸	7	19	15/ ₁₆	—
		New financing	2	8	1	1/ ₈ –1/ ₂ ²
Jamaica	1987	Rescheduling	1 ¹ / ₂	8 ¹ / ₂	1 ¹ / ₄	—
		Rescheduling	9	12 ¹ / ₂	1 ¹ / ₄	—
	1990	Refinancing	—	10 ¹ / ₂	13/ ₁₆	—
		Refinancing	7 ¹ / ₂	14 ¹ / ₂	13/ ₁₆	—
Mexico	1984	New financing	5 ¹ / ₂	10	1 ¹ / ₂ –1 ¹ / ₈	5/ ₈
		Restructuring ⁵	0 to 1	14	7/ ₈ in 1985–86	—
					1 ¹ / ₈ in 1987–91	—
	1986				1 ¹ / ₄ in 1992–98	—
		Restructuring ⁵	7	20	13/ ₁₆	—
		New financing	5	12	13/ ₁₆	—
		New financing ⁹	7	12	13/ ₁₆	—
		New financing ¹⁰	4	8	13/ ₁₆	—
	1989	New financing	7	15	13/ ₁₆	—
		Restructuring	7	15	13/ ₁₆	—

Table A13 (concluded).

Country	Year of Agreement	Type of Transaction	Grace Period	Maturity	Interest Rate	Fees
			(In years)		(In percent spread over LIBOR/U.S. Prime)	(In percent)
Morocco	1986	Restructuring	3	7	1 ³ / ₄	—
	1987	Restructuring				
		—Not previously rescheduled	4	11	1 ³ / ₁₆	—
		—Previously rescheduled	4	4	1 ³ / ₄	—
		—Conversion short-term in-medium-term	—	6	1 ³ / ₁₆	—
		—Trade arrears	—	5 ¹ / ₂	Original rates	—
	1990	Restructuring	7–10	15–20	1 ³ / ₁₆	—
Nigeria	1986	Restructuring ¹¹	1	4	1 ¹ / ₄	1/2
		Restructuring ¹²	3	9	1 ¹ / ₄	1/2
		New financing	3	7	1 ⁵ / ₁₆	1/2
	1988	Restructuring ¹³	3	20	7/8	1/2 ¹⁴
		Restructuring ¹⁵	3	15	1 ³ / ₁₆	—
	1990	Restructuring ¹⁶	—	3	none ¹⁷	—
Philippines	1984	Restructuring	5	10	1 ⁵ / ₈	—
		New financing	5	9	1 ³ / ₄ –1 ³ / ₈	1/2
	1987	Restructuring ⁵	7 ¹ / ₂	17	7/8	—
		Restructuring ^{5,18}	6	10	1 ³ / ₈	—
Poland	1988	Restructuring	8	15	1 ³ / ₁₆	—
Uruguay	1986	Restructuring ⁵	3	12	1 ³ / ₈	—
		Restructuring ^{4,5}	3	12	1 ⁵ / ₈	—
	1987	Restructuring ^{4,5}	3	17	7/8	—
	1990	New financing	7	15	1	1/8 ²
		Restructuring	7	15	7/8	1/8 ²
Venezuela	1984	Restructuring ⁵	—	12 ¹ / ₂	1 ¹ / ₈	—
	1987	Restructuring ⁴	—	13	7/8	—
	1990	New financing	7	15	7/8–1	1/2 ²
		Restructuring	7	15	1 ⁷ / ₈	—
Yugoslavia	1984	Restructuring	4	7	1 ⁵ / ₈ –1 ¹ / ₂	7/8
	1985	Restructuring ⁵	4	10 ¹ / ₂	1 ¹ / ₈	—
	1988	Restructuring ⁵	5	18	1 ³ / ₁₆	—
		New financing	5	5	7/8	1/4 ²

Sources: Restructuring agreements.

¹Classified by year of agreement in principle.²Early participation fee.³New trade credit and deposit facility.⁴Amendment to previous reschedulings or new money packages.⁵Multiyear debt restructuring agreement (MYRA).⁶New money bonds, parallel financing, and cofinancing with the World Bank.⁷Restructuring of maturities under the 1983 and 1985 new money agreements.⁸Restructuring of maturities under the 1985 MYRA and other refinancing agreements.⁹Growth contingency cofinancing with the World Bank.¹⁰Contingent investment support facility.¹¹Arrears as of September 26, 1986.¹²Maturities falling due in April 1986–December 1987.¹³Medium-term debt.¹⁴Only on previously unstructured debt.¹⁵Letters of credit covered by previous agreement.¹⁶Arrears of interest, fees, and commission on letters of credit.¹⁷Debt will not be interest-bearing provided it is paid on time.¹⁸Of private financial and private corporate sector debt, except for private corporate sector debt due in 1990–92 under the 1985 restructuring agreement. The latter maturities are restructured at public-sector terms.

Table A14. Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1987–June 1991¹

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided (In millions of U.S. dollars)	Grace Period (In years, unless otherwise noted)	Maturity	Interest Rate (In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Argentina					
Agreement in principle of April 24, 1987; final agreement August 1987					
Rescheduling of public and private sector indebtedness ²	100 percent of principal	25,300	8	19	¹³ / ₁₆
Rescheduling of 1983 and 1985 term credit agreements	100 percent of principal 100 percent of principal	4,200	5	12	¹³ / ₁₆
New medium-term loan	New financing	1,550	5	12	⁷ / ₈
New trade credit and deposit facility	New financing	400	—	4	⁷ / ₈
Amendment to trade credit and deposit facility of 1985	Maturity lengthened to coincide with 1987 trade credit deposit facility	500	—	4	¹³ / ₁₆
Trade credit maintenance facility	Banks will continue to maintain trade credit at levels of September 30, 1984	1,200	—	2	¹³ / ₁₆
Stand-by money market facility	Banks will continue to make available to the Central Bank on request any amounts outstanding to foreign branches and agencies of Argentine banks on September 30, 1984	1,400	—	2	³ / ₄
Bolivia					
Agreement in principle of March 4, 1987; signed July 10, 1987					
Amendment to 1981 refinanc- ing agreement to allow for debt buy-backs and conver- sions	Debt reduction (see Table A12)				
Brazil					
Agreement with Advisory Com- mittee of June 22, 1988; ³ final agreement November 11, 1988					
Rescheduling of public and private debt ⁴ falling due in 1987–93	100 percent of principal	61,000	7	19	¹³ / ₁₆
New medium-term financing ⁵	New financing	4,600	5	12	¹³ / ₁₆
New medium-term trade credit and deposit facility	New financing	600	9	9	¹³ / ₁₆
Short-term trade credit facility ⁶	Banks will maintain trade credit at their 1986 commitment level	10,182	—	2½	¹ / ₈ – ³ / ₄
Interbank facility ⁶	Banks will maintain interbank credit at their 1986 commitment level	4,651	—	2½	⁵ / ₈

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided (In millions of U.S. dollars)	Grace Period (In years, unless otherwise noted)	Maturity	Interest Rate (In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Chile					
Agreement of June 17, 1987 ⁷					
Amendment to 1983–87 re- structuring agreements	100 percent of principal falling due in 1988–90	2,951	5	15½	1
Amendments to 1983–84 new money agreements	100 percent of principal falling due in 1988–90	1,416	3	5	1½
1988–91 unrescheduled origi- nal maturities	100 percent of principal	1,534	5	15½	1
Extension of short-term trade related facility until end of 1989	100 percent rollover	1,700	—	2	1¾–1½
Agreement in principle of March 22, 1988; final agreement August 1988					
Amendments to the restructur- ing agreements of June 17, 1987					
1983–84 and 1985–91 restructuring agree- ments ⁸	Unchanged	Unchanged	Unchanged	Unchanged	13/16 ⁹
1983–85 new money agreements and 1985 cofinancing agree- ment ¹⁰	Unchanged	Unchanged	Unchanged	Unchanged	7/8 ⁹
Waivers to allow buy- backs and exchanges	Debt reduction (see Table A12)				
Agreement in principle of October 1990; final agreement of December 1990					
Amendments to the restructur- ing agreements of June 17, 1987, already amended in August 1988	1983–84 restructuring agreements, 1985–87 restructuring agreements, 1988–91 restructuring agreements, 1983–85 new money agreements Unchanged	1,800	4	8–12	Unchanged ¹¹
Costa Rica					
Preliminary agreement of November 16, 1989	Debt reduction (see Table A12)				
Côte d'Ivoire					
Agreement in principle of April 29, 1988					
Rescheduling of public and private eligible debt					
In arrears as of the end of 1987	100 percent of principal	111	5	14½	1¼
Falling due in 1988–95	100 percent of principal	2,100	5	14½	1¼
New medium-term loan	New financing	151	4	8	1½

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided <i>(In millions of U.S. dollars)</i>	Grace Period <i>(In years, unless otherwise noted)</i>	Maturity	Interest Rate <i>(In percent spread over LIBOR/U.S. prime, unless otherwise noted)</i>
Ecuador					
Agreement in principle of November 25, 1987					
Rescheduling of 1983 and 1985 new money agree- ments	100 percent of principal	631	3	10	1
Rescheduling of maturities under 1985 MYRA and other rescheduling agree- ments	100 percent of principal	4,052	7	19	¹⁵ / ₁₆
New medium-term loan	New financing	350	2	8	1
Gabon					
Agreement in principle of June 4, 1987; final agreement December 1987					
Rescheduling of principal due September 21, 1986– December 31, 1988	100 percent of principal	39	4	9	1 ³ / ₈
Gambia, The					
Agreement in principle of May 27, 1987; final agreement February 15, 1988					
Rescheduling of public debt outstanding as of December 18, 1986	100 percent of principal	19	3½	8	1¼
Guinea					
Agreement in principle of Novem- ber 1987; final agreement April 20, 1988					
Restructuring of short- and medium-term debt outstanding	70 percent of principal	43	½	3	1¾
Honduras					
Agreement in principle of June 26, 1987					
Restructuring of principal and interest in arrears	100 percent of arrears as of the end of March 1987	219	6	8	1½
Restructuring of maturities falling due in 1987–89	100 percent of principal	29	6	8	1½
Agreements of August 17, 1989					
Bilateral concessional re- scheduling of debt to Lloyds Bank					
Principal outstanding at end–October 1989	100 percent	46 ¹²	7	20	6.25 percent fixed rate ¹³
Interest arrears at end– October 1989	100 percent	22 ^{12,14}	7	20	6.25 percent fixed rate ¹³
Bilateral concessional re- scheduling of debt to Bank of America					
Principal outstanding	100 percent	47 ¹²	10	20	6.5 percent
Interest arrears as of end– October 1989	100 percent	17 ¹⁴	2½	20	4 percent fixed rate

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(In millions of U.S. dollars)	(In years, unless otherwise noted)		(In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Jamaica					
Agreement of May 7, 1987					
Rescheduling of maturities falling due April 1985 to end-1986	100 percent of principal	185	1½	8½	1¼
Rescheduling of maturities falling due January 1987 to March 31, 1990	100 percent of principal	100	9	12½	1¼
Agreement of June 26, 1990					
Refinancing of debt previ- ously rescheduled in 1987					
Tranche A	100 percent of principal	144	—	10½	13/16
Tranche B	100 percent of principal	188	8	14½	13/16
Jordan					
Agreement in principle of November 20, 1989					
Restructuring of medium-term loans maturing between January 1, 1989–June 30, 1991	100 percent of principal	580	5	11½	13/16
New medium-term money fa- cility	New money	50	3	3	13/16
Madagascar					
Agreement of June 15, 1987					
Modifications to 1984 and debt service profile on re- scheduled debt	1985 agreements altering 100 percent of principal	15	—	9	15/8–17/8
Agreement in principle in Oc- tober 1989 and signed on April 10, 1990					
Rescheduling	100 percent of principal falling due on December 15, 1989 and 50 per- cent of principal falling due in 1990–93	21.1	3½	9	7/8–1
Malawi					
Agreement in principle of April 26, 1988; final agreement October 4, 1988					
Rescheduling of public and publicly guaranteed debt outstanding as of August 21, 1987	100 percent of principal	35	4	8	1¼
Mexico					
Agreement of August 14, 1987					
Private sector debt under For- ward Coverage Scheme (FICORCA)	100 percent of principal	6,000–8,000 ¹⁶	7	20	13/16
Request for waivers of De- cember 30, 1987; auction completed February 26, 1988					
Amendment to previous agreements to allow for debt exchanges	Debt reduction (see Table A12)				

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided (In millions of U.S. dollars)	Grace Period (In years, unless otherwise noted)	Maturity	Interest Rate (In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Mexico (continued)					
Agreement of February 4, 1990					
New money facility	New money ¹⁷	1,090	7	15	¹³ / ₁₆
Collateralized debt exchanges	Debt reduction (see Table A12)				
Restructuring of maturities of eligible debt not subject to debt and debt-service re- duction	100 percent of principal	6,400	7	15	¹³ / ₁₆
Morocco					
Agreement in principle of April 1990; final agreement of September 1990					
Restructuring of the entire debt outstanding at end- 1989	100 percent of pre-cut-off debt	3,150	7-10	15-20	¹³ / ₁₆
Debt buy-backs authorized					
Mozambique					
Agreement in principle of May 27, 1987					
Refinancing of trade-related and other short-term debt	100 percent of principal outstanding on May 27, 1987	86	5	8	¹ / ₈
Restructuring of medium-term debt	100 percent of principal outstanding on May 27, 1987	54	8	15	¹ / ₈ ¹⁸
Restructuring of all non- principal overdue amounts on short- and medium-term debt	100 percent of arrears as of June 30, 1987	113	8	12	¹ / ₈ ¹⁸
Niger					
Agreement in principle of January 1991 collateralized debt ex- changes	Debt reduction (see Table A12)				
Nigeria					
Agreement in principle of Septem- ber 1988; final agreement of April 1989					
Restructuring of debt outstan- ding at end-1987					
Not previously re- scheduled medium- term debt	100 percent of principal	1,256	3	20	⁷ / ₈
Debt covered by the No- vember 1987 re- scheduling agreement	100 percent of principal	1,635	3	20	⁷ / ₈
Debt (letters of credit) covered by the No- vember 1987 refinan- cing agreement	Arrears on interest, fees, and commissions on letters of credit	2,448	3	15	¹³ / ₁₆
Agreement in principle of March 1991		490 ¹⁹	—	3	non-interest- bearing
New money bond exchange	Banks would provide new money for an amount equivalent to 20 percent of debts exchanged for noncollateralized new bonds.				
Buy-back and debt exchange	Debt reduction (see Table A12)	...	7	15	1

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		<i>(In millions of U.S. dollars)</i>	<i>(In years, unless otherwise noted)</i>		<i>(In percent spread over LIBOR/U.S. prime, unless otherwise noted)</i>
Philippines					
Agreement in principle of March 27, 1987; final agreement of December 1987:					
Rescheduling of public and publicly guaranteed debt:					
Due January 1, 1987– December 31, 1992	100 percent of principal	2,762	7½	17	7/8
Due January 1, 1989– December 31, 1994 under 1985 restructur- ing agreement	100 percent of principal	3,963	7½	17	7/8
Rescheduling of private financial sector debt:					
Due January 1, 1987– December 31, 1992	100 percent of principal	13	6	10	13/8
Due January 1, 1989– December 31, 1992 under 1985 restructur- ing agreement	100 percent of principal	1,172	6	10	13/8
Rescheduling of private cor- porate debt:					
Due January 1, 1987– December 31, 1992	100 percent of principal	653	6	10	13/8
Due January 1, 1990– December 31, 1992 under 1985 restructur- ing agreement	100 percent of principal	447	7½	17	7/8
Extension of short-term trade- related facility until June 30, 1991	100 percent rollover	2,965	4½	5	3/4
Change in spread for 1985 new medium-term loans	—	Unchanged	Unchanged	Unchanged	7/8
Agreement in principle of October 1989; final agreement of February 1990:					
New money bonds or loans ²⁰	New money	612 ²¹	8	15	13/16
Rescheduling of maturities falling due in 1990–93	100 percent of principal	781	8	15	13/16
Change in spread on previ- ously restructured debt	—	Unchanged	Unchanged	Unchanged	13/16
Waivers to allow debt buy- backs and exchanges	Debt reduction (see Table A12)				

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided (In millions of U.S. dollars)	Grace Period (In years, unless otherwise noted)	Maturity	Interest Rate (In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Poland					
Agreement in principle of August 1987; final agreement July 1988					
Rescheduling of maturities falling due in 1987-90, including previously restructured debt	100 percent of principal	5,219	1	15	¹³ / ₁₆
Rescheduling of maturities falling due in 1991-93, including previously restructured debt	100 percent of principal	3,082	6	15	¹³ / ₁₆
Modification of the 1986 restructuring agreement covering payments falling due in 1987	50 percent of principal	140	—	2	¹³ / ₁₆
Short-term revolving trade credit facility	Banks will maintain 100 percent of trade-related facilities under the 1983 and 1984 agreements	1,000	—	2	¹³ / ₁₆
Agreement in principle of June 16, 1989					
Deferment of amortization payments falling due between May 1989 and December 1990 ²²	100 percent	206	...	...	Unchanged
Agreement in principle of October 1989					
Rescheduling of interest falling due in the fourth quarter of 1989 ²³	85 percent	145	...	...	
Romania					
Agreement in principle of September 1987					
Change in spread of 1986 restructuring agreement	Unchanged	Unchanged	Unchanged	Unchanged	⁷ / ₈
Senegal					
Agreement of September 1990		37	—	9	⁷ / ₈
South Africa					
Second interim debt arrangement of March 24, 1987					Margin applicable in August 1985 plus a maximum additional spread of up to 1 percentage point
Short- and medium-term debt subject to September 1985 standstill due June 30, 1987 to June 30, 1990	About 87 percent of principal	10,900	3	3	
Togo					
Agreement of May 1988					
Arrears and principal outstanding at end of 1987	100 percent of principal	49	4	8	¹³ / ₈
Trinidad and Tobago					
Agreement in principle of November 1988; final agreement December 1989					
Medium- and long-term maturities falling due September 1, 1988–August 31, 1992	100 percent of principal	446	4½	12½	¹⁵ / ₁₆

Table A14 (continued).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided (In millions of U.S. dollars)	Grace Period (In years, unless otherwise noted)	Maturity	Interest Rate (In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Uruguay					
Agreement in principle of November 1987; final agreement March 1988					
Restructuring of debt covered by the July 1986 agreement	100 percent of principal	1,695	3	17	7/8
Restructuring of maturities falling due in 1990-91, according to the pre-MYRA 1986 schedule	100 percent of principal	75 ²⁴	3	17	7/8
Agreement in principle of November 1990; final agreement January 1991					
New Money Bond Exchange	20 percent increase in exposure via purchase of new bonds would entitle banks to exchange at par old debt for noncollateralized "debt conversion notes."	89	7	15	1.0
Buy-back and debt exchange	Debt reduction (see Table A12)				
Venezuela					
Agreement with Steering Committee of February 27, 1987; final agreement September 18, 1988					
Modification of February 1986 rescheduling agreement	100 percent of principal	20,338	—	13	7/8
Agreement in principle of March 20, 1990; final term sheet of June 25, 1990; final agreement of December 5, 1990					
New money bond exchange	Old debt (equal to five times the new money provided) to be exchanged at par for new, noncollateralized bonds.	1,212	7	15	1 and 7/8 ²⁵
Collateralized debt exchanges	Debt reduction (see Table A12)				
Yugoslavia					
Tentative agreement with bank coordinating committee of April 20, 1988; final agreement September 21, 1988					
Rescheduling of the stock of medium- and long-term debt	100 percent of principal	6,895	5	18	13/16
New trade deposit facility	New financing	300	5	5	7/8

Table A14 (concluded).

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided (In millions of U.S. dollars)	Grace Period (In years, unless otherwise noted)	Maturity	Interest Rate (In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Zaire					Originally con- tracted rate
Deferment agreement of May 1987 ²⁶	Principal	61	...	...	
Deferment agreement of June 1989 ²⁷	Principal	61	...	...	1.5
Memorandum item					
Non-Fund member					
North Korea:					
Agreement in principle of September 1987					
Rescheduling of arrears	...	770	4	12	1 ³ / ₄ ²⁸

Sources: Restructuring agreements; and IMF staff estimates.

¹Arrangements approved in principle before January 1, 1987 were reported in *International Capital Markets: Developments and Prospects*, World Economic and Financial Surveys (Washington: International Monetary Fund, April 1989).

²For public debt, pre-December 9, 1982, debt originally falling due prior to January 1, 1986, which has been previously restructured, and debt originally falling due after December 31, 1985, which has not been previously restructured. Excluded is indebtedness under the 1983 and 1985 term credit agreements and the 1985 trade credit and deposit facility, which is rescheduled on different terms. For private-sector borrowers, the restructuring of principal maturities of pre-December 9, 1982, indebtedness maturing subsequent to December 31, 1985, including previously restructured maturities. Up to \$5 billion of eligible debt could be exchanged at par for 25-year exit bonds carrying a fixed 4 percent yield.

³The agreement provides also for repricing and retiming of public sector debt. The savings to Brazil from repricing, which will consist of a reduction in the spread over the London interbank offered rate (LIBOR) from their current range (1.125–2.414) to ¹³/₁₆, are estimated at \$100 million in 1988 and \$380 million in 1989. Retiming of interest periods from a quarterly to a six-monthly basis is estimated to provide relief of \$600 million in 1988.

⁴Excluding (1) about \$1 billion corresponding to repayments on voluntary lending after January 1, 1983 falling due in 1988–93; and (2) amounts under switching operations (see footnote 6). Up to \$5 billion of eligible debt could be exchanged at par for 25-year exit bonds carrying 6 percent fixed yield.

⁵Includes at least \$2,850 million in parallel financing with the World Bank; two cofinancing facilities with the World Bank for up to \$500 million and \$210 million, respectively; and new money bonds for up to \$1 billion.

⁶Banks will be permitted to switch up to \$1.8 billion of interbank commitments to trade commitments during 1988–90.

⁷Interest periods under all agreements were temporarily converted to periods of 12 months providing relief in 1988 of an estimated \$415 million.

⁸Amendments also allow for repayments in Chilean currency and the pledge of collaterals to facilitate debt reduction, hedging operations, and the raising of voluntary new money. New money may be collateralized in amounts of up to \$100 million in 1988, \$200 million in 1989, and \$200 million a year, thereafter, with an aggregate limit of \$500 million outstanding at any point after 1989. No more than \$200 million of new money can be collateralized with exportable assets. The limit on collateral for risk-management techniques is \$150 million.

⁹Spreads and guarantee fees would revert to their previous levels should Chile ask for new money "on a concerted basis" before the end of 1989.

¹⁰Amendments to the 1985 new money agreement also allow for an increase, as of January 1, 1989, of \$35 million in relending. To facilitate the reduction in spreads, the fee paid by banks on the World Bank guarantee, under the 1985 cofinancing agreement, was reduced by ¹/₄ of 1 percentage point.

¹¹The amendments provide for an extension of the retiming periods during which annual interest periods, which had been scheduled to revert to six-month interest periods, will be maintained. The extension will be until 1993 for 1985 new money; until 1994 for 1983 and 1984 new money; until 1995 for the 1983–84 restructuring agreements; and until 1996 for the 1985–91 restructuring agreements.

¹²Voluntary amortization payments made during the grace period would be matched on a 1:1 basis by debt forgiveness (equivalent to a buy-back option at 50 cents on the dollar).

¹³Interest rate would be increased by a maximum of 3 percentage points if GDP growth exceeds a threshold rate.

¹⁴Seventy percent of these arrears to be forgiven in 1990 upon downpayment equal to 5 percent of these arrears. Beginning at the end of 1990 and provided that Honduras remains current on interest due on all rescheduled amounts under the agreement, the creditor bank would further forgive interest arrears by a yearly amount equal to 5 percent of the arrears outstanding at end-October 1989.

¹⁵Amount of debt on which terms were modified is not known because repayments made during 1985–87 have not been identified.

¹⁶Amortization of rescheduled amounts subject to relending at the choice of creditors, but within certain limits of the domestic credit program established by the Mexican authorities.

¹⁷New money options include medium-term loan, new money bonds, on-lending facility, and medium-term trade facility.

¹⁸Spread to increase to ¹/₄ percentage points at the end of the grace period.

¹⁹Includes \$112 million of previously capitalized interest arrears on letters of credit.

²⁰Allowance for re-lending for up to 366 days of up to 20 percent of the new money on a revolving basis, of which one half would be available in any one calendar year and one half would be available to the private sector.

²¹As of end-December 1989.

²²Payment is to be deferred until December 30, 1991. Alternatively, banks may receive payments according to the original schedule in return for an equal increase in the short-term revolving trade facility.

²³Payment was deferred until the second quarter of 1990.

²⁴Net of \$24 million of prepayment required under the agreement.

²⁵The interest rate of LIBOR plus ⁷/₈ applies to the new money bonds issued by the Central Bank (as opposed to the Republic of Venezuela).

²⁶There will be monthly payments of \$3 million for the May 1987–May 1988 period, except for July 1987 when the payment due is \$3.5 million.

²⁷Under this agreement Zaire would make monthly payments of \$4 million, which roughly covers interest on outstanding claims (including principal and interest arrears).

²⁸The spread over LIBOR is expected to remain ¹/₄ percentage points for the first three years, to decline to ¹/₂ percentage points for the next five years, and to ¹/₄ percentage points for the final four years, subject to the borrowers' compliance with the terms and conditions of the agreement.

Table A15. Financing Instruments and Options in New Money Packages and Restructurings of Bank Debt for Selected Developing Countries, 1984–June 1991¹

Country	Currency (Re)denomi- nation	Interest Rate Options ²	On-lending/ Relending	New Trade Facilities	Debt Conver- sions ³	World Bank Cofinancing/ Parallel Financing	Retiming	New Money Bonds	Exit Bonds	Early Partici- pation Fees	Debt Buy-backs	Debt Exchanges ⁴
1990												
Chile	R	R	R		R		R	NM		NM,R	R	R
Uruguay	NM,R	NM,R			NM,R			NM		NM,R	R	R
Venezuela	NM,R	NM,R			NM,R			NM		NM,R		R
1989												
Costa Rica	R											
Mexico	NM,R	NM,R	NM,R	NM,R	NM,R			NM	NM	NM	R	R
Philippines	NM	NM	NM,R					NM	NM	NM	R	R
1988												
Brazil	NM,R	NM,R	NM,R	NM	NM,R	NM ⁵	R	NM	R	NM		R
Chile	R	R	R		R		R	R	R	NM,R		R
Côte d'Ivoire	NM,R	NM										
Mexico	NM,R											
Yugoslavia	NM,R	NM,R		NM	R				R	NM		R
1987												
Argentina	NM,R	NM,R	NM,R	NM	NM,R	NM ⁵	R	NM	R	NM		
Bolivia												
Chile	R	R	R		R		R				R	
Ecuador	NM,R	NM,R	R		NM,R	NM ⁵	R	NM	R			
Philippines	R	R	R		R							
Venezuela	R	R	R		R							
1986												
Brazil	R	R	R		R							
Mexico	NM,R	NM,R	NM		NM,R	NM ⁶						
Nigeria	NM,R	NM,R			R							
1985												
Chile	NM,R	NM,R	NM,R		NM,R	NM ⁶	R					
1984												
Argentina	NM,R	NM,R	NM	NM								
Brazil	NM,R	NM,R	NM,R									
Chile	NM	NM										
Mexico	NM	NM										
Philippines	NM,R	NM,R	NM ⁷									
Venezuela	R	R	R									

Sources: New financing and restructuring agreements.

Note: NM = new money packages; R = restructuring of bank debt.

¹Classified by year of agreement in principle.

²London interbank offered rate (LIBOR) and domestic floating-rate options or fixed-rate options.

³Includes conversions in the context of ongoing official debt conversion schemes.

⁴Includes large-scale, one-off debt exchanges.

⁵Parallel financing.

⁶Guarantees.

⁷Revolving short-term trade facility.

Table A16. Features of Selected Debt Conversion Schemes

	Argentina	Brazil ¹	Chile	Costa Rica	Ecuador ²	Honduras	Jamaica	Mexico	Nigeria	Philippines	Uruguay	Venezuela
Eligible investors												
Nonresidents												
Any creditor	x	x	x	x	x	x	x	x	x	x	x	x
Original creditor only												
Residents	x		x	x	x	x		x		x	x	x
Eligible external debt												
Public sector	x	x	x	x	x	x	x ⁴	x	x ⁵	x	x	x
Private sector	x	x	x							x		x
Exchange rate for conversion												
Official exchange rate		x	x	x	x	x	x	x	x	x	x	
Parallel exchange rates	x ⁶											x ⁶
Valuation of debt for conversion												
Face value		x ⁷			x	x ⁸	x		x ⁹			
Below face value	x	x	x ¹⁰	x		x ⁸		x ³	x ¹¹	x	x	x
Eligible domestic investments												
Equity												
Parastatal enterprises		x	x			x	x	x		x		x
Private companies	x	x	x	x	x	x	x	x	x	x	x	x
Original obligor only	x ¹²											
Debt												
Public sector		x ¹³	x	x					x			
Private sector			x									
Repayment of domestic obligations		x	x		x						x	
Restrictions on eligible investments												
Restrictions on capital repatriations	x	x	x	x	x	x	x		x	x	x	x
Restrictions on profit remittances												
Same as for all foreign investment		x									x	
More restrictive than the above	x		x	x	x	x	x			x		x

Table A16 (concluded).

	Argentina	Brazil ¹	Chile	Costa Rica	Ecuador ²	Honduras	Jamaica	Mexico	Nigeria	Philippines	Uruguay	Venezuela
Other features												
Limit on value of conversions	x	x	x	x		x	x	x	x	x	x ¹⁵	x
Auction system	x	x	x ¹⁴			x		x	x	x		x
Conversion fees							x ¹⁶		x			
Additional foreign exchange required			x				x ¹⁷					

Sources: Argentina, 1987 Refinancing Plan; Brazil, Foreign Investment Law (Law No. 4.131 and Decree No. 55.762), Central Bank of Brazil, Resolution 1460, February 1, 1988; Central Bank of Chile, *Compendium of Rules on International Exchange*, Chapters XVIII and XIX, and Decree Law 600; Central Bank of Costa Rica, *A Guide for Converting Foreign Debt Securities Issued by the Central Bank of Costa Rica into Colones*; Central Bank of Ecuador, Monetary Board Circular Nos. 395-86 and 408-87; Mexico, National Commission on Foreign Investment, *Manual Operativo para la Capitalización de Pasivos y Sustitución de Deuda Pública por Inversión*; Central Bank of Philippines, Revised Circular No. 1111; Venezuela, Office of the President of the Republic, Decrees Nos. 1259 (Nov. 15, 1990) and 1418 (Dec. 27, 1990), and Central Bank Resolution 89-8-04 of August 31, 1989, and Ministry of Finance Resolution 2401 of September 4, 1989; Central Bank of Honduras Circular D-036/89, July 6, 1989; Central Bank of Uruguay, Disposición del 8 Diciembre 1987; Bank of Jamaica, *Programme for the Conversion of Jamaican External Debt into Equity Investments*, July 1987; Nigeria *Guidelines on Debt Conversion Program for Nigeria*, July 5, 1988 and 1988 Rescheduling Proposal.

¹In November 1987, the authorities announced a new debt-equity swap scheme. The description in this table corresponds to this scheme.

²Introduced in February 1987 and temporarily suspended in August 1987.

³A minimum discount of 35 percent applies.

⁴Debt rescheduled under the A tranche of the June 1990 rescheduling agreement with commercial banks.

⁵Rescheduled debt only.

⁶Free-market exchange rate.

⁷The June 1988 rescheduling agreement allows for conversion of exit bonds and new money at face value.

⁸Depends on type of investment and on discount in secondary market.

⁹Applies to debt-bond conversions.

¹⁰Conversions of public-sector debt are subject to a small discount; conversion terms of private-sector debt are negotiable.

¹¹Applies to debt-equity conversions.

¹²Private-sector debt only.

¹³Exit bonds can be exchanged for Treasury securities.

¹⁴Chapter XVIII investments only.

¹⁵Conversion rights will be administratively allocated if the offers tendered for debt conversion exceed the established annual limit.

¹⁶A fee not exceeding 10 percent of the face value, depending on priority of investment.

¹⁷Fees depend on the share of investment funded with foreign exchange.

Table A17. International Bond Issues by Selected Developing Country Borrowers, 1989–September 1991

Issuer	Type of Borrower	Launch Date	Amount	Coupon	Initial Yield	Yield Spread	Maturity (Years)	Listing	Comments
I. New Entrants									
Argentina									
Molinos Rio de la Plata	Private	12/90	US\$21 mn	11.00	15.00	730	5	Dual listing	
		6/91	US\$15 mn	9.00	10.70	500	1.5	Luxembourg	
Republic of Argentina	Sovereign	9/91	US\$300 mn	11.00	11.06	510	2	Luxembourg	Put option 10/92 at 99.97
Brazil									
Telebras	Public telephone company	3/91	US\$25 mn	LIBOR + 13/16	9.18	140	5		Private placement
Petrobras	Public oil co.	7/91	US\$250 mn	10.00	13.50	625	2	Luxembourg	Call at 1 year
		8/91	US\$200 mn	10.00	12.25	500	5		Call at 2 years; put at 3 years
Companhia Vale do Rio Doce (CVRD)	Iron ore producer	9/91	US\$200 mn	10.00	10.37	500	3		Put at 2 years
Petrobras	Public oil company	9/91	ECU50 mn	12.00	12.55	...	3	Luxembourg	
Telebras	Public telephone company	9/91	US\$200 mn	10.00	10.44	495	5		Amortization after 2 years
Chile									
Republic of Chile	Sovereign	3/91	US\$200 mn	LIBOR + 1.5	8.48	210	5		
Mexico									
Banco Nacional de Comercio Exterior (Bancomext)	Public export-import bank	6/89	US\$100 mn	10.25	17.00	820	5	Amsterdam	Amortizing bond; effective average maturity: 2.5 years
Sunbelt Enterprise (offshore subsidiary of Cemex)	Private cement company	10/89	US\$150 mn	11.00	16.00	800	2	Private placement	
Telefonos de México (Telmex)	Public telephone company	10/89	US\$320 mn	USTB + 1.65	9.62	165	5	Private placement	Collateralized by AT&T receivables
La Moderna (ELM International)	Private cigarette company	1/90	US\$65 mn	13.50	16.37	830	2.5	Luxembourg	Collateralized by a pool of two companies
Petróleos Mexicanos (Pemex)	Public oil company	3/90	DM100 mn	11.25	11.25	300	5	Dusseldorf	
Telefonos de México (Telmex)	Public telephone company	3/90	US\$365 mn	11.00	11.00	240	5	Private placement	Collateralized by AT&T receivables
Comisión Federal de Electricidad	Public electric company	3/90	US\$235 mn	...	11.50	290	5	Private placement	Collateralized by electricity accounts receivable

TamTrade (offshore affiliate of Tamsa)	Private oil equipment co.	4/90	US\$33 mn	12.00	14.25	550	2	Luxembourg	Collateralized by deposits with Bancomer in London
Somex	Public bank	5/90	US\$89 mn	10.25	13.50	480	5	...	
Ponder Ltd. (Ponderosa Industrial)	Private paper company	5/90	US\$22 mn	11.00	16.00	760	2	Private placement	Callable and puttable
Nacional Financiera, SNC (Nafinsa)	Public development bank	6/90	DM150 mn	11.00	11.55	265	5	Frankfurt	
Sunbelt Enterp. (offshore subsidiary of Cemex)	Private cement company	6/90	US\$100 mn	Yrs. 1-3: 11.00 Rest: 13.54	13.50	500	12	Private placement	Equity put option (convertible to ADRs)
Banamex	Public bank	6/90	US\$130 mn	...	11.00	260	3	Private placement	Collateralized by credit card receivables
Banco Nacional de Comercio Exterior (Bancomext)	Public export-import bank	7/90	DM100 mn	11.00	11.00	230	5	Frankfurt	
Grupo Sidek	Private steel, tourism	7/90	US\$50 mn	10.25	13.00	470	5	Luxembourg	Collateralized by corporate receivables and letters of credit from Mexican bank
Teléfonos de México (Telmex)	Public telephone company	7/90	US\$150 mn	12.25	13.00	485	1.5	Private placement (Rule 144A)	Put option in event of Telmex privatization
Bancomer	Public bank	7/90	US\$229 mn	LIBOR + 5/8	9.65	130	5	Private placement	Collateralized by credit card receivables
Petróleos Mexicanos (Pemex)	Public oil company	7/90	ASch500 mn	11.00	11.24	240	6	Vienna	
Nacional Financiera, SNC (Nafinsa)	Public development bank	7/90	US\$100 mn	11.75	12.10	380	5	Luxembourg	Put option
Barton Corp. (offshore sub. Corp. Industrial San Luis)	Private mining company	8/90	US\$75 mn	12.00	14.24	600	3	Luxembourg and private placement (Rule 144A)	Collateralized by deposits with Banca Serfin in London
Petróleos Mexicanos (Pemex)	Public oil company	9/90	US\$100 mn	...	11.46	290	5	Private placement (Rule 144A)	
Euro Novum (Novum SA de CV)	Private sector	9/90	US\$60 mn	12.00	14.25	570	3	Luxembourg	
Petróleos Mexicanos (Pemex)	Public oil company	10/90	US\$150 mn	11.63	11.75	370	3	Luxembourg	
Sidek International Finance	Private sector	12/90	US\$50 mn	12.00	14.00	600	5	Private placement	Collateralized by deposits with Bancomer in London; puttable
Banca Serfin	Public bank	12/90	US\$50 mn	...	12.50	450	5		Put option
Dynaworld Bank and Trust	Private bank	1/91	US\$70 mn	10.50	12.00	430	5		Eurobond
United Mexican States	Sovereign	2/91	DM300 mn	10.50	10.37	190	5	Frankfurt	
Petróleos Mexicanos (Pemex)	Public oil company	2/91	US\$125 mn	10.00	10.35	320	2	Luxembourg	

Table A17 (continued).

Issuer	Type of Borrower	Launch Date	Amount	Coupon	Initial Yield	Yield Spread	Maturity (Years)	Listing	Comments
Teléfonos de México (Telmex)	Private telephone company ¹	3/91	US\$570 mn	UST4yrs + 1.5	8.73	150	5	Private placement	Collateralized by AT&T receivables
Banco Nac. de Comercio Exterior (Bancomext)	Public export-import bank	4/91	US\$75 mn	10.00	11.00	260	1	Private placement (Rule 144A) and Euro-placement	Eurobond
Nacional Financiera, SNC (Nafinsa)	Public development bank	4/91	US\$125 mn	10.00	10.00	285	5	Luxembourg	Two-year put at par
Cemex	Private cement company	5/91	US\$425 mn	9.41	15.60	680	5	Private placement (Rule 144A) and Euro-placement	
Banco Nac. de Comercio Exterior (Bancomext)	Public export-import bank	6/91	US\$100 mn	9.88	9.88	250	5	Luxembourg	Three-year put
TamTrade (offshore affiliate of Tamsa)	Private oil equipment co.	6/91	US\$50 mn	7.50	7.50	-40	6		Convertible
Petróleos Mexicanos (Pemex)	Public oil company	7/91	ECU100 mn	10.75	10.48	240	3	Luxembourg	
Banco Nac. de Obras y Servicios Públicos (Banobras)	Public bank	7/91	US\$100 mn	10.75	10.60	239	5	Luxembourg	
United Mexican States	Sovereign	7/91	Ptas10 bn	14.25	14.88	175	5	Madrid	
Desturcar (subsidiary of Grupo Sidek)	Private sector	8/91	US\$25 mn	8.00	11.75	560	2		
Petróleos Mexicanos (Pemex)	Public oil company	9/91	US\$150 mn	10.25	10.25	245	7	Luxembourg	
Cemex	Private cement company	9/91	US\$150 mn	...	10.88	450	3	Private placement (Rule 144A) and Euro-placement listed in London	Three issues under Cemex Euro-Medium Term Note program
Venezuela									
Republic of Venezuela	Sovereign	1/89	US\$263 mn	LIBOR + 1.25	11.00	185	7		
Siderurgica Venezolana (Sivensa)	Private steel company	4/90	US\$40 mn	LIBOR + 1.25	16.03	730	5	Luxembourg	
Bapoven Ltd. (offshore subsidiary of Pdvs)	Public oil company	9/90	DM200 mn	11.13	11.68	260	5	Frankfurt	
Corimon International Finance Ltd.	Private chemicals, etc.	9/90	US\$35 mn	10.25	15.00	650	5	Luxembourg	
Siderurgica del Turbio (Siderur)	Private steel company	12/90	US\$60 mn	LIBOR + 1.375	...	250	5.5	Private placement	Collateral: receivables from supply contract
Republic of Venezuela	Sovereign	8/91	US\$150 mn	9.75	9.65	235	5		

Vencemos International Tranche A Tranche B	Private cement company	8/91	US\$35 mn US\$40 mn	9.00 10.00	9.78 11.20	330 390	2 5	Callable in 1994 and 1995
II. Other Selected Borrowers								
Algeria								
Banque Exterieur d'Algerie	Public bank	4/89	DM150 mn	7.75	8.06	120	5	Frankfurt
Banque Nationale d'Algerie	Public bank	7/89	DM150 mn	8.50	8.82	180	5	Frankfurt
Sonelgaz (Soc. Nat. d'Elec. et Gaz d'Algerie)	Public utility	2/90	DM150 mn	9.50	9.83	100	5	Frankfurt
Bulgaria								
Bulgarian Foreign Trade Bank	Public bank	6/89	DM200 mn	8.50	8.50	160	7	Frankfurt and Munich
Czechoslovakia								
Ceskoslovenska Obchodni Banka AS	Public bank	7/90 9/90	DM350 mn DM350 mn	10.00 10.00	9.80 9.74	100 94	5 5	Frankfurt Frankfurt
Hungary								
National Bank of Hungary	Public bank	1/89	DM200 mn	6.63	6.90	50	7	Frankfurt, Munich
		3/89	¥35 bn	5.70	...	...	10	Samurai
		5/89	ASch1.5 bn	8.00	...	...	7	Vienna
		5/89	DM200 mn	8.00	8.26	120	8	Frankfurt
		8/89	ECU75 mn	10.00	...	230	7	Luxembourg
		10/89	DM200 mn	8.00	8.24	90	7	Dusseldorf, Frankfurt
		12/89	DM200 mn	8.00	...	...	7	Vienna
		2/90	ASch1 bn	9.50	9.61	100	7	Frankfurt
		2/90	DM300 mn	10.00	10.47	180	7	Frankfurt
		5/90	DM200 mn	9.50	10.24	130	6	Frankfurt
Hungary State Development Bank	Public bank	8/90	US\$200 mn	10.50	10.56	190	10	Luxembourg
Principal guaranteed by World Bank under expanded cofinancing operations (ECOs)								
National Bank of Hungary								
	Public bank	9/90	DM200 mn	10.00	9.93	90	5	Frankfurt
		10/90	ASch500 mn	10.63	10.84	200	7	Vienna
		11/90	¥15 bn	9.00	...	...	5	Samurai
		12/90	¥10 bn	9.00	...	...	5	Samurai
		3/91	DM200 mn	10.5	11.11	250	5	Frankfurt SE
		4/91	DM150 mn	10.50	10.50	190	5	Frankfurt SE
		6/91	US\$100 mn	10.50	10.50	300	5	Luxembourg
National Bank of Hungary	Public bank	9/91	DM500 mn	10.75	10.70	200	7	Frankfurt
Non-callable								

Table A17 (concluded).

Issuer	Type of Borrower	Launch Date	Amount	Coupon	Initial Yield	Yield Spread	Maturity (Years)	Listing	Comments
India									
Oil and Natural Gas Commission of India	Public oil agency	3/89	₹20 bn	5.50	6.34	75	10	Samurai	
Industrial Development Bank of India	Public bank	5/89	US\$100 mn	10.00	10.36	160	7	Luxembourg	
Indian Oil Corp. Ltd.	Public oil company	10/89	US\$200 mn	LIBOR + 3/16	8.89	90	5	Luxembourg	
Oil and Natural Gas Commission of India	Public oil agency	2/90	US\$125 mn	10.00	10.01	160	7	Luxembourg	
Industrial Development Bank of India	Public bank	6/90	DM250 mn	9.50	9.83	100	7	Frankfurt	
		1/91	₹30 bn	8.20	8.23	140	10	Samurai	
Turkey									
Industrial Development Bank of Turkey	Public bank	2/89	₹10 bn	6.00	6.00	110	8	Private placement (Shibosai)	
Ram Dis Ticaret AS	Private trading company	3/89	DM30 mn	8.50	8.50	160	4	Private placement	
Turkey, Republic of	Sovereign	4/89	US\$200 mn	11.50	11.43	185	10	Luxembourg	Spread decreases to 1.25 after 1992 and to 1.125 after 1995
TC Ziraat Bankasi	Public agricultural bank	6/89	US\$140 mn	LIBOR + 1.375	9.78	200	12	Luxembourg	
Turkey, Republic of	Sovereign	7/89	DM400 mn	7.75	8.04	134	7	Frankfurt	
		8/89	US\$200 mn	10.25	10.25	195	10	Luxembourg	
		11/89	US\$250 mn	9.75	9.75	230	6	Luxembourg	
Development Bank of Turkey	Public bank	12/89	US\$100 mn	9.75	9.75	219	6	Luxembourg	
Turkey, Republic of	Sovereign	2/90	US\$200 mn	10.75	10.70	220	7	Luxembourg	
		4/90	DM250 mn	10.00	9.50	60	7	Frankfurt	
		7/90	US\$150 mn	10.38	10.05	200	5	Luxembourg	
Greater Ankara Municipality, Republic of Turkey	Sovereign	9/90	DM150 mn	10.25	10.59	160	5	Frankfurt	
Turkey, Republic of	Sovereign	5/91	DM350 mn	10.50	10.91	240	5	Frankfurt SE	

Sources: *International Financing Review*; and *Latin Finance*.

Note: ASch = Austrian schilling; bn = billion; DM = deutsche mark; ECU = European currency unit; mn = million; ¥ = Japanese yen.

¹ Telefonos de México was privatized in December 1990.

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